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# Finding room for school choice

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Are state government budgets helped or hurt by school choice? That question came up recently when I attended a panel discussion held in honor of the late John Brandl, a former legislator and dean of the Humphrey Institute of Public Affairs at the University of Minnesota.

As the discussion among the leaders of five think tanks turned towards education, Mitch Pearlstein, president of the Center of the American Experiment, made a pitch for school choice.

Matt Entenza, head of Minnesota 2020, demurred, noting that approximately 10 percent of the state's school-aged children attend private schools. To paraphrase the former attorney general, "Can the state afford to subsidize the schooling of those students when it has a budget shortfall?"

Would a school choice program bust the budget? Though much depends on how a program is structured, a recent evaluation from the Sunshine State suggests that the answer may be "no."

In December, 2008, a research office of the Florida Legislature evaluated a school choice program in that state, and estimated that it saves state government $1.49 for every dollar spent.

Under the Corporate Income Tax Credit Scholarship Program, a company that makes a donation to a scholarship-granting organization receives a credit against its income tax obligations.

The program has a statewide cap of $118 million, and no company can take a credit of more than 75 percent of its income tax bill. Over 21,000 students—limited to low-income families—participate.

The Office of Program Policy Analysis & Government Accountability, which conducted the analysis, reached its conclusion in four steps.

First, it estimated how much tax revenue the state loses to the tax credits. The legislative cap, subject to annual adjustment, is the upper limit. Over the last three years, only 96 percent of the cap, on average, has been used.

Next, it estimated the number of scholarship-receiving students who would have otherwise attended public schools. If, as Entenza's question implies, most students receiving the scholarships already attend private schools, the program has a negative effect on the state budget.

But if most of the students transfer from public schools to less expensive private schools, the state saves money. And that's what happened.

The office estimates that without the program, 90 percent of the participating students would attend public schools.

They would also cost the state more. That's because in its third step, the office estimates that the state would send school districts $6,100 for each pupil. By contrast, the scholarships, funded indirectly through foregone tax revenue, are limited to $3,950per pupil.

Finally, the office made the simple mathematical comparison of the tax revenue-loss and the cost-avoidance gain. For each dollar in tax credit given to a corporation, the state surrenders a dollar of tax revenue. But it also saves $1.49 in reduced education spending.

To return to Entenza's question, the percentage of students who enter the program from the public schools does make a difference: More is better. If fewer than 60 percent of the students in the program migrate from public schools—that is, if more than 40 percent are already enrolled in private schools—the state ends up spending more as a result of the tax credit program. When the figure is 60 percent, it breaks even. If all of the students receiving the scholarships migrate from the public schools, then Florida saves $1.66 for each dollar of tax credit granted.

Also in the report, the legislative office analyzed various proposals for changing the program, such as raising the statewide cap, letting scholarship-granting organizations take a 3 percent charge for their administrative expenses and raising the maximum scholarship grant available to each student.

The Florida tax credit offers several lessons. One is that by their actions, both the businesses who donate to the scholarship funds and the students who receive the scholarships affirm the value of enhanced school choice.

Another is that private schools are much more affordable than commonly thought. More than 21,000 children from low-income families—the students deemed to be the "most difficult to educate" by the public school system—are helped to attend a private school by these modest scholarships. These value of these scholarships is, I suspect, much lower than what the average Floridian thinks of as the typical private school tuition. Not all private schools have tuition rates that rival those of Ivy League colleges.

Indeed not all private schools spend as much as the typical public school, which is where the cost savings come in.

Here in Minnesota, a 2005 report published by the Humphrey Institute stated that a majority of K-8 private schools in Minnesota charged less than the state sends to public school districts as their “basic formula allowance.” The allowance is only one block of money, albeit the largest one, that the state sends to school districts.
So can we “afford” school choice programs?

Perhaps we ought to ask the question “Can we afford to not have them?”