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NEOVOUCHERS: Unknown Costs and Unproven Outcomes for Children

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EXECUTIVE SUMMARY:

 Corporate tax credits, or “neovouchers”, have not generated the savings promised in the seven states that have implemented similar legislation.

 Neovouchers will drain hundreds of millions of dollars from the public school system in the first 5 years of implementation.

 Education reforms should focus on the public schools which educate the overwhelming majority of students, particularly given that student achievement is higher in public schools than in private schools when demographic factors are taken into account.

WHILE CORPORATE TAX CREDITS FOR PRIVATE SCHOOL SCHOLARSHIPS, or neovouchers, are portrayed as generating savings in terms of public school expenditures, the truth is that the potential fiscal impact of implementing a neovoucher scheme in North Carolina is a complete unknown. The proposed neovoucher legislation is at least as likely to generate revenue losses as it is likely to generate savings. Similar programs that have been implemented in seven other states have not been adequately assessed in terms of financial impact, though it seems clear that forecasted savings have not materialized.¹

The goal of any change to the education system should be to improve student achievement, yet voucher experiments across the country have not delivered results for children and are certainly less impactful than positively reforming the public school system that educates the vast majority of students.

Guessing at Financial Impact

A legislative fiscal report on the potential impact of neovouchers done in Florida included this telling note contained in an appendix: “we had no information from which to estimate [the key] percentage on which the entire fiscal savings claim is based.”² Yet this type of report is precisely what neovoucher proponents use to support purported savings.

The key to determining the fiscal impact of neovouchers is to ascertain the number of students who will be prompted by the neovoucher to switch from public to private school (generating revenue savings), and weigh that against the number of students who always intended to enroll in private school who receive a windfall of taxpayer money as a result of the credit (generating revenue losses).³ Since North Carolina’s per pupil spending ranks in the bottom quartile, the savings generated by students who are enticed into attending private school by neovouchers is relatively small and the cost of paying private school tuition for students

who intended to enroll in private school regardless of the neovoucher is relatively large. The likely mix of students utilizing neovouchers in North Carolina is a complete unknown, though the South generally requires much more costly vouchers in order to entice students to attend private schools.⁴

The administrative costs associated with running the neovoucher program are a complete revenue loss because these are sunk costs that go only into the overhead needed to administer the scholarships. Legislation currently being considered in North Carolina allows scholarship funding organizations to retain up to 7% of the tax credit for these costs (between \$3 and \$9 million dollars annually) – money that would otherwise go directly to funding students' education in public schools that would be lost.

The overall revenue drain in the first full year of the tax credit's administration will be \$40 million assuming the credit is fully utilized. If at least 90% of the credit is claimed each year, then this number will increase by 35% annually leading to a \$133 million dollar revenue loss for public schools in 2018.⁵

Unproven Impact on Student Achievement

Neovouchers are not actually all that new, as they are a means of repackaging traditional vouchers in a way that evades the Constitutional prohibition against government entanglement with religion. Thus, the potential educational impact of neovouchers can be examined in light of past experiences. In places like Milwaukee, Florida, and Cleveland that have already experimented with vouchers, students who take advantage of vouchers experience no educational gains in comparison to those who remain in public schools.⁶

A common fallacious assumption is that private schools are inherently better than public schools. However, when controlling for demographic differences between public school and private school students, public school students perform significantly better than private school students on the National Assessment of Educational Progress (NAEP).⁷

The premise that private schools outperform public schools is a result of private schools drawing wealthier students who do not require as much academic support as their less wealthy counterparts. Private schools also do not have to accept students such as English Language Learners and special education students who require additional financial support in order to obtain an adequate education. Some even require students to pass tests or take certain classes to secure admission. Public schools, however, do a better job of educating the populace at large.

The fiscal and educational impacts of neovouchers are at best unknown and at worst will negatively impact both North Carolina's revenue stream and educational outcomes for children. Rather than taking an unnecessary gamble with children's lives, policymakers should focus on reforming public schools based on successful public school policies employed in the highest achieving states and countries around the world.

1 NC Budget and Tax Center Brief, "Scholarship Funding Tax Credit", June 2012. Available at http://www.ncjustice.org/sites/default/files/BTC%20Brief%20-%20Scholarship%20Funding%20Corporate%20Tax%20Credit_web_0.pdf

2 Office of Program Analysis and Government Accountability (December, 2008). The Corporate Income Tax Credit Scholarship Program Saves State Dollars. (report No. 08-68), 12. Available at <http://www.oppaga.state.fl.us/reports/pdf/0868rpt.pdf>

3 National Education Policy Center, "How to Calculate the Costs or Savings of Tax Credit Voucher Policies". Available at http://nepc.colorado.edu/files/NEPC-PolicyMemo_NeoVouchers.pdf

4 Bruce Baker, "Private Schooling in the U.S.: Expenditures, Supply, and Policy Implications." Rutgers University. Available at <http://nepc.colorado.edu/files/PB-Baker-PvtFinance.pdf>

5 NC Budget and Tax Center Brief, "Scholarship Funding Tax Credit", June 2012. Available at http://www.ncjustice.org/sites/default/files/BTC%20Brief%20-%20Scholarship%20Funding%20Corporate%20Tax%20Credit_web_0.pdf

6 Henry Levin and Clive Belfield, National Center for the Study of Privatization in Education, "The Marketplace in Education". Available at http://www.ncspe.org/publications_files/OP86.pdf

7 Christopher Lubienski, National Center for the Study of Privatization of Education, Columbia University Teachers College, "Re-Examining a Primary Premise of Market Theory: An Analysis of NAEP Data on Achievement in Public and Private Schools". Available at http://ncspe.org/publications_files/OP102.pdf