

Education Savings Accounts

Fiscal Analysis of a Proposed Universal ESA in Oregon

Note: This report pertains to Senate Bill 668 in the 2019 Oregon Legislative Session.

by Eric Fruits, Ph.D.

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About the Author

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Executive Summary

Education Savings Accounts deposit a percentage of the funds that the state would otherwise spend to educate a student in a public school into accounts associated with the student's family. The family may use the funds to spend on private school tuition or other educational expenses. Funds remaining in the account after expenses may be “rolled over” for use in subsequent years.

Empirical research on private school choice finds evidence that private school choice delivers benefits to participating students—particularly educational attainment.

Currently, Arizona, Florida, Mississippi, North Carolina, and Tennessee have active ESA programs that are limited to particular groups of students such as those with special needs. The proposed Oregon ESA bill would introduce a universal ESA program for all K–12 students.

ESAs are frequently designed so the amount of funding provided to families is less than the amount the state would otherwise pay for a student to attend public school, with the state recouping the difference. In this way, ESAs can be designed to produce a net fiscal benefit (i.e., cost savings) to state and local government budgets.

A fiscal analysis of the proposed Oregon ESA bill finds that it would cost the state approximately \$128 million a year but would lead to savings of about \$130 million a year to local school districts, for a net state and local impact of approximately \$2.2 million in reduced costs. There is virtually no net impact on per-student spending for students who choose public K–12 education. ■

School choice is gaining wider acceptance across America. School choice refers to a wide array of programs offering students and their families alternatives to publicly provided schooling in which students are assigned a district and a school by the location of their family residence.

Education Savings Accounts (ESAs) are somewhat similar to vouchers but can be used to pay for a broader array of services. ESAs direct a percentage of the funds that the state would otherwise spend to educate a student in a public school to the student's family to spend on private school tuition and/or other approved educational expenses.

ESAs typically give parents much needed flexibility to customize their children's educations. For example, in addition to private school tuition, ESA funds may be used for private tutoring or online learning. In addition, ESA funds may be saved to pay for future higher education costs.

Currently, Arizona, Florida, Mississippi, North Carolina, and Tennessee have active ESA programs that are limited to particular groups of students such as those with special needs. The proposed Oregon bill would introduce a “universal” ESA program in the state covering all K-12 students.

This analysis supplements a report submitted for a hearing before the Oregon Senate Committee on Education on June 13, 2017 and follow up analysis in response to questions from the committee chair.¹ The earlier report provides an introduction to school choice funding, identifies the differences between ESAs and vouchers, and describes existing state ESA programs.

1. Summary of the proposed Oregon bill

The proposed Oregon bill establishes an Education Savings Account program in which funds are deposited in accounts for use by parents to pay for some of their children's educational expenses.

- The amount deposited is based on the average per student distribution of State School Funds as general purpose grants for all school districts in the state. For the 2018-19 school year, the estimated amount is \$9,578 per student.²
 - Participating children with a household income less than 185 percent of the federal poverty level



and participating children with a disability, as defined in ORS 343.035, would receive \$6,500 deposited in their accounts.

- All other participating children would receive \$4,900 deposited in their accounts.
- Funds from the ESAs may be used for:
 - Tuition and/or fees at a private school;
 - Tuition and/or fees for non-public online learning programs;
 - Private tutoring;
 - Services contracted for and provided by a public school, public charter school, magnet school, or online public school, and including individual classes and extracurricular activities and programs;
 - Textbooks, curriculum, or other instructional materials;
 - Computer hardware, software, or other technological devices that are primarily used to help meet a student's educational needs;
 - Uniforms purchased from or through a private school;
 - Fees for nationally standardized assessments, Advanced Placement examinations, state-recognized industry certification exams, any examinations related to college, university, career, or technical school admission, and tuition and/or fees for preparatory courses;
 - Fees for summer education programs and specialized after-school education programs. This excludes after-school childcare.
- Any funds remaining in the ESAs at the year's end are held in the account, may be used in subsequent years, and may be used for post-secondary education within the State of Oregon.
- Parents must apply to participate in the ESA program by entering into a written agreement with the State Treasurer. The State Treasurer may deduct as much as three percent from each grant for administrative costs.

A fiscal analysis of the bill (described below) indicates that it would cost the state approximately \$128 million a year but lead to savings of about \$130 million a year to local school districts, for a net state and local impact of

approximately \$2.2 million in reduced costs.

2. Fiscal analysis of the proposed Oregon bill

The amount of the ESA deposits is the biggest driver of fiscal impacts. Under the proposed Oregon ESA bill, participating students with disabilities and in low-income households would receive \$6,500 a year in their ESAs. All other participating students would receive \$4,900.

Another key driver is the number of non-public school students (e.g., private school or homeschool) that would participate in the ESA program. In Oregon, the average private school tuition for 2017-18 is \$8,730.³ In many cases, the amount of the ESA deposit would be less than the cost of tuition at a private school. In addition, it would be reasonable to conclude that not every non-public school student would participate in the ESA.

- On the demand side, some families oppose any government intervention in education and may decline on principle to opt-in to the ESA program.
- Also on the demand side, some families would not be aware of the ESA program and/or choose not to submit themselves to the regulations regarding the program.
- On the supply side, some education service providers will choose not to participate in the program. Research involving state funded scholarship programs in three states found less than 55 percent of eligible schools chose to participate in their state's program.⁴

This analysis assumes that 80 percent of current non-public school students would participate in the ESA. If participation is lower, the ESA program would see larger cost saving to state and local governments.

Table 1 shows the net fiscal impact on state and local budgets for the proposed Oregon ESA bill. The table is based on a fiscal impact with the following assumptions and parameters.

- The Oregon Department of Education estimates 2018-19 public K-12 enrollment of 575,000.⁵ Based on information from the U.S. Department of Education, private school enrollment is assumed to be 71,100.
- Calculations based on information from the Census Bureau and the U.S. Department of Education indicate that 46.1 percent of current public school students would qualify for the ESA amount associated with students with disabilities and in low-income households.⁶ Among students in private schools, 23.4 percent would qualify.

- The State Treasurer would deduct no more than three percent from each grant for administrative costs. This amount represents a reduction in the amount deposited in the ESAs and a reduction in the net costs of the program to the state.
- The price elasticity of demand is assumed to be 0.11.⁷ In other words, a 10 percent decrease in the price of private instruction would be associated with a 1.1 percent decrease in public school enrollment. On average, the proposed ESA bill would amount to a 63 percent reduction in the effective cost of private school tuition for ESA students, which would be associated with an estimated 6.9 percent reduction in public school enrollment.
- It is assumed that 80 percent of students currently enrolled in non-public education would participate in the program.
- State School Funds general purpose grants for all school districts in 2018-19 school year is estimated to be \$9,578 per student.⁸ Current public school students who transition out of the public system would free up these state funds.
- Local funding for public education is estimated to average \$3,286 per student in 2018-19.⁹ Current public school students who transition out of the public system would free up these local funds.

Table 1 summarizes the impacts. Positive numbers represent a cost to state or local governments and negative numbers represent a *benefit* or *cost saving* to state or local governments. Because the expenditures of ESAs in Table 1 are less than current educational expenditures of state and local governments, the savings associated with students switching from public to private instruction roughly equals the costs of providing funds to existing private school students.

3. District level impact of the proposed Oregon bill

In a 2017 hearing before the Oregon Senate Committee on Education, Chairman Arnie Roblan asked how an ESA would affect local school district funding.¹⁰ He noted, “Once the person leaves the school system, there isn’t any money for them any longer.” In other words, the senator was concerned local districts would no longer receive state funding for students who use ESA funds to transfer out of the public school system.

The savings generated by ESAs are a testament to their fiscal superiority for both state and local educational funding. The amount of the ESA distributions is lower than

current per-student grants from the state—35 percent lower for students with disabilities and in low-income households and 50 percent lower for all other students. Additionally, the costs of ESA distributions are lower than the average per-student cost to districts. Thus, the reduction in costs overall outweighs the reduction in grant revenues from the state.

On average, across all Oregon public school districts, approximately one-third of funding comes from local sources—mostly property taxes. Because ESA funding would come from the state, these local sources of school funding would be unaffected by ESAs.

Calculating per student funding is straightforward:

$$\frac{\$ \text{ of funding}}{\# \text{ of students}} = \$ \text{ per student.}$$

Consider Coos Bay School District 9. Based on published elasticity estimates, assume the district sees 250 of its 3,240 students leave and take ESA funding with them. The district currently has \$10,110 in per student funding, based on \$24.3 million from state sources, \$8.5 million from local sources, and 3,240 students (fall enrollment), shown in the table below.¹¹

At an ESA amount of \$6,500 for each participating student with disabilities and/or in a low-income household and \$4,900 for all other students, approximately 250 students are estimated to shift out of the public school district.

Based on the existing funding formula, the district would receive \$2.4 million less from the state, but would see no change in the amount of funding from local sources. Total state and local sources combined would decline by 7.4 percent. At the same time, public school enrollment would decline by about 7.7 percent. Because the decline in funding is less than the decline in enrollment, funding per student remaining in the district would increase by \$40 per student, or less than one-half of one percent.

Additionally, nothing in the proposed Oregon ESA bill need prohibit the state from adjusting its funding formula—as with charter schools—to leave a portion of state funding with a school district. For example, Oregon school districts sponsoring a charter school may hold back 20 percent of the state funding for K-8 students and 5 percent of the state funding for students in grades 9-12. A similar framework could be applied to ESAs.

The proposed Oregon ESA bill provides for a 3 percent state holdback of ESA funds to support the Treasury’s costs of administering the program. The state may also decide to pass on a percentage of state funds not allocated to the ESA account to local school districts to help ensure that local districts are no worse off, and even ensure that they are

better off financially as some students take advantage of ESA opportunities.

Table 1: State and local impacts of the proposed Oregon ESA bill

ESA - Low Income and Disabled	\$6,500
ESA - All other	\$4,900
Impact from public school students	
ESA participants	39,600
Amount of grants from state	\$223,342,000
Less: Treasury holdback	6,700,000
Less: Grants under current law	379,368,000
Increased (decreased) state spending	\$(162,726,000)
Foregone state grants under current law	\$379,368,000
Less: State and local spending under current law	509,719,000
Increased (decreased) local spending	\$(130,351,000)
Increased (decreased) combined state and local spending	\$(293,077,000)
Impact from non-public school students	
ESA participants	56,900
Amount of grants from state	\$299,865,000
Less: Treasury holdback	8,996,000
Increased (decreased) state spending from ESA participation	\$290,869,000
Net impacts	
State budget	\$128,143,000
Local budgets	\$(130,351,000)
State and local budgets combined	\$(2,208,000)
Net increased (decreased) state and local spending per participating student	\$(23)
Increased (decreased) spending per K-12 student in public schools	\$4

Table 2: Impact of ESA on district level funding

	Current	After ESA	Impact of ESA
Public school fall enrollment	3,240	2,990	(250)
ESA participants	0	250	250
State School Fund Grant	\$24,309,000	\$21,895,000	\$(2,414,000)
Local Revenue	8,450,000	8,450,000	-
Total state and local sources	\$32,759,000	\$30,345,000	\$(2,414,000)
Per student			
State School Fund Grant	\$7,500	\$7,320	\$(180)
Local revenue	2,610	2,830	220
Total state and local sources	\$10,110	\$10,150	\$40

4. Conclusion

School choice is gaining wider acceptance across America. Education Savings Accounts allow parents to receive a deposit of public funds into government-authorized savings accounts with restricted, but multiple, uses. Those funds can cover private school tuition and fees, online learning programs, private tutoring, community college costs, higher education expenses, and other approved customized learning services and materials. Five states currently have ESA programs.

ESAs are frequently designed so the amount of funding support provided is less than the amount the state would otherwise pay for a student to attend public school, with the state recouping the difference. Policymakers can choose to reinvest the funds in state education funding, redeploy the funds elsewhere, or reduce taxes, fees, and charges. In this way, ESAs can provide a net fiscal benefit to state and local government budgets.

A fiscal analysis shows the proposed Oregon ESA bill would cost the state approximately \$128 million a year but would lead to savings of about \$130 million a year to local school districts, for a net state and local impact of approximately \$2.2 million in reduced costs, with virtually no impact on per-student spending in public schools. ■

ENDNOTES

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