

Education Savings Accounts Carry Big Sticker Shock

Fact Sheet: House Bill 243 (LC 33 5918S)

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Georgia lawmakers are considering legislation to allow parents to take state dollars for private educational use. House Bill 243 proposes to create Education Savings Accounts (ESA) to set public money aside for educational services, including private school tuition, textbooks and curriculum materials, private tutoring and contributions to a college savings plan. Kindergarten and first grade students who attend private or home schools would be eligible. Students in other grades who attend a public school for one semester and then enroll in a private school or are homeschooled would also be covered by the accounts.

If approved, the proposed program would cost the state at least \$223.2 million in fiscal year 2028, just counting children who enroll in the program as kindergarteners, according to Georgia Budget and Policy Institute analysis. The cumulative cost of the program from fiscal year 2016 through 2028 could be as high as \$1.7 billion.

State's Steep \$223 Million ESA Cost in 2028 a Conservative Estimate

Georgia lawmakers have yet to ask for an official estimate of HB 243's cost, which could be done with a fiscal note request. To calculate the minimum expected cost, GBPI analyzed available data to estimate the number of children who would begin participating in the program as kindergarteners.

The cost calculations focus on kindergartners because they are automatically eligible for the proposed savings accounts and use of the accounts by older students is uncertain. The cost estimate relies on several reasoned assumptions in the absence of official state data. (See appendix for detailed methodology.)

- The analysis uses Georgia's private school enrollment data from the U.S. Department Education to estimate nearly 10,000 kindergarten students already attend private school annually without the motivation of a savings account program. The same number of children is expected to enroll in private schools through fiscal year 2028.
- Enrollment in the program is capped below 20,000 students the first two years, so much of the savings account money could at first go to families of kindergarten and first grade students already in private schools.
- The analysis projects private school enrollment increases each year through 2028 for Georgia kindergarteners totaling more than 53,000 students at a cost exceeding \$223.2 million by 2028.

Other underlying assumptions are detailed in notes at the end of this analysis. But the calculations are all but certain to understate the state's new private school education costs because it is more difficult to make enrollment assumptions about older students.

Georgia to Pay High Price to Fuel Private Education

The high cost of the savings account program will come when families that would otherwise send children to private schools or home school instead of public school now look to the state to pay for part of it. Georgia does not cover the cost of private or home schools now.

The program is capped at about 8,500 students in 2016 and 17,000 in 2017. When the cap expires in 2018, all kindergartners and first graders in private schools or who are homeschooled can participate.

The accompanying table shows projected growth of the program's enrollment and cost during its first 13 years.

| Fiscal Years | Private School Enrollment | Estimated Cost |
|--------------|---------------------------|----------------|
| 2016 | 4,249 | \$17,758,953 |
| 2017 | 8,498 | \$35,517,907 |
| 2018 | 15,045 | \$62,883,363 |
| 2019 | 20,937 | \$87,512,274 |
| 2020 | 26,241 | \$109,678,294 |
| 2021 | 31,014 | \$129,627,712 |
| 2022 | 35,309 | \$147,582,188 |
| 2023 | 39,175 | \$163,741,216 |
| 2024 | 42,655 | \$178,284,342 |
| 2025 | 45,786 | \$191,373,155 |
| 2026 | 48,605 | \$203,153,087 |
| 2027 | 51,141 | \$213,755,025 |
| 2028 | 53,424 | \$223,296,770 |

Source: GBPI estimates based on HB 243 analysis. See endnotes for a full description of GBPI's calculations.

* Estimate assumes kindergarten students stay in private school until high school graduation.

Some Strings Attached, but Little Accountability

If HB 243 passes, the state will send money to education savings accounts it would otherwise send to the school districts attended by students who switch from public to private or home schools. This will not cost the state more money. It would also allot funds for kindergartners and other eligible students who would choose private or home schools even without an ESA. The amount these students receive would be based on their resident school district. Paying for these students would drive state costs up quickly.

Students who receive the funds could not attend a public school. Private financial management firms approved by the state would administer the accounts.

As it stands, the proposed plan lacks sufficient accountability measures to ensure effective use of state money. The bill requires annual account audits, but fails to require a minimum number or percentage of audits.

Participating students who attend private schools will take state assessments in math and English language arts and the state will release aggregated results. This provides valuable information on student learning. Yet, the bill does not include a method to hold private schools or other service providers accountable for offering high quality instruction or other services in return for the money the state pays.

The state will not make public aggregate demographic information about participating students, such as family income level, race and gender. This lack of transparency prevents policymakers, educators and the broader public from learning which students are most likely to participate in the program and benefit from this state spending.

Recommendation: Put Brakes on HB 243

This analysis shows the potential cost to adopt HB 243 is likely to soar to more than \$223 million in little more than a dozen years. The program will help those families who are already headed to private school or homeschooling.

The proposed Education Savings Account program neglects to require that private schools that get state money make important metrics available so taxpayers can evaluate the return they get on the investment. By contrast, public schools are required to report student performance and demographic information.

In the parlance of education, this proposal needs improvement and should be held back to allow state policymakers time for a proper cost-benefit analysis.

Appendix: Methodology

The \$223.2 million cost in the 2028 fiscal year assumes 53,424 students will enroll in private schools as kindergarteners between fiscal years 2016 and 2028 and that they would do so even without having an education savings account. The likely average annual amount of state dollars each student would receive through an ESA is \$4,180.

Estimated Annual ESA Contribution

GBPI's calculation of the amount each student would receive is based on state funding provided to school districts through the Quality Basic Education (QBE) formula. It excludes state funding provided through the QBE Equalization program based on the Georgia Code Section cited in the bill. The fiscal year 2015 state allotment sheet reports that total QBE earnings are \$7,103,581,337 and the full-time equivalent enrollment is 1,699,543. The average QBE funding per FTE student is \$4179.70.

Students Included in GBPI's Analysis

Students participating in an ESA can be students who would attend a private school only with an account, or students who will attend a private school or be homeschooled whether or not they have one. The first group of students is not expected to cost Georgia more money, since the state provides funds for them to attend public schools in the absence of an ESA. The second group of students will increase state costs. GBPI's analysis looks at this second group.

For this second group, calculating the cost of the ESA program for students at all grade levels who would enroll in private or home schools under the eligibility requirements of HB 243 is difficult. For example data on the number and percentage of students by grade level who move from public schools to private or home schools is not readily available, nor is data on home schooled students.

Given the uncertainty about mobility among first through 12th graders across school types, GBPI's cost estimate is based solely on the number of kindergarten students who would enroll in private schools without an ESA. This number is based on federal data on private school enrollment.

According to the U.S. Department of Education, 138,080 students were enrolled in Pre-K through 12th grade in private schools in Georgia in fall 2011, the most recent year available. (See National Center for Education Statistics, U.S. Department of Education. *National Digest of Education Statistics 2013*, Table 205.80, http://nces.ed.gov/programs/digest/d13/tables/dt13_205.80.asp?current=yes) GBPI assumed these students were evenly dispersed across grade levels so there would be about 9,863 students in kindergarten.

Calculating Annual Cost

Enrollment is capped the first two years of the program one-half of one percent of total statewide enrollment in fiscal year 2016 and one percent in fiscal year 2017, 8,498 students and 16,995 students respectively. GBPI assumes that half of the students enrolling in ESAs in both of these years would attend private schools in the absence of an ESA.

The program is not capped in fiscal year 2018 and beyond. All private school kindergarteners, an estimated 9,863 per year, are eligible and could establish an ESA from that year onwards. However, GBPI assumes that 75 percent, or 7,397, would do so each year.

GBPI's analysis also assumes that 10 percent of these students will leave the program each year. It does not make assumptions about why the students leave (e.g. attend a public school, move out of state, etc.).

The annual cost from fiscal year 2018 through 2028 assumes that 7,397 new kindergartners enroll in the ESA each year. This number would be added to the previous year's enrollment after the 10 percent attrition is taken into account.