

FISCAL ANALYSIS OF AN EDUCATION SAVINGS ACCOUNT PROGRAM IN NEW JERSEY



OCTOBER 2020

SUMMARY POINTS

- New Jersey has invested considerable resources in its K-12 public school system for decades. Since 1987, total revenue per-student increased by 70 percent above inflation, or an annual increase of 2.3 percent over inflation. Total per-pupil funding for the system in FY 2018 was \$22,424. In terms of education spending as a percentage of state GDP, New Jersey ranks second among all states.
- The fiscal effects of educational choice programs accrue to different taxpayers and districts, and the distribution of these effects are usually uneven.
- The fiscal impact of an educational choice program on the state's budget will depend on the program's design.
- The fiscal impact of an educational choice program on school districts is determined by the choices of families and students to leave public schools and the district's cost structure. It will also be the same as the fiscal effect when students leave for any reason. For about 90 percent of New Jersey public school districts, average per-student variable costs exceed the expected decline in revenue from state aid per student. This means that when students leave, these school districts can reduce costs to completely offset the decrease in state aid from enrollment decreases.
- The analysis considers an ESA set at 90 percent of the statewide average of SFRA's intended full funding per student (about \$6,500) and an ESA fixed at \$10,000. The analysis also assumes all students are "switchers" (i.e., students who would enroll in public schools without financial assistance from an ESA program).
 - For an ESA set at 90 percent of the statewide average of SFRA's intended full funding per student:
 - Such a program would generate fiscal benefits for state and local taxpayers combined worth about \$7,300 per student. Under a likely scenario where 1 percent of students attending public schools participate in the program, combined net fiscal benefits would be almost \$100 million (\$8,500 per ESA student).
 - These fiscal effects would be distributed unevenly between the state and school districts. The state would experience fiscal benefits estimated up to \$800 per ESA student while public school districts would experience fiscal benefits worth around \$6,500 per student.
 - An ESA worth \$10,000 would generate fiscal benefits for the state and local taxpayers combined worth about \$3,800 per student. Districts would incur a fiscal benefit (\$6,500 per student). The state would incur a net cost (\$2,700 per student) as the cost of the ESA exceeds the state's average cost to enroll students in public schools.
- The fiscal impact of an ESA program is a matter of design. An ESA amount set below the state's per-student cost to enroll students in the public school system will generate savings for the state as long as the percent of ESA students who are switchers is greater than the ratio of the per-student cost of ESAs to the state's per-student cost for the public school system. This ratio is known as the "break-even switcher rate."

INTRODUCTION

This paper discusses the potential fiscal effects of education savings accounts for K-12 in New Jersey on the state and local taxpayers.

Education savings accounts are a way to expand educational opportunity for all families, particularly those in need. For instance, they can help K-12 students who suffer from learning disabilities, have under-nurtured gifts and talents, or experience frequent bullying to reach their full potential.

For parents who voluntarily elect to customize their child's education, a specified amount is annually deposited to an education savings account (ESA) at a state-selected agency. Families can then draw on this account for a variety of approved instructional expenses, including tuition and fees for independent school placements, textbooks, tutoring, online classes, transportation, and special services.

Under one model, providers chosen by the family may directly bill the agency holding the ESA funds, simplifying paperwork. And parents may carry forward unspent annual allotments to use in the more expensive high school years or to offset later college tuition.

Currently, five states have legislated ESA programs, some targeted specifically toward special needs students, others with a broader focus. These states are Arizona, Florida, Mississippi, North Carolina, and Tennessee.¹

This brief examines the potential fiscal effects of ESAs in New Jersey and proceeds as follows: the next section summarizes research on non-fiscal outcomes of educational choice programs that already exist in other states, followed by a discussion about how ESAs could improve New Jersey's finances. The next section explains the methodology for estimating the fiscal effects of educational choice programs. The paper then presents the results of a fiscal analysis of two hypothetical ESA programs and concludes.

HOW ESAs COULD IMPROVE THE LIVES OF NEW JERSEY FAMILIES AND CHILDREN

A well-designed ESA program could enhance educational opportunity for children across the state by providing students and their families with the ability to direct their educational funds to the educational settings they deem best for their children. Current events surrounding the COVID-19 pandemic and decisions by many district and school leaders to not open their buildings this Fall are leading many to increasingly challenge conventional assumptions about what education means and how it is delivered. Ways to deliver education outside the traditional public school setting are growing in popularity. They extend beyond private schools and public charter schools. Homeschool settings, hybrid homeschools, and learning pods are notable examples receiving considerable attention.

A large body of research also shows that empowering parents with more influence in their children's education tends to accrue benefits for not only students, but families and communities as well. Test scores offer one way to measure student outcomes—in this arena, research is somewhat mixed.² Researchers have found negative average effects on test scores in school voucher program in Louisiana, Indiana, and Ohio and positive average effects on test scores from programs such as Washington, D.C. and Milwaukee.³

Research on longer-term outcomes provides evidence that students were more likely to graduate from high school, more likely to enroll in college, and more likely to persist in college when states expanded educational opportunities for them. Of six studies examining the effects of private school choice programs on these long-run outcomes, four found positive effects, two did not detect any effect, and none found negative effects.⁴

¹“School Choice in America,” EdChoice, accessed September 7, 2017, <https://www.edchoice.org/school-choice/school-choice-in-america/>

² There have been 17 random assignment studies. Of these, 11 found positive effects on test scores, 4 were unable to detect an effect, and 3 found negative effects. EdChoice (2020), *The 123s of School Choice: What the Research Says about Private School Choice Programs in America, 2020 edition*, retrieved from: <https://www.edchoice.org/wp-content/uploads/2020/04/123s-of-SchoolChoice-2020.pdf>

³ The studies on Milwaukee, Indiana, and Ohio programs were based on matching methods while other evaluations used random assignment. Ibid.

⁴ Ibid.

There is scant evidence that educational choice harms public schools or their students. Several systematic reviews have been conducted by researchers to synthesize the body of competitive effects studies on private school choice program.⁵ They conclude that private school choice programs induce public schools to improve, and evidence suggests that improvement increases with the intensity of competition.

Choice programs also have a positive track record of improving other important outcomes. Parents tend to experience greater satisfaction with their child's education when states expand educational opportunity for them. There is also evidence that expanding educational opportunity strengthens civic norms and practices. Choice programs also improve racial/ethnic integration in schools rather than exacerbate it.

The evidentiary record about the effects of school choice programs indicates that increasing educational opportunities for families and children generates numerous non-fiscal benefits on balance. These programs can also be designed to achieve net fiscal benefits for state and local taxpayers.

HOW ESAs COULD IMPROVE NEW JERSEY'S FINANCES

The Garden State has committed itself over decades to investing in its K-12 public school system. It currently ranks second among all states in terms of education funding as a percentage of state GDP.⁶ According to the most recent federal data, total revenue per-pupil for

New Jersey's public school system was \$22,424 in FY 2018.⁷ Since 1987, total revenue per-student increased by 70 percent above inflation, or an annual increase of 2.3 percent over inflation.⁸ Even after adjusting for regional cost differences, the state sits near the top of state rankings in terms of how much it spends per student on its K-12 public school system.⁹

While the level of funding is one side of the education finance coin, how a state, school districts, and schools allocate resources is the other side. The state could do more to invest in educational opportunities for New Jersey children and families. And it's possible to do this in a way that improves the state's finances.

Education savings accounts are distinct from other forms of school choice, such as vouchers and tax-credit programs, because they allow the widest possible range of choice. In contrast to vouchers and tax-credit scholarship programs, which provide financial assistance for school tuition only, ESAs allow parents to take advantage of an expanding range of instructional options, from one-on-one tutoring to online classes, in addition to (or instead of) private school tuition.

If the cost of providing an ESA to a student is less than the taxpayer's cost to educate the student in district schools, then students who switch from district schools will generate savings. Notably, when students leave school districts for any reason, the district usually retains revenue from local property taxes and most federal revenue. As a result, per-pupil spending tends to increase as students leave, a common byproduct of school choice programs.

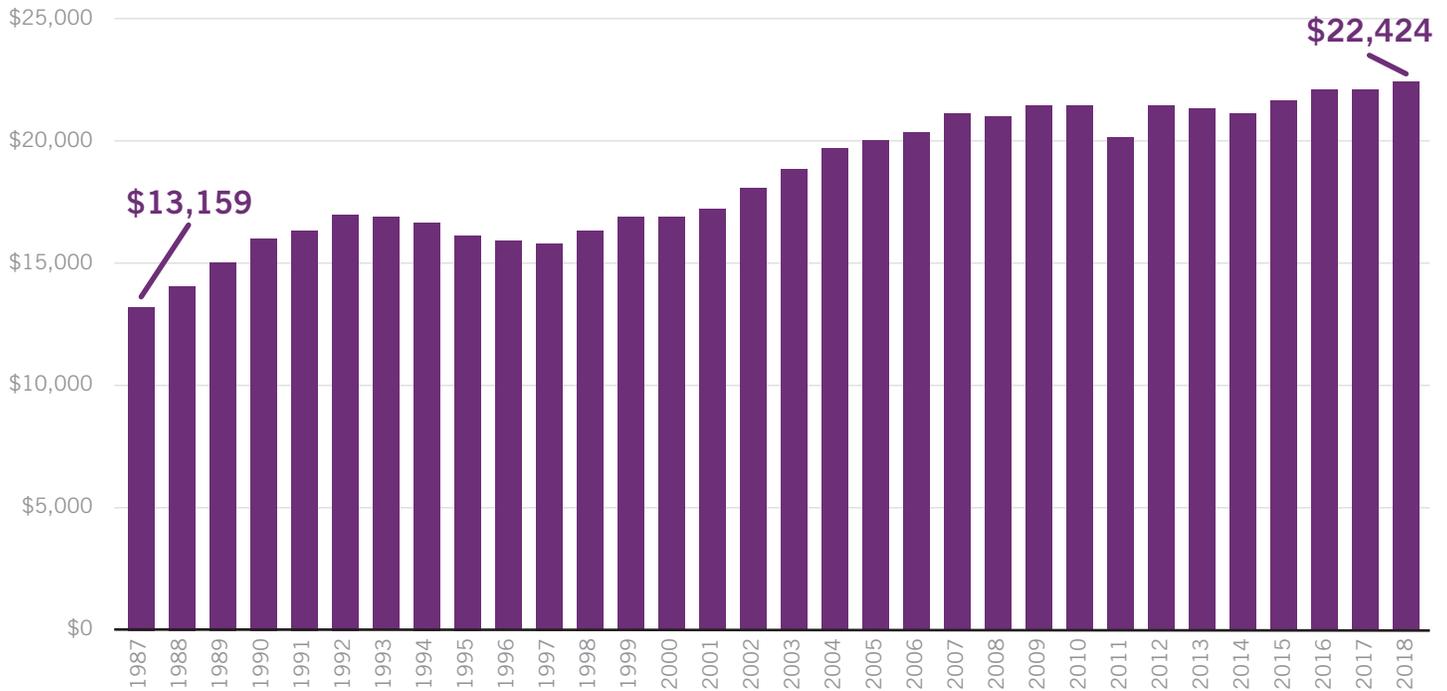
⁵Dennis Epple, Richard E. Romano, and Miguel Urquiola (2017), School Vouchers: A Survey of the Economics Literature, *Journal of Economic Literature*, 55(2), p. 441, <https://dx.doi.org/10.1257/jel.20150679>; Patrick J. Wolf and Anna J. Egalite (2016), Pursuing Innovation: How Can Educational Choice Transform K-12 Education in the U.S.?, p. 1, retrieved from EdChoice website: <http://www.edchoice.org/wpcontent/uploads/2016/05/2016-4-Pursuing-Innovation-WEB-1.pdf>; Anna J. Egalite and Patrick J. Wolf (2016), A Review of the Empirical Research on Private School Choice, *Peabody Journal of Education*, 91(4), p. 451, <https://dx.doi.org/10.1080/0161956X.2016.1207436>; Anna J. Egalite (2013), Measuring Competitive Effects from School Voucher Programs: A Systematic Review, *Journal of School Choice*, 7(4), p. 443, <https://dx.doi.org/10.1080/15582159.2013.837759>

⁶Danielle Farrie, Robert Kim, and David G. Sciarra (not dated). Making the Grade 2019: How Fair is School funding in Your State? Education Law Center, retrieved from: <https://edlawcenter.org/assets/Making-the-Grade/Making%20the%20Grade%202019.pdf>

⁷U.S. Census Bureau, 2018 Annual Survey of School System Finances.

⁸Estimates based on data from: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey (State Fiscal)"; "School District Finance Survey (F-33)"; Consumer Price Index for All Urban Consumers, Bureau of Labor Statistics, United States Department of Labor.

⁹Education Week, Quality Counts 2019: Finance, retrieved from: <https://www.edweek.org/media/qc-2019-finance-table.pdf>

FIGURE 1**Total Revenue Per Student in New Jersey Public Schools, School Years 1986-87 to 2017-18**
(\$ adjusted for inflation)

The fiscal effects accrued under a private school choice program will be a matter of program design. Educational choice programs currently operating in most states are set up in a way that generates fiscal benefits for taxpayers and school districts. Typically, the per-pupil cost of a private school choice program is set below the per-pupil cost of the public school system, in many cases less than half.¹⁰ Thus, these programs usually generate savings when students choose to leave the public school system to participate in the choice program. To whom and how these positive fiscal effects accrue presents a complicated question.¹¹

There have been 55 analyses that estimated the fiscal effects of private school choice programs.¹² Forty-nine found that the programs generated fiscal benefits for taxpayers, four found that the programs were fiscally neutral, and two analyses found that programs generated a net cost.

A report by EdChoice examined 16 school voucher programs in the U.S. that financially assist students to attend schools of their choice.¹³ This analysis went beyond just comparing the face value of a private/parochial school scholarship to the per-pupil cost at neighboring public schools. It also considered the fact that students already attending independent institutions would be eligible for assistance and that many students with learning disabilities would have to receive enough to cover special services. Even accounting for these factors and other variables, the average annual per pupil savings from these programs turned out to be \$3,400.

A fiscal analysis of 10 tax-credit scholarship programs in seven states estimated that these programs generated fiscal benefits states and school districts between \$1.7 billion and \$3.4 billion through 2013-14, or up to \$3,000 per scholarship student.¹⁴

¹⁰ "School Choice in America Dashboard," EdChoice, last modified February 4, 2020 <http://www.edchoice.org/school-choice/school-choice-in-america>

¹¹ University of Arkansas economist Robert Costrell (2010) demonstrated that the distribution of fiscal effects of the Milwaukee Parental Choice Program for different taxpayers was highly uneven. Robert M. Costrell (2010), *The Fiscal Impact of the Milwaukee Parental Choice Program: 2010-2011 Update and Policy Options* (Report #22, School Choice Demonstration Project), SCDP Milwaukee Evaluation. Retrieved from: <http://www.uaedreform.org/downloads/2011/03/report-22-the-fiscal-impact-of-the-milwaukee-parental-choice-program-2010-2011-update-and-policy-options.pdf>

¹² EdChoice (2020), *The 123s of School Choice: What the Research Says about Private School Choice Programs in America*, 2020 edition, retrieved from: <https://www.edchoice.org/wp-content/uploads/2020/04/123s-of-SchoolChoice-2020.pdf>

¹³ Martin F. Lueken, "Fiscal Effects of School Vouchers: Examining the Savings and Costs of America's Private School Voucher Programs" EdChoice, September, 2018. Retrieved from <https://www.edchoice.org/wp-content/uploads/2018/09/Fiscal-Effects-of-School-Vouchers-by-Martin-Lueken.pdf>

¹⁴ 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. Retrieved from <https://www.tandfonline.com/doi/abs/10.1080/15582159.2018.1447725>

ESTIMATING THE FISCAL EFFECTS OF AN ESA PROGRAM

Private school choice programs generate a variety of outcomes, including academic effects on participants and public schools, high school graduation rates, college attendance and persistence, civic values, crime, and fiscal effects. While the focus of this report is on one outcome, the fiscal effects on taxpayers, readers should consider other potential costs and benefits from these programs.

Whether a program saves taxpayer money will be based on a straightforward fiscal alignment: if the cost of providing an ESA to a student is less than the taxpayer's cost to educate the student, then that student will generate savings. A student eligible for an ESA program who would have enrolled in a nonpublic school without financial assistance from the ESA program would generate a cost for taxpayers. Students who would enroll in public schools without the existence of the school choice program (referred to as “switchers” throughout this brief) offset program costs.

The fiscal impact on the state is the difference between the cost of the ESA and the state's cost to fund the child's education in the public school system. Many school choice policies tie awards to a state's portion of education funding. School districts typically keep revenue from local property taxes and some federal revenue. As awards are usually less than the state's total per-student cost to educate students in public schools, choice programs usually generate savings for the state and school districts, and a byproduct of these programs is that the amount of resources for each student who remains in a district school increases.

This analysis uses data collected by the New Jersey Department of Education.¹⁵ To estimate a school district's decrease in revenue associated with a decrease in student enrollment, the analysis uses the average target aid per student that each school district would have received under the School Finance Reform Act of 2008 if the law were fully funded.¹⁶ The brief refers to this target aid as “SFRA's intended full funding” or “state aid” throughout. In practice, many districts do not receive this full amount.¹⁷

The analysis does not reflect the complexity of “underaided” and “overaided” school districts. When enrollment declines, “underaided” school districts will not experience any reduction in state aid—up to a certain point of enrollment decline. Conversely, when enrollment declines in “overaided” school districts, the reduction in state aid for those districts will be greater than the state aid per-pupil amount. Because the analysis does not reflect these layers of complexity, the estimates may overstate state aid reduction for “underaided” districts and they may understate state aid reduction for “overaided” districts.

The fiscal impact on a school district is determined by the relationship between its short-run variable costs and reduction in revenue from students leaving.¹⁸ Both revenue and costs change when enrollment changes. If short-run variable costs equal the reduction in revenue, then the fiscal impact on the district will be fiscally neutral. The district can reduce costs by the amount of revenue reduction. If short-run variable costs exceed the reduction in funding, then the district can end up with more resources per student if it reduces costs by an amount below its variable costs. If variable costs cannot cover a reduction in revenue, then the fiscal impact from students leaving is a net cost in the short run.

¹⁵ SFRA target aid data were obtained from Jeffrey Bennett, a former board of education member, who closely follows state aid and obtained these data directly from the NJDOE.

¹⁶ This approach implies that students leaving districts to participate in an ESA program would have “average” characteristics, whereas students with more disadvantaged characteristics would typically generate more revenue for school districts.

¹⁷ Two-thirds of school districts were underaided during FY 2020.

¹⁸ In the short run, costs are separated among fixed costs, variable costs, and quasi-variable costs. Short-run fixed costs are those that do not change with enrollment. Examples include utilities, maintenance, and debt service. Short-run variable costs change proportionally with enrollment and may include categorical expenditures such as textbooks, supplies, salaries and benefits for personnel, and software licenses. Some costs are partially fixed and partially variable in the short run. Transportation provides an example, where the cost of a fleet is fixed while fuel costs are variable as districts can change bus routes to economize on fuel.

Opponents and skeptics of educational choice often express concerns about policies that promote educational opportunity because public schools have high fixed costs, implicitly arguing that all or most educational costs are fixed. If this claim is true, then there is no need to base school funding on enrollment—the state would simply need to figure out the fixed costs and fund that fixed amount. Some of these individuals and groups, however, will also advocate for increasing public school funding by arguing that more resources are needed when enrollment increases, thus implicitly arguing that schools have high variable costs. Both scenarios cannot be concurrently true. In the short run, some educational costs are fixed and some educational costs are variable. In the long run, all costs are variable.¹⁹ The present analysis takes steps to reflect this short-run reality.

The analysis uses federal data to estimate the percentage of total costs for each school district that are short-run variable costs and employs cautious methods by other economists.²⁰ The analysis considers the following expenditure categories as variable in the short run: instruction, instructional staff support services, and student support services. It then applies this rate to more recent cost data reported by the NJDOE. On a statewide per-pupil basis, short-run variable costs for public schools in New Jersey are about \$13,800, or 62 percent of total per-pupil costs. This estimate is slightly lower than what Scafidi (2012) estimated for New Jersey and within the range of estimates by Bifulco and Reback (2014).²¹

Short-run variable cost estimates are also cautious because we consider administrative costs as fixed costs. Between FY 1992 and FY 2015, however, the number of administrators and other non-teaching staff increased by 77 percent in New Jersey while student enrollment increased by just 26 percent (Scafidi, 2017).²² Even though costs for non-teaching personnel appear variable based on these data, the analysis treats them as fixed costs.

Another key factor for a program's net fiscal impact is the share of program participants that are "switchers" vs. "non-switchers." "Switchers" are students who would enroll in public schools in a world without an ESA program. "Non-switchers" are students who, in a world without an ESA program, would enroll in a non-public school environment anyway.

Switchers offset some or all of the state's cost of the scholarship while non-switchers do not offset any costs. Switchers will generate fiscal effects for both the state and school districts. The fiscal impact from non-switchers is isolated to only the state (equal to the cost of ESAs for these students). Usually for this reason, some states require students to have been enrolled in public schools to be eligible for scholarships, sometimes with exceptions to this requirement, while others do not impose this restriction. A potential tradeoff with such requirements is the creation of an incentive for student churn between schools.

The body of random assignment studies on private school choice programs can provide useful information for inferring switcher rates. Lueken (2020) reviewed these studies to identify estimates of switcher rates.²³ Lower bound and upper bound weighted average and median switcher rates ranged from 84 percent to 90 percent.

¹⁹ Over the long run, districts can adjust their budgets proportionally to a given change in enrollment. This principle is a fundamental economic and accounting one. Thus, the fiscal effects on school districts estimated in this analysis are short-run fiscal effects.

²⁰ The NJDOE reports financial data annually to the U.S. Department of Education's National Center for Education Statistics (NCES). The most recent year these data are available is for school year 2016-17. 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. Retrieved from <https://www.tandfonline.com/doi/abs/10.1080/15582159.2018.1447725>

²¹ 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-public-school-districts> Robert Bifulco and Randall Reback (2014), Fiscal Impacts of Charter Schools: Lessons from New York, *Education Finance and Policy* 9(1), pp. 86–107, http://dx.doi.org/10.1162/EDFP_a_00121

²² Scafidi, Benjamin (2017), Back to the Staffing Surge: The Great Teacher Salary Stagnation and the Decades-Long Employment Growth in American Public Schools, EdChoice, retrieved from EdChoice website: <https://www.edchoice.org/wp-content/uploads/2017/06/Back-to-theStaffing-Surge-by-Ben-Scafidi.pdf>

²³ Martin F. Lueken (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://doi.org/10.1080/15582159.2020.1735863>.

Policy design will play an important role in switcher rates. Programs that require prior enrollment in public schools and programs that are open to high-need students, such as students from low-income families and students with disabilities, would likely have higher switcher rates than programs without these features, all else equal. In reality, it is impossible to know with certainty if a student is a switcher.²⁴

For simplicity, the analysis assumes all ESA students in the program are switchers.

OVERALL RESULTS

Estimates summarized below are based on data that the New Jersey Department of Education (NJDOE) reports annually to the United States Department of Education’s National Center for Education Statistics (NCES). These data allow us to estimate the potential fiscal effects on the state and local school districts.

Given the high average per pupil cost of public education in New Jersey, more than \$22,000, the cumulative

savings from ESAs could be significant and will depend on policy design. The fiscal analysis considers an ESA worth \$10,000 and an ESA set to 90 percent of the statewide average SFRA Aid Target per student. For FY 2020, the SFRA Aid Target was \$7,294 per student. The analysis considers an ESA equal to \$6,500.²⁵ The analysis also considers take-up rates of 1 percent and 10 percent. The 1 percent take-up scenario overall is more representative of experiences of currently operating private school choice programs, though take-up rates will likely vary across school districts.

Table 1 summarizes overall state, school district, and combined fiscal effects. Having just 1 percent of the state’s children receiving an ESA worth \$6,500 would yield an expected annual savings of about \$10 million for the state, or \$745 in savings for each ESA student. Districts would experience much larger fiscal benefits, estimated at \$88 million, or about \$6,600 per ESA student. This reflects an estimated \$96 million reduction in state aid and \$184 million reduction in short-run variable costs. A district’s fiscal effect per student will be the same regardless of the reason for leaving the district.

TABLE 1 Overall fiscal impact of ESA program on New Jersey state and school districts

	Number of ESAs	Savings (cost) to state		Savings (cost) to districts		Savings (cost) combined	
		Total	Per student	Total	Per student	Total	Per student
ESA=90% of Per-Pupil Target Aid (\$6,500)							
1% students using ESAs	13,312	\$9,920,216	\$745	\$87,704,836	\$6,588	\$97,625,051	\$7,334
10% students using ESAs	130,596	\$103,162,513	\$790	\$854,550,750	\$6,543	\$957,713,263	\$7,333
ESA=\$10,000							
1% students using ESAs	13,312	(\$36,671,784)	(\$2,755)	\$87,704,836	\$6,588	\$51,033,051	\$3,834
10% students using ESAs	130,596	(\$353,923,487)	(\$2,710)	\$854,550,750	\$6,543	\$500,627,263	\$3,833

Data Sources: Author’s calculations; U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), “Local Education Agency (School District) Universe Survey”, 2018-19 v.1a; “School District Finance Survey (F-33)”, 2016-17 (FY 2017) v.1a.; New Jersey Department of Education

Notes: Parentheses denotes negative number. Variable costs were estimated from data reported by the New Jersey Department of Education to the U.S. Dept. of Education. They include expenditures on instruction, student support services, and instructional staff support services and excludes all other costs including administration, capital and maintenance, debt service, food services, transportation, enterprise operations, and all other categorical expenditures; the analysis assumes all ESA students are switchers; awarding ESAs to students who would enroll in a private school without an ESA program in place will offset some of the fiscal benefits accrued from students who switch from public school into the ESA program.

²⁴ A “switcher” is defined by a counterfactual. That is, a switcher is defined as a student who would have enrolled in a public school setting without financial assistance from the choice program.

²⁵ Ninety percent of \$7,294 is \$6,564. The analysis rounds down this amount for the ESA.

If 10 percent of New Jersey K-12 students in district schools were educated with ESAs, estimated savings to the state would be about \$103 million. School districts would experience much larger net fiscal benefits—estimated around \$855 million.

For an ESA worth \$10,000, the estimated net fiscal effects for the state is a net cost worth between \$37 million and \$354 million (about \$2,700 per student) if 1 percent to 10 percent of public school students leave their district schools. The estimated net fiscal impact on school districts is independent of the value of the ESA. For an ESA worth \$10,000, estimated fiscal benefits on school districts range from \$88 million to \$855 million.

DISTRICT LEVEL RESULTS

Table 2 reports information about districts' enrollment, revenue, and estimates for short-run variable costs. The estimated fiscal impact on school districts when students leave for any reason is the difference between the decrease in state aid from students who leave to participate in the ESA program and the variable cost burden relief.

[TABLE 2 \(click here to access\)](#)

The analysis examines 536 regular school districts and excludes charter schools and non-traditional school districts. About 90 percent of school districts in the analysis (484) will experience a net fiscal benefit if students leave to participate in an ESA program. For these districts, the estimated short-run variable cost burden relief outweighs the decrease in direct state aid when students leave, meaning that districts can reduce costs by an amount that matches or exceeds the decrease in state aid payments. Because a portion of the total per-pupil funding is based on factors other than students, students who remain in district schools may experience an increase in the amount of resources per student, depending on the district's decisions for reducing costs.

For example, Asbury Park School District's total funding is \$42,382 per student. When students leave the district for any reason, state formula aid will be reduced by an estimated \$12,888 per student, on average. Estimated variable costs per student is \$26,055. When students leave, the district has on average \$26,055 per student in cost burden relief to match \$12,888 in reduced state aid payments per student. The district can reduce costs by the full variable amount. Or it can reduce costs to exactly match its state aid reduction. In the latter case, students remaining in the district will end up with more resources on a per-student basis. Asbury Park is an "overaided" district, meaning that its reduction in state aid will be greater than \$12,888, on average, up to a point.²⁶

Newark Public School District provides an example of an "underaided" school district. Its total funding is \$23,938 per student. In theory, when students leave the district for any reason, state formula aid will be reduced by an estimated \$18,529 per student. Estimated variable costs per student is \$11,056. When students leave, the district has on average \$11,056 per student in cost burden relief to match most of its \$18,529 per student reduction in state aid payments. In reality, Newark is significantly "underaided" by about \$165 million. Thus, this district would not experience a reduction in state aid until enrollment declined by about 15 percent of students.

For 52 school districts, the estimated short-run variable cost burden relief does not outweigh the decrease in direct state aid when students leave, meaning that districts may not be able to reduce their costs in the short run to completely offset a decrease in direct state aid. Of these 52 districts, however, 47 are significantly underaided by more than \$1,000 per student. Thus, these districts would, in practice, not experience a reduction in state aid up to a certain enrollment decline. These districts would not face any state aid reduction if student enrollment declined by up to 5 percent. For many, this threshold is higher (up to 39 percent).

²⁶ The Appendix Table provides school district-level information on state aid deficits and surpluses.

Table 3 provides a range of fiscal effects estimates for an education savings account (ESA) program that provides an ESA for each student who participates. The analysis considers two scenarios: an ESA worth 90 percent of the statewide average of SFRA's intended full funding per student and an ESA worth \$10,000. Estimates are also based on assumptions that the number of students leaving district schools via the ESA program equal 1 percent and 10 percent of a district's enrollment. Estimates reported in the table convey fiscal effects on school districts. For example, a 1 percent decline in enrollment in South Orange–Maplewood School District (73 students) generates a net fiscal benefit of about \$794,000, or \$10,874 per ESA student. The net fiscal impact on Newark Public School District indicates a negative fiscal impact of \$4 million for a 1 percent migration of students into the ESA program. However, Newark is significantly underaided and would not have its state aid reduced unless its enrollment declines by more than 14 percent.

[TABLE 3 \(click here to access\)](#)

A common critique of educational choice programs is that they siphon or drain resources from public schools; yet, these arguments are made without acknowledging that costs (as well as revenue) also decrease when student enrollment decreases. Such concerns are legitimate, to be sure. After all, it is a real challenge for schools to cope with the reality of lower revenue when enrollment declines. Reducing operational costs can entail very difficult decisions. But this reality is one that all other enterprises in our society must face whenever the number of students, customers, clientele, or members decreases. Private schools, pre-kindergarten schools, colleges and universities, hospitals, construction firms, and restaurants all face this reality. Unlike these other service providers, however, where every dollar follows the client, not every dollar of a child's per-pupil spending follows a student when he or she leaves a public school. This feature of the school funding system represents a benefit that education providers outside the system do not have.

To provide additional perspective on what these fiscal effects mean in the context of districts' budgets, Table 4 summarizes the percentage of its budget that would

remain intact given a decline in state aid from students leaving districts to participate in an ESA program. In both scenarios considered (1 percent and 10 percent take-up rates), district budgets would remain almost fully intact. If 1 percent of district students choose to participate in an ESA program, budgets would be reduced by 0.3 percent on average, implying that 99.7 percent of districts' budgets would, on average, remain intact. If 10 percent of district students choose to participate in an ESA program, budgets would be reduced by 3.3 percent on average, implying that 96.7 percent of districts' budgets would remain intact, on average.

[TABLE 4 \(click here to access\)](#)

Caveats and considerations

If the ESA program allows eligibility for nonpublic school students, then some of the savings will be offset by any students from this group who would participate in the program (“non-switchers”).

Demand for the program will depend on the level of financial assistance. The higher the ESA amount, the greater the demand for the program. Most private school choice programs that exist today are limited in nature. Participation rates in the initial year average about 1 percent of the eligible population, and about 2 percent in the second year.

Note that estimates do not account for the potential fiscal effects if students with disabilities use the program. In general, the cost to educate students with special needs is, on average, twice the cost to educate mainstream students.²⁷ Costs increase with the severity of a child's disability. If the ESA amount is set at the low-end amount considered in the analysis (\$6,500), then participation in the program by students with special needs will likely be very low.

Finally, take-up in an ESA program is likely to be uneven across districts. In some school districts, take-up rates may be higher than rates considered in the present analysis. In other districts, participation may be quite low or students may not participate in an ESA program at all.

²⁷ This estimate is based on a comprehensive national study known as the Special Education Expenditure Project (SEEP) was conducted by the Center for Special Education Finance. The study was mandated in the 1997 reauthorization of the Individuals with Disabilities Education Act (IDEA). For more information about the project, see “The Special Education Expenditure Project,” Center for Special Education Finance, <http://www.csef-air.org>.

DESIGNING A FISCALLY NEUTRAL PROGRAM

From the state’s perspective, as long as the total cost reduction from student switchers equals the total cost of the ESA program, then the program will be fiscally neutral. The break-even switcher rate is the percentage of program participants in the program who must be switchers in order for the program to be fiscally neutral. It is simply the average per-student cost of the ESA program divided by the average per-student cost to the state to enroll those students in the public school system.

If the ratio of the cost of an ESA program to the state’s cost of enrolling those students in public schools is less than the percent of ESA students who switch from public school as a result of the program, then the program will generate savings for the state. To illustrate, if the per-student cost for a state is \$8,000 and an ESA is worth \$5,000, then the break-even switcher rate is 63 percent. This result implies that at least 63 percent of students in a choice program would need to be switchers in order for the program to be fiscally neutral for the state.

The present analysis considered a program where the ESA is set to 90 percent of the state’s cost (the average of SFRA’s intended full funding per student). This design allows 90 percent of ESA students to be switchers for the program to be fiscally neutral for the state.

CONCLUSION

One concern about choice programs that individuals often express is whether these programs will harm public schools and their students. If this were true, then we would expect to see this borne out in the dozens of studies that analyzed this question. Rather than being harmed, students who choose to remain in public schools affected by the introduction of choice programs make gains on test scores, on average. Moreover, these programs are usually designed to generate fiscal benefits for taxpayers.

Education savings accounts can help address some of New Jersey’s troubled finances with a plan that improves one of its biggest and most costly service—public education—while preserving its unique and time-honored character. For some, K-12 education is a zero-sum game where supporting educational choice and opportunity means opposing and harming the public school system. The large body of research on private school choice programs, however, suggests otherwise. Rather than K-12 being a zero-sum game, expanding educational opportunities for New Jersey families would accrue benefits, both fiscal and non-fiscal, across the state. These programs not only benefit students participating in them, but they also accrue benefits for parents, communities, and even public schools themselves as well.

[APPENDIX TABLE \(click here to access\)](#)

ABOUT THE AUTHORS

Martin F. Lueken, Ph.D.

Martin F. Lueken is EdChoice’s director of fiscal policy and analysis, where he focuses on research and analysis of issues that pertain to school choice bills, current programs, and school funding. His work includes providing expert support and advice for policymakers in helping understand the fiscal impact of current school choice programs and potential fiscal effects of programs introduced in state legislatures. He also conducts data analysis and research on school choice. His research work and interests include education finance in general and teacher pensions. He has provided expert testimony and advice about fiscal issues for numerous states that have introduced educational choice legislation. His work has been mentioned in various media and education-specific outlets, including The New York Times, The Wall Street Journal, Education Next, Education Week, and The 74. Marty previously studied in the Department of Education Reform and received his doctorate in Education Policy from the University of Arkansas. He also earned a master’s degree in Economics from the University of Missouri. He received his bachelor’s degree in Physical Education, with an emphasis in sports medicine, from Eastern Illinois University.

DISCLAIMER

The contents of this brief are intended to provide information and should not be construed as lobbying for any position related to any legislation. EdChoice is committed to research that adheres to high scientific standards, and matters of methodology and transparency are taken seriously at all levels of the organization. We are committed to providing high-quality information in a transparent and efficient manner. We welcome any and all questions related to methods and findings.

ACKNOWLEDGEMENTS

I am grateful to Jeff Bennett and Tom Neff for sharing their time to help my understanding of school funding in New Jersey. Jeff also read earlier versions of the paper. The present version benefited from his helpful feedback. I’m also thankful for Jennifer Wagner who provided copyedit and for Michael Davey who provided layout. Any errors belong to the author.