

NEPC REVIEW: EDUCATION SAVINGS ACCOUNTS: HOW ESAs CAN PROMOTE EDUCATIONAL FREEDOM FOR NEW YORK FAMILIES (MANHATTAN INSTITUTE, OCTOBER 2021)



Reviewed by:

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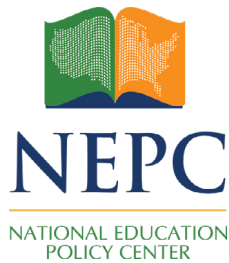
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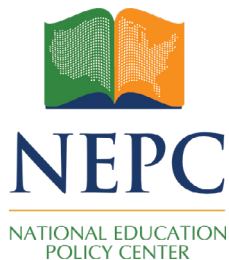
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Summary

The Manhattan Institute’s recent report, *Education Savings Accounts: How ESAs Can Promote Educational Freedom for New York Families and Improve State and Local Finances* promotes Education Savings Accounts (ESAs) by demonstrating that taxpayer expense would fall if the program motivated families to move children from public schools funded by the state to private schools funded primarily by families. Because ESAs would be funded at a lesser amount than the cost of educating a child in a public school, the report estimates that even a small share of families participating in the program would reduce taxpayer expense by .21 to .39%. However, the report conveniently fails to note a large body of recent, rigorous research demonstrating that similar private school choice, or “voucher,” programs have had significant negative effects on student outcomes. In addition, the report overstates short-term reductions that local districts can achieve, and it sidesteps potential long-term harm to adequate funding for them. Thus, the report provides little or no useful guidance on the broader question of whether an ESA policy is desirable or would be good policy for New York State’s children or taxpayers. Rather, it shows the possibility of a very small reduction in taxpayer expense if/when ESA levels are set well below the cost of adequately educating a child in New York State.



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I. Introduction

Authored by Martin F. Lueken, the Manhattan Institute's report *Education Savings Accounts: How ESAs Can Promote Educational Freedom for New York Families and Improve State and Local Finances*¹ promotes Education Savings Accounts (ESAs) by demonstrating that taxpayer expense would fall if the program persuaded families to move children from public schools funded by the state to private schools funded primarily by families. The report is basically a fiscal note (typically, an attachment to proposed legislation that provides basic calculations of potential implications for revenues and expenditures)² estimating the likely difference between the direct cost for the ESA program and the reduction in taxpayer expense for public schools.

II. Findings and Conclusions of the Report

The report provides a series of sensitivity analyses to simulate reduced cost to taxpayers as follows:

For an ESA worth \$6,500 and the likely scenario that 1% of eligible students participate in the program:

- If at least 90% of participating students are switchers, the ESA program would generate net savings for the state estimated up to \$19 million (or \$700 per ESA student). Switcher rates below 90% would generate net costs worth up to \$39 million (or \$1,400 per ESA student).

- Local districts would experience between \$197 million and \$282 million (or \$7,400-\$10,500 per ESA student) in net variable savings.
- Combining these results implies that New York taxpayers overall would experience between \$158 million and \$301 million in short-run net fiscal benefits (or \$5,900-\$11,200 per ESA student).

For an ESA worth \$9,900 and the likely scenario that 1% of eligible students participate in the program:

- The ESA program would generate net costs for the state estimated between \$73 million and \$131 million (or \$2,700-\$4,900 per ESA student).
- Local districts would experience between \$197 million and \$282 million (or \$7,400-\$10,500 per ESA student) in net variable savings.
- Combining these results implies that taxpayers overall would experience between \$94 million and \$236 million in short-run net fiscal benefits (or \$3,500-\$8,800 per ESA student).³

The report provides accessible, district-by-district estimates of short-term savings under the program and notes that savings would be greater than the amount of per-pupil funding lost in all but 15 school districts.⁴

The report concludes that:

Combining these results implies that New York taxpayers overall would experience between \$159 million and \$301 million in estimated short-run net fiscal benefits (or \$5,900-\$11,200 per ESA student).⁵

These projections are foundational to the report's estimate of a .21 to .39% reduction in New York's \$75 billion funding for public K-12 schools.

III. The Report's Rationale for its Findings and Conclusions

The report's rationale for its findings and conclusions is based on a reasonable, straightforward, and transparent set of calculations to determine a net fiscal effect. Most assumptions are reasonably grounded in the relatively sparse literature on participation rates in such programs—who participates, how many, and which of those would have otherwise remained in the public school system. The report simply assumes that the policy is a good idea, in that it will be beneficial to taxpayers, families who participate and at worst, neutral to those who do not. It also assumes the program will have no other negative spillover effects.

IV. The Report's Use of Research Literature

The report makes reasonable use of literature to guide its analysis of program fiscal effects. But, it conveniently bypasses the larger body of recent research on how statewide private school choice programs affect student outcomes, as well as literature providing guidance on more thorough cost-benefit frameworks for evaluating private school choice programs.

Effects of Private School Choice Programs

Page 2 of the report includes this statement:

While a substantial body of research exists to demonstrate the benefits that choice policies such as ESAs have on various student, family, community, and societal outcomes, the fiscal impact of these policies is also an important part of the debate.

And on page 3:

The recently enacted programs have also improved in both quality and scope.

The report does explain how some newer private school choice programs are more expansive than prior ones, but provides no evidence of improved quality or how that quality is measured. Curiously, in a recent working paper the report's author has provided a far more balanced review of mixed findings from private school choice studies.⁶

Claims about benefits to outcomes and about improved program quality are important because they justify the assumption that the proposed ESA policy intended to shift students to private schools at a highly discounted rate will benefit those students. As I explained in a recent NEPC review, the mounting evidence on similar larger scale programs is far from uniformly positive.⁷ For example, national education reporter Matt Barnum, in a summary article on studies of private school vouchers, concluded: "Recent studies suggest that vouchers reduce scores on state tests, especially in math."⁸ The report also fails to address in any way the potential effects on economic, racial or religious stratification resulting from policies encouraging families to switch to the state's highly and increasingly segregated private schooling system, as documented in a recent Manhattan Institute report.⁹

Model Assumptions

The report relies on the relatively sparse literature on participation rates, switcher rates (rates of students moving from public to private schools), and fiscal impact to inform modeling assumptions. Most of this literature, except for some on the fiscal impact of choice programs, comes from related school choice advocacy think tanks, including the author's own work.¹⁰ Among works cited, the one thorough empirical study of participants in an ESA program examines a Florida program for children with special needs, which appears to have limited relevance to the report's proposal.

No attention is paid to price points of private schooling in relation to voucher levels. In a 2009 report, I showed that private independent schools typically spent approximately twice as much per student than surrounding public districts in major urban areas like New York City.¹¹ It is worth at least addressing the literature on how voucher levels and widely varied tuition fees affect which students and how many of them move from public to private schools. Which private providers choose to accept state vouchers also affects switch rates. At least some literature points to the possibility that low student outcomes for switchers under a voucher program may relate to low voucher levels and to lower quality (lower tuition) in participating private schools.¹²

The report reasonably relies on the most relevant analysis of fiscal impact of charter school expansion on upstate New York school districts by Bifulco and Reback. However, it sidesteps the finding that choice programs increase short run *transition* costs—adding about 20% per pupil as students transition from district to charter schools. The extra cost accrues because variable costs do not fall immediately and do not operate on a 1:1 student to per-pupil funding ratio. Many variable costs might be termed *step costs*, or costs that vary by groups of students. For example, staffing might be reduced in a particular area only when enrollments have declined sufficiently to reduce course sections. Buerger and Bifulco provide some additional evidence on short-run cost increases, although improved efficiency and equilibrium follow.¹³ Ladd and Singleton also provide an alternative perspective and methods for evaluating fiscal externalities.¹⁴

A deeper dive is also warranted on potential local fiscal effects. The report cites only a paper on “flypaper effect” (footnote 19)—the concept that external government grants, such as state aid to local districts, will stick (mostly) where they land and do not necessarily lead to equal reductions in local tax effort¹⁵—to support its assertion that local districts would be unlikely to reduce local taxes as/if enrollments and state aid decline. This may be true in the short run, consistent with the limits of the report’s analysis, but there may exist longer term detrimental effects which are relevant to policy deliberations.

V. Review of the Report’s Methods

Any analysis like this requires researchers to make many assumptions, some sufficiently supported by existing literature and others simply necessary to allow relevant calculations. This report provides justification and clear documentation for all assumptions as well as a reasonable framework for calculations.¹⁶ It also provides alternative estimates—sensitivity analyses—for assumptions that might vary by policy design. Commendably, the report also includes hyperlinks to full, district-by-district tables. In short, the report is a thorough, reasonably documented *fiscal note*. It was beyond the scope of this review to actually check calculations or vet the accuracy of the underlying data. Source citations, methods and calculations are thorough and precise.

The report determines a Net Fiscal Effect (NFE) as follows:

$$\text{NFE} = [\text{cost reduction from switchers}] - [\text{cost of ESA program}]$$

Where the state Net Fiscal Effect is:

$$\text{NFE state} = [\text{state savings from switchers}] - [\text{total state cost of ESA program}]$$

That is, the state saves taxpayer money by no longer sending enrollment-dependent state aid to local school districts for those students who leave, but incurs the cost of paying the set ESA voucher level for those students. The report calculates that 74% of state aid is enrollment dependent (footnote 15).

The report determines local net fiscal effect as follows:

$$\text{NFE local} = [\text{short-run **variable cost** savings from switchers}] - [\text{reduction in revenue from switchers}]$$

This one is a little trickier. Here, the report rightly accepts that not all district expenditures vary at the student level, acknowledging that spending cannot be automatically reduced by an amount equal to a district's per-pupil expense when a student leaves. Based on the Bifulco and Reback article cited above, the report notes that most instructional spending categories are variable costs and goes on to estimate that "On a statewide per-pupil basis, the estimated short-run variable cost for New York public schools is about \$18,800 per student, or 65% of total cost."¹⁷ However, this overstates the short-run variable costs that can be immediately reduced, given that most are *step costs* (personnel) that will remain for at least some short-term period.

The report estimates that 1% to 10% of eligible families will participate in the program, and that of these, 90% will involve students moving from public to private schools (based on the author's prior work showing ranges of 84% to 90%). The report also simulates cost implications for rates lower and higher than the expected 90%—from 70% to 100%.

It appears that the report sets potential ESA amounts per pupil at least in part to achieve a desirable fiscal estimate. ESA amounts are based on average state aid (both enrollment-sensitive and total aid) to limit total state expense. But in New York, state aid makes up a smaller share of per-pupil expense—on average—than in many other states.

Setting such low ESA amounts may affect participation rates, switcher rates and the quality of private services secured. Further, access to service providers may vary widely across the state. Tuition for 2021-22 at more elite private independent schools in New York City typically ranges from \$55,000 to nearly \$60,000 per year for day students.¹⁸ Even BASIS independent schools—charter schools founded in Arizona to offer a lower priced non-religious private school option—charges \$36,200 tuition in New York City.¹⁹ In upstate cities, however, tuition at independent schools is much lower, some \$17,000 to \$26,000.²⁰ At the projected ESA levels of \$6,500 or \$9,900, upstate private schools and services would appear significantly more accessible than in New York City, where even the higher ESA amount would constitute only 27% of tuition for BASIS, the least costly private provider.

VI. Review of the Validity of the Findings and Conclusions

The report's findings are what they are, with relevant sensitivity analyses provided and assumptions laid bare. The report provides reasonable estimates of reduction to taxpayer expenditures under the assumptions applied. That is, taxpayers might experience between \$159 million and \$301 million in estimated short-run net fiscal benefits, where, in 2018-19, "New York State public schools received nearly \$75 billion in total revenue, or \$27,310 for each PK-12 student."²¹ In other words, this amounts to a short-run expenditure reduction of .21 to .39 %, without consideration for other cost and quality concerns.

But despite the report's reasonable, clearly explained and transparent assumptions for this net-expense-reduction analysis, it suffers a number of shortcomings in terms of informing a policy decision as to whether the proposed ESA program would actually be good policy for New York State:

1. The report assumes that students enrolling in private schools using an ESA—at much lower value than the cost of even modest quality private schooling—would necessarily experience better educational outcomes, despite substantial contradictory evidence from recent studies of private school voucher programs.
2. The report ignores the potential for such a program to exacerbate economic, religious, and racial stratification and segregation by shifting more students to New York's already highly stratified and segregated private school sector, as addressed in a recent Manhattan Institute report.²²
3. The report ignores that as the share of population in a local community with children in the public schools declines, so too may voter support for both annual revenues and capital investment in the school system, leading to greater long-term declines in funding for public schools than estimated, as well as reductions in quality.²³
4. The report applies simplified assumptions about how many families might participate, and where. State funding received by specific districts varies widely. Price and accessibility of private education varies widely across regions of the state, which may lead to significant variation in participation. Coupled with state funding variation, regional differences in participation may substantially affect the fiscal estimates.
5. The report assumes that students exiting public schools will be those who cost districts an "average" amount to serve. If students served at higher cost—those with disabilities, for example, or English Language Learners—were left behind, those higher costs would offset some of a district's estimated benefits.
6. Like most such fiscal impact analyses, the report focuses on reducing public expenditures without regard to actual cost, quality and the public good. In 1997, Levin and Driver laid out a framework for more broadly evaluating the costs and benefits of choice programs, including the extent to which those programs affect equity and social cohesion, as well as whether they were efficient in their production of outcomes.²⁴

VVII. Usefulness of the Report for Guidance of Policy and Practice

If the New York State Assembly and Governor were to decide that an Education Savings Account policy was a reasonable direction for the state, with consideration of a much wider range of costs and benefits, this report provides a reasonable framework and set of assumptions for crafting a fiscal note on such policy. But it provides little or no useful guidance on the broader question of whether an ESA policy is warranted, or would be good policy for New York State's children or taxpayers. Rather, it shows the possibility of a very small reduction in taxpayer expense if/when ESA levels are set well below the cost of adequately educating a child in New York State.

Notes and References

- 1 Lueken, M.F. (2021, October 7). *Education savings accounts: How ESAs can promote educational freedom for New York families*. New York, NY: Manhattan Institute for Policy Research, Inc. Retrieved October 21, 2021, from <https://www.manhattan-institute.org/html/education-savings-accounts-how-esas-can-promote-educational-freedom-new-york-families-improve>
- 2 Fiscal notes are simply calculations based on the assumptions laid out in the proposed legislation, without regard for any broader policy implications. See, for example, the following explanation from the Texas Legislative Budget Board:

Legislative Budget Board, State of Texas (2019). *86R Fiscal notes overview – ID 5487*. Retrieved October 22, 2021, from https://www.lbb.state.tx.us/Fiscal_Notes/Fiscal%20Note%20Overview.pdf
- 3 Lueken, M.F. (2021, October 7). *Education savings accounts: How ESAs can promote educational freedom for New York families* (p. 2). New York, NY: Manhattan Institute for Policy Research, Inc. Retrieved October 21, 2021, from <https://www.manhattan-institute.org/html/education-savings-accounts-how-esas-can-promote-educational-freedom-new-york-families-improve>
- 4 It would appear that the primary driver of this is districts where a much smaller share of expenditures was variable. Interestingly, these were not all very small districts.
- 5 Lueken, M.F. (2021, October 7). *Education savings accounts: How ESAs can promote educational freedom for New York families* (p. 13). New York, NY: Manhattan Institute for Policy Research, Inc. Retrieved October 21, 2021, from <https://www.manhattan-institute.org/html/education-savings-accounts-how-esas-can-promote-educational-freedom-new-york-families-improve>
- 6 Lofton, M.L., & Lueken, M.F. (2021, June). *Distribution of education savings accounts usage among families: Evidence from the Florida Gardiner Program* (p. 4-5). EdWorkingPaper No. 21-426. Annenberg Institute, Brown University. Retrieved October 22, 2021, from <https://www.edworkingpapers.com/sites/default/files/ai21-426.pdf>
- 7 Baker, B.D. (2020). *NEPC Review: Unleashing educational opportunity: The untapped potential of expanded tax credit scholarships*. Boulder, CO: National Education Policy Center. Retrieved October 22, 2021, from <https://nepc.colorado.edu/thinktank/tax-credits>

For example, I explain:

Other researchers paint a far grimmer picture of the results of recent voucher studies. Joe Waddington noted, “While the early research was somewhat mixed . . . it is striking how consistent these recent results are . . . We’ve started to see persistent negative effects of receiving a voucher on student math achievement.” And in 2017, summarizing recent studies in District of Columbia, Louisiana, Indiana and Ohio, Dynarski and Nichols summarized, “on average, students that use vouchers to attend private schools do less well on tests than similar students that do not attend private schools (p. 6).”
- 8 Barnum, M. (2020). Do school vouchers work? As the debate heats up, here’s what research really says. *Chalkbeat*. Retrieved October 2, 2020, from <https://www.chalkbeat.org/2017/7/12/21108235/do-school-vouchers-work-as-the-debate-heats-up-here-s-what-research-really-says>
- 9 Domanico, R. (2020). *A statistical profile of New York’s K-12 educational sector: Race, income, and religion*. Manhattan Institute for Policy Research, Inc. Retrieved October 21, 2021, from <https://www.manhattan-institute.org/complex-demographics-new-york-public-private-schools>
- 10 Lofton, M.L., & Lueken, M.F. (2021, June). *Distribution of education savings accounts usage among families: Evidence from the Florida Gardiner Program*. EdWorkingPaper No. 21-426. Annenberg Institute, Brown

University. Retrieved October 22, 2021, from <https://www.edworkingpapers.com/sites/default/files/ai21-426.pdf>

- 11 Baker, B.D. (2009). Private schooling in the US: Expenditures, supply, and policy implications. Boulder, CO: National Education Policy Center. Retrieved October 21, 2021, from <https://nepc.colorado.edu/sites/default/files/PB-Baker-PvtFinance.pdf>
- 12 Abdulkadiroglu, A., Pathak, P.A., & Walters, C.R. (2015). *School vouchers and student achievement: Evidence from the Louisiana Scholarship Program*. Cambridge, MA: National Bureau of Economic Research.
- 13 Buerger, C., & Bifulco, R. (2019). The effect of charter schools on districts' student composition, costs, and efficiency: The case of New York state. *Economics of Education Review*, 69, 61-72.
- 14 Ladd, H.F., & Singleton, J.D. (2020). The fiscal externalities of charter schools: Evidence from North Carolina. *Education Finance and Policy*, 15(1), 191-208.
- 15 The idea is that when a higher level of gov't provides a grant, say to a school district, that grant could either increase the district spending by the amount of the grant, or could permit the district to reduce its own local effort by an amount equal to the grant, leaving district spending unchanged. One might assume that on average, districts would go about 50/50 on this. But flypaper effect suggests it's more the first than the second. Leuken uses this general principal strangely to assert that if districts already have a certain amount of local revenue coming in from property taxes, even if enrollments decline, potentially reducing total costs, districts are unlikely to downward adjust their property taxes equal to the cost reduction. This is likely true to an extent, but an odd application of flypaper effect.
- 16 This is a sharp, notable and pleasant contrast with other reports on this often politically volatile topic. Other reports have gone so far as to substitute without justification positive results from charter schooling in place of negative results on voucher programs to create estimates of long run economic benefits of tuition tax credits. See: Baker, B.D. (2020). *NEPC Review: Unleashing educational opportunity: The untapped potential of expanded tax credit scholarships in Pennsylvania* (Commonwealth Foundation, August 2020). Boulder, CO: National Education Policy Center. Retrieved October 21, 2021, from <https://nepc.colorado.edu/thinktank/tax-credits>

The present report does not engage in any such deceitful manipulation of empirical findings. That said, the present report does still assume, disregarding major findings to the contrary, that these programs are beneficial to students.

It is especially useful that the report links to full, statewide data runs in hyperlinked Excel tables (but it should also carry over NCES district IDs and NY state district IDs in excel export).

- 17 Lueken, M.F. (2021, October 7). *Education savings accounts: How ESAs can promote educational freedom for New York families* (p. 8). New York, NY: Manhattan Institute for Policy Research, Inc. Retrieved October 21, 2021, from <https://www.manhattan-institute.org/html/education-savings-accounts-how-esas-can-promote-educational-freedom-new-york-families-improve>
- 18 Examples include:
Fieldston (<https://www.ecfs.org/en/tuition-and-financial-aid/>), Riverdale Country School (<https://www.riverdale.edu/admission/financial-aid/>), Horace Mann (<https://www.horacemann.org/admissions/tuition-financial-aid>), Dalton (<https://www.dalton.org/admissions/tuition-and-financial-aid>), Collegiate (<https://www.collegiateschool.org/admissions/tuition-and-financial-aid>), The Avenues (<https://www.avenues.org/ny/tuition-financial-aid>)
- 19 <https://brooklyn.basisindependent.com/admissions/tuition-fees/>
- 20 For example, Albany Academies (<https://www.albanyacademies.org/admissions/tuition-and-financial-aid>)

and Syracuse area (<https://www.mphschool.org/admissions/tuition-fees/>)

- 21 Lueken, M.F. (2021, October 7). *Education savings accounts: How ESAs can promote educational freedom for New York families* (p. 5). New York, NY: Manhattan Institute for Policy Research, Inc.. Retrieved October 21, 2021, from <https://www.manhattan-institute.org/html/education-savings-accounts-how-esas-can-promote-educational-freedom-new-york-families-improve>
- 22 Domanico, R. (2020). *A statistical profile of New York's K-12 educational sector: Race, income, and religion*. Manhattan Institute for Policy Research. Retrieved October 21, 2021, from <https://www.manhattan-institute.org/complex-demographics-new-york-public-private-schools>
- 23 The report correctly notes (citing flypaper effect) that it is less likely that taxpayers would cut taxes in the short term in response to enrollment decline. But, they certainly might be less likely to adopt reasonable tax increases in the longer term, including adopting bond referenda for capital projects where needed if a smaller share of the community has a direct stake in the public school system.
- 24 Levin, H.M., & Driver, C.E. (1997). Cost of an educational voucher system. *Education Economics*, 5(3), 265-283.

Levin, H.M. (2002). A comprehensive framework for evaluating educational vouchers. *Educational Evaluation and Policy Analysis*, 24(3), 159-174.