



TESTIMONY

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FISCAL NOTES FOR EDUCATION SAVINGS ACCOUNTS (ESAS) FAIL TO ACCOUNT FOR COST SAVINGS

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Testimony Before the Missouri Senate Education Committee

My name is James V. Shuls, Ph.D. and I am a professor of educational leadership and policy studies at the University of Missouri–St. Louis and a distinguished fellow in education policy at the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to explain the errors in the fiscal notes on Senate Bill 32, Senate Bill 313, and any other education savings account bill that fails to account for the potential savings generated by these programs. In this testimony, I simply illustrate how funding of Missouri public schools works and how, as a result of students leaving public schools to participate in a tax credit–funded ESA program, the state would save money.

As a professor, I often have students give only half the answer on a homework assignment or test. Being the generous person that I am, I typically give partial credit. The Fiscal Notes from the Committee

on Legislative Research for Senate Bill 32 and Senate Bill 313 appear to fall within the category of work worthy of only partial credit. Fiscal notes are supposed to capture the net effect a bill might have on the state budget. The fiscal notes for these bills take into account the costs, but fails to consider the potential savings. This incomplete analysis paints a mistakenly bleak picture of the bill's Empowerment Scholarship Accounts.

In the calculations presented below, I use the numbers from SB 32. The findings would be the same for SB 313. As introduced, SB 32 would create Empowerment Scholarship Accounts (ESAs) that any public school student in the state would be eligible for. SB 313 limits eligibility to kindergarteners and students with special needs. The accounts would be funded by donations from individuals and corporations who would receive tax credits for their donations. Table 1 highlights some of the important details of this program.

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Table 1: Details of SB 32–Missouri Empowerment Scholarship Accounts Program

Qualified students	Students who attended a public school for 100 days in the prior year or who are entering kindergarten.
Amount of tax credit	100%
Total tax credits offered	\$25 million
Maximum amount of empowerment scholarship account	\$6,241 (State Adequacy Target)

Identifying the costs in this type of program is relatively straightforward, and the fiscal note does an adequate job of doing so. If all of the tax credits are claimed, the state would collect \$25 million less in taxes. Additionally, there would be costs of administering the program and ensuring the funds are used for the intended purpose. The fiscal note suggests this would cost an additional \$465,845, for a total of \$25,465,845.

When it comes to savings, however, the fiscal note simply states that the figure is “unknown.” The report notes the program would save money when students transfer from a public school, but fails to quantify this figure.

An Empowerment Scholarship Account program, however, could yield significant savings to offset the costs listed in the fiscal note, and those savings should be part of any analysis of the program.

To understand how the state saves money when a student leaves a public school to use an ESA, it is important to understand how the funding formula works. I provide a basic overview here, but you can go in more depth by reading my primer on the matter.¹

Schools are funded based on the following formula:



Accordingly, the state saves the full State Adequacy Target for every student who leaves

Often, reports on the fiscal effects of school choice programs only account for the average amount of state funding per pupil when calculating state savings. According to data from the Department of Elementary and Secondary Education (DESE), the state spent approximately \$3,700 per pupil in 2017. Using this figure to calculate cost savings for the state, however, would greatly underestimate the total amount of money saved by the state. When you understand the formula, it is clear that the state will save the full value of the State Adequacy Target—\$6,241—for every student who transfers from a public school. This figure represents the minimum saved for each student who switches out of the public school system. To better understand this, refer to Table 2.

In the table, you see a district that has one student leave because of the ESA program. As the table illustrates, when one student leaves and lowers the WADA, the state saves the full value of the State Adequacy Target. The district would lose that money, but would typically still have more money per pupil (Line 9). Readers here may be confused by Line 4 and Line 7. Here again I will refer you to my funding formula primer.² Suffice it to say that the amount of local effort used in the funding formula is different from the amount of funds actually raised by school districts.

Table 2: **State Savings for One Student Who Leaves the Public School System**

Line	Funding Category	Pre-ESA	Post-ESA	State Savings
1	WADA	1,000	999	
2	State Adequacy Target	\$6,241	\$6,241	
3	Total Amount Required (Line 1 × Line 2)	\$6,241,000	\$6,234,759	(Pre – Post) \$6,241
4	Local Effort as calculated in the formula (\$3.43 per \$100 assessed valuation)	\$2,540,000	\$2,540,000	
5	Total State Effort (Line 3 – Line 4)	\$3,701,000	\$3,694,759	
6	State Funding Per Pupil (Line 5 / Line 1)	\$3,701	\$3,698.46	
7	Actual Local Effort (Based on actual property tax rate)	\$5,796,000	\$5,796,000	
8	Local Funding Per Pupil (Line 7 / Line 1)	\$5,796	\$5,801.80	
9	Total Spending Per Pupil (Line 6 + Line 8)	\$9,497	\$9,500.26	

Table 3: Potential State Savings Based on WADA

Student Weight Category	Amount Saved Per Student
No weight	\$6,241
FRL ($\$6,241 \times 1.25$)	\$7,801
IEP ($\$6,241 \times 1.75$)	\$10,922
LEP ($\$6,241 \times 1.6$)	\$9,986
FRL + IEP + LEP ($\$6,241 \times 2.6$)	\$16,226

the public school to use an ESA. Actually, the savings would be even higher than this. In my illustration, I assumed the student leaving would only be counted as one student. Our funding formula, however, weights students who have special circumstances, such as those SB 313 is designed to help. The weights are listed below:

- Free or reduced price lunch (FRL)weight = .25
- Individualized Education Plan (IEP) weight = .75
- Limited English Proficiency (LEP)weight = .60

It is possible for a student to be weighted in all three categories, weighting the student at an additional 160%. In other words, a low-income student who is determined to have limited English proficiency and who has an IEP would be counted as 2.6 students. If this student were to use an ESA to leave the public school system, the state would save \$16,226 ($\$6,241 \times 2.6$). Table 3 illustrates the potential savings for each type of student.

For every student who leaves the public school system, the state saves between \$6,241 and \$16,226.

The fiscal note for SB 32 states that a total of 4,005 students could transfer under the program and receive the maximum scholarship amount of \$6,241. Based on the evidence presented here, it is easy to see that if each of these students were switching out of the public school system, the savings could offset the cost of the tax credit. If no students were weighted, the cost would just be the costs associated with administration of the program (see Table 4). If some of the students were weighted, the savings could potentially offset even the administrative costs and generate savings for the state.

Keep in mind that even these estimates understate the potential savings. A key piece of the funding formula is the Dollar Value Modifier (DVM). This awards more money to school districts in areas with a higher cost of living. In the Saint Louis area, the DVM is 1.092. As a result, a

Table 4: **Cost Savings by Student Weight Category**

Student Weight Category	Cost/Savings
4,005 Students with no weight	(\$470,640)
4,005 Students with FRL weight	\$5,778,161
4,005 Students with IEP weight	\$18,275,764
4,005 Students with LEP weight	\$14,526,483
4,005 Students with FRL + IEP + LEP weight	\$39,521,688

regular student switching out of a Saint Louis area school would save the state \$6,815. In Kansas City, the DVM is 1.08. A student from the Kansas City metropolitan area who switches would save the state \$6,704.

Because a large number of students attend school in the Saint Louis and Kansas City metropolitan areas, and these areas have many private schools with available seats, it is reasonable to assume students from these areas would use a non-trivial number of ESAs.³ If we assume none of the students are weighted and one-third of the ESAs (1,335) are used by students from the Saint Louis area, another one-third are from the Kansas City area, and the final third are from an area with a DVM of 1, the program would generate nearly a million dollars in savings. The savings would be substantially more if a portion of the students were weighted as FRL, IEP, or LEP.

CONCLUSION

Because the fiscal note for SB 32 discusses the cost of an ESA program but fails to discuss the potential savings, it only tells part of the story. While it is difficult to put a precise figure on the savings that could be realized from this ESA program, it is not difficult to come up with a simple estimate. If we assume 4,005 students leave the public school system, the savings would offset the cost of the tax credit and the state would only be out administration costs.

It is more likely that the program would generate enough savings over time to outweigh all of the costs associated with the program. The state would realize additional savings as some students would be weighted as FRL, IEP, or LEP and some students would be from school districts where the DVM is greater than 1. It is also important to note that more than 4,005 students could switch because of this program. That number is the maximum number

of students who could receive the maximum scholarship. The bill, however, allows for smaller scholarships to be awarded. Other states have experienced significant savings with this type of program.⁴

Clearly, the total estimated cost of the program is not the full \$25,464,845 reported in the fiscal note. Rather, it is more likely that the program will be cost-neutral or will generate significant savings for the state.

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ENDNOTES

1. Shuls, James. (2012). A Primer on Missouri's Foundation Formula for K-12 Public Education. Show-Me Institute. Available online at: http://showmeinstitute.org/sites/default/files/FundingFormulaPrimer_9_0.pdf
2. Ibid., pages 16–18.
3. For more information on Available Seats in Missouri Private schools, view: Shuls, James. V. (2014). Available seats? Survey analysis of Missouri private school participation in potential state scholarship programs. Show-Me Institute. Available at: http://showmeinstitute.org/sites/default/files/Essay_AvailableSeats_Shuls_Jan2014_0.pdf
4. Lueken, Martin F. (2016). The tax-credit scholarship audit: Do publicly funded private school choice programs save money? *EdChoice*. Available at: <https://www.edchoice.org/wp-content/uploads/2016/10/Tax-Credit-Scholarship-Audit-by-Martin-F.-Lueken.pdf>

NOTES



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