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REVIEW OF *SQUEEZING THE PUBLIC SCHOOL DISTRICTS: THE FISCAL EFFECTS OF ELIMINATING THE LOUISIANA SCHOLARSHIP PROGRAM* AND *THE FISCAL EFFECT OF ELIMINATING THE LOUISIANA SCHOLARSHIP PROGRAM ON STATE EDUCATION*

Reviewed By

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Summary of Review

Two new papers from researchers at the University of Arkansas predict the budgetary consequences of terminating the Louisiana Scholarship Program (LSP), a voucher program that funds over 7,100 Louisiana students to attend private schools. Using an economic model, the papers offer several different scenarios and then conclude that terminating the LSP would increase the costs statewide and do so in almost all districts in the state. The papers' findings are reasonable but do not make a fully convincing case that the state will incur extra expenditures without the LSP. There may be savings or additional expenditures, depending on several key parameters which have not been precisely estimated. Puzzlingly, the reports' findings of extra costs run counter to those of the state's Legislative Fiscal Office, but the reports do not mention this contrary evidence. In any case, the net fiscal effect of terminating the LSP is unlikely to be large; in the context of a \$9 billion state expenditure, the change would likely be less than \$10 million.



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By Clive Belfield, Queens College, CUNY

I. Introduction

This review covers two working papers written by DeAngelis and Trivitt for the University of Arkansas Department of Education (EDRE).¹ The two papers consider the budgetary implications of terminating the Louisiana Scholarship Program (LSP). The LSP, which began in 2008, provides vouchers for low-income students to exit a low-performing public school and attend a private school. The amount of the voucher is set as the lower of per-pupil public funding or the tuition level at the private school. As of 2015-16 the LSP served over 7,100 students statewide.

The two papers are closely allied, using the same methods and data for analysis. The first paper considers the budgetary implications statewide; the follow-up paper considers the budgetary implications for each district. The papers begin by describing the LSP and the motivation of the state to reduce public expenditures. They then describe the economic model and relate this to the public school funding formula in Louisiana. The model calculates the net fiscal effect from terminating the LSP from the perspective of the state and each district within the state. Next, the model is used to derive a set of break-even scenarios where terminating the LSP has no net effect on public spending across the state.

It is plausible that – as the papers conclude – the state will not save money by terminating the LSP. But there are also some possible scenarios under which it might in fact save money. Overall, the loss or gain is unlikely to be very significant, and there are other considerations that might motivate retaining or terminating the LSP.

II. Findings and Conclusions of the Reports

The main finding of the first paper is that terminating the LSP is expected to increase public school expenditures. The paper presents a range of estimates, but the estimated midpoint increase is around \$6 million annually. (As context, statewide public school spending in Louisiana is \$9 billion annually). The paper argues that termination will therefore have the

opposite effect of that intended, which was to reduce public school expenditures in response to a budget crisis. The paper also identifies a break-even point at which the termination may be revenue-neutral (savings will directly offset any additional costs). The break-even depends on how many students participating in LSP would remain in their private schools once the program is cancelled. These remaining students would need to be around 13-20 percent of current voucher recipients. The report concludes that this break-even is unlikely to occur. The authors predict that the vast majority of voucher recipients would return to public schools, in large part because the program is means-tested (wealthier families are not eligible).² But this requires speculation. If more students than this remain in the private schools, then the public coffers would fiscally benefit; if fewer students than this remain, then the public coffers would fiscally be harmed.

The main finding of the second paper is that the findings from the first paper are expected to apply across almost all school districts within Louisiana. As such, there would only be a few districts that would fiscally benefit from the termination of the program, while other districts would experience significant increases in required spending.

Overall, the papers conclude that – if the intent is to relieve pressure on public spending in Louisiana – then terminating the LSP will have the opposite effect for districts across the state.

III. The Reports' Rationale for Their Findings and Conclusions

Both papers used the same economic model to analyze budgetary changes in response to terminating the LSP, which was the basis of their findings and conclusions. There are three components of the model.

The first component is the estimated savings from terminating the LSP. The papers derive this estimate directly from state government budget documents as the amount spent on vouchers to students. The second and third components are used to estimate the additional spending required as a result of students no longer attending private schools. The second component is a model of how many students will return from private school to public school (and which districts they will attend). The third component is a model of how public expenditures will change as a result of these student inflows. This component is the most complex: it requires detailed investigation of the intricacies of the public school funding formula and how it allocates funds based on marginal changes in student numbers.

The parameter values used in the model are taken from publicly available state data and information on the enrollments and expenditures of the Louisiana Scholarship Program.

The papers rely exclusively on the results from the model to derive their results for state-level and district-level expenditure changes. Contextual information and evidence on other voucher programs is not considered.

IV. The Reports' Use of Research Literature

The papers cite some of the relevant literature. The papers claim that “many previous studies” show that voucher programs can save the state money. But only two studies are cited, and one of them refers to the Louisiana program itself. Neither study has been published in a peer-reviewed journal and one was produced by the Friedman Foundation, which is committed to supporting free markets in education.³ More importantly, the use of research literature is narrow and there is one important omission.

The research literature is narrowly considered in two respects. First, almost all the evidence cited refers to the LSP. Little attention is paid to the fiscal consequences of other school choice programs, both when they expand and when they contract. For example, although the researchers mention the Milwaukee Parental Choice Program, they do not include the finding that the introduction of that program adversely affected the finances of inner-city school districts.⁴

Second, only brief mention is made of the evidence on the effectiveness of the LSP. Interestingly, the single citation included in the paper regarding academic effectiveness indicates that LSP has had adverse effects on achievement; another study found the same conclusion.⁵ If correct, this evidence may have important implications: an argument for maintaining a program because it saves money loses considerable force if the program is not effective. In fact, many policymakers – and some economists relying on the idea of market competition – would conclude that ineffective programs should be closed down even if doing so would cost money. The logic of the free market is not only that the most effective providers are rewarded but also that the least effective providers should be penalized. From a policy perspective, it may be hard to admit that students are going to less effective schools because the state wants to save money.

Notably, the papers omit a very important source: the March 2016 “Louisiana Legislative Fiscal Office (LFO) Analysis of HB1 Original”.⁶ This document provides the economic reasoning for the termination of the LSP and includes an estimate of the cost consequences. Instead of citing this primary source, the papers cite a newspaper article for the estimate of cost savings.

The LFO Report does not include much information on how savings might actually arise from the termination of LSP. Nevertheless, it acknowledges one side of the equation: “Reductions would result in students returning to a public school increasing MFP [Minimum Foundation Program] costs.” This is the claim that both the papers under review investigate in detail and find to be substantiated. However, LFO claims there are many returning students who would cost less: “there would likely be a savings to the state since DOE [Department of Education] is paying higher tuition for a significant portion of the voucher students than it would pay to the local school district under the MFP formula”. This claim, which is critical to the overall conclusion about fiscal pressures, is not addressed directly in either of the two papers being reviewed here. Moreover, the LFO Report claims that these savings outweigh the increased costs, such that “the state will pay \$8.3 M more to the voucher schools than it

would have paid through the MFP in the current year”.⁷ In other words, because of different assumptions about the number and the voucher-value of students likely to leave the private schools, the LFO Report’s conclusions are directly the opposite of those in the two papers reviewed here.

Given this conflicting evidence, it is very puzzling that the authors do not refer to this LFO Report. For readers to properly appraise the arguments being made in the papers, it would be helpful to know that the state’s fiscal office draws the opposite conclusion. It would be even more helpful if the authors attempted to explain why they apparently concluded that the LFO Report is wrong. Unfortunately, because the LFO Report does not include much detail, it is unclear why it arrives at these results and so it is not possible to adjudicate as to which results are correct or why the results differ. *A priori*, the LFO’s conclusion is less plausible. Nevertheless, the LFO has access to detailed budget and expenditure data and works on behalf of the state. Its conclusions should therefore be at least acknowledged and (preferably) explicitly refuted.

V. Review of the Reports’ Methods

The papers use an appropriate budgetary modeling method to calculate the fiscal consequences of LSP. The method relies on a distinction between fixed and variable costs and on a thorough interpretation of how the public school funding formula responds to changes in student enrollments. As in most states, public school funding formulas are extremely complex, and the papers do a good job in explaining how the formula works in Louisiana.

However, the method is applied in such a way that the results may not be robust and may be an overestimate of the savings.

First, for interpretation, the analysis should specify a baseline, best-estimate. Instead, the papers make reference to the range of fiscal outcomes. As some of these outcomes are positive and some are negative, it is difficult to determine with confidence the overall results. A baseline set of results would allow the reader to see which economic outcomes are the most likely after the LSP is ended. Confidence intervals should then be constructed around the baseline so that readers can infer the likelihood that the LSP will save resources or require additional expenditures.

Second, one of the key parameters chosen to populate the model is not adequately derived. All parameters should be calibrated from the best available evidence, including evidence from other voucher studies when relevant. Most parameters are presented as ranges rather than estimates, such that the final results are imprecise.

In this case, a critical parameter that drives the analysis is the proportion of students who were in the LSP and are predicted to return to the public school system if LSP ends. If this number is 100%, the papers calculate the statewide loss at \$11.6 million per annum. If the

number is 80%, the statewide loss is \$0.9 million. In the statewide analysis, the authors report the results for a range from 100% to 75%. (They do not consider the possibility, in their calculations, that more than a quarter would remain in their private schools.) Unfortunately, this means the fiscal impact of the termination of LSP is unclear; it will either cost money or save money. Hence, it is critical to identify this proportion; it is unlikely to be zero but it could be bounded using evidence on students participating in the LSP or students participating in other voucher programs. Despite its importance, the reports do not investigate this proportion in detail.⁸

Another key parameter is the expected cost of serving the students who return from private school. The reports argue that these students would receive the average resource (from the state and local funding agencies) as per students in the districts they return to. However, it is possible that the returning students would cost less than the average. As pointed out decades ago, there are two reasons for the disparity.⁹ One is on the student side: returning students are likely to be from families who are more motivated to improve their children's education; such students are less likely to require additional supports within the classroom (e.g. more attention from teacher aides). The other reason is on the school side: private schools typically select students who will not require additional supports (sometimes private schools do not offer these supports). Importantly, funding formulas are too blunt to capture these real differences in the costs of "educability". The papers do not adequately discuss this issue and do not incorporate it into the model (either the general estimates or the sensitivity testing).

Third, the cost analysis is based on budgets rather than actual expenditures. This is an important distinction because districts and schools may not spend their allocations in exact correspondence to their budgets. The state may provide additional funding for students with particular characteristics (e.g., students from low-income families or students with disabilities). But that funding may not be sufficient to educate these children, and the difference may come from a cross-subsidy from other students.¹⁰

Finally, the model assumes that the full cost of the LSP is the voucher amount. The full fiscal cost includes the government resources to regulate, monitor and enforce compliance with the operation of the LSP. These regulation and monitoring costs are likely to be significant, and these should be counted in the savings column if the LSP is discontinued. The fiscal cost also includes other general spending (for some voucher programs, busing costs are separated out from any scholarship fund allocation).

VI. Review of the Validity of the Findings and Conclusions

The findings and conclusions of the papers are derived directly from the results of the economic models.

Overall, the authors' findings are stated in very general terms: "Our analysis indicates that the net effect of ending the LSP is likely to increase state expenditures unless a large num-

ber of voucher users find another way to pay private school tuition and therefore remain in their chosen private schools” (DeAngelis and Trivitt, 2016, p.19). This general conclusion is plausible if one defines around 13-20 percent of current voucher recipients as large number. However, it does not account for hard-to-observe differences in the costs of educating voucher students or the additional government costs of monitoring and regulating the LSP. As such, it is hard to know exactly how much state expenditures would change or if that change would be positive or negative.

The research would gain more credence and be more compelling if the papers directly explained disagreements with the contradictory analysis of the Legislative Fiscal Office, and if the papers provided a best-estimate of the net losses to the state and a confidence interval. From reading the reports and adopting the papers’ assumptions, one might infer that the cost of terminating the LSP is around \$6 million (DeAngelis and Trivitt, 2016, Table 5; assuming 90% of students return to public schools). This is not a large number (given an overall expenditure of \$9 billion) and, for reasons given above, may be an over-estimate.¹¹

Moreover, it is difficult to place clear boundaries around this baseline estimate without a full sensitivity analysis. These boundaries are especially important when the estimates can cross over from negative to positive. Most of the estimates in these papers do show a net loss from ending the LSP. But, as noted above, the Legislative Fiscal Office shows the opposite: a net gain.

VII. Usefulness of the Reports for Guidance of Policy and Practice

These papers are useful in that they apply an economic model to understanding the consequences of voucher systems. Despite almost two decades of research interest on the topic of education vouchers, there is still little rigorous research on what voucher systems cost and the resource consequences of implementing them. Accordingly, it is unclear what it will cost to terminate (or implement) a voucher program or what outcomes might be expected.

However, these papers do not make a fully convincing case that the state will incur extra expenditures without the LSP. There may be savings or additional expenditures, depending on several key parameters which have not been precisely estimated.

In terms of policy, the LSP is only a small program. It offers scholarships to 7,100 students annually—about 1% of the almost 700,000 K-12 public school students across Louisiana.¹² Approximately half of the state’s districts do not have any voucher students. Yet, there are likely to be significant consequences for some districts, such as New Orleans parish, where participation in LSP is high (at one-fifth of all students). Unfortunately, the papers do not separate implications for these districts from those for other districts with few voucher enrollees.

Finally, these papers do not consider the full context in which voucher systems must oper-

ate. For the LSP, the research finds that voucher students do worse academically, but that there may be gains in student integration. Analysts must therefore be extremely cautious in drawing policy conclusions. In fact, if districts adopt a “do-no-harm” principle, the poor performance of LSP might in itself be justification for termination, regardless of the economic consequences.

Notes and References

- 1 DeAngelis, C.A. and Trivitt, J.R. (2016) Squeezing the Public School Districts: The Fiscal Effects of Eliminating the Louisiana Scholarship Program. University of Arkansas, Department of Education Reform. Retrieved September 2, 2016, from <http://www.uaedreform.org/downloads/2016/08/squeezing-the-public-school-districts-the-fiscal-effects-of-eliminating-the-louisiana-scholarship-program.pdf>. Trivitt, J.R. and DeAngelis, C.A. (2016) The Fiscal Effect of Eliminating the Louisiana Scholarship Program on State Education Expenditures. University of Arkansas, Department of Education Reform. Retrieved September 2, 2016, from <http://www.uaedreform.org/downloads/2016/04/12162.pdf>
- 2 As Trivitt and DeAngelis (2016, p.3) report: “In order to qualify for the LSP, a student’s family income must be no greater than 250% of the federal poverty line (\$60,625 for a family of four in 2015-16).”
- 3 Now called EdChoice, the Friedman Foundation website declares its mission to “Educate diverse audiences about school choice and its benefits.” Retrieved September 7, 2016, from <https://www.edchoice.org>
- 4 The papers refer to the relevant research but do not report this differential effect per district. See Costrell, R. (2011). *The fiscal impact of the Milwaukee parental choice program: 2010-2011 update and policy options*. School Choice Demonstration Project, University of Arkansas Department of Education Reform.
- 5 Mills, J.N., & Wolf, P.J. (2016). *The Effects of the Louisiana Scholarship Program on Student Achievement after Two Years*. Monograph, available at <http://dx.doi.org/10.2139/ssrn.2738805>. The other study is Abdulkadiroglu, A., Pathak, P.A., & Walters, C.R. (2015). *School Vouchers and Student Achievement: Evidence from the Louisiana Scholarship Program*. NBER Working Paper 21839, <http://www.nber.org/papers/w21839>
- 6 Carpenter, J.D. & Brasseaux, E. (2016) Louisiana Legislative Fiscal Office. *Analysis of HB 1 Original*. Retrieved September 20, 2016, from http://lfo.louisiana.gov/files/publications/HB%201%20Original_LFO%20Report.pdf
- 7 Carpenter, J.D. & Brasseaux, E. (2016) Louisiana Legislative Fiscal Office. *Analysis of HB 1 Original*. Retrieved September 20, 2016, from http://lfo.louisiana.gov/files/publications/HB%201%20Original_LFO%20Report.pdf. All quotations are from page 31.
- 8 The parameter is highly unlikely to be 0 percent. Nationally, approximately 5% of low-income families enroll in private school. For LSP, the second report does provide the most valid estimate: on average 9% of students who were denied but eligible for the voucher enrolled in private school. Thus, it would seem sensible to use the 9% figure; according to these economic models, the additional expenditure will be approximately \$9 million.
- 9 These issues are discussed in detail in Levin, H.M., & Driver, C.E. (1997). Costs of an educational voucher system. *Education Economics*, 5(3), 265-283.
- 10 Duncombe, W. and Yinger, J. (2005). Research has found that no state in the U.S. has an adequate per-pupil weighting to compensate for the costs of disadvantage. How much more does a disadvantaged student cost? *Economics of Education Review*, 24, 513-532.
- 11 Louisiana Department of Education, *Annual Financial & Statistical Reports 2009-2010: 161st Edition*. Retrieved September 20, 2016, from

<http://www.louisianabelieves.com/docs/funding/2009-2010-annual-financial-statistical-report.pdf?sfvrsn=6>

- 12 Louisiana Department of Education. 2015 K-12 enrollment. Retrieved September 20, 2016, from <http://www.louisianabelieves.com/resources/library/enrollment-counts>

DOCUMENTS REVIEWED:

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