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Julie R. Trivitt
University of Arkansas, Fayetteville

Corey A. DeAngelis
University of Arkansas, Fayetteville

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Education Reform

Policy Brief

State Fiscal Impact of the Succeed Scholarship Program 2016-2017

Julie R. Trivitt, Ph.D.

Corey A. DeAngelis

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SCDP Policy Brief

Arkansas passed House Bill 1552 in the spring 2015 legislative session, creating the Succeed Scholarship Program. This program allows students with disabilities to receive state funding for private school tuition up to the full foundation funding amount.

For a brief synopsis of the nuts and bolts of the Succeed Scholarship Program (SSP) and how it is likely to affect students, see the brief released by the Office of Education Policy in January of this year which can be found here: <http://www.officeforeducationpolicy.org/the-succeed-scholarship-program-a-voucher-for-arkansas-students-in-special-education/>

This report will address the fiscal impact of the SSP for the 2016-17 school year, the first year the program is available for students. As of February 2017 there were 22 students from 13 districts using the program to attend one of the 17 accredited private schools currently participating in the program. For 20 of the students we know which public school district he/she attended in 2015-16. All students must be attending a public school, relocating from out of state, or be members of an active duty military family in order to participate in the program. To estimate the fiscal effect of the program we compare the additional funding the local district would have received from the state if the SSP did not exist and compare it to the tuition cost covered thru the SSP. The difference is the net fiscal effect on the state.

In Arkansas, as in most states, public schools are funded by a combination of local, state and federal funds. Arkansas uses a funding matrix to determine the foundation funding per student each district should receive. This is the maximum amount that can be paid as tuition in the SSP and is equal to \$6,646 for the 2016-17 school year. The local district generates revenue based on the local property tax base, and the state provides whatever additional revenue is needed to get the district up to the foundation funding level. The state then provides additional categorical funding for students who are English language learners, alternative learning environments, and those eligible for free or reduced price lunches through the national school lunch program. The state also provides additional funding for districts who have enrollment fluctuations from year to year.

When a student leaves the public school to attend a private school, the local property tax base does not change, so the local revenue is also unchanged. However, the district has fewer students to educate, so the local revenue is spread out over fewer students and local funding per student increases. This reduces the need for state foundation funding for all students. Once this is combined with the categorical funding, which is based on student enrollment, the savings to the state frequently exceed the foundation funding amount when district enrollment changes by only one student. We use the Arkansas School Finance

Manual for 2015-2016¹ and the Annual Statistical Report for the 2014-2015 academic year² to estimate how much additional state funding each district in the state would require if it had one more student attending this year. (This should be lower than actual cost savings since they are for the previous academic year and the funding amounts tend to increase each year). This is a unique amount for each district based on the ability to generate local property tax revenue and characteristics of the student population. Each student using the SSP is assumed to be a representative student of the district, meaning they take on the district averages as far as propensity to be an English language learner, participate in national school lunch program, or be educated in an alternative learning environment. The average state funding no longer needed when one representative student leaves the district is \$7,511, but varies considerably based on the local revenue and student characteristics. The minimum is \$361, the maximum is \$10,831 and the median is \$7,517. Table 1 gives summary statistics of the annual cost savings per representative student. While there are extreme high and low values, 90 percent of all districts would receive between \$6,969 and \$9,138 in additional education funding from the state for each additional representative student enrolled in the district.

Table 1: Summary Statistics of Additional State Funding For Each Additional Student		
	<u>All Districts</u>	<u>SSP Districts</u>
Average	7,511	8,009
Minimum	361	6,921
5th Percentile	6,968	
10th Percentile	7,018	
25th Percentile	7,141	
50th Percentile	7,518	
75th Percentile	8,020	
90th Percentile	8,656	
95th Percentile	9,138	
Maximum	10,832	8,829

¹ Retrieved from:

http://www.arkansased.gov/public/userfiles/Fiscal_and_Admin_Services/Publication%20and%20reports/Arkansas_School_Finance_Manual/Arkansas_School_Finance_Manual_FY16.pdf

² We use data from the 2014-15 annual statistical report since it was the most recent data available. Because expenditures rise each year, our estimates are a lower bound of the actual program savings. Retrieved from: http://www.arkansased.gov/divisions/fiscal-and-administrative-services/publication-and-reports/report_categories/annual-statistical-reports

Relative to all districts in the state, the subset of districts that have students using the SSP have a slightly higher mean of \$8,009 in additional funding per representative student and less variation. However, the minimum value among this group is less than the 5th percentile and the maximum value is between the 90th and 95th percentile in the state overall, so the set does include districts from the lower and upper ends of the distribution in regards to financial support from the state. We will use just the information specific to the SSP districts to estimate the education funding no longer needed due to this program.

Of course, the education funding is not needed in the public districts because a tuition voucher for a private school is provided instead, which represents a cost to the state. We do not have information on specific tuition costs for each student, so we assume each receives the foundation funding amount, which is the maximum allowable under the program. This intentionally causes our estimates to be conservative and less likely to find a positive net fiscal impact. For the 2016-17 academic year, the foundation funding amount is \$6,646. Table 2 below shows the estimated fiscal impact of the Succeed Scholarship Program for 2016-2017.

Table 2: Fiscal Impact of Succeed Scholarship Program 2016-2017			
	Additional District Funding Avoided	Number of Students	Total Saved
District 1	8,311	4	33,244
District 2	8,829	1	8,829
District 3	8,240	2	16,480
District 4	7,257	1	7,257
District 5	8,180	2	16,360
District 6	8,234	1	8,234
District 7	8,364	1	8,364
District 8	7,134	1	7,134
District 9	7,651	1	7,651
District 10	6,921	1	6,921
District 11	8,180	2	16,360
District 12	8,728	2	17,456
District 13	8,094	1	8,094
Other (state average)	7,511	2	15,022
Total District funding avoided		22	\$177,406
Private tuition voucher	(\$6,646)	22	(\$146,212)
Net savings to state			\$31,194
Net savings per student			\$1,418

The net savings to the state per student in the SSP is over \$1,400 per year. The net gains will be higher than estimated if students who use the program are disproportionately those for whom additional categorical funding is provided under the funding formula, i.e. English language learners, national lunch eligible households, or those requiring alternative learning environments. The fiscal gains will also be larger if the program is utilized by students with disabilities that trigger additional special education funds in the state funding program, although this will be rare as most private schools do not offer intense special education programs. Another factor that would make net gains higher is if some students attend private schools that charge tuition less than the foundation funding amount. The actual fiscal gains may be lower than estimated if students who utilize the program are disproportionately native English speakers, are not eligible for the national lunch program, and do not require alternative learning environments. In general, as long as the additional revenue the state provides to districts (currently \$7,511) exceeds the foundation funding amount (currently \$6,646), expansion of this program is likely to generate additional net fiscal gains for the state.