

2020

**AN ANALYSIS
OF THE FISCAL
AND ECONOMIC
IMPACT OF
GEORGIA'S
QUALIFIED
EDUCATION
EXPENSE (QEE)
TAX CREDIT
SCHOLARSHIP
PROGRAM**

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POLICY BRIEF

POLICY BRIEF — NOVEMBER 2020

Georgia's Qualified Education Expense (QEE) Tax Credit Scholarship Program allows individual and corporate taxpayers to receive a Georgia income tax credit for donating to nonprofit, tax-exempt student scholarship organizations (SSOs). SSOs use these funds to provide scholarships to pre-K through 12th grade Georgia students, where these scholarships offset the cost of attending independent (private) schools.

House Bill 217, which passed in 2018 and became law in 2019, requires that the Georgia state auditor issue an analysis of the performance of the state's QEE program in the year 2023. The analysis shall include: (A) Net change in state revenue; (B) Net change in state expenditures, which shall include, but not be limited to, costs of administering the tax credit; (C) Net change in economic activity; and (D) Net change in public benefit. To facilitate consideration among Georgia state auditors, lawmakers, and SSOs of the best methodologies to analyze performance of the QEE Program, this report provides a fiscal and economic analysis of the QEE Program. For this report, our "fiscal" analysis of the QEE program consists of our analysis of the net changes in state revenues and state expenditures. Our "economic" analysis consists of our analysis of how an increase in educational attainment results in changes in economic activity due to increased lifetime earnings accruing to scholarship recipients and changes in public benefits accruing to others and society. Public benefits that result from an increase in educational attainment include increased tax revenue, reduced criminal behavior, fewer health care costs, and less dependency on welfare programs.

To conduct these analyses, we relied on publicly available data regarding the QEE Program and Georgia public schools that are provided by the Georgia Department of Revenue and the (Georgia) Governor's Office of Student Achievement. We also relied on a data file of the three most recent cohorts of students receiving scholarships from Georgia GOAL Scholarship Program, Inc. — where each cohort begins in the 9th grade.

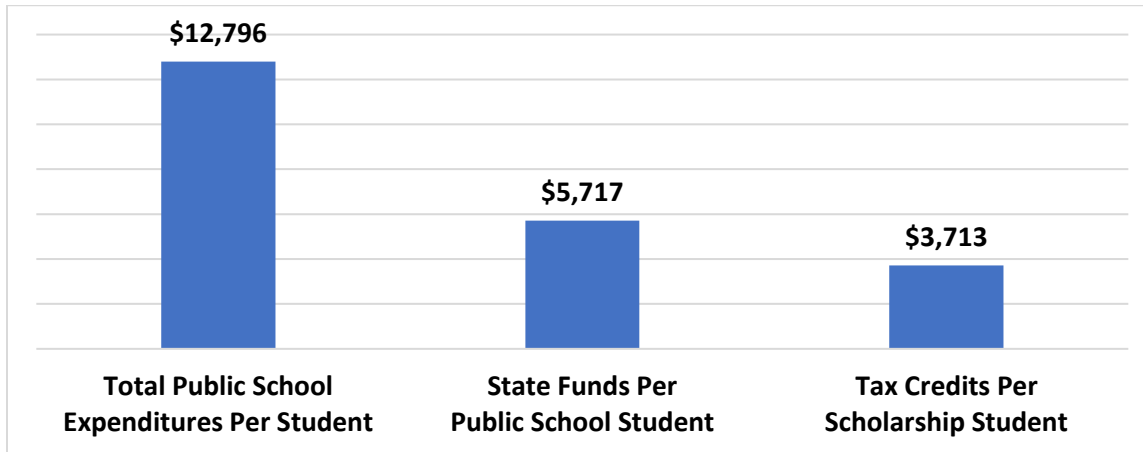
Overall, we find:

- The taxpayer cost of tax credit scholarships is significantly less than the taxpayer cost of educating scholarship students in the public schools — saving taxpayers a total of \$53.2 million in academic year 2018-19 from the entire QEE program.
- The three cohorts of GOAL scholarship students graduate high school and enter college at higher rates relative to students in Georgia public schools — with an estimated economic benefit of \$46.7 million for this subset of students, or about \$15.6 million per cohort in our sample.
- If scholarship students at all SSOs graduate high school and enroll in college at the same rate that GOAL students in our sample do, then the estimated economic benefit from the entire QEE program would be \$66.4 million for the cohort of ninth grade students starting high school in 2018. Below we provide an overview of our analyses and findings.

Fiscal Analysis

Under the QEE program, the average taxpayer cost of tax credits per scholarship recipient in calendar year 2018 was \$3,713 — significantly less than state average per pupil expenditures in public schools and *less than one-third of the total expenditures per public school student*.

Figure A.1 – Total Expenditures and State Expenditures Per Student in Georgia Public Schools and Tax Credits Per Scholarship Student, 2018-19



Source: <https://gaawards.gosa.ga.gov/analytics/K12ReportCard> and <https://dor.georgia.gov/document/publication/2018-calendar-year-qualified-education-expense-credit-report/download>

Any analysis of the fiscal impact of the QEE Program needs to consider whether, absent receipt of a scholarship, students would have enrolled in public schools, resulting in a cost to state, local, and federal treasuries. Based on student behavior documented in 27 empirical observations of school choice lotteries from other states (described later in this report), a cautious estimate is that 90 percent of scholarship students would attend public schools if they were not able to access a scholarship. Using this 90 percent public school attendance figure, the 13,895 students who received scholarships in 2018 under the QEE program, and the expenditure and tax credit data from Figure A.1 above, we calculate that, for the 2018-2019 academic year (AY), the savings from the QEE program to state taxpayers were as follows:

State cost of educating 90% of Scholarship Students in Public Schools	—	Revenue forgone by the state treasure due to tax credits given to SSO donors
(0.9 x 13,895 scholarship students x \$5,717)	—	(\$3,713 x 13,895 scholarship students) =
\$71.5 million	—	\$51.6 million =

\$19.9 million in state taxpayer savings for (AY) 2018-19

The details for the above calculation are as follows:

- Number of scholarship recipients in 2018 = 13,895.

- Estimate of the percent of scholarship recipients who would have attended a public school if a scholarship had not been available = 90 percent (or 0.90).
- Average state revenues per public school student = \$5,717.
- State taxpayer cost to educate 90 percent of these scholarship students in public schools = $0.90 \times 13,895 \text{ scholarship students} \times \$5,717 = \$71.5 \text{ million}$.
- Revenue forgone by the state treasury due to tax credits given to donors = $\$3,713 \times 13,895 \text{ scholarship students} = \51.6 million .
- Savings to state taxpayers = $\$71.5 \text{ million} - \$51.6 \text{ million} = \$19.9 \text{ million}$.

That is, if 90 percent of the 13,895 scholarship students would have enrolled in a public school if they had not accessed a scholarship, those students would have cost the state \$71.5 million, to educate in the public schools. The reduction in state income tax revenues — because some state taxpayers decided to donate to an SSO in exchange for a Georgia income tax credit — was \$51.6 million in 2018.

Therefore, if the QEE program did not exist, the increase in costs to state taxpayers would have been \$71.5 million, but state revenues would have increased by only \$51.6 million in 2018. Since the cost to state taxpayers of educating these students in the public schools exceeds the increase in state tax revenues that would result if there had been no taxpayer donations to SSOs, we estimate that Georgia’s QEE Tax Credit Scholarship Program saved state taxpayers \$19.9 million in 2018-19.

Additionally, we estimate the savings from the QEE program to local taxpayers. Using a cautious estimate of \$8,381¹ as the average additional cost of educating students added to Georgia public school systems, we estimate the fiscal effects of 90 percent of scholarship students migrating to the public schools if they were not able to access a scholarship. If these students migrated to public schools, public school costs would rise, and those local systems would receive more state funding via this enrollment growth. We calculate that, for AY 2018-2019, the savings from the QEE program to local taxpayers was as follows:

Local cost of educating 90% of Scholarship Students in Public Schools	—	State Funding for Enrollment Growth
$0.9 \times 13,895 \text{ scholarship students} \times \$8,381$	—	$0.9 \times 13,895 \text{ scholarship students} \times \$5,717 =$
\$104.8 million	—	\$71.5 million =

\$33.3 million in local savings for (AY) 2018-19

¹ This \$8,381 figure is the estimated variable cost of educating a student in public schools. This amount is only about two-thirds of the total average cost of educating students in public schools (\$12,796) for AY 2018-19, and the source of this \$8,381 figure is detailed in the appendix to the full report.

The details for the above calculation are as follows:

- Number of scholarship recipients in 2018 = 13,895.
- Estimate of the percent of scholarship recipients who would have been enrolled in a public school if a scholarship had not been available = 90 percent (or 0.90).
- Estimate of the variable cost of educating students in public schools = \$8,381. This estimate is significantly below the actual \$12,796 average cost of educating students in public schools.
- Average state revenues per public school student = \$5,717.
- Local taxpayer cost to educate 90 percent of these scholarship students in public schools = $0.90 \times 13,895 \times \$8,381 = \$104.8$ million.
- State funding for enrollment growth to local public school systems if 90 percent of the 13,895 scholarship students had been enrolled in public schools = $\$5,717 \times 13,895$ scholarship students = \$71.5 million.
- Savings to local taxpayers = \$104.8 million - \$71.5 million = \$33.3 million.

In other words, the decrease in local taxpayer costs of not having to educate 90 percent of scholarship students in the public schools is 90 percent of the 13,895 scholarship students multiplied by our cautious estimate of the average variable cost of educating these students in public schools (\$8,381), or \$104.8 million — reduced by the state revenues that local systems receive to offset a portion of the cost of educating those students, or 90 percent multiplied by 13,895 scholarship students times \$5,717, the average state revenues per student in public schools. This latter figure represents \$71.5 million. The difference between these two figures, \$33.3 million, represents the savings to local taxpayers from not having to pay to educate 90 percent of scholarship students in the local public schools.

Thus, the sum of yearly savings to Georgia taxpayers from the QEE Program equals the estimated \$19.9 million in savings to the state treasury plus the \$33.3 million in savings to local public school systems, for a total of \$53.2 million in savings for Georgia taxpayers in academic year 2018-19.

**\$19.9M in state savings + \$33.3M in local savings =
\$53.2 million in savings overall to Georgia taxpayers
(AY) 2018-19**

While our cautious estimates indicate that the QEE program saved Georgia taxpayers \$53.2 million in academic year 2018-19, Martin Lueken (2019) created an historical estimate of savings from academic years 2010-11 to 2017-18. Using methods very similar to those used here, Lueken estimated that the QEE program saved Georgia taxpayers a total of \$179 million during that time period. Estimated savings — on a per year basis — have been increasing over time because public school expenditures per student have been increasing while tax credits per scholarship student have been flat or declining over time.

Economic Analysis

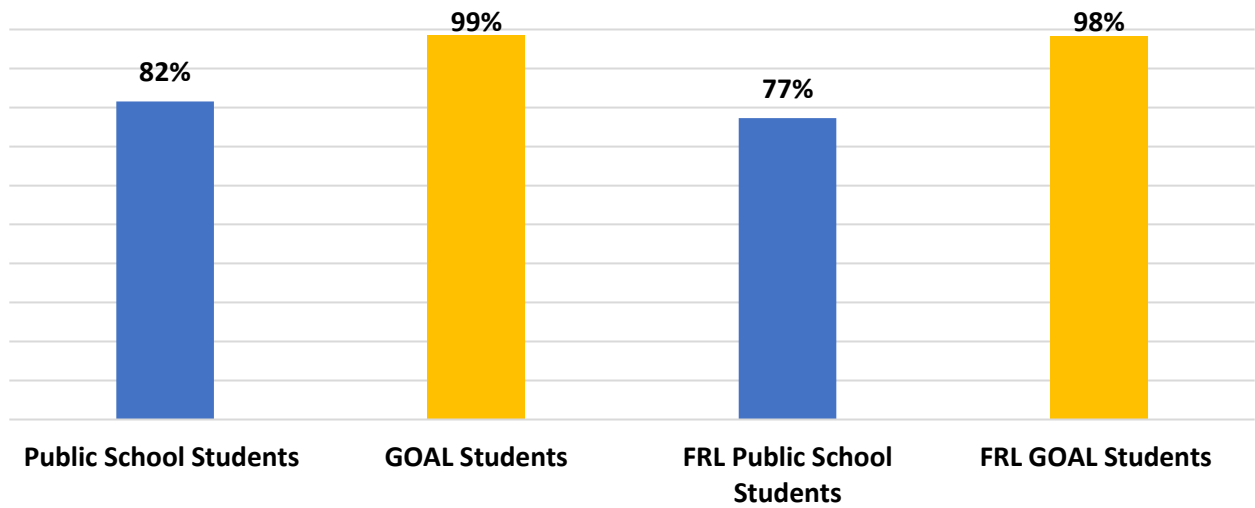
In its future audit of the QEE Program required by House Bill 217, the Georgia State auditor is required to consider the total economic impact of the QEE Program, which consists of a study of the net changes in “economic activity” and “public benefit” associated with the Program. In our study, we estimate the economic impact for three cohorts of students receiving a scholarship from Georgia GOAL, the largest SSO in the QEE Program.

GOAL provided us data on three cohorts of ninth grade students from academic years 2013-14, 2014-15, and 2015-16 — the most recent cohorts for which educational attainment can be observed. We use a straightforward analysis comparing the educational attainment of GOAL students to traditional public school students and estimate the present value of lifetime earnings associated with increased educational attainment — including high school graduation and college entrance. For high school graduates only, we consider the public benefits of increased educational attainment, as there are not good estimates in the academic literature on the public benefits — the benefits to others — from college enrollment.

Comparing the educational attainment of GOAL students to traditional public school students:

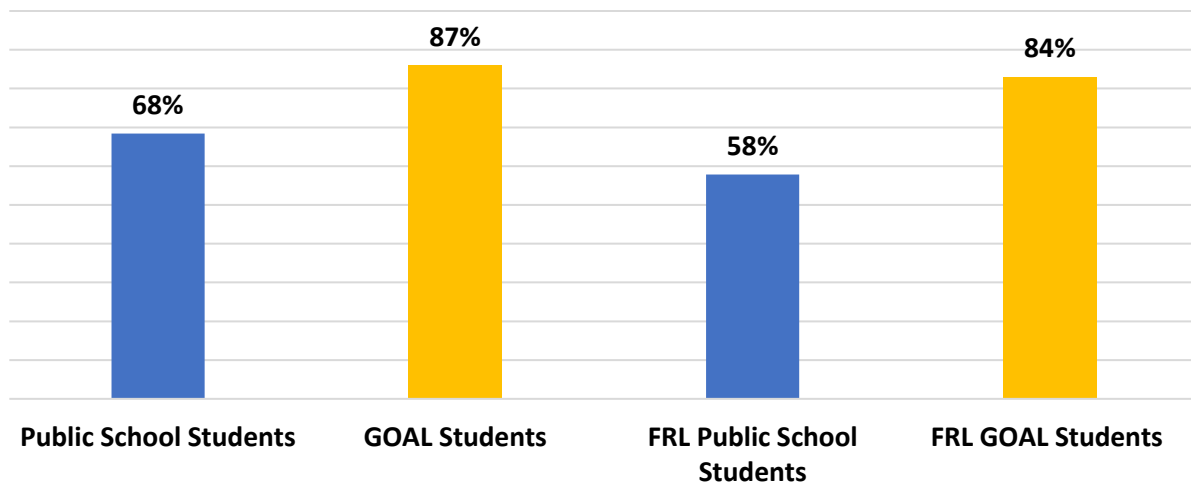
- Of students who received a GOAL scholarship to attend a private school, 99 percent graduated from high school compared to 82 percent of traditional public school students.
- Scholarship students who qualify for free or reduced-priced lunch (FRL) also graduated high school at a significantly higher rate than similar students in public schools: 98 percent vs. 77 percent, respectively.
- Participating scholarship students also enter college at a higher rate, 87 percent, than public school counterparts, 68 percent. Additionally, scholarship students who qualify for FRL enter college at a rate of 26 percentage points more than similar public school students, 84 percent vs 58 percent.

Figure A.2: Four-Year High School Graduation Rate for Public School and GOAL Scholarship Students



Notes: Data on GOAL students was provided by Georgia GOAL and includes a sample of 784 students who entered 9th grade in AY 2013-14, 2014-15, and 2015-2016 and graduate high school between AY 2016-17, 2017-18, and 2018-19. We combine these cohorts of GOAL students to calculate an overall high school graduation rate. Data on public schools come from The Governor’s Office of Student Achievement, <https://gosa.georgia.gov/report-card-dashboards-data/downloadable-data>. We use the four-year graduation rates from AY 2018-2019. The graduation rate for 2016-17 was 81% and 82% in 2017-18.

Figure A.3: College Entrance Rates for Public School and GOAL Scholarship Students



Notes: GOAL college entrance rates are conditional on students having graduated high school. We downwardly adjust the student-reported college entrance rate of GOAL students to provide a better comparison to the institution confirmed college entrance rate of public schools students; see the full report for more details. College entrance rates for public school students are also conditional on students graduating from high school and come from the Governor’s Office of Student Achievement post-secondary report for FY2018-19, <https://gosa.georgia.gov/report-card-dashboards-data/downloadable-data>. Students in the FY2018-19 report graduated high school in 2017. At the time of writing this is most recent available data.

Using cautious estimates from the literature on the returns to educational attainment, we find substantial economic impacts of the Georgia GOAL Scholarship Program for the three cohorts of students in our sample. We estimate a combined economic benefit of \$46.7 million from increased high school graduation and college entrance for these students, or about \$15.6 million per cohort, on average.

Table A.1: Combined Economic Benefit for Sample of GOAL Students

Economic Benefits		
	Benefit from High school Graduation	\$ 39,984,000
	Benefit from College Entrance	\$ 6,764,370
Total Benefit		\$ 46,748,370

If extrapolated to all scholarship recipients across the entire QEE program, the estimated economic benefits would be \$66.4 million for the cohort of ninth grade students starting high school in 2018.

ABOUT THE AUTHORS

Heidi Holmes Erickson is a visiting assistant professor and a senior fellow with the Education Economics Center at Kennesaw State University. She is also a researcher with the University of Arkansas National Endowment for the Arts Research Lab. She received a BA in Political Science from Brigham Young University and a PhD in Education Policy from the University of Arkansas.

Ben Scafidi is a professor of economics and director of the Education Economics Center at Kennesaw State University. He is also a Friedman Fellow with EdChoice (the legacy foundation of Milton and Rose Friedman) and a senior fellow with the Georgia Public Policy Foundation. Previously, he served as the first chair of the state of Georgia's Charter Schools Commission, the Education Policy Advisor to Governor Sonny Perdue, a staff member to both of Governor Roy Barnes' Education Reform Study Commissions, and as an expert witness for the state of Georgia in school funding litigation. He received a BA in Economics from the University of Notre Dame and a PhD in Economics from the University of Virginia.

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REPORT ACCESS

QEE Policy Brief: <https://coles.kennesaw.edu/education-economics-center/docs/QEE-policy-brief.pdf>

QEE Full Report: <https://coles.kennesaw.edu/education-economics-center/docs/QEE-full-report.pdf>

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