



Updated Fiscal Effects of Georgia's Qualified Education Expense Tax Credit

Re: Fiscal Analysis of the Georgia Qualified Education Expense Tax Credit Program

By: Martin F. Lueken, Ph.D., Director of Fiscal Policy and Analysis, EdChoice

Date: 09/10/2019

Dear Rep. Carson,

Per 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. It also follows a memo I wrote dated November 8, 2016. The methods used in the present memo are more cautious than methods used in the 2016 memo. In particular, the present memo uses an evidence-based switcher rate, which I discuss in further detail below. Even with these more cautious assumptions about the switcher rate, results from the present analysis indicate that savings from this program are significant.

This analysis estimates the overall fiscal effects of the tax-credit scholarship program (TCSP) on state and local taxpayers. 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.

There are two key factors in any fiscal evaluation of a school choice program on state and local taxpayers: short-run variable costs and the switcher rate. Short-run variable costs are 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)<sup>1</sup>. Notably, this approach is more cautious than the already-cautious approach used by Scafidi (2012)<sup>2</sup>. 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

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<sup>1</sup> 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>

<sup>2</sup> 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>

<sup>3</sup> 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*, EdChoice, Working Paper 2019-3. Retrieved from: <https://www.edchoice.org/wp-content/uploads/2019/08/The-Fiscal-Impact-of-K12-Educational-Choice.pdf>

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.

To infer the switcher rate for Georgia's program, I draw on a recent paper I wrote which examined random assignment studies of private school voucher programs (Lueken, 2019)<sup>3</sup>. 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.

I identified 27 distinct estimates of switcher rates from studies of six private school choice programs. The median switcher rate was 89 percent, and the average switcher rate (weighted by sample in the control groups) was 91 percent.

For the present analysis, I assume a switcher rate of 90 percent.

Finally, I assume that 10 percent of scholarships awarded through the TCSP are given to students who receive multiple scholarships. All figures are reported in nominal dollars (i.e., they are not adjusted for inflation).

Results of the analysis are summarized in the table below.

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The results of the analysis follow:

- Between FY 2011 and FY 2018, the Georgia Qualified Education Expense Tax Credit Program generated an estimated \$179 million in savings overall for state and local taxpayers;
- This estimated savings is equivalent to \$1,880 per student participating in the program;

The break-even requirement for the program to be cost-neutral is for at 63 percent of scholarship students to be switchers. Thus, as long as the share of scholarship students who are switchers is at least 63 percent, the program will be cost-neutral or cost-saving for state and local taxpayers.

The figure depicts the fiscal impact of the program by graphing the net impact per scholarship student, tax support (cost) per scholarship student, and 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 hope this information is helpful. Please reach out to me if you have further questions.

Cordially,

Martin F. Lueken, Ph.D.  
Director of Fiscal Policy and Analysis  
EdChoice

**TABLE 1**

Georgia Qualified Education Expense Tax Credit - Overall Fiscal Effect (nominal \$)

Tax Year*	Added Cost of Tax Support				Reduced Cost Burden on Public Schools					Total Net Savings	Net Savings Per Scholarship Student	Break-even Switcher Rate
	Number of Scholarship Students	Average Scholarship Amount	Average Tax Support Per Student (GA Gov't)**	Tax Support Cost of Scholarships (GA Gov't)	% Share of Scholarship Students Switching from Public School	Scholarship Students Switching from Public School	Average Variable Cost per Student (GA Schools)	Variable Cost Burden Relief (GA Schools)				
2011	10,163	\$3,494	\$4,660	\$47,358,986	90%	9,147	\$6,666	\$60,972,905	\$13,613,919	\$1,340	70%	
2012	11,957	\$3,388	\$4,024	\$48,118,266	90%	10,761	\$6,639	\$71,443,628	\$23,325,362	\$1,951	61%	
2013	11,941	\$3,515	\$4,599	\$54,915,190	90%	10,747	\$6,549	\$70,385,905	\$15,470,715	\$1,296	70%	
2014	12,085	\$3,151	\$4,424	\$53,470,267	90%	10,877	\$6,564	\$71,390,006	\$17,919,740	\$1,483	67%	
2015	12,200	\$3,425	\$4,329	\$52,816,728	90%	10,980	\$6,784	\$74,485,267	\$21,668,539	\$1,776	64%	
2016	12,263	\$3,777	\$4,257	\$52,197,346	90%	11,036	\$7,055	\$77,860,744	\$25,663,398	\$2,093	60%	
2017	11,922	\$3,454	\$4,481	\$53,420,091	90%	10,730	\$7,368	\$79,059,156	\$25,639,065	\$2,151	61%	
2018	12,506	\$4,008	\$4,126	\$51,592,529	90%	11,255	\$7,727	\$86,962,581	\$35,370,052	\$2,828	53%	
<b>Cumulative Total</b>									<b>\$178,670,789</b>	<b>\$1,880</b>	<b>63%</b>	

Sources: Author's calculations; Georgia Department of Revenue; Georgia Governor's Office of Student Achievement; U.S. Census Bureau; National Center for Education Statistics; EdChoice, National Catalogue of School Choice Programs

\* Because the Georgia Department of Revenue did not report data during the years 2008-2010, I omit these years from the analysis. I assume that 10 percent of scholarships are awarded to students who receive multiple scholarships and the switcher rate each year is 90 percent.

\*\* Average tax support on a per-scholarship basis will be lower than the average tax support per-student shown in this column. For 2018, the average tax support per scholarship is \$3,713.

**FIGURE 1**

Georgia Qualified Education Expense Tax Credit - Net Savings Per Scholarship Student

