SAVING EDUCATION

HOW SCHOOL CHOICE CAN SAVE PUBLIC SCHOOLS MONEY

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INTRODUCTION

In April 2014, the Tennessee Legislature considered Gov. Bill Haslam's "Tennessee Choice and Opportunity Scholarship Act," a bill designed to provide students trapped in failing schools with an opportunity to attend local private institutions. The bill began by providing up to 5,000 low-income students zoned for a school in the bottom five percent of failing schools in the state with the option to apply for an "opportunity scholarship."

Two different versions of the governor's proposal were considered in the House and Senate. The House legislation would widen the pool of eligibility from the bottom five percent to the bottom 10 percent of failing schools if, after the original pool of eligible students was served, there were remaining vouchers available within the 5,000 limit in the first year. This version ultimately stalled in the House Finance Committee with time running out in the final days of the legislative session.2 Meanwhile, the full Senate passed a more expansive version of the bill, which would have opened the eligibility pool to any student in a failing school district if the 5,000 student limit from the bottom five percent was not reached. Despite falling just short of passage in the House. the issue has generated tremendous support and is widely expected to be revisited next year.

As the legislation gained momentum, it drew increasing opposition and criticism from teachers' unions and some state legislators who argued that the measure would take money away from struggling public schools that were already significantly underfunded.3 A lobbyist for the Tennessee Education Association, the state's largest teachers' union, argued that, "Taking money away from school systems in any fashion or form, especially with budgets cratering as they are because the state can't contribute what it needs to. is a very bad idea."4 Opponents were also quick to contest that abruptly removing students from the school system will not necessarily eliminate the costs associated with educating those students. Just as removing one school bus rider will not alter the costs of maintaining a school bus route, schools still have an obligation to educate the remaining students even

after some students depart, they assert. Collectively, these opponents of school choice argue that most student costs are "fixed costs" that remain a burden to the school after students leave, rather than "variable costs" that closely mirror fluctuations in the student population.

In response to such concerns, Gov. Haslam's opportunity scholarship proposal was designed to allow sufficient funds to remain in the public school system that would cover the "fixed costs" of students vacating the schools in the new voucher program. Opportunity scholarships would be valued at the lesser of either: (1) the cost of tuition at participating private schools, or (2) the total state portion plus the required local portion of the Basic Education Program (or BEP), the standard by which the state Department of Education determines school funding levels.5 Either amount would be significantly less than the total cost of educating a student in public schools currently more than \$10,325 per year statewide, according to the Department of Education's 2013 Annual Statistical Report.⁶ The cost differential between the more affordable voucher and the more expensive public education costs would remain in the local public school district.7

The purpose of this study is to examine the fiscal impact an opportunity scholarship program, such as the legislation proffered by Gov. Haslam, would have on public schools. Particular attention will be paid to the school systems that would be impacted by the governor's previously proposed program, as well as those affected by the possible expansion of the bill to a wider student population. This study will show that, rather than reducing funding for students who need it most, a proposal like Gov. Haslam's would not only benefit those students who receive a voucher, but also those who remain in the public schools by increasing per-pupil funding. Opportunity scholarships thus present a "rising tide that lifts all boats."

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VARIABLE VS. FIXED COSTS

Critics of opportunity scholarships frequently respond to proposals for school choice with the argument that vouchers would deprive the public school system of much-needed tax dollars, while not sufficiently reducing the schools' financial obligation. Removing one student—along with the tax dollars that follow him—from the school system will not meaningfully alleviate the school system's costs in paying teachers and administrators, running bus routes, keeping classrooms clean and technologically up-to-date, or "keeping the lights on" for those students who remain. The school system would essentially have fewer tax dollars to fulfill virtually the same financial obligation. In other words, critics of school vouchers present the vast majority of educational costs as "fixed costs" that cannot, at least in the short term, be adapted to the decrease in the number of students. To determine the extent to which educational costs follow departing students out of the school district, a distinction must be made between costs that are "fixed" in the short term and those that are "variable," or which quickly and closely respond to fluctuations in the student population.

The differing categories of school spending that comprise these two classifications are laid out very succinctly in Dr. Benjamin Scafidi's 2012 study, "The Fiscal Effects of School Choice Programs on Public School Districts." Dr. Scafidi identifies five types of short-term "variable costs" that could immediately be lowered by reducing the number of students: Instruction, Student Support, Instructional Staff Support, Enterprise Operations, and Food Service. All remaining costs are thereby designated as "fixed" in the short term: Capital Expenditures, Student Transportation, and Plant Operations and Maintenance.

It is important to note two observations about Dr. Scafidi's breakdown of costs. The first is that this list of "variable" costs is an intentionally conservative estimate. There are undoubtedly many other costs that could also easily respond to a decrease in the student population, such as the number of assistant

principals, the need for new school buildings, or the number of bus routes required to be run. Second, it is important to note that so-called "fixed costs" are only *fixed* in the short-term. Over the course of several years, all costs can reasonably be expected to reflect a long-term reduction in the number of students. All costs, then, are long-term "variable costs," whether they are designated as "fixed" in the short-term or not.

However, even when looking exclusively at the short-term effects of a reduction in the student population, the vast majority of public school expenditures fall into Dr. Scafidi's very narrow categorization of variable costs. The Annual Statistical Report published by the Tennessee Department of Education provides a thorough breakdown of costs for every public school system in the state. According to the 2013 Annual Statistical Report, the combined costs of Instruction, Student Support, Instructional Staff Support, and Food Service amounts to over \$6.3 billion, or nearly 68 percent of total expenditures statewide.⁹

The average public school student in Tennessee costs the taxpayer \$10,325 every year in total educational costs, measured as Per-Pupil Expenditure (PPE).¹⁰ Statewide, \$7,014 can be designated as "Variable PPE," constituting the combined amount spent per student on Instruction, Student Support, Instructional Staff Support, and Food Service, while \$3,311 can be designated as short-term "Fixed PPE."

Looking at the five school districts affected by the governor's original proposal, or those with at least one school in the bottom five percent of failing schools, we see a similar breakdown.

	Variable PPE	Fixed PPE
Memphis-Shelby County	\$8,169	\$3,561
Metro Nashville	\$8,330	\$6,977
Knox County	\$6,861	\$3,637
Hamilton County	\$7,316	\$2,514
Hardeman County	\$7,083	\$3,286

It should be noted that the high Fixed PPE for Metro Nashville Public Schools (Metro Nashville) is an anomaly, mostly due to the extraordinary amount of money that the district spends every year on Debt Services. Last year, Metro Nashville was responsible for \$215 million, or over 65 percent, of the nearly \$330 million spent on debt services by Tennessee school systems. When disregarding Debt Services, the relationship between Variable PPE and Fixed PPE for the district more closely resembles every other school system.

A similar breakdown can be seen when comparing school systems that would be added to those above under a proposal that extends to districts with at least one school in the bottom 10 percent of failing schools.

	Variable PPE	Fixed PPE	
Carter County	\$6,718	\$2,553	
Fayette County	\$6,618	\$2,712	
Grainger County	\$6,151	\$2,161	
Lake County	\$7,630	\$2,846	
Morgan County	\$6,556	\$2,564	

It can easily be seen that most student expenses constitute short-term "variable costs" that dissolve when a student leaves via a voucher for a new school instead of continuing to burden the public school system. The next section compares the Variable PPE and Fixed PPE to the potential cost of an opportunity scholarship.

COMPARING COSTS

Basic Education Program

Identifying the relative short-term "fixed" and "variable" components of the total cost per student is a crucial step in examining the fiscal effect of any voucher system on public schools. If the scholarship is valued at more than the Variable PPE, then public schools will not have enough funds remaining to cover the temporary "fixed" costs they face in the short term. On the other hand, if the voucher is valued at

less than the Variable PPE, then public schools will have more than enough funds remaining to cover the "fixed" costs. Thus, they can allocate any remaining resources to benefit their remaining students.

The plan offered in the "Tennessee Choice and Opportunity Scholarship Act" stipulates that the scholarship awarded to a student must be valued at the lesser of two figures: the total cost of tuition at the participating private school or the Basic Education Program (BEP) funding level.¹¹ The BEP amount is defined as the total portion of funding coming from the state, as well as the mandated amount of local funding, as determined by the Tennessee Department of Education. Any additional local funds that school districts receive beyond what is required by the state, including additional local funds or federal dollars, do not factor into the scholarship allocation, and thereby remain in the pertinent school district.

For the sake of clarity, these two possible scholarship values will be examined and compared to the Variable PPE separately. However, it should be noted that examining either BEP level or private school tuition alone will always represent the highest possible scholarship allotment. Since the actual value of the scholarship will represent the lesser of the two costs, knowing the value of one criterion will always represent the high end of the range of possible costs. Likewise, a lower value of the other criterion would lower the scholarship amount, whereas a higher value of the other criterion would have no effect on the amount of the scholarship.

Because the BEP level is firmly set by the Department of Education and because there are (as of yet) no hard numbers on the cost of private education in Tennessee, the BEP funding level stands as the best single indicator of the possible minimal cost of opportunity scholarships on districts. According to numbers obtained by the Beacon Center from the Tennessee Department of Education, the statewide average BEP amount per student is \$6,402. Van Buren County has the highest level of BEP funding per student at \$7,877 while Union County has the lowest allotment at \$5,772.

Out of 136 school districts across Tennessee as of the 2013-2014 school year, 98 have a BEP that is less than their Variable PPE. In other words, in over 72 percent of school districts, the maximum proposed scholarship would still leave enough money in the district to cover the short-term "fixed cost" of departing students. Among these districts, Variable PPE is on average \$611 higher than the BEP amount. The difference between the overall state BEP average of \$6,402 and the statewide Variable PPE of \$7,014 indicates that the average school district would keep enough funding for each student receiving a scholarship to compensate for the departing student's short-term "fixed costs," and have an average of \$612 to allocate to their remaining students.

Most of the remaining 38 school districts with a BEP higher than Variable PPE are small rural counties, with suburban Wilson County being the only county with a population over 100,000. On average, the BEP in these districts is \$293 higher than Variable PPE.

An analysis of schools affected by the "Tennessee Choice and Opportunity Scholarship Act" serves to highlight this general trend. All counties with a school in the bottom five percent of failing schools have a BEP lower than their Variable PPE.

	BEP	Variable PPE	Difference
Memphis-Shelby County	\$6,632	\$8,169	\$1,537
Metro Nashville	\$6,955	\$8,330	\$1,375
Knox County	\$6,121	\$6,861	\$740
Hamilton County	\$6,270	\$7,136	\$866
Hardeman County	\$6,568	\$7,083	\$515

The BEP in these districts is, on average, \$1,007 less than the Variable PPE. Thus, when a student from one of these districts receives a scholarship for the full value of the BEP, schools in these districts would be able to cover the temporary "fixed costs" of the departing student and still have an average of more than \$1,000 to allocate to their remaining students.

Districts with a school in the bottom 10 percent, as would be affected by the House version of the governor's bill, present a slightly more nuanced picture, but one that still demonstrates the general trend.

	ВЕР	Variable PPE	Difference
Carter County	\$6,553	\$6,718	\$165
Fayette County	\$7,070	\$6,618	(\$452)
Grainger County	\$6,381	\$6,151	(\$230)
Lake County	\$6,820	\$7,630	\$810
Morgan County	\$6,486	\$6,556	\$70

Fayette and Gainger Counties are among the 28 percent of districts with a higher BEP than Variable PPE. Looking at these five counties alone, the average BEP is \$6,662 and the average Variable PPE is \$6,735, meaning that the BEP is on average \$73 less than Variable PPE. Furthermore, when considering these five counties in conjunction with those impacted by the governor's initial proposal, Variable PPE is on average \$540 higher than BEP. As previously established, the Senate version of the governor's proposal would open the program to any low-income student in a failing district. Yet, the impact of the House version would be minimal in any one district. In the latter case, even if the threshold for participating in the voucher program were expanded to include the bottom 10 percent of schools, the vast majority of schools and students affected would come from Memphis, where the BEP is \$1,537 less than Variable PPE. While Memphis students represent the vast majority of eligible applicants, the actual allocation of scholarships will depend on the availability of seats at participating private schools. The general trend among districts with failing schools is that BEP is less—and often considerably less-than Variable PPE. Even in districts where the Variable PPE is higher than the BEP amount, it is worth reiterating that this is the "worst case scenario," and if the tuition rate is lower than the BEP amount, those districts would realize savings when a student departs with a voucher.

Private School Tuition

Comparing Variable PPE to private school tuition rates is slightly more difficult, partially due to the fact that there are no hard numbers on the cost of private education, and also partially due to variability of sample sizes available in rural versus urban areas of the state. The Beacon Center conducted a survey of private schools in May 2012 that attempted

to gather data on school tuition prices and gauge interest in a voucher program. The survey had a 39 percent response rate, receiving responses from 219 private schools statewide. Looking at this data may not provide a complete picture of the availability and cost of private education in Tennessee, but still offers a starting point by which to estimate the fiscal effects of the proposed opportunity scholarship program. It should be noted that not all responding schools reported tuition rates; any median tuition rates consider only those tuition rates reported in the school survey. All countywide data on private school tuition includes schools in neighboring counties.

The Beacon Center's 2012 survey also found that private school tuition across the state is considerably less than the amount currently spent on public education. The tuition at most private schools fits well within the range of \$2,000-\$8,000 a year; however, there are some exclusive private schools that charge substantially more, raising the mean tuition price. In an attempt to correct for these outliers and to filter tuition estimates by excluding more expensive schools that likely would not participate in a voucher program, this study uses the median tuition as a more accurate depiction of the cost of private schooling in Tennessee. When broken down by grade level, the statewide median tuition prices are all lower than statewide BEP averages.

	Statewide median tuition
Private elementary school	\$5,240
Private middle school	\$5,450
Private high school	\$6,275

The disparity between elementary and high school tuitions is a widespread phenomenon, and there is no reason to believe that the same phenomena impacting private school tuition rates do not also extend to public school costs, with PPE serving as an average across all grade levels. Thus, in order to have a single point of reference from which to compare public school expenditures, the three distinct private school tuition rates must be averaged together. Since, in any school district, there are many more elementary school students than high school students, the three prices are weighted according to the percentage of

total students statewide.¹² Averaging these three tuition prices together gives us a single tuition figure of \$5,586, which is 20 percent lower than the statewide Variable PPE of \$7,014. It should be noted that most private schools participating in the program are expected to take relatively few high school students, at least based on experience from other states' programs.¹³ Therefore, most opportunity scholarships that equal the value of private school tuition will likely be less than any median tuition figure that factors in high school tuition.

For 79 out of 95 counties statewide, Variable PPE is higher than the median private school tuition for schools within its jurisdiction and neighboring counties. Neighboring counties are considered because, while the student must be zoned to attend a school within a qualifying district, there is no similar geographic restriction on private school participation. Thus, it is expected that many parents will seek private school options in nearby counties. Two additional schools have incomplete data because no school within that county or neighboring counties recorded high school tuition rates in the survey. Substituting the statewide high school median tuition in these two counties puts them at less than Variable PPE. Carroll, Gibson, and Crockett Counties both give mixed results, with the Variable PPE being higher than the countywide tuition numbers in some Special School Districts and lower in others. Only 11 counties maintain a median tuition rate higher than the Variable PPE across the entire district. The highest median tuition rate for a county is McMinn County at \$8,329, while the lowest is Henry County at \$1,404. It should be noted that some counties, like Henry County, with remarkably low tuition numbers, also draw from a smaller sample size. This seems to be the consequence of the price difference between rural and urban private schools than an indication of a problem with the sample. Among rural districts with fewer than five elementary schools, only six out of 28 have an overall median private tuition greater than \$5,000 and none have an overall median private tuition greater than \$6,000. These districts may not have many options in the way of private schools, but the existing private schools are well within the price range of parents seeking to receive an opportunity scholarship.

For districts with a school in the bottom five percent of failing schools, private school tuition falls well beneath the Variable PPE, meaning that, for every student taking a scholarship for the value of the median private school tuition, public schools will retain more than enough funding to cover the departing student's "fixed costs." Furthermore, it should be remembered that no scholarship will be valued at the cost of private school tuition if that cost is higher than the BEP.

	Median private school tuition	Variable PPE	Difference
Memphis-Shelby County	\$7,061	\$8,169	\$1,108
Metro Nashville	\$6,527	\$8,330	\$1,803
Knox County	\$5,936	\$6,861	\$925
Hamilton County	\$5,496	\$7,136	\$1,640
Hardeman County	\$6,397	\$7,083	\$686

In four of the five counties impacted by the Senate version of Gov. Haslam's proposal, the median private school tuition is also lower than the BEP funding level, indicating that scholarship allotments are likely to be even more of a boon to public schools than was reported in the previous section. In Memphis-Shelby County, where the median private school tuition is higher than the BEP, there are still enough private schools with low tuition rates to make it likely that some scholarship amounts will be less than the BEP. The sample size is also large enough in each of these counties to deduce that these tuition numbers are representative of the cost of private tuition: Memphis-Shelby County, Metro Nashville, Knox, and Hamilton Counties all have at least 10 schools in each grade category, while Hardeman County has at least six schools in each.

If the criterion for participation is broadened to include districts with a school in the bottom 10 percent, almost all affected counties have median tuition rates below the Variable PPE.

	Median private school tuition	Variable PPE	Difference
Carter County	\$4,586	\$6,718	\$2,132
Fayette County	\$7,061	\$6,618	(\$443)
Grainger County	\$5,658	\$6,151	\$493
Lake County	\$5,247	\$7,630	\$2,383
Morgan County	\$4,129	\$6,556	\$2,427

Fayette County's high private school tuition rate is likely due to the fact that many of the schools factoring into its median tuition rate are within the city of Memphis and neighboring Shelby County. This is because parents with a child in a failing Fayette County school may take advantage of the greater selection of private schools in Shelby County. In each of these districts, private school tuition is less than the BEP, indicating that public schools may have even more money returned to their coffers for each student receiving an opportunity scholarship. It should be noted that the tuition data for Carter, Lake, and Morgan Counties is rendered from a comparatively small sample size, while Fayette and Grainger Counties benefit from the neighboring urban counties of Shelby and Knox, respectively. As already noted, the lower tuition prices in more rural counties seems to be due less to a misleadingly-small sample size and more to a genuine difference in the cost of private education in urban versus rural settings.

Given that both the BEP and private school tuition are, on the whole, lower than the Variable PPE, there seems to be little evidence in favor of the argument that public school systems would face any kind of financial hardship if some students received opportunity scholarships to attend private schools. Only 36 percent of school systems in the state have either a BEP or median private school tuition that is higher than their Variable PPE, while fewer than nine percent of school systems have both. It should be reiterated that looking at either scholarship amount criterion alone will give only the upper limit of the range of possible scholarship amounts. Considering both together is more helpful, but still does not provide a low limit of the range, as half of the private schools within each district will have below-median tuition. While it can safely be said that no scholarship will be granted for any amount above the BEP, it cannot be asserted that no scholarship beneath this amount, or even beneath the median private school tuition, is possible.

THE FISCAL EFFECT ON PUBLIC SCHOOLS

Based on the numbers provided by the Department of Education and the results of the Beacon Center's 2012 private school survey, the vast majority of public schools would enjoy a monetary profit every time a student accepts an opportunity scholarship. For 124 of 136 school systems across the state, a scholarship granted for the lesser of either BEP or private school tuition will remit more than enough money to cover the "fixed costs" of the departing student. Those remaining funds could be allocated to help those students who remain in the public school system, increasing per pupil funding in those districts.

Calculating the precise impact such a program will have on public schools is difficult for two reasons. First, the exact value of the scholarships is unknown. As a conservative estimate, using established BEP numbers as a benchmark can provide a "low estimate" of how much school systems stand to gain when their students accept opportunity scholarships. Savings might be considerably more in cases where the cost of tuition is less than BEP, but calculating the fiscal impact based on BEP numbers provides a bare minimum for how much most school systems can expect to save for every student accepting a scholarship.

Fiscal Impact of a Scholarship Valued at BEP

By subtracting the value of a scholarship from the Variable PPE, it can immediately be determined whether the school will have enough to cover the temporary "fixed costs" of the student receiving the scholarship. When the scholarship amounts to less than Variable PPE, then the difference beneath Variable PPE is a surplus to the school, beyond what is required to pay the short-term Fixed PPE the school is not able to immediately shed when a student leaves.

As indicated before, Variable PPE is higher than the BEP in over 72 percent of school systems in Tennessee. For those school systems with a BEP higher than Variable PPE, scholarships may still be offered for less than the value of BEP or other steps may be taken to

offset the impact of the temporary "fixed costs" left by students receiving vouchers. However, the following table provides a basic starting point for estimating how much money a school system might expect to save after covering "fixed costs."

	BEP Scholarship	Variable PPE	Funds Left After Fixed Costs Covered
Memphis-Shelby County	\$6,632	\$8,169	\$1,537
Metro Nashville	\$6,955	\$8,330	\$1,375
Knox County	\$6,121	\$6,861	\$740
Hamilton County	\$6,270	\$7,136	\$866
Hardeman County	\$6,568	\$7,083	\$515
Carter County	\$6,553	\$6,718	\$165
Fayette County	\$7,070	\$6,616	(\$454)
Grainger County	\$6,381	\$6,151	(\$230)
Lake County	\$6,820	\$7,630	\$810
Morgan County	\$6,486	\$6,556	\$70

The biggest impact of all would occur in the two largest districts. Both Memphis-Shelby County and Metro Nashville would receive over \$1,300 to allocate to their remaining students, even after covering the short-term Fixed PPE of former students. Over the course of several years, as school systems are able to adjust to a long-term reduction in the number of students, schools can expect to save even more.

Distribution of Seats Available

The second issue complicating a fiscal impact examination is that it is not perfectly clear how many students will come from each affected district. The majority of schools within the bottom five percent of failing schools are in Memphis, but the number of available seats in participating private schools is spread throughout the rest of the state. The 2012 Beacon Center survey of private schools asked private schools for a range of how many open seats they might make available to voucher students. The seat availability at particular private schools might look different from one year to the next and, as indicated before, not all private schools responded to the survey. However, looking at the survey for the distribution of available seats provides a rough estimation of how many seats would be available

in each district relative to other districts. By taking the percentage of available seats indicated in the survey and applying it to the number of seats allowed under the governor's proposed program, a rough distribution of potential scholarships can be seen. As with the calculation of private school tuition prices, available seat calculations also include seats available in neighboring counties.

The "Tennessee Choice and Opportunity Scholarship Act" provides for the gradual expansion of the opportunity scholarship program over a span of four years, with 5,000 scholarships made available the first year before increasing to 7,500 scholarships in year two, 10,000 scholarships in year three, and 20,000 scholarships in years four and beyond. Given the number of scholarships available every year, how much could each participating school system save if the program was restricted to districts with a school in the bottom five percent of failing schools?

Year 1: 5,000 Scholarships	Scholarships Granted	Money Left after Fixed Costs Covered
Memphis-Shelby County	1,680-1,715	\$2,582,110 - \$2,635,904
Metro Nashville	1,685-1,745	\$2,316,707 - \$2,399,201
Knox County	750-810	\$555,008 - \$599,408
Hamilton County	490-525	\$424,286 - \$454,592
Hardeman County	300-310	\$154,458 - \$159,607

Despite being limited to only 5,000 scholarships statewide in the first year, Memphis-Shelby County and Metro Nashville can already expect to save more than \$2 million each if all available scholarships are utilized. That savings would only increase as more students are allowed to participate in the program.

Year 2: 7,500 Scholarships	Scholarships Granted	Money Left after Fixed Costs Covered
Memphis-Shelby County	2,520-2,573	\$3,873,164 - \$3,954,624
Metro Nashville	2,528-2,618	\$3,457,747 - \$3,599,488
Knox County	1,125-1,215	\$832,511 - \$899,112
Hamilton County	735-788	\$636,429 - \$682,321
Hardeman County	450-465	\$231,687 - \$239,410

Year 3: 10,000 Scholarships	Scholarships Granted	Money Left after Fixed Costs Covered
Memphis-Shelby County	3,360-3,430	\$5,164,219 - \$5,271,807
Metro Nashville	3,370-3,490	\$4,633,413 - \$4,798,401
Knox County	1,500-1,620	\$1,110,015 - \$1,198,816
Hamilton County	980-1,050	\$848,572 - \$909,185
Hardeman County	600-620	\$308,916 - \$319,213

Year 4: 20,000 Scholarships	Scholarships Granted	Money Left after Fixed Costs Covered
Memphis-Shelby County	6,720-6,860	\$10,328,438 - \$10,543,614
Metro Nashville	6,740-6,980	\$9,266,826 - \$9,596,802
Knox County	3,000-3,240	\$2,220,030 - \$2,397,632
Hamilton County	1,960-2,100	\$1,697,144 - \$1,818,369
Hardeman County	1,200-1,240	\$617,832 - \$638,426

By the end of the fourth year of the program, all affected counties would realize the benefits of receiving funding for students they no longer have the responsibility of educating. According to these projections, the largest difference as a percentage of overall annual budget would be in Hardeman County, which would receive between a 1.6-1.7 percent increase to its total budget of \$38,207,677.

If the program instead included the bottom 10 percent of failing schools, most scholarships would still be awarded to students in either Nashville or Memphis. However, students from additional counties would also be allowed to draw on the pool of available seats, making it likely that fewer slots would go to students in urban districts. Still, between 84 and 85 percent of available seats would be filled by students coming from counties affected by the governor's original proposal.

Neither Lake County, nor any neighboring counties, reported any open private school seats in the survey and thus are not projected to take seats from other participating counties, at least not in the short term. As this is a rough estimate of the distribution of existing available seats, it is entirely possible that private schools in and around Lake County will have available seats that will be opened up for students receiving opportunity scholarships in the future.

Year 1: 5,000 Scholarships	Scholarships Granted	Money Left after Fixed Costs Covered
Memphis-Shelby County	1,330-1,355	\$2,044,170 - \$2,082,594
Metro Nashville	1,470-1,515	\$2,021,103 - \$2,082,974
Knox County	655-705	\$484,707 - \$521,707
Hamilton County	430-455	\$372,333 - \$393,980
Hardeman County	260-270	\$133,864 - \$139,012
Carter County	135	\$22,286
Fayette County	140	(\$63,549)
Grainger County	225	(\$51,815)
Lake County	0	\$0.00
Morgan County	270	\$18,797

Year 2: 7,500 Scholarships	Scholarships Granted	Money Left after Fixed Costs Covered
Memphis-Shelby County	1,995-2,033	\$3,066,255 - \$3,124,660
Metro Nashville	2,205-2,273	\$3,031,655 - \$3,125,148
Knox County	983-1,058	\$727,430 - \$782,931
Hamilton County	645-683	\$558,499 - \$591,403
Hardeman County	390-405	\$200,795 - \$208,518
Carter County	203	\$33,511
Fayette County	210	(\$95,323)
Grainger County	338	(\$77,838)
Lake County	0	\$0.00
Morgan County	405	\$28,196

Year 3: 10,000 Scholarships	Scholarships Granted	Money Left after Fixed Costs Covered
Memphis-Shelby County	2,660-2,710	\$4,088,340 - \$4,165,189
Metro Nashville	2,940-3,030	\$4,042,206 - \$4,165,947
Knox County	1,310-1,410	\$969,413 - \$1,043,414
Hamilton County	860-910	\$744,665 - \$787,960
Hardeman County	520-540	\$267,727 - \$278,024
Carter County	270	\$44,572
Fayette County	280	(\$127,098)
Grainger County	450	(\$103,630)
Lake County	0	\$0.00
Morgan County	540	\$37,595

Year 4: 20,000 Scholarships	Scholarships Granted	Money Left after Fixed Costs Covered
Memphis-Shelby County	5,320-5,420	\$8,176,680 - \$8,330,377
Metro Nashville	5,880-6,060	\$8,084,412 - \$8,331,894
Knox County	2,620-2,820	\$1,938,826 - \$2,086,828
Hamilton County	1,720-1,820	\$1,489,331 - \$1,575,920
Hardeman County	1,040-1,080	\$535,454 - \$556,049
Carter County	540	\$89,143
Fayette County	560	(\$254,195)
Grainger County	900	(\$207,261)
Lake County	0	\$0.00
Morgan County	1,080	\$75,190

These additional savings may not make a significant difference when incorporated into the school budget. Even in Memphis or Metro Nashville, where the projected savings could be up to \$10 million, this seems much less significant when both school systems operate with an annual budget of over \$1 billion. Yet, while these savings might not radically raise the per-pupil funding for remaining students, it is worth mentioning again that teachers' unions and public school administrators claim that opportunity scholarships would financially *hurt* public school systems. The numbers tell a very different story.

It is also important to note that, as long as the scholarship is worth less than the Variable PPE, then the school system will still benefit financially from each scholarship awarded, regardless of how many scholarships are granted in a particular district. In other words, since the "variable costs" of the student are able to be quickly offloaded by the school system, the only financial concern for public school systems is whether enough money remains to cover the student's initial "fixed costs." Any amount beyond that is an additional long-term benefit to the public school and those students remaining in the public school system.

A hypothetical scenario might help to demonstrate this principle. If all school vouchers across the state were concentrated in Memphis, what would be the effect on the Memphis-Shelby County school system? Memphis-Shelby County must still expend \$10,193 for every student receiving an opportunity scholarship for the value of BEP: \$6,632 will go to the private school in the form of the voucher and \$3,561 will

cover the Fixed PPE of the departing student. The remaining \$1,534 can go to benefit the students remaining in the public school system.

Number of Scholarships	Average Daily Attendance	Money Left after Fixed Costs Covered	PPE
Current Year	138,558	\$0	\$11,730
Year 1- 5,000	133,558	\$7,684,850	\$11,787
Year 2- 7,500	131,058	\$11,527,275	\$11,818
Year 3- 10,000	128,558	\$15,369,700	\$11,849
Year 4- 20,000	118,558	\$30,739,400	\$11,989

This hypothetical scenario illustrates the general principle that when opportunity scholarships are valued at less than the Variable PPE, as they are in the governor's proposal, those scholarships help raise the funding level of remaining public school students.

CONCLUSION

Critics of opportunity scholarships argue that they deprive public school systems of much-needed financial resources, while doing little to help alleviate the financial responsibilities of public schools. Distinguishing between "variable" and "fixed" costs in educational spending can indicate how much of a school's financial burden is responsive to an immediate decrease in the number of students. Provided that, for each student receiving an opportunity scholarship, public schools maintain enough funding to cover the "fixed costs" of the departing student, opportunity scholarships have a net positive fiscal impact on public schools.

The voucher plan proposed in the "Tennessee Choice and Opportunity Scholarship Act" provides public school systems across Tennessee with a scholarship program that, in the vast majority of cases, actually provides a positive fiscal impact on public schools. Whether looking at BEP numbers or the median private school tuition rate, opportunity scholarships prove to be an economical way of allowing Tennessee parents to choose the education that best suits their child. Opportunity scholarships also help those students who remain in public schools. The vast majority of school systems across the state will maintain more than the adequate funding necessary to cover departing students' "fixed

costs," thereby allocating more resources than before to remaining public school students on a per-pupil basis. Thus, opportunity scholarships financially benefit *all* students, not just those who receive a voucher.

ENDNOTES

- 1 Sisk, Chas. "Tennessee Senate approves school vouchers." *The Tennessean.* 10 April 2014, http://www.tennessean.com/story/news/politics/2014/04/10/tennessee-senate-approves-school-vouchers/7560817/.
- 2 Reid, Karla. "Tennessee School Voucher Bill Fails to Garner Support From Lawmakers." *Education Week*. 16 April. 2014, http://blogs.edweek.org/edweek/parentsandthepublic/2014/04/tenn-school-voucher-bill-fails-to-garner-support.html.
- 3 Sisk, Chas. "Tennessee Senate approves school vouchers." 4 Johnson, Lucas L. II. "In Tennessee, School Voucher Bill Fails for Session." *Memphis Daily News.* 16 April 2014, http://www.memphisdailynews.com/news/2014/apr/16/in-tennessee-school-voucher-bill-fails-for-session/.
- 5 Bill Summary for SB 0196. *Tennessee General Assembly*, http://wapp.capitol.tn.gov/apps/billinfo/BillSummaryArchive.aspx?BillNumber=SB0196&ga=108.
- 6 2013 Annual Statistical Report. *Tennessee Department of Education*. http://www.tn.gov/education/data/doc/asr 1213.pdf. 7 Bill Summary for SB 0196.
- 8 Scafidi, Benjamin. "The Fiscal Effects of School Choice Programs on Public School Districts."
- 9 Dr. Scafidi includes "Enterprise Operations" as a fifth short-term "variable cost"; the Tennessee Department of Education does not track "Enterprise Operations" as a spending category in the Statistical Report.
- 10 This figure is arrived at by dividing the total amount of money spent on education in the past year (over \$9.3 billion) by Average Daily Attendance (ADA). By contrast, the 2013 Annual Statistical Report lists the Per-Pupil Expenditure at \$9,307, a misleading figure based on a calculation of "Operating Expenditures" that excludes pertinent educational costs. For more information on what is and is not included under "Operating Expenditures" or "Current Expenditures," as well as the reasons for rejecting such incomplete cost assessments, readers should refer to "Following the Money: A Tennessee Education Spending Primer": http://www.beacontn.org/wp-content/uploads/Following-the-Money.pdf.
- 11 Bill Summary for SB 0196.
- 12 The three categories of students are weighted in proportion to their percentage of the whole student body, according to Average Daily Attendance reported in the 2013 Annual Statistical Report: K-5th Grade, 48%; 6th-8th Grade, 23.28%; 9th-12th Grade, 28.72%. Statewide percentages are used in all cases to give a more accurate representation, as some counties will have anomalous grade breakdowns due to the existence of special school districts. Students listed as Special Education do not factor into this percentage.
- 13 Brief, Vol. 101, Number 1, *Public Policy Forum*, (page 2): http://publicpolicyforum.org/sites/default/files/2013VoucherBrief-Clarified_1.pdf; Choice Scholarship Program Annual Report: Participation and Payment Data, *Indiana Department of Education*, *Office of School Finance*, (page 8): http://indianapublicmedia.org/stateimpact/files/2014/01/Choice-Scholarship-Program-Annual-Report-012714.pdf.
- 14 Bill Summary for SB 0196.

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