Shifting Public Funds to Private Schools: High Costs, Poor Track Record

By Claire Suggs, Senior Education Policy Analyst

Georgia lawmakers created multiple pathways to shift public funds to private schools in recent years. These schemes risk reducing money available to invest in public schools and critical state services including early learning, higher education, and community health. Little is known about the academic outcomes of Georgia students participating in these programs or the private schools that benefit, because lawmakers often shielded the efforts from basic standards of transparency and accountability. Given Georgia’s potential cost, as well as the poor track record of these programs for improving student learning in other states, lawmakers should resist attempts to create new programs or expand existing ones.

Vouchers: A Widespread Way to Hand Public Money to Private Schools

Vouchers are a well-known tool to shift public dollars to private schools. The first modern voucher program was launched in 1989 in Wisconsin. Since then the number of voucher programs, often labeled scholarships, grew and new types emerged. That’s especially true for tax credit vouchers and education savings accounts.

Traditional Vouchers

Traditional vouchers function as state-funded scholarships that pay private school tuition for recipients. Fifteen states and the District of Columbia offer voucher programs with several offering multiple versions. Student eligibility differs across states. Some target special needs students while others base participation on family income, enrollment in a low-performing public school, grade level, location or other factors. The monetary value of vouchers also varies across states as do testing requirements and other accountability measures.

Vouchers lack a good track record for improving student learning. Recent studies from Ohio, Louisiana, and Indiana found voucher students did worse on math and reading exams than students in public schools. Other research shows small gains for voucher students but noted other factors could be the cause including increased accountability measures.

The fiscal impact of vouchers on states’ budgets can be costly. A core factor is the number of switchers, or students who switch from public schools to private ones and attend the private school only due to a voucher. The price can be steep if many participants are not switchers as their vouchers are an added cost for the state. The value of the voucher is another factor as is the number of recipients. If the voucher amount is less than what the state would send to public schools for students who switch, state costs can be small. Some states try to keep costs down by limiting eligibility requirements at first, but legislators often broaden them later. As the number of students getting vouchers grows, costs can climb.

“The students who use vouchers to attend private schools have fared worse academically compared to their closely matched peers attending public schools.”

Indiana’s experience illustrates how the price of vouchers tends to escalate over time. That state launched the program in the 2011-2012 school year, when nearly 4,000 students participated and more than 90 percent attended a public school before receiving a voucher.\(^7\) The total voucher cost to Indiana’s treasury was $15.5 million that year. Lawmakers subsequently expanded eligibility requirements considerably. In the 2017-2018 school year, 35,458 students in Indiana got vouchers, a nearly nine-fold spike from the program’s inception. By that point about 44 percent previously attended a public school.\(^8\) That led to an estimated payout in vouchers that year of nearly $154 million, an investment about 10 times as expensive as its original structure.\(^9\) The declining portion of students who previously attended public schools suggests that the number of switchers fell, raising the likelihood that the state took on additional costs.

**Georgia’s Traditional Voucher Program:** The Georgia Special Needs Scholarship is the state’s traditional voucher program. Established in 2007, it is available to special needs students who attend a public school for one year and have an Individualized Education Plan, which outlines the additional services they receive to accommodate their needs.\(^10\) The voucher amount allocated for a student equals the amount of state money otherwise directed to that student in a public school or the private school’s tuition and fees, whichever is less. The average voucher amount was $5,656 in the 2015-2016 school year.\(^11\) The total state cost that year was nearly $23.5 million. More than 4,100 students participated in the program in the 2015-2016 school year.\(^12\) Participants’ demographics differ from public school students. More than two-thirds were male and nearly 57 percent were white compared to 51 percent male and 41 percent white among all Georgia public school students. Information about participants’ academic outcomes is not available because the state doesn’t collect it. During the 2018 legislative session, the House Education Committee created a study group to determine by December if changes in the program are needed.

**Tax Credit Vouchers**

A relatively new and increasingly widespread type of voucher is funded through tax credits unlike the traditional variety paid for with state money. Individuals and corporations receive a credit on their income tax liability in exchange for contributions to private voucher-granting organizations. The organizations award vouchers, or scholarships, to students to attend private schools.

Eighteen states offer tax credit voucher programs.\(^13\) Several limit the value to 50 percent of the contribution while others offer up to 100 percent. Student eligibility criteria and accountability measures also differ across states. Some states require participating students to take state assessments or a similar national exam while others gather little student information.

The amount tax credit vouchers subtract from the state treasury varies based on the number of students who switch from public schools to private ones, the value of the voucher, the amount the state would allocate for each student if they enrolled in their local school district, and the amount of the tax credit.

**Georgia’s Tax-Credit Voucher Program:** Georgia lawmakers created the Georgia Qualified Education Expense Tax Credit in 2008. Tax filers can receive a dollar-for-dollar reduction in their state income tax bill up to $1,000 if they are single and $2,500 if they are married in exchange for donations to private voucher-granting organizations. Corporations can receive a credit up to 75 percent of tax liability in exchange for contributions to the organizations. The statewide cap on the total tax credit is $58 million in 2018, which rises to $100 million in 2019. The cap will revert to $58 million in 2029, unless lawmakers extend the increase.
Voucher organizations, called student scholarship organizations, help students pay private school tuition and fees. The vouchers, or scholarships, are capped at the average state and local spending per student, $9,817 in 2018. Students are eligible if they are entering pre-kindergarten, kindergarten or first grade or attended a public school for six weeks. The attendance requirement is waived if students were home-schooled for at least one year, have a documented case of bullying, or would be required to enroll in a state-designated low-performing school.

Scholarship organizations awarded 13,625 vouchers in 2016 for a total value of $51.5 million and an estimated average value of $3,777.

The exact number of recipients is unknown as one student can receive multiple vouchers. Public information about the financial means of recipients is limited to disclosing the number of families within each quartile of adjusted gross income. In 2016, more than half of voucher recipients’ families were in the top two income groups.

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Source: GBPI calculations based on data from the Georgia Department of Revenue Calendar Year 2016 Qualified Education Expense Credit Report

In 2018 lawmakers passed legislation to refine the family income reporting, requiring scholarship organizations to report the number of recipients whose family income falls into each of the following categories:

- Under 125 percent of the federal poverty level (Up to $31,375 for family of four in 2018)
- Between 125 and 250 percent of the federal poverty level ($31,376 to $62,750 for a family of four)
- Between 250 and 400 percent of the federal poverty level ($62,751 to $100,400 for a family of four)
- Above 400 percent of the federal poverty level (Above $100,400 for a family of four)

No information about recipients’ gender, race, school district of residence or grade level is available. Nor is there data on the number of students admitted under each eligibility criterion, for example the number entering as kindergarteners, or the number of years students receive a voucher.

Data on students’ learning outcomes is not collected. In addition, no data is reported about participating private schools, and there is no mechanism to remove schools with a poor student achievement track record.

This lack of transparency stands in stark contrast with the copious information available about public schools and the students they serve. Extensive information is collected each year on an array of student success measures including achievement, retention, graduation and postsecondary enrollment. In addition, public schools and districts are rated annually under the state’s K-12 accountability system. This information and much more is published so parents, educators, community and business leaders, and other stakeholders can determine if students are gaining the knowledge and skills needed to move on to postsecondary study or the workforce. This crucial question cannot be answered for students in the tax credit voucher program.
Without recipient data, calculating the program’s cost is difficult. An analysis of the program at the $58 million cap by researchers at Georgia State University concluded the state’s cost could be as high as $32 million annually though it could save money under a few scenarios. Another analysis by a pro-voucher organization relies on unrealistic assumptions to conclude the program saved state dollars.

The 2018 legislation requires the state auditor to conduct an economic analysis of the program that includes net change in state revenue and expenses, economic activity, and public benefit. The legislation does not identify additional data to be collected for the analysis. The report is due in 2023.

**Education Savings Accounts**

Proponents of Education Savings Accounts call them “vouchers on steroids.” The money in these accounts can be used to cover private school tuition like traditional vouchers but also for an array of education-related expenses such as tutoring, test preparation courses, online courses, books and other materials, technology and more.

These individual savings accounts are linked to participating students and the state deposits all or a portion of the money that would be allocated as if they attended a public school. Parents decide how to spend it.

The savings accounts are a recent development. Six states created one of these programs so far. Fewer restrictions on the money is one reason proponents tout them. Another is the expectation the program is more likely to withstand legal challenges than traditional vouchers. Many state constitutions prohibit the distribution of public dollars to religious organizations, including religious-affiliated schools. Since public funds go into savings accounts under the this model and not religious-affiliated schools, supporters say they bypass constitutional concerns.

Savings account programs are so new, little research exists on resulting student academic outcomes or the fiscal consequences. Their similarity to traditional vouchers suggests the outcomes are likely comparable.

**Education Savings Accounts in Georgia:** Georgia does not offer an Education Savings Account program. Georgia lawmakers proposed legislation to create one several times in recent years. Legislators considered creating a savings account program outlined in House Bill 482 during the 2017-2018 regular session of the General Assembly. The proposed price tag ranged from $5.7 million to $69.3 million with additional costs possible. The tax-writing committee of the Georgia House of Representatives approved it before the full House voted it down. Though the bill failed, the House Education Committee created a 2018 study committee to examine the issue. Proponents of private school choice appear poised to continue pushing legislation to create a savings account program in Georgia.

**529 Plans Now a Workaround to Subsidize Private Schools**

A less visible way private schools gain financial benefits from states is 529 plans, or qualified tuition plans, which are state-run college savings accounts. Parents and anyone over 18 can establish an account on behalf of a student. Savings in the accounts grow tax-deferred. Withdrawals for approved educational expenses, including college tuition and fees, room and board costs, books, supplies, and computer as well as other technology expenses, are exempt from federal taxes. Many states offer additional incentives to encourage savings. In Georgia, contributions to plans up to $4,000 per student per year are deductible from state income taxes for those filing a joint return and $2,000 per student per year for all others. Qualified withdrawals are also exempt from Georgia...
income tax. The tax benefits of these plans are considerable, particularly if accounts are established when students are young.

Changes in federal tax law approved by Congress in December 2017 added tuition at private elementary and secondary schools to the list of allowable plan withdrawals. This will likely spur families with children in private schools to establish an account to receive Georgia’s state income tax deduction if they do not already have one. The number of private school families in Georgia with 529 plans is not known. Nor is it clear how many new plans will be established due to this change. The change will likely reduce state revenue, although the extent is uncertain.

Affluent families are most likely to benefit from the 529 plan change. Families with 529 plans earn more than those without one. The median income of families with plans was $142,400 in 2010 while the median income for those without the plans was $45,100. Nearly half of 529 plans were held by families earning $150,000 or more that year. In addition, children from more affluent families are more likely to attend private schools than those from middle- and low-income families. The tax benefits of the expanded 529 plans are comparable to a 5 to 10 percent discount on private school tuition. This will likely entice some parents to enroll their children in private schools but is not enough for many low- and moderate-income families.

“The parents who will benefit the most from these changes are those who already send their children to private schools or have access to tax advisors to help them plan their savings.”

-Nat Malkus & Preston Cooper
American Enterprise Institute

A bill to increase the deductible contributions limit to $8,000 per student per year for joint income tax filers and $4,000 per student per year for single filers was proposed during the 2018 legislative session. The bill passed the Georgia House of Representatives and but the Senate did not vote on it.

Better Choices for Georgia’s Students

Lawmakers committed to improving outcomes for Georgia’s students can choose better options than diverting public funds to private schools. Increasing the financial stability of school districts by fully funding the student transportation formula and adjusting the K-12 formula for inflation are critical next steps and better alternatives. Legislators can build on those two investments with a comprehensive approach that incorporates tactics with successful track records, such as investing in great principals, decent pay and training for teachers, more targeted support for at-risk students, and other interventions. These recommendations are detailed in GBPI’s December 2017 report, Tackle Poverty’s Effects to Improve School Performance.

Lawmakers’ most urgent investment is ensuring low-income students, who face many hurdles to reach high levels of learning, get the resources they need to be successful in school. This requires a comprehensive assessment of the cost of educating these and all Georgia students to the high standards the state has set for them and a commitment to providing the money required. If legislators push more public money to private schools, they hurt chances to make vital investments in Georgia’s 1.7 million public school students. That risks the future of those students as well as the competitiveness of the state’s workforce in the years ahead.
Endnotes


2 Maine and Vermont have programs that provide state funds for students to attend private schools if there is not a public school in their district. Both programs were created in the 1800s. (National Conference of State Legislatures (n.d.) School Voucher Laws: State-By-State Comparison. Retrieved April 6, 2018, from http://www.ncsl.org/research/education/voucher-law-comparison.aspx)


6 For a review of calculating the cost of tax credit voucher programs, which are similar to traditional voucher programs, see Welner, K. (n.d.). NEPC policy memo: How to calculate the costs or savings of tax credit voucher policies. Boulder, CO: University of Colorado. Retrieved April 11, 2018 from http://nepc.colorado.edu/files/NEPC-PolicyMemo_NeoVouchers.pdf.


9 This is the total voucher amount that students were eligible for in the 2017-2018 school year. The amount paid out is not yet available.

10 Special need categories are: autism; deaf/blind; deaf/hard of hearing; emotional and behavioral disorder; intellectual disabilities; orthopedic impairment; other health impairment; significant developmental delay; specific learning disability; speech language impairment; traumatic brain injury; and, visual impairment and blindness. (Georgia Department of Education (n.d.) IEP and Related Services Resources. Retrieved April 6, 2018 from http://www.gadoe.org/Curriculum-Instruction-and-Assessment/Special-Education-Services/Pages/IEP-Resources.aspx.)


16 Georgia Budget and Policy Institute calculations based on Georgia Department of Revenue Calendar Year. (2017). 2016 Qualified Education Expense Credit Report. Retrieved April 12, 2018 from
21 Nevada’s Education Savings Account program has not been implemented due to a legal challenge. The Nevada Supreme Court held that the program was constitutional but the funding mechanism lawmakers created for it was not. A legislative attempt to design a new funding system in 2017 failed. See Prothero, A. (2017, June 20). Setback for groundbreaking school choice program could have broader fall out. Education Week. Retrieved April 17, 2018 from https://www.edweek.org/ew/articles/2017/06/21/setback-for-groundbreaking-school-choice-program-could.html
26 Path2College 529 Plan (n.d.)
31 Malkus, N. et. al. (2018).