



## Executive Summary

This study seeks to inform the debate over a proposal in Nebraska to give tax credits for contributions to organizations that provide scholarships to K–12 private schools. The study constructs a model to determine the fiscal impact of tax-credit scholarships on the state and on local school districts. We estimate the impact that tax-credit-funded tuition scholarships will have on the distribution of students between public and private schools in Nebraska by estimating the likely transfer of students from public to private schools depending on the average dollar value of scholarships. We use these estimates to model the impact tax-credit scholarships will have on state education aid to school districts and to calculate the break even rate of “transfer,” or the number of public school students that would have to transfer from public to private schools in response to the scholarship program, in order to make the tax credit fiscally neutral from the perspective of Nebraska state government. We use district-level expenditure and enrollment data to estimate the percentage of expenditures that vary with changes in enrollment levels across school districts in Nebraska and compare the revenue and expenditure impacts of tax-credit scholarships on school districts to determine the net impact of tax-credit scholarships on district finances.

In addition to allowing Nebraska to expand educational opportunities to lower- and middle-income

families and improving the equity of its education system, a tax-credit-funded scholarship program would generate fiscal benefits for local school districts, increasing the available resources for students who remain in public schools. Because much of their revenue does not vary with enrollment, school districts would retain much of the funding associated with students who use scholarships to transfer from public to private schools. The overall impact on public schools would be to increase the financial resources available per student. Depending on a few key program design elements, it could also result in fiscal savings to the state budget.

### ***Key findings include:***

- When students leave Nebraska public schools in significant numbers, local school districts experience reductions in expenses that are greater than the reduction in state aid. In addition, school district revenues from local sources do not decline when enrollments decline. Because expenses decline more than revenues when students leave public schools, there is a net gain of resources available to students who remain in the public schools equal to \$7,765 per public school student using a scholarship.
- The total fiscal impact of a tax-credit scholarship program depends on the number and percentage of public school students who receive scholarships in relation to the number of private school students receiving scholarships. This in turn depends on a number of program design factors, including income eligibility levels, the size of the scholarships, and the total amount of available scholar-



ship funding. The study uses data from the U.S. Census Bureau and other sources to estimate how public school families might respond to a tax-credit scholarship program with various design features.

- A scholarship program for current public school students that costs Nebraska \$3 million in tax credits at 65 percent of the value of contributions to scholarship granting organizations (SGOs) will generate more than \$4.15 million in available scholarship funds.
- In the first year of the program, just 951 public school students will have to participate in the program for it to break even, or have no cost to the state.
- If scholarship eligibility is set at 300 percent or below of federal poverty guidelines, and at least 67 percent of scholarships are awarded to public school students, the program will yield net fiscal benefits to Nebraska of between \$2.4 and \$37 million (depending on the average value of scholarships) if scholarship values average less than \$3,750. At scholarship values averaging \$4,250, the program would cost the state \$3.9 million over 10 years.
- If 80 percent of private school scholarships are awarded to current public school students, then fiscal benefits to the state peak at \$51 million over 10 years at scholarship values of \$1,750. With 80 percent of scholarships going to public school students, the program generates fiscal benefits to the state over 10 years at all scholarship values.
- Raising the income eligibility for scholarships always increases the fiscal benefit of the program because more public school students would be eligible for scholarships, to enroll in private schools and eligibility is increased most among income groups that have the highest propensity to transfer from public to private schools.
- A tax-credit scholarship program is a more efficient way to direct dollars to education than increasing state aid. Nebraska data show that every dollar of increased state aid to schools produces only an additional 47 cents of school spending because school districts respond to the state spending increase by reducing local spending on education. By contrast, every dollar spent on a tax-credit scholarship program is a full dollar that goes to education.