Cascade Policy Institute
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Education Savings Accounts

Review and Evaluation of a Universal ESA in Oregon

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About Cascade Policy Institute

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Education Savings Accounts

Review and Evaluation of a Universal ESA in Oregon

Executive Summary

Education Savings Accounts deposit a percentage of the funds that the state otherwise would 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 in the area of educational attainment.

Currently, Arizona, Florida, Mississippi, and Tennessee have active ESA programs that are limited to particular groups of students such as those with special needs. Nevada passed a near-universal ESA bill in 2015, but it is yet to be funded. Oregon Senate Bill 437 would introduce a universal ESA program in the state covering all K-12 students.

ESAs frequently are designed so the amount of funding support provided is less than the amount the state otherwise would 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 Oregon's SB 437, as introduced, would cost the state approximately $390 million a year but would lead to savings of about $190 million a year to local school districts, for a net state and local impact of approximately $200 million in additional costs. This net impact of SB 437 can be reduced—and turned into a net cost saving to state and local governments—by adjusting the annual amount deposited into the ESAs. The program would "break even" at an amount of $6,000 for each participating student with disabilities and/or in a low-income household and $4,500 for all other students. Once fully implemented, the program with these ESA amounts would save state and local governments more than $6 million a year. ■

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. With ESAs, a percentage of the funds that the state otherwise would spend to educate a student in a public school are instead given to the student's family to spend on private school tuition and/or other 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, and Tennessee have active ESA programs that are limited to particular groups of students, such as those with special needs. Nevada passed a near universal ESA bill in 2015, but it is yet to be funded. Oregon Senate Bill 437 would introduce a "universal" ESA program in the state covering all K-12 students.

1. Introduction to school choice funding

In the United States, the most common school choice programs are scholarship tax credit programs, which allow individuals or corporations to receive tax credits toward their state taxes in exchange for donations made to non-profit organizations that grant private school scholarships. In other cases, financial support to students may be provided by the state through a school voucher program or an education savings account. Public funding for school choice can be broken down into four broad categories.[1]

1. Education Savings Accounts (ESAs) 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. Some ESAs, but not all, even allow students to use their funds to pay for a combination

of public school courses and private services. Five states currently have ESA programs.

2. School vouchers give parents a portion of the public funding set aside for their children's education to be used for private school expenses. Under such a program, funds typically spent by a school district would be allocated to a participating family in the form of a voucher to pay partial or full tuition for their child's private school, including both religious and non-religious options. There are currently 26 voucher programs spanning 16 states.

3. Tax credit scholarships allow taxpayers to receive full or partial tax credits when they donate to nonprofits that provide private school scholarships. Eligible taxpayers can include both individuals and businesses. In some states, scholarship-giving nonprofits also provide innovation grants to public schools and/or transportation assistance to students choosing alternative public schools. There are currently 21 tax credit scholarship programs spanning 17 states.

4. Individual tax credits and deductions allow parents to receive state income tax relief for approved educational expenses, which can include private school tuition, books, supplies, computers, tutors, and transportation. Currently 17 states allow for individual tax credits or deductions.

ESAs and vouchers differ from scholarship tax credits from a fiscal perspective. ESAs and vouchers create a direct expense to the state in the form of funding the ESA or voucher, while the only cost to the state under a scholarship tax credit program is a loss in potential revenue from awarding tax credits.

Key differences between education savings accounts and vouchers

News organizations and social media often lump education savings accounts with vouchers, giving the impression that ESAs are identical to vouchers. While similar in some ways, ESAs differ from vouchers in two key ways:

1. Flow of funds. ESA funds flow from the government to a student's account, held by the government. Voucher funds typically flow directly from the government to the private school.

2. Use of funds. ESA funds may be used for a wide range of education expenditures and may be "rolled over" from year to year. Rolled over funds may be used for certain higher education expenses. Voucher funds are typically limited to payment of tuition at a private school.

Vouchers allow parents to use public funding allocated for their child toward tuition at a private school of their choice, including religiously affiliated private schools. In many states, once a family requests a voucher, the money flows directly from the government to the private school. Most voucher programs typically are targeted toward certain groups of students: those with disabilities, those assigned to a failing school, or those from low-income families. Some states, such as Indiana, have expanded their programs to include more middle-income families.[2]

Many voucher programs have faced legal challenges in which the funds flow directly to the private school and in which religiously affiliated private schools were eligible to participate in the voucher program, especially in states with what are known as Blaine Amendments. A *Blaine Amendment* is a provision in a state's constitution prohibiting state or local governments from, among other things, funding religious schools with public money.[3] ESAs are designed with an eye toward overcoming Blaine-based challenges.

In an ESA program, the state places funds in individual accounts for participating students, usually based on its per-pupil funding formulas. Families can then withdraw that money to spend on approved educational expenses. That may be private school tuition; but it may also be used for tutoring, online courses, transportation, or even some types of therapy. In addition to helping families send their children to private school, an ESA program can also allow them to home school or assemble a hybrid public-private education.

ESAs were initially aimed at students with disabilities, beginning in Arizona in 2011. That state has been steadily expanding eligibility for its program to include other groups of students, such as those from failing schools, military families, and students who live on American Indian reservations. In 2015, Nevada passed a universal ESA program open to all students in public schools.

The flow-of-funds key feature of ESAs—that funds flow to an account in the student's name—has helped them survive a Blaine-based legal challenge in Nevada. The state's Supreme Court upheld ESAs as constitutional. The court determined that ESAs provide money to families, who can use funds to pay for a variety of education-related products and services such as private tutors, private school tuition, and other expenses:[4]

> Once the public funds are deposited into an education savings account, the funds are no longer "public funds" but are instead the private funds of the individual parent who established the account. The parent decides where to spend that money for the child's education and may choose from a variety of participating entities, including religious and non-religious schools. Any decision by the parent

> to use the funds in his or her account to pay tuition at a religious school does not involve the use of "public funds" . . . .

The use-of-funds key feature of ESAs—that parents can make multiple choices for their children's education from a range of options—helped them survive a Blaine-based legal challenge in Arizona. In a unanimous opinion, a state appellate court wrote:[5]

> The ESA does not result in an appropriation of public money to encourage the preference of one religion over another, or religion per se over no religion. Any aid to religious schools would be a result of the genuine and independent private choices of the parents. The parents are given numerous ways in which they can educate their children suited to the needs of each child with no preference given to religious or nonreligious schools or programs.

Despite the similarities between vouchers and ESAs, key differences between the two categories of programs seem to be sufficient for ESAs to survive Blaine amendment legal challenges.

Well-designed ESAs are also likely to be held constitutional if challenged on federal grounds as well. The Institute for Justice has provided Cascade Policy Institute with a thorough legal analysis of SB 437 dated February 2, 2017, which concludes that "The program is constitutional under both the federal and state constitutions." The analysis is available on request.

2. Existing education savings account programs

Currently, Arizona, Florida, Mississippi, and Tennessee have active ESA pro-grams that are limited to particular groups of students, such as those with special needs. Nevada passed a near universal ESA bill in 2015, but it is yet to be funded.

Oregon Senate Bill 437 would introduce a "universal" ESA program in the state covering all K-12 students.[6] The remainder of this section summarizes existing ESA programs, as reported by EdChoice.[7]

Arizona: Empowerment Scholarship Accounts

Arizona's Empowerment Scholarship Accounts program allows parents to withdraw their children from public, district, or charter schools and receive a portion of their public funding deposited into an account with defined, but multiple, uses, including private school tuition, online education, private tutoring, or future educational expenses.

ESAs are funded at 90 percent of the charter school per-student base funding. For the 2015-16 school year, that amounted to $4,645 (K–8) or $4,904 (9–12) for students who do not have special needs. Students with special needs receive additional funding, and those amounts vary depending on the services the student's disability requires.

Students must have previously attended public school for at least 100 days of the prior fiscal year and have met one of the following characteristics:

1. Is already an ESA recipient,

2. Received a scholarship from a school tuition organization under the state's Lexie's Law (a tax scholarship program for disabled or displaced students),

3. Attended a "D" or "F" letter-grade school or school district,

4. Been adopted from the state's foster care system, or

5. Lives on a Native American reservation.

Eligibility was expanded in the 2014-15 school year. Despite that expansion, approximately 22 percent of students statewide are eligible for the ESA program. In addition, the state imposes an arbitrary cap on enrollment equal to 0.5 percent of traditional public and charter school enrollment, inhibiting many eligible students from participating in the ESA program.

Florida: Gardiner Scholarship

Florida's Gardiner Scholarship program allows students with special needs an opportunity to receive an ESA funded by the state and administered by an approved nonprofit scholarship funding organization. The nonprofits reimburse parents for approved expenses. Parents can use the funds to pay for a variety of educational services, including private school tuition, tutoring, online education, home education, curriculum, therapy, postsecondary educational institutions in Florida, and other defined educational services.

Funding for Florida's Gardiner Scholarship program is provided in the General Appropriations Act, which specifies an annual amount. The amount varies according to grade, county of residence, and public school spending for students with disabilities.

Students must have an Individualized Education Plan or have been diagnosed with autism spectrum disorder, cerebral palsy, Down syndrome, an intellectual disability, muscular dystrophy, Phelan-McDermid syndrome, Prader-Willi syndrome, spina bifida, or Williams syndrome. Students ages 3, 4, or 5 who are considered "high-risk" due

to developmental delays are also eligible. Approximately 12 percent of students statewide are eligible for the ESA program.

Mississippi: Equal Opportunity for Students with Special Needs

The Equal Opportunity for Students with Special Needs program, allows Mississippi students with special needs to receive a portion of their public funding in a government-authorized ESA with multiple uses. The program was enacted in 2015 and launched in fall 2015.

The annual award amount is $6,637, subject to increase or decrease by the same proportion as the funding amount provided by the state to public schools, known as the Mississippi Adequate Education Program base student cost. The program does not allow for the "roll over" of ESA funds from year to year.

Students must have had an Individualized Education Plan within the past five years. While participating in this program, students are not eligible for the state's Dyslexia Therapy Scholarship or a Nate Rogers Scholarship. Participating students are automatically approved for participation for the following year. Enrollment is capped at 1,000, while approximately 13 percent of students are eligible statewide.

Nevada: Education Savings Accounts

Nevada's Education Savings Account Program, enacted in 2015, is the nation's first near-universal ESA program. It allows parents to remove their children from their assigned public schools and use a portion or all of their children's public education funding to pay for services like private school tuition, curriculum, learning therapies, tutoring, and more.

For students with special needs or those who live in families with incomes up to 100 percent of the free and reduced-price lunch program, annual account payments may be worth 100 percent of the statewide average basic support per pupil ($5,710 in 2015–16). For all other students, annual account payments may be worth 90 percent of the statewide average basic support per pupil ($5,139 in 2015–16).

Students qualify if they attended a Nevada public school for at least 100 days immediately prior to establishing an ESA. Additionally, children of active duty military members and those under seven years old qualify immediately. Approximately 96 percent of students are eligible statewide. Of the applications submitted in early 2017, approximately two-thirds come from households making less than the median family income for the state.[8]

Nevada's program was scheduled to begin in 2016, but implementation has been held up under a court order. In September 2016, the state's Supreme Court ruled that the ESA is constitutional with respect to the state's Blaine Amendment, but it did not have a funding mechanism that was consistent with the state's constitution. The current state legislature is considering Senate Bill 359, which would provide an appropriate funding mechanism, but would also cap enrollment in the program at five percent of the average daily enrollment of pupils in a school district in any given school year.

Tennessee: Individualized Education Accounts

Tennessee's Individualized Education Account Program provides parents with funds to pay for a variety of educational services for their children, including private school tuition, tutoring, online education, curriculum, therapy, post-secondary educational institutions in Tennessee, and other defined educational services. The program was launched in the 2016-17 school year.

Each account is funded at an amount equivalent to 100 percent of the state and local funds reflected in the state funding formula that would have gone to the student had he or she attended their zoned public school, plus special education funds to which the student otherwise would be entitled under the student's Individualized Education Plan.

Students qualify if they are eligible to enroll in Kindergarten through 12th grade. They must have an IEP and have been diagnosed with one of the following: autism, deaf-blindness, a hearing impairment (including deafness), an intellectual disability, an orthopedic impairment, a traumatic brain injury, or a visual impairment (including blindness). Additionally, students must either (1) have been enrolled in a Tennessee public school during the previous two semesters, (2) be attending a Tennessee public school for the first time, or (3) have received IEA funds in the previous school year. Approximately two percent of students statewide are eligible for the program, and fewer than 50 students are currently participating.

3. Fiscal impacts of education savings accounts

Education savings accounts provide support for tuition and other education costs to certain students who wish to transfer from the public school system into the private sector or who may already be receiving a private education. ESAs frequently are designed so the amount of funding support provided is less than the amount the state otherwise would pay for a student to attend public school, with the state recouping the difference. Policy makers can choose to reinvest the funds in state education funding, redeploy the funds elsewhere, or reduce taxes, fees, and charges.

Scholarships offered in school voucher programs tend to be at or near the state per pupil allocation, while scholarships offered in scholarship tax credit programs often are worth much less. ESA amounts tend to be at or below the state per pupil allocation. In several programs, students with disabilities or in low-income families receive more funding than those who are not disabled or in low-income families. For example, in Nevada's program, students with special needs or those who live in families with incomes up to 100 percent of the free and reduced-price lunch program receive ESA payments equal to 100 percent of the statewide average basic support per pupil; other students receive 90 percent of the statewide average.

Students participating in ESAs can be put into one of three categories:

1. Students previously enrolled in public school and switch to the private sector because of the ESA.

2. Students previously enrolled in public school and switch to the private sector, but would have switched even if the ESA was not available; and

3. Students already enrolled in a private program.

In addition, there may be some share of students in a private program who would not choose to participate in the ESA program. For example, only one-third of Indiana's private schools participated in the state's voucher program in the 2014-15 school year.[9]

Some students who receive ESAs would have switched from public to private instruction regardless of their ESA. It is important to know how many students would do this, because they do not create savings. Without the ESA, the state no longer would have to provide funding for them, since they are leaving the public school system.

Because measurements of students who would have switched regardless of ESAs are impossible to obtain, any fiscal analysis must estimate or assume this number. For ESA programs targeted at low-income households or students with disabilities, it is expected that the percentage of ESA students who fit this description would be relatively small. For universal ESA programs, a large share of participants would fit this description and another large share would include students who are already enrolled in a private program.

An evaluation of the DC Opportunity Scholarship Program revealed that nearly 12 percent of students who applied for a voucher but did not receive one had enrolled in private school without the voucher within four years.[10] Other research on school voucher programs has estimated that 10 percent to 15 percent of students who received vouchers would have enrolled in private school without the voucher.[11]

Subsequent research by the same author suggests a wider range of zero to 30 percent of students receiving vouchers who would have enrolled in private school without the voucher.[12] The accessibility and affordability of private schools in the area covered by a voucher or ESA program likely will affect the number of qualifying students who can enroll in private school without receiving a voucher.

Estimates of price elasticity of demand or income elasticity of demand can be used to avoid the complexities of estimating or assuming the share of students receiving vouchers who would have enrolled in private school without the voucher, as such decisions are incorporated into elasticity estimates. Research suggests the *price elasticity* of demand to be 0.11.[13] 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. Other research indicates that the *income elasticity* of demand for private instruction is 0.30.[14] Thus, a 10 percent increase in income would be associated with a 3 percent increase in non-public enrollment.

There has been no comprehensive analysis of the fiscal impact of ESAs on state and local budgets. Vouchers are the closest comparable school choice program. Targeted voucher programs tend to produce fiscal benefits to the state budgets. The net benefits occur because the amount of the vouchers for private school tuition are generally less than the per-student funding of public instruction. An evaluation of the net fiscal effects of school voucher programs, summarized in Table 1, calculated a net fiscal benefit (i.e., cost savings per student) of $500 to $6,400 in the 2011 fiscal year.[15]

Table 1: Net fiscal benefit of school voucher programs, 2011 fiscal year

State	Per Student Net Fiscal Benefit
Florida	$6,083
Georgia	6,432
Louisiana	3,146
Ohio	4,582
Utah	544
Washington, DC	3,345
Wisconsin	2,693

Sources: Spalding (2014).

The DC Opportunity Scholarship Program is a federally funded voucher program. Since 2004 it has offered publicly funded private school vouchers to approximately 4,000 students to attend any of 73 different private schools in Washington, DC. An evaluation of the program found a benefit to cost ratio of 2.62— each dollar spent on the program was associated with $2.62 in benefits.[16] Much of the benefits were tied to increased graduation rates of participating students.

4. Achievement impacts of school choice

Proponents of school choice argue that expanding the range of financially feasible schooling options for students will allow parents to find programs more suited to their children's unique characteristics and educational needs. This, in turn, would be expected to result in improved educational achievement, such as improved test scores (Table 2) as well as on graduation rates and enrollment in higher education (Table 3). On the other hand, opponents claim that expanding private school choice yields no additional benefits to participants and generates significant harms to the students "left behind" in traditional public schools.

A recent review of the empirical research on private school choice finds evidence that private school choice delivers some benefits to participating students—particularly in the area of educational attainment.[17] The review also finds that school choice tends to help, to a small degree, the achievement of students who remain in public schools.

Table 2: Test score effects of school choice programs

Author	Location	Study Year	Overall Findings
Abdulkadiroglu et. al.	Louisiana	2015	Negative results
Bitler et. al.	New York	2014	No significant results
Jin et. al.	New York	2010	Positive for subgroups
Wolf et. al.	DC	2010	Positive for subgroups
Cowen	Charlotte	2008	Positive overall
Krueger and Zhu	New York	2004	No significant results
Barnard et. al.	New York	2003	Positive for subgroups
Howell et. al.	New York	2002	Positive for subgroups
Howell et. al.	DC	2002	Positive overall
Howell et. al.	Dayton, OH	2002	Positive for subgroups
Greene	Charlotte	2001	Positive overall
Greene et. al.	Milwaukee	1999	Positive overall
Rouse	Milwaukee	1998	Positive overall

Sources: Egalite & Wolf (2016).

Table 3: Educational attainment effects of school choice programs

Author	Location	Study Year	Overall Findings
Wolf et. al.	DC	2013	Using a voucher boosted probability of graduating from high school by 21 percentage points.
Chingos & Peterson	New York	2014	Using a voucher boosted the college-going rates of African American students by 9 percentage points.
Cowen et. al.	Milwaukee, WI	2013	Voucher users more likely to graduate high school, enroll in 4-year postsecondary institution, and persist beyond first year of college enrollment.
Warren	Milwaukee, WI	2011	Voucher students graduate at a rate 18 percent higher than public school.

Sources: Egalite & Wolf (2016).

5. Fiscal analysis of Oregon Senate Bill 437

Oregon Senate Bill 437 (2017) establishes an Education Savings Account program by 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 this state. For the 2016-17 school year, the amount is $8,781 per student.[18]

  — Participating children with a household income less than 185 of the federal poverty level and participating children with a disability, as defined in ORS 343.035, would receive 100 percent of the statewide average distribution deposited in their accounts.

  — All other participating children would receive 90 percent of the statewide average distribution deposited in their accounts.

- Funds from the ESAs may be used for:

  — Tuition and fees at qualified participating institutions.

  — Required textbooks.

  — Tutoring and teaching services.

— Assessments and examinations, such as Advanced Placement exams.

— Special education and related services.

- Any funds remaining in the ESAs after expenses are held in the account and 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.

- Institutions must apply to be a "participating entity" and must satisfy several educational, financial, and reporting criteria.

A fiscal analysis of the bill (described below) indicates that SB 437, as introduced, would cost the state approximately $390 million a year but would lead to savings of about $190 million a year to local school districts, for a net state and local impact of approximately $200 million in additional costs. This net impact can be reduced—and turned into a net cost saving to state and local governments—by adjusting the annual amount deposited into the ESAs.

Adjustments to ESA amounts would generate substantial savings to state and local governments

The amount of the ESA deposits is the biggest driver of fiscal impacts. As introduced, participating students with disabilities and in low-income households would receive $8,781 a year in their ESAs. All other participating students would receive $7,903.

In Oregon, the average private school tuition for 2016-17 is $7,933.[19] In many cases, the amount of the ESA deposit would be greater than the cost of tuition at a private school.

Figure 1 shows the net fiscal impact on state and local budgets across a range of ESA amounts. The figure is based on a fiscal impact with the following assumptions and parameters.

- The *x*-axis show the impact for hypothetical ESA amounts ranging between $500 and $9,000 a year for participating students with disabilities and in low-income households. All other participating students would receive an amount equal to 75 percent of the amount received by students with disabilities and in low-income households. In this way Figure 1 shows how the fiscal impacts vary with the ESA amounts.

- Based on information from the U.S. Department of Education, public school enrollment is assumed to be 563,000; private school enrollment is assumed to be 61,000.

- 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.[20] 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.[21] 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.

- It is assumed that 90 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 2016-17 school year are $8,781 per student. Current public school students who transition out of the public system would free up these state funds.

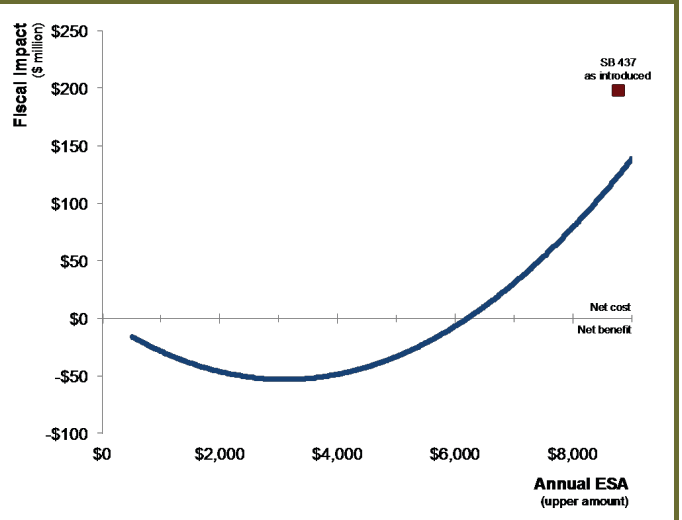
- Local funding for public education averages $3,035 per student in 2016-17.[22] Current public school students who transition out of the public system would free up these local funds.

Figure 1 shows that the program has a "break even" at an ESA amount of approximately $6,000 for each participating student with disabilities and/or in a low-income household and $4,500 for all other students. Table 4 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 amount of the ESAs in Table 4 are less than the amount currently spent by 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.

If fiscal impact were the only measure by which to evaluate the ESA program, Figure 1 shows that the program is optimized at an amount of $3,000 for each participating student with disabilities and/or in a low-income household and $2,250 for all other students. Once fully implemented,

the program would save state and local governments $53 million a year.

Figure 1: Net state and local fiscal impact of Oregon ESA for a range of ESA amounts



Sources: Author's calculations. As introduced, participating students with disabilities and in low-income households would receive $8,781 a year in their ESAs; all other participating students would receive $7,903. As introduced, the net state and local impact would be approximately $200 million in additional costs. The ESA program would "break even" at an ESA amount of $6,000 for each participating student with disabilities and/or in a low-income household and $4,500 for all other students. For ESA amounts below $6,000/$4,500, the program would produce a net fiscal benefit.

Table 4: Break even analysis of Oregon universal ESA proposal

ESA - Low Income and Disabled	$6,000
ESA - All other	$4,500
Impact from public school students	
ESA participants	39,300
Amount of grants from state	$204,062,000
Less: Treasury holdback	6,122,000
Less: Grants under current law	345,093,000
Net impact to state budget	-$147,153,000
Foregone state grants under current law	$345,093,000
Less: State and local spending under current law	464,471,000
Net impact to local budget	-$119,378,000
Net impact to state budget from ESA participation	-$266,531,000
Impact from non-public school students	
ESA participants	55,200
Amount of grants from state	$268,001,000
Less: Treasury holdback	8,040,000
Net impact to state budget from ESA participation	$259,961,000
Net impacts	
State budget	$112,808,000
Local budgets	-119,378,000
State and local budgets combined	-$6,570,000
Memo: Impact per participating student	-$167

6. 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.

News organizations and social media often lump education savings accounts with vouchers, giving the impression that ESAs are identical to vouchers. While similar in some ways, ESAs differ from vouchers in two key ways that have enabled ESAs to survive legal challenges from ESA opponents.

A recent review of the empirical research on private school choice finds evidence that private school choice delivers some benefits to participating students—particularly in the area of educational attainment. The review also finds that school choice tends to help the achievement of students who remain in public schools.

ESAs frequently are designed so the amount of funding support provided is less than the amount the state otherwise would pay for a student to attend public school, with the state recouping the difference. Policy makers 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 of Oregon's SB 437, as introduced, would cost the state approximately $390 million a year but would lead to savings of about $190 million a year to local school districts, for a net state and local impact of approximately $200 million in additional costs.

This net impact of SB 437 can be reduced—and turned into a net cost saving to state and local governments—by adjusting the annual amount deposited into the ESAs. The program would "break even" at an amount of $6,000 for each participating student with disabilities and/or in a low-income household and $4,500 for all other students. Once fully implemented, the program with these ESA amounts would save state and local governments more than $6 million a year. ■

Appendix: Breakeven analysis under different price elasticity of demand assumptions

As noted in Section 3, ESA programs are expected to provide fiscal net benefits when the amount deposited in the ESAs is significantly lower than the per-student funding of public instruction. Thus, all other things equal, the smaller amount deposited in the ESA, the larger the fiscal net benefits to state and local budgets. On the other hand, ESA deposits must be large enough to induce a significant number of students enrolled in public schools to switch to private instruction.

Elasticity is a measure of responsiveness. For example, the measure of elasticity used in this analysis is the percent reduction in public school enrollment for a given percent reduction in the net costs of private instruction:

$$\text{Elasticity} = \frac{\%\text{ change in public school enrollment}}{\%\text{ change in private school costs}} = 0.11.$$

For example, a 10 percent decrease in private school costs would be associated with a 1.1 percent decrease in public school enrollment.

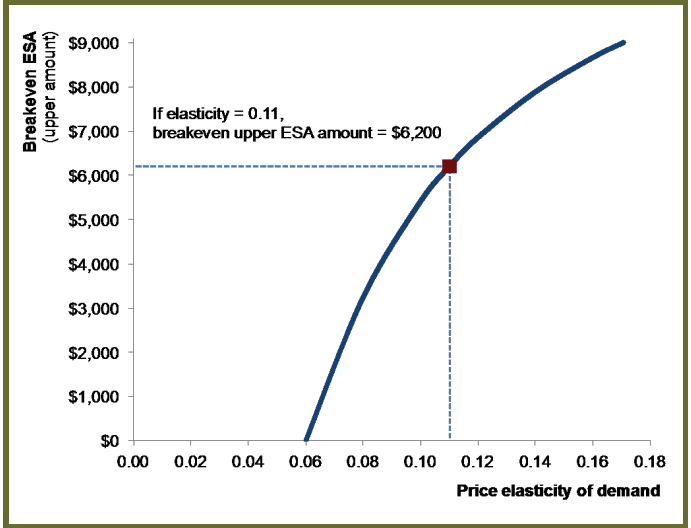
Because there has been so little research measuring the elasticities relevant for ESA research, it is instructive to illustrate how different elasticities would affect the "breakeven" ESA amount, using the methodology outlined in Section 3 and applied to Oregon SB 437.

Figure 2 provides the break even ESA amount for a range of hypothetical demand elasticities.

- The *x*-axis shows a hypothetical range of elasticities, from zero to 0.18. The dotted line represents the elasticity used in this analysis, 0.11.
- The *y*-axis shows the break even ESA amount for participating students with disabilities and in low-income households. All other participating students would receive an amount equal to 75 percent of the amount received by students with disabilities and in low-income households. The dotted line shows that at an elasticity of 0.11, the break even ESA amount for students with disabilities and in low-income households would be $6,200.

The figure demonstrates the importance of obtaining more and better information regarding how students respond to ESA amounts. If students are relatively unresponsive to ESA funding, then no amount of funding will cause a sufficient number of public school students to switch to private instruction. Alternatively, if students respond in greater numbers than assumed with an elasticity of 0.11, even relatively generous ESA funding can generate net fiscal benefits to state and local governments. ■

Figure 2: Breakeven Oregon ESA amount for a range of demand elasticities



Sources: Author's calculations. As price elasticity of demand increases, students are more responsive to increases in ESA amounts (i.e., more likely to switch out of public schools to private instruction). The figure shows that for an elasticity of 0.11, the program has a "break even" at an ESA amount of $6,200 for each participating student with disabilities and/or in a low-income household and $4,650 for all other students. With a higher elasticity of demand, ESAs fiscally "break even" at higher ESA amounts.

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