# Fiscal Effects of School Choice: Doomsday Speculation Versus Reality

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When Arizona expanded its already-robust school choice program in 2022 by making education savings accounts available to all school-age children in the state, it met with a host of forecasts of fiscal doom. In Kentucky, just the possibility of school choice was met with a report by the Kentucky Center for Economic Policy (KCEP) forecasting similar fiscal hardship. The Arizona forecasters made several key errors that led to faulty predictions which became clear when confronted with reality in Arizona. The Kentucky report makes similar fundamental errors such that it cannot provide useful guidance. Essentially, the fiscal costs of school choice are exaggerated while the fiscal benefits are ignored. An alternative simulation of a hypothetical program that brings in information from other states' experiences shows a $116 million fiscal benefit as opposed to a KCEPS estimate of a $700 million fiscal cost. Moreover, a key question not addressed in the KCEP critique of school choice is how it affects students. Analysis of Florida shows strong positive effects on children's educational outcomes.

## Executive Summary

- Arizona's recent expansion of its school choice program was met with forecasts of fiscal disaster.
- End-of-fiscal-year reports from Arizona showed the reality: school choice did not break the budget. Forecasters made several fundamental errors.
- The Kentucky Center for Economic Policy (KCEP) recently forecasted similar fiscal hardship for Kentucky if it adopted a robust school choice program.
- The KCEP report also has fundamental errors. It :
    - exaggerates the fiscal cost of potential school choice programs by assuming 100% eligibility and 100% participation. The first is sometimes true and the second never has been.
    - ignores the fiscal benefits of educating a child via a school choice program at less expense than in a public school.
- Any alternative simulation of a hypothetical program is presented with limits on eligibility that brings in information based on experiences of other states.
- The alternative simulation indicates $116 million of annual fiscal benefits in contrast to KCEP's estimate of nearly $700 million of costs.
- A critical missing question not addressed by the KCEP report: "Does school choice help students?"

- Though Florida also is targeted as a state whose school choice programs will lead to fiscal hardship, its robust programs enable us to answer the question of the effect on student performance.
- Analyses of Florida choice programs show that participants have improved educational outcomes, and even students remaining in the public system have improved, evidently from the enhanced competition that choice brings. Florida "Nation's Report Card" testing results for public school students greatly improved to surpass Kentucky and the national average during its era of school choice.

## Predictions of Fiscal Disaster Regarding School Choice: Arizona and Kentucky

Arizona has a nearly 30-year history of charter schools and other school choice programs. Policymakers there incrementally increased the number of students eligible for these programs over time. One such program is their education savings account (ESA) that allows a portion of state education funds to "follow the student" for schooling expenses incurred by the family, including private school tuition. Recently, Arizona enacted an expansion to their ESA program to make all students eligible.

Subsequently, this was met with forecasts of a massive spending commitment to ESAs, leading to a state budget deficit and, according to the Arizona governor's office, ". . . the voucher program jeopardized not only the ability to adequately fund public school students, but also other vital state functions, like public safety, healthcare, and transportation infrastructure."[1] Other organizations had similar commentaries.[2] Though Kentucky does not yet have any school choice programs, we already have a report from the Kentucky Center of Economic Policy (KCEP) that forecasts similar fiscal disaster if Kentucky were to adopt one.[3]

At the end of Arizona's fiscal year on June 30, these forecasts met the reality of what actually happened. Arizona did run a deficit for 2024, but it was not the result of K-12 spending. In fact, the state's Department of Education ran a surplus, helping to make the state deficit smaller.

State spending on its ESA program was higher than previous expenditures but this was offset in the budget by two factors: (i) students participating in other state scholarship programs transferring to an ESA, limiting the increase in the state's obligation; and (ii) students enrolling in the ESA who otherwise would have been in

[1] See https://azgovernor.gov/sites/default/files/esa_memo_07.21.23.pdf.

[2] See, as examples, ProPublica (https://www.propublica.org/article/arizona-school-vouchers-budget-meltdown) and the Grand Canyon Institute (https://grandcanyoninstitute.org/research/education/private-school-subsidies/cost-of-the-universal-esa-vouchers/).

[3] See https://kypolicy.org/the-impact-of-diverting-public-money-to-private-school-vouchers-in-kentucky/.

the public school system, where the cost to the state of the former is less than latter.[4] Hence, no budget crises.

Of course, Kentucky has no program or budget to check forecasts against, but KCEP's forecast makes several fundamental errors similar to those made regarding Arizona and is not informed by realities occurring with school choice programs in other states. Thus, it does not provide sensible guidance.

## How to (and How Not to) Estimate Fiscal Effects of School Choice

The two components of school choice programs' effects on government budgets are:

(1) Budgetary savings. The cost of government providing a child's schooling via an education savings account (ESA), voucher, or tax credit scholarship typically is less than the cost of provision through the traditional public school system. Thus, there are budgetary savings for every public-school student that moves to a private school by utilizing a school choice program. These savings are shared between state and local governments depending on the budgetary practices of each.

(2) Budgetary costs. Children that utilize a school choice program who were in private schools prior to such programs represent an additional budgetary cost to government.

The KCEP report ostensibly analyzes the budgetary costs of hypothetical school choice programs in Kentucky. Their budgetary analysis commits two fundamental errors:

(a) it disregards the potential budgetary cost savings outlined in point (1);
(b) it presents a deeply unrealistic depiction of additional budgetary expenditures that might occur based on point (2) above, leading to an outsized over-estimation of costs.

The KCEP report assumes that 100% of private-school and home-schooled children are eligible for the hypothetical program and that 100% of these students utilize the program.

Most school choice programs in other states limit eligibility to selected groups such as low- or middle-income families, disabled and learning impaired children, and children previously in public schools, especially low-performing ones. Recently, several states have greatly expanded eligibility, but such broad (nearly 100%) eligibility is not the norm.[5] Moreover, the extent of eligibility is readily controlled by state policy.

[4] For discussion of these points, see https://nextstepsblog.org/2023/07/arizona-governor-touts-misleading-narrative-on-arizona-empowerment-scholarship-program/ and https://www.goldwaterinstitute.org/arizonas-universal-esa-program-a-history-of-surplus-savings-media-misinformation/.

[5] For a review of eligibility by state, see https://www.ecs.org/50-state-comparison-private-school-choice-2024/,

Just as problematic is the assumption of a 100% utilization rate by eligible families. Experience with other states' programs shows that utilization rates are vastly below 100%. Most well-established programs have utilization rates in the 2% to 6% range, though some cases are around a 20% rate.[6] The assumption of 100% utilization is simply far outside the realm of the reality of experience.

These items in the KCEP report lead to a dramatic over-estimation of additional budgetary costs that a hypothetical school choice program might incur. Additionally, there is no consideration of the budgetary savings that such programs bring.[7]

Ignoring the budgetary savings and inflating the budgetary costs does not provide sensible guidance.

### A Short Alternative Example

Consider an alternative simulation that accounts for the above issues and brings in data from households and the experiences of other states. Note that this is not intended to recommend a particular plan for Kentucky. Indeed, if Amendment 2 passes, any school choice plan will be determined by the state legislature. This simulation is to illustrate much more likely fiscal outcomes for a hypothetical plan than portrayed by the KCEP report.

For comparison purposes, I consider a hypothetical plan similar to one in the KCEP report that would make a $7,000 ESA/voucher available for each student. KCEP assumes that only private and homeschooled students use this program, and thus estimates the cost of such a program would be nearly $700 million. This is quite large and is 7.5% of Kentucky's 2023 combined state and local funding for K-12 of $9.3 billion.

In my simulation, however, I assume that eligibility is limited to families with incomes less than 300% of the federal poverty level. For a family of four, this is an income of $93,600.

Table 1 shows the computations of this stimulation's budgetary costs and benefits. Column (1) is the number of Kentucky students in private schooling or home schooled and the number of public-school students.[8] Column (2) is my estimate of the percent of students who are eligible with family incomes less than 300% of the

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[6] For utilization rates of school choice programs over the years, see https://www.edchoice.org/wp-content/uploads/2023/02/Participation-in-Private-Education-Choice-Programs.pdf. For more recent data, see https://www.edchoice.org/wp-content/uploads/2024/03/Switcher-Brief.pdf.

[7] For a review of the fiscal effects of all school choice programs through 2018, see https://www.edchoice.org/wp-content/uploads/2021/11/The-Fiscal-Effects-of-School-Choice-WEB-reduced.pdf. Virtually all these programs show net fiscal savings.

[8] Private/home schooled numbers are from Houchens (2022), based on the Kentucky Department of Education's Declaration of Participation Report, https://digitalcommons.wku.edu/ed_leader_fac_pubs/7/. The public number is from Kentucky's School Report Card, https://www.kyschoolreportcard.com/organization/20?year=2023.

poverty rate based on data from the Digest of Education Statistics.[9] Column (3) is the estimate of the percent of eligible students who will use the ESA based on studies of the actual experience of other states with these programs.[10] Though these percentages may seem low, they reflect actual participation rates in various states.

| Table 1: Fiscal Costs and Benefits of a Hypothetical ESA | | | | | | |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| | No. of Students | Percent Eligible (<300% of Poverty) | Percent of eligible who utilize | No. of students with ESA | Cost or saving per student | Total dollars (cost/savings) |
| Private and home school | 97,918 | 44.6% | 20% | 8,733 | $7,000 | $61,133,659 |
| Public school | 634,424 | 71.1% | 3% | 13,537 | $20,136 - $7,000 =$13,136 | $177,822,322 |
| Net Savings | | | | | | $116,688,663 |

Multiplying column (1) times column (2) times column (3) gives the estimated number of students who use the program, shown in column (4). For private and home school students in the first row, multiplying this number times the ESA amount of $7,000 gives the fiscal cost of the program. This amount of $61,133,659 is shown in column (6). This is the additional funding for students previously receiving no government school funds and is tremendously less than the nearly $700 million cost the KCEP estimates for this program.

However, that's not the end of the story. The second row of table 1 shows the fiscal benefits from the ESA program. In 2023, the average funding per pupil in Kentucky public schools was $20,136.[11] Using an ESA, a student will now be educated for $7,000. The total fiscal benefit is the difference of $13,136 in column (4)) times column (5), amounting to $177,822,322. This is shown in column (6).

[9] Digest of Education Statistics, 2022, Table 206.30, Percentage distribution of students enrolled, 2019, https://nces.ed.gov/programs/digest/. This provides data on enrollment of students in public and private schools by income group that approximates 300% of poverty level. It shows 35.7% for private and 56.9% for public but is based on poverty rates for the entire U.S. They are about 25% higher for Kentucky, so my estimates are higher by that amount.

[10] Refer to footnote 6 for these studies. The 3% figure is a level of participation attained by many states after a few years. The 20% is from the above-cited study that separates out prior private and public-school participants.

[11] See https://www.education.ky.gov/districts/FinRept/Pages/Fund%20Balances,%20Revenues%20and%20Expenditures,%20Chart%20of%20Accounts,%20Indirect%20Cost%20Rates%20and%20Key%20Financial%20Indicators.aspx.

Note that who receives this fiscal benefit depends on state and local budgeting practices. It also can take different forms. As an example, for students who leave public schools using an ESA, the public school district may lose $7,000 state funding out of its budget. However, it retains the remaining $13,136.[12] This can be spent on remaining students, raising its per-pupil funding. Alternatively, it may seek to maintain the same per-pupil funding by reducing its expenses commensurate with its fewer students. This may be difficult in the short term, but feasible in the long term. Either scenario, however, is a fiscal benefit.

The net effect is the fiscal benefit in the second row minus the fiscal cost in the first. This comes to $116,688,663, shown in the third row. This estimate of over $116 million of fiscal benefits is in sharp contrast to the almost $700 million in costs estimated by KCEP. The difference arises from using realistic and experience-based data to do the computations.

Of course, this is a hypothetical program but note that the $116 million of benefits is quite small relative to Kentucky's state and local funding of K-12. In 2022-2023, state and local funding was over $9.3 billion. The hypothetical program is just 1.2% of the total and will have little impact on the state's overall budget one way or the other.

## Are Florida's School Choice Programs a Boogeyman? Do They Help Kids?

Florida also has a long history of strong school choice programs and recently expanded eligibility of its ESA to all students. The KCEP report warns of the potential fiscal disaster of a "Florida-scale" school choice program.[13]

While no sign of fiscal hardship in Florida has emerged, a fundamental question about school choice is ignored by such claims: Do school choice initiatives improve the academic performance and well-being of students? After all, the goal of the taxpayer support of schooling – whether it's traditional public, charter, or private – is to enhance outcomes for children.

The evidence for Florida is strikingly positive in this regard. Evaluations of the effects of school choice on student outcomes of program participants are positive.[14] Interestingly, a recent study shows that the competitive effects of Florida's school choice programs improve student outcomes for the public schools.[15] A recently updated Bluegrass Institute study indicates shows that during the era of Florida's school choice expansion, the Sunshine State's "Nation's Report Card" public school

[12] However, the district may lose some federal funds. However, the net saving of federal funds is still a savings to taxpayers. Even putting federal funds aside, the net fiscal gain is still about $69 million.

[13] Other commentators do likewise. An example is https://www.cbpp.org/blog/state-lawmakers-are-draining-public-revenues-with-school-vouchers.

[14] An example is https://www.urban.org/sites/default/files/publication/99728/the_effects_of_the_florida_tax_credit_scholarship_program_on_college_enrollment_and_graduation_2.pdf.

[15] See https://www.nber.org/system/files/working_papers/w26758/w26758.pdf.

test scores improved dramatically.[16] In the 1990s, Florida's scores were below or near Kentucky's and below the national average. As Florida has expanded school choice, its test scores have overtaken and surpassed Kentucky's as well as the national average. Many Kentuckians likely would embrace policies that generate such good outcomes.

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[16] Found at https://www.bipps.org/top-reads/florida-versus-kentucky%3A-how-school-choice-improves-public-school-performance%2C-too.