3-1-2017

How HB 1222 Would Save Arkansas Money

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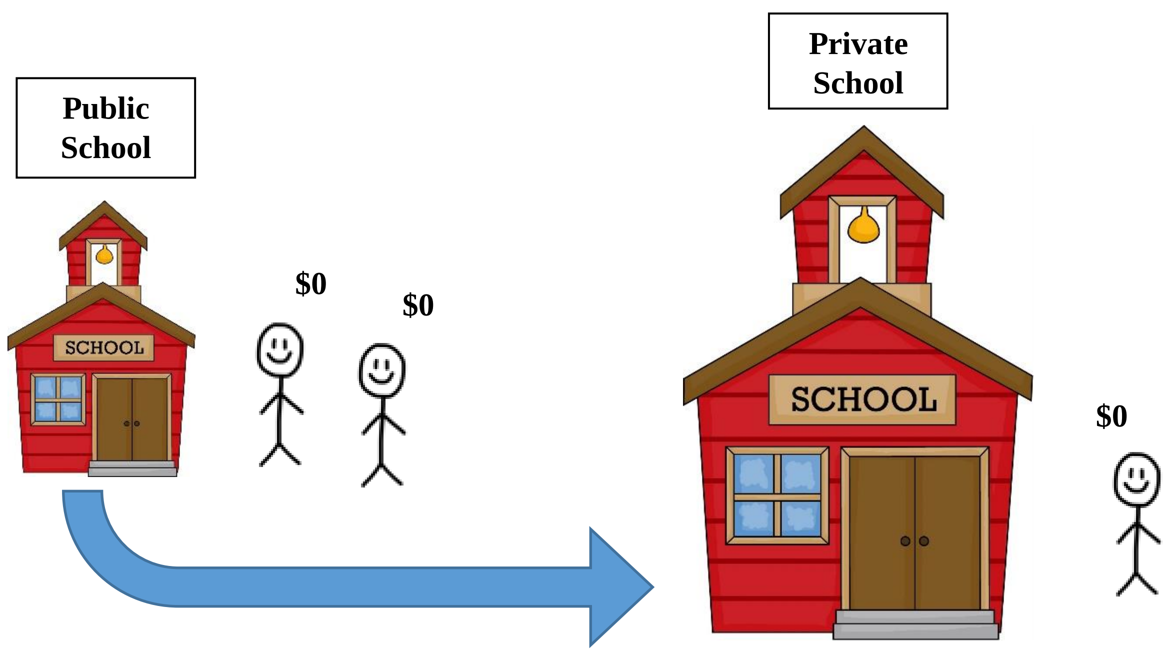
Private school choice programs have a positive fiscal impact on states because the amount of state money spent on a child in the program, or the amount of state revenue foregone in the case of tax-credit funding, <u>is less than the state would pay if the student attended a public school</u>. Two complicating factors are the number of private or homeschool students who participate and the "phantom funding" of public school students based on previous year enrollment. Private or homeschool students are new obligations for the state. Phantom funding means the state has to pay for a student in both the program and the public school they left the first year after they leave public school. HB 1222 as amended minimizes the number of private or homeschool students who will participate, especially in the early years, by prioritizing funding students with incomes that qualify for the federal lunch program and mandating a ratio of at least two public school students for every nonpublic school student. The bill also lessens the impact of phantom funding by relying on private charitable donations, and not state-issued tax credits, to fund the first cohort of students in FY 2018. The tax credit value of 65% ensures that the state loses only 65 cents in revenue for every dollar in education funding it receives through the program. Here is how it will work under the mandated scenario of 67% of participants transferring from public to private school and 33% already in private or home school, with dollar amounts indicating the effect of each student on increasing (**green**) or decreasing (**red**) state revenue.

Expected Scenario: FY 2018

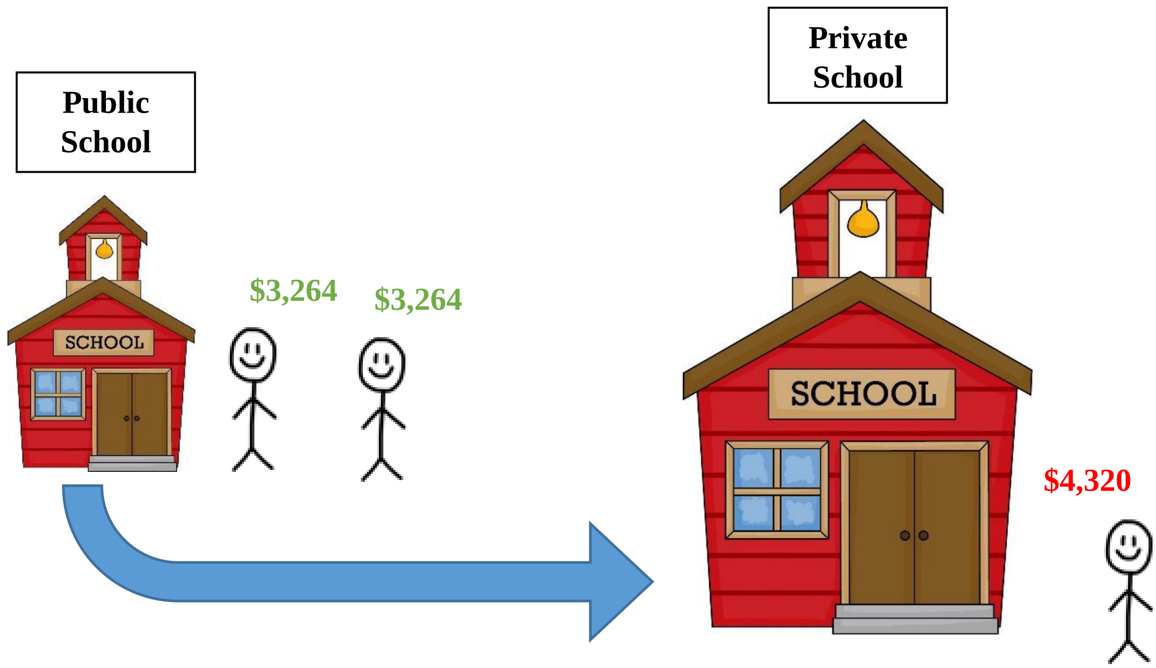


Net Effect: **$0** benefit/loss from 3 students using ESAs

Net Effect: **$0 benefit/loss from 1505 students using ESAs**

- Private charitable contributions pay for the ESAs of participating students while the state is temporarily "phantom funding" those who switched from public schools.
- Since no state tax credits are issued to individuals or corporations during FY 2018, there cannot be any revenue loss to the state during initial implementation.

Expected Scenario: FY 2019



Net Effect: **$2,208** benefit from 3 students using ESAs

Net Effect: **$1,105,152 benefit from 1505 students using ESAs**

- Each student switching from public to private results in a financial benefit to the state of **$3,264**. Each student remaining in private with an ESA results in a financial loss to the state of **$4,320**.
- Since >57% of ESA users will come from public schools, the state will financially benefit.

Savings from Other Private School Choice Programs

- 10 Tax Credit scholarship programs in the United States: net savings of between **$1.7 billion and $3.4 billion by 2014** (Lueken, 2016)
- Florida John McKay Program: **$836.5 million benefit** by 2011 (Spalding, 2015)
- Milwaukee Parental Choice Program: **$51.9 million benefit** in FY 2011 (Costrell, 2011)
- Georgia Special Needs Scholarship Program: **$51 million benefit** by 2011 (Spalding, 2015)
- Alabama Accountability Act **saved $29.9 million** in FY 2015 (Alabama Federation for Children, 2017)
- DC Opportunity Scholarship Program: **$21.7 million benefit** by 2011 (Spalding, 2015)
- Louisiana Scholarship Program: **$6.3 million in benefits** each year (Trivitt & DeAngelis, 2016)