



The Fiscal Impact of Tuition Tax Credits in New Mexico

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Executive Summary

Proposals to expand opportunities for children to attend independent schools prompt heated and complex debates. Proponents and opponents bring a number of philosophical and ideological arguments to public policy discussions, while lawmakers often justify their decisions on the basis of the perceived economic and fiscal impacts of the proposals. Evaluating the economic and fiscal impacts of a tuition tax credit proposal is a complex process that involves understanding many variables.

This study seeks to inform the debate over a proposal being discussed in New Mexico that would give tax credits for contributions to organizations that provide scholarships to children enrolling in independent or private schools. We use public data on income and charitable contributions in New Mexico, national surveys of the patterns of charitable giving to educational organizations, and the documented experiences of other states that have enacted tuition tax credits to develop estimates of the likely volume of contributions to scholarship-granting organizations and the resulting revenue impact of the tax credits. We construct a model to determine the impact tuition tax credits will have on total state education aid and to calculate the “breakeven” rate of migration, or the number of public school students that would have to migrate from public to independent schools in order to make the tax credit fiscally neutral from the perspective of New Mexico state government. Finally, we use district-level expenditure and enrollment data to estimate the percentage of expenditures that are fixed versus variable across school districts in New Mexico, and compare the revenue and cost impacts of tuition tax credits on school districts to determine the net fiscal impact of tuition tax credits on school districts.

Key findings include:

- Tuition tax credits will grow from an initial \$11 million to approximately \$27 million in the third year and increase, on average, by about 1.2 percent in each subsequent year of the program. Depending on the average size of tuition grants, this will make scholarships available to anywhere from 8,000 to 50,000 students in New Mexico.
- In the first year of the tuition tax credit program, only about 1,700 students will need to migrate from the public to independent schools in order for tax credits to have no net negative fiscal impact on the State of New Mexico. By the third year of the program, the tuition tax credit will need to prompt the migration of only about 1% of students (or less than 4,000 students) from public schools to independent schools in order to reach the “breakeven” point. This represents a 13 percent increase in New Mexico’s independent school enrollment; data indicate the state’s independent schools have immediate capacity to expand enrollment by 29 percent.
- An average scholarship value of only about \$1,750 (about 50% of the average cost of independent school tuition in New Mexico) will optimize the tradeoff between the average value of scholarships and the number of scholarships available in order to maximize the number of migrants from public to independent schools. By 2015, the cumulative net fiscal benefit to the state of New Mexico of tuition grants that average \$1,750 will be about \$42 million.
- The probability that a child will attend an independent school increases dramatically with income, suggesting that families are sensitive to the price of independent schools and that scholarships to low-income children could significantly increase independent school enrollment among low-income children. Requiring that 60% of scholarship money be awarded to free and reduced lunch eligible students will increase the net fiscal gain for the state and help ensure that scholarship organizations provide scholarships large enough to induce migration to private schools by low-income students.
- State aid associated with each student migrating from public to independent schools is approximately \$5,300, while the variable cost of educating each student in the public schools is approximately \$6,600, so the migration of students to independent schools will not financially harm school districts.
- With scholarships set at about \$1,750, approximately 1,800 students (0.6% of public school students) will migrate in the first year of the tuition tax credit program. The result will be a reduction in state aid to school districts of \$10.6 million, but also a reduction in school district costs of \$12.8 million, resulting in a net fiscal benefit to school districts of \$2.2 million. By 2015 the number of public school migrants will reach a total of approximately 4,600 (1.3% of public school students) and the net fiscal impact on school districts will be a gain of \$8.2 million annually.

I. Introduction and Overview

Proposals to increase educational opportunities and choices for students of different backgrounds, abilities, needs, and economic circumstances are increasing throughout the country. In part, this reflects increasing support among the public for the concept of school choice, which has increased to a majority of U.S. citizens according to data reported by the U.S. Department of Education¹. Charter school, voucher, scholarship and tuition tax credit proposals are all reforms that seek to increase the choices parents have for the education of their children. Each is motivated by core beliefs that include:

- Parental involvement is critical to the educational achievement of children.
- All parents, regardless of means, should be allowed a say in how and where their children are educated.
- Parental choice should extend beyond the public schools because public schools cannot realistically provide the variety of educational experiences needed to meet the unique educational needs of every child.

Increasingly, however, school choice initiatives are being considered in response to concerns about the economics of public education. These include:

- Education expenditures that are rising much faster than the prices of goods and services.
- Increases in the school age population in rapidly growing regions that create school space needs and add significant capital costs to school district budgets.
- Stagnant quality in public schools despite large increases in expenditures.
- The absence of widespread alternatives to public education, broadly available to families and children of all means, may be producing a public education system with little or no incentive to improve its performance and/or limit expenditure increases.

Voucher systems provide students with a payment for a specified amount of money good at any independent or non-public school. Vouchers are the broadest, most direct, and most straightforward way for policy makers to provide parents with an opportunity to choose their child's school. Depending on the amount of the voucher, a student's tuition bill could be partially or completely paid by the government. The dollar value of the voucher may vary according to the family income of the child, but in most existing and proposed voucher programs the value of the voucher is less than the state education aid that would accompany a student if he or she were enrolled in a public school. Voucher programs currently exist in Florida, Wisconsin, Ohio, Maine, Vermont and the District of Columbia.

Some supporters of vouchers are concerned that state regulation of independent schools could increase if schools accept state funds via vouchers. Regulations can be subject to political pressure, and interest groups may press the state to enforce regulations that interfere with the operation of the private schools and to prevent independent schools from exercising the freedom of governance that distinguishes them from public schools and which allows them to create learning environments that are attractive to families. In addition, while federal legal issues surrounding state money going to religious schools were largely resolved by the U.S. Supreme Court's ruling in the 2002 Cleveland voucher case, many states have provisions in their state constitutions that could be interpreted as posing obstacles to voucher programs. Finally, some proponents primarily interested in the fiscal benefits of vouchers are concerned that families that receive vouchers for the full amount of independent school tuition may have little incentive to try to keep the costs of independent schools down.

The Tax Credit Difference

Tuition tax credit proposals are one method of introducing parental choice in education that have arisen, in part, in response to the concerns above. A total of six states - Minnesota, Iowa, Illinois, Florida, Pennsylvania, and Arizona - have some form of tax relief for individuals or corporations that directly or indirectly provide funds for children to attend independent schools.

¹ Phi Delta Kappa, *Phi Delta Kappan*, "The Annual Gallup Poll of the Public's Attitudes Toward the Public Schools," 2002. Reported in "The Digest of Education Statistics" U.S. Department of Education, National Center for Education Statistics.

Traditional tuition tax credits or deductions, offered in Illinois, Iowa, and Minnesota, allow parents who send their children to independent schools to deduct a portion of the tuition they pay, dollar for dollar, from their individual state income tax. Parents, not state government (as is the case with vouchers), pay tuition to independent schools and parents reduce their state income tax liability by an amount equal to the value of the tax credit.

Tuition tax credits, also referred to as scholarship tax credits, allow tax payers to make voluntary contributions to non-profit organizations that in turn give scholarships to students to attend independent of non-public schools. The taxpayers then can take a tax credit in the amount allowed by law for their contribution.

Tuition tax credits are much more valuable than are tax deductions because tax credits result in a dollar reduction in tax liability for every dollar of tuition paid (up to the maximum allowed), while a tax deduction only reduces the income on which taxes are paid (typically resulting in a tax saving to parents of an amount equal to 15, 28 or 35 percent of the amount of contributions or tuition paid).

With tuition tax credit proposals, the state does not directly pay for any child's tuition to an independent school, alleviating legal concerns over the separation of church and state. There is less pressure for state regulation because state money is not directly spent on schools, and because tax credits are usually less than the cost of an independent school education there is still an incentive for parents to try to keep costs low.

Under the tuition tax credit plan being discussed in New Mexico, individuals and businesses would be allowed a tax credit for contributions to a "Citizen Educational Support Fund" (CESF). Citizen Educational Support Funds would be not-for-profit organizations established to either provide educational materials for teachers in public schools, or scholarships for children to attend independent schools. CESFs must be organized and collect contributions for either of these two purposes, but not both. Individual taxpayers may claim a maximum tax credit against their New Mexico income tax liability of \$500 for donations to a CESF organized to provide scholarships to independent schools, and married taxpayers filing jointly may claim a credit of up to \$625 for contributions. Corporations making a donation to a CESF may claim a tax credit of up to \$200,000 per year for donations to a scholarship granting organization, with the total amount of corporate tax credits allowed capped at \$20 million per year.

This study examines the fiscal implications of the New Mexico tuition tax credit proposal. The impact will be determined by factors such as the amount of state education aid per pupil that accompanies each child in the public schools, the cost structure of local school districts, and a number of complex behavioral variables that include the total amount of contributions to CESF scholarship granting organizations by individuals and businesses, the decisions of CESFs regarding the value of scholarships and to whom they should be awarded, and the change in demand for independent schooling among families with children in public schools in response to the availability of scholarships.

Our analysis begins with a model that estimates the dollar value of scholarship contributions that will be claimed as tax credits by individual and corporate taxpayers. Using detailed data from the U.S. Census Bureau, we then examine characteristics of the students enrolled in public and independent schools in New Mexico. Using the experiences of other states with tuition tax credits and information from studies on the price elasticity of demand for private schooling, we develop a model to calculate the demand for scholarships among public school students and current independent school students depending on the average size of scholarships awarded. Our model of demand is combined with the model of the supply of scholarship money to calculate the number of scholarships awarded and the number of likely public school students who will "migrate" from public to independent schools. We examine the most recent public school finance data available and determine the average per pupil expenditures that New Mexico state government will save as a result of the movement of public school students to independent schools and to calculate the net impact on state finances (cost of tax credits less saving from reductions in public school enrollments). Finally, we develop an econometric model to determine the percentage of local education expenditures that are variable (and thus rise and fall with the number of students in a district) to determine the net impact tuition tax credits will have on local school districts in New Mexico.

II. Taxpayer Participation: The Volume of Scholarship Contributions

The overall size of the fiscal impact of New Mexico’s tuition tax credit will first depend on the volume of contributions to Citizen Educational Support Funds and the dollar value of tax credits claimed by individuals and corporations.

With a tuition tax credit, individuals and businesses can choose to pay taxes to the state to be used for general state services, or they can contribute to a Citizen Educational Support Fund that provides scholarships for students enrolling in independent schools, thus directly targeting their tax dollars to support education. Given this choice, many individuals and businesses can be expected to contribute to CESFs. Six states offer some type of tuition tax credit or deduction to assist families who want to send children to independent schools. Minnesota, Iowa, and Illinois offer a direct tax credit or deduction to parents sending their own children to independent schools, and Arizona, Florida, and Pennsylvania offer credits to individuals or corporations that contribute to organizations providing scholarships to low-income students. The experience of these states is directly relevant to the New Mexico proposal.

To estimate the volume of tax credits that will be claimed by individuals and businesses, we developed a model that uses data on the charitable contributions of New Mexico residents derived from the Internal Revenue Service’s “Statistics of Income” (SOI) historical survey research data on the percentage of charitable contributions directed to educational organizations, and analyses of the experience of other states with tuition tax credits.

In nationwide surveys¹ nearly half (48%) of all businesses indicated that education was their top priority for their philanthropic and civic activities. Among individuals, historically, about 20 percent of taxpayers have indicated that they contribute to educational organizations, and about 30 percent of their total contributions go to education organizations.² Charitable contributions as a percentage of adjusted gross income (AGI) in New Mexico have varied little (between 1.7% and 1.9%) since 1997. In 2002, New Mexico residents claimed charitable tax deductions equal to 1.85% of their total adjusted gross income, or over \$535 million in 2002.³

The State of Arizona has six years’ experience with tax credits for individual contributions to scholarship granting organizations. In Arizona, contributions to scholarship organizations equal just over one percent of the total volume of charitable contributions in the state, and equal to about 3/100ths of one percent of the total AGI of Arizona residents.⁴ We applied New Mexico’s historical rate of charitable giving to projections of the AGI of state residents⁵ to estimate the overall level of charitable contributions from individuals in the state for each year to 2015. We then applied ratios derived from Arizona’s experience to produce two estimates (based on scholarship contributions as a percentage of all charitable contributions in New Mexico and scholarship contribu-

tions as a percentage of total AGI) of total contributions to CESFs. Our final estimate was an average of the two projections.

Table 1 presents our estimate of contributions from individual taxpayers by AGI in New Mexico from 2005 to 2012.

AGI	2005	2006	2007	2008	2009	2010	2011	2012
<20k	\$47,393	\$107,016	\$163,585	\$171,764	\$180,352	\$189,370	\$198,838	\$208,780
20-30K	\$89,964	\$203,144	\$310,525	\$326,051	\$342,354	\$359,472	\$377,445	\$396,317
30-50K	\$261,133	\$589,652	\$901,341	\$946,408	\$993,729	\$1,043,415	\$1,095,586	\$1,150,365
50-75K	\$389,210	\$878,858	\$1,343,420	\$1,410,591	\$1,481,121	\$1,555,177	\$1,632,935	\$1,714,582
75-100K	\$302,303	\$682,617	\$1,043,447	\$1,095,619	\$1,150,400	\$1,207,920	\$1,268,316	\$1,331,732
100-150K	\$299,421	\$676,110	\$1,033,499	\$1,085,174	\$1,139,433	\$1,196,405	\$1,256,225	\$1,319,036
150-200k	\$118,930	\$268,550	\$410,505	\$431,031	\$452,582	\$475,211	\$498,972	\$523,920
200-500k	\$191,389	\$432,168	\$660,611	\$693,642	\$728,324	\$764,740	\$802,977	\$843,126
500k-1M	\$69,918	\$157,880	\$241,334	\$253,401	\$266,071	\$279,375	\$293,343	\$308,011
1M>	\$143,618	\$324,297	\$495,720	\$520,506	\$546,531	\$573,857	\$602,550	\$632,678
Total	\$1,913,279	\$4,320,292	\$6,603,987	\$6,934,187	\$7,280,896	\$7,644,941	\$8,027,188	\$8,428,547

¹ “The State of Corporate Citizenship: A View From Inside,” The Center for Corporate Citizenship at Boston College, 2004.

² Independent Sector, The Gallup Organization, “Giving and Volunteering in the United States”, 1989, 1991, 1993, 1995, and 1997

³ Available at <http://www.irs.trea.gov/pub/irs-soi/02in32nm.xls> (and prior years)

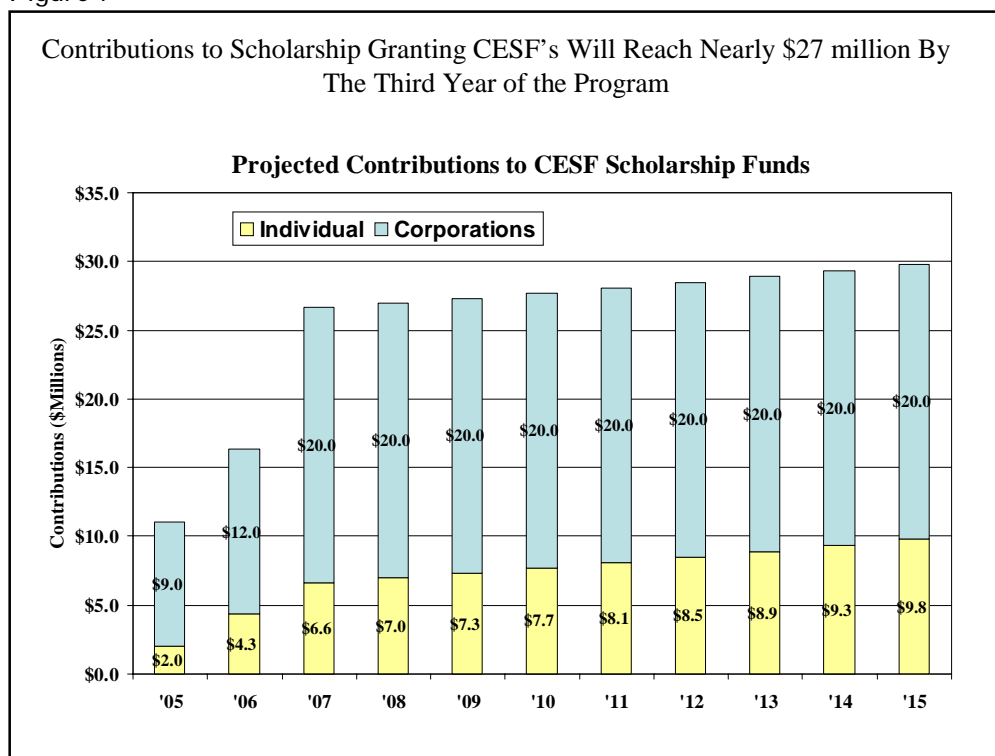
⁴ PolEcon’s analysis of Internal Revenue Service SOI data for Arizona and Arizona tax credit data reported in Lukas, C., “The Arizona Scholarship Tax Credit: Providing Choice For Arizona Taxpayers and Students”, Goldwater Institute (No. 186), December, 2003.

⁵ 2003 AGI from IRS’ Statistics of Income” was adjusted to reflect an average annual growth rate of 5%.

CESF contributions can go to organizations that provide support materials to public schools as well as to scholarship granting organizations. The maximum allowable credit for individual contributions to CESFs providing support materials to public schools is less than one-third (\$200 versus \$625) of the maximum credit allowed for contributions to scholarship granting CESFs. To distribute projected contributions between the two types of CESFs we allocated 75 percent of the total amount to scholarship granting organizations and 25 percent¹ to funds providing support materials to public schools.

Figure 1 presents our estimates of the total amount of contributions (corporate and individual) to CESF scholarship organizations to the year 2015. During the first two years of the program, contributions from individuals will be limited. It will take time for taxpayers to become aware of the credit, and in the first year taxpayers will have less than 12 months to make contributions. Florida's tuition tax credit program caps total tax credits to corporations at \$50 million. In the first year of the Florida tuition tax credit program just 19 corporations used the state's total allowable tax credits for contributions to scholarship granting organizations. New Mexico's proposed \$200,000 tax credit cap for each corporate contribution will assure that the credits are more broadly available to corporations (a minimum of 100 corporations could benefit if each claim the maximum \$200,000 credit). Corporations in New Mexico can be expected to be fully aware of the tax credit and to make full use of the \$20 million of allowed credits, but our analysis conservatively assumes that it will take three years for corporate contributions to reach the allowed cap because it may take time to organize CESFs capable of collecting (and, more importantly, distributing) \$20 million in scholarship funds.

Figure 1



¹ Because the percentage of contributions from corporations will be much greater than the contributions from individuals, some error in our estimate of the distribution of individual contributions does not have a dramatic impact on the estimate of total contributions to scholarship funds. Just as in Florida, corporations are expected to make full use of all available credits, which are capped at \$20 million in the New Mexico proposal.

III. The Demand for Independent Schooling in New Mexico

The most important factor in determining the net fiscal impact of the proposed tuition tax credit is the degree to which the program induces children currently attending (or planning to attend) New Mexico's public schools to migrate to independent schools. During the 2002-2003 school year, the State of New Mexico provided on average about \$5,300 per child in state aid to local school districts for every student enrolled in a public school.¹ The basic calculus of the net fiscal impact to the New Mexico state government is that tuition tax credits must induce enough students to migrate from the public to independent schools to result in savings in state per pupil education aid that equal or exceed the individual and corporate income tax revenue foregone because of the tax credits.

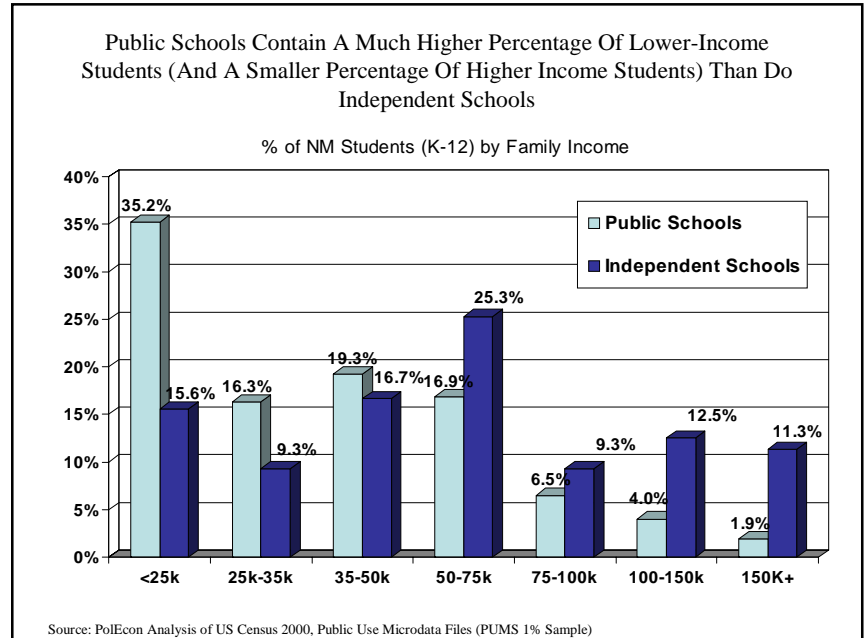
Forecasting the net fiscal impact of New Mexico's proposed tuition tax credit program therefore requires that we predict the actions of parents in response to the availability of scholarships as well as the decisions of CESFs. Studies performed in other states have tended to overestimate the migration that will occur from public schools in response to tuition tax credits and, as a result, they forecast unrealistic net positive fiscal impacts. This study improves upon prior studies of the demand for scholarships among New Mexico families and the distribution of scholarship awards between children enrolled in public and independent schools. We more closely examine the characteristics and differences of the population of school children in public and independent schools and how those differences will affect demand for scholarships. We analyze the interactive effects between the volume of scholarship funds available, the average dollar value of individual scholarship awards, and the total number of scholarship awards, as well as the effect that the actions of scholarship granting organizations will have on the distribution of scholarships between children currently enrolled in public and independent schools.

The Largest Difference Between Public and Independent School Enrollments is Economic

Predicting the demand for CESF scholarships and their distribution among children of different backgrounds and current enrollment, requires some understanding of the characteristics of the population of New Mexico's school age children and their families, and the differences between children in public and independent schools. Currently, more than 31,000 (or just over nine percent) of New Mexico school children are enrolled in more than 230 independent schools where they pay an average tuition of \$3,553 (although there is a wide variation in tuition costs).²

Non-white students comprise about two-thirds of public school enrollment and fewer than 60 percent of independent school enrollments, while special needs students represent about 20 percent of the public school population and nine percent of independent school students.³ The primary difference between the populations of public and independent school students, however, is economic. As Figure 2 shows, according to U.S. Census data, more than one-third of New Mexico school children were in families that earned less than \$25,000 in the year 2000, and more than half were in families that earned less than \$35,000. Only 25 percent of independent school children were in families with incomes below \$35,000, while more than one-third were in families earning more than \$75,000, compared to just 12 percent of public school children.

Figure 2



¹ PolEcon's calculations using enrollment data from the NH Public Education Department and district financial reports available at <http://www.ped.state.nm.us/div/fin/school.budget/nm.stat.03/index.html>

² U.S. Census Bureau, New Mexico Public Education Department.

³ Educate New Mexico, Independent School Administrators Survey, May 2004.

The Proposed Tuition Tax Credit Targets Lower-Income Students

The proposed tuition tax credit for New Mexico targets low-income children and families by requiring that at least 60 percent of scholarship funds be awarded to students eligible for the free or reduced lunch program. Figure 3 shows that a much higher percentage of public school children qualify for the free and reduced school lunch program. Over one-half (52%) of public school students in New Mexico come from families with incomes that qualify them to participate in the free and reduced school lunch program (below 185% of federal poverty level adjusted for family size), this compares to just 25 percent of independent school students.

Requiring that 60 percent of scholarship funds be awarded to children eligible for free and reduced lunch has important implications for the potential net impacts of tax credits:

- It targets a majority of scholarship money to low-income children.
- It increases the percentage of scholarships that will go to low-income students.
- It will likely increase the average value of scholarship awards because in order to meet the 60 percent requirement CESFs will have to induce migration from public schools, which is more likely to occur with larger scholarship awards.
- Because meeting the 60 percent requirement will require CESF scholarship grants to induce migration from the public schools, it will increase the net fiscal benefit of the tax credits to the state of New Mexico. The greater the migration from public to independent schools, the more positive will be the fiscal impact of tax credits.

CESFs Will Have to Induce Migration From Public to Independent Schools in Order to Award 60 Percent of Scholarship Money to Low-Income Children

Figure 4

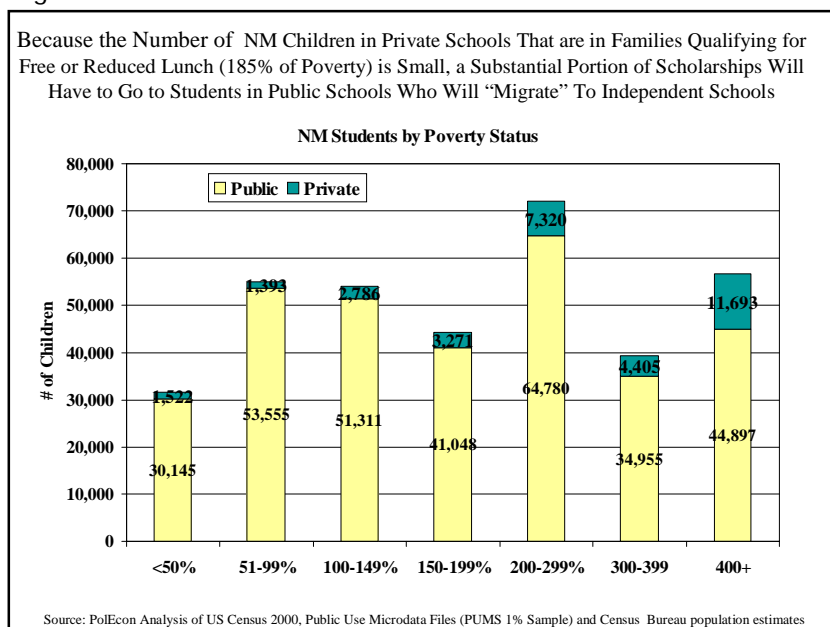
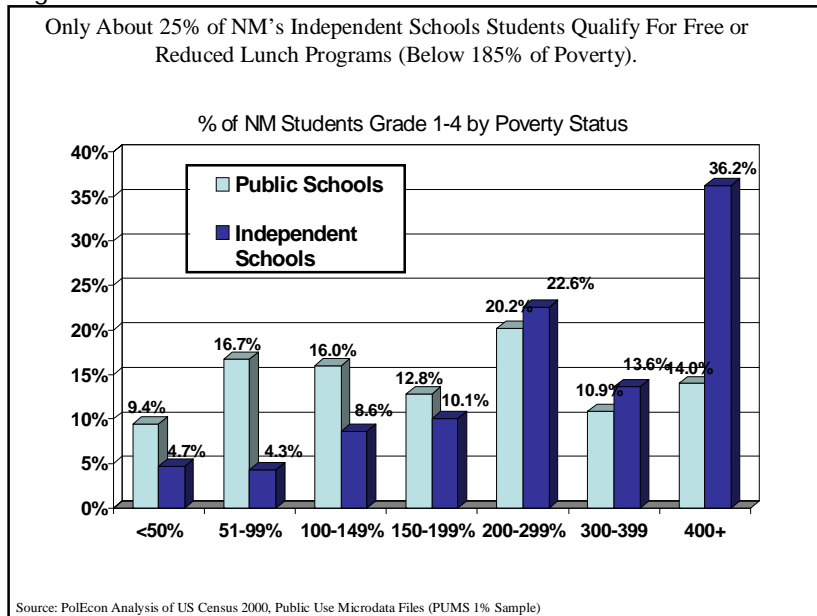


Figure 3



Even if CESF scholarship funds wanted to award all of their scholarships to children currently enrolled in independent schools, it is unlikely that they would find enough children eligible for free and reduced school lunches enrolled in independent schools to meet the program's requirement that 60 percent of funds go to low-income children. Figure 4 presents the number of free and reduced lunch eligible children (below 185% of poverty) in public and private schools.

Another way to understand the impact that the 60 percent requirement will have is to examine the cumulative number of free and reduced lunch eligible children in public and independent schools. Figure 5 presents the cumulative number of both public and independent school children in New Mexico that are eligible for free or reduced school lunches. The chart highlights that as the volume of tuition tax credits increases and the size of the program grows, the relative size difference between the public and independent school populations will ensure that the scholarships are awarded to children currently in public schools. To do so, CESFs must provide scholarships of a value high enough to prompt migration from public to independent schools.

Tuition Prices Influence the Demand for Independent Schools

We have estimated the supply of scholarship funds that will be available to CESFs, but the net impacts of the proposal are more importantly determined by how individual families in New Mexico will respond to the increased availability of independent school scholarships.

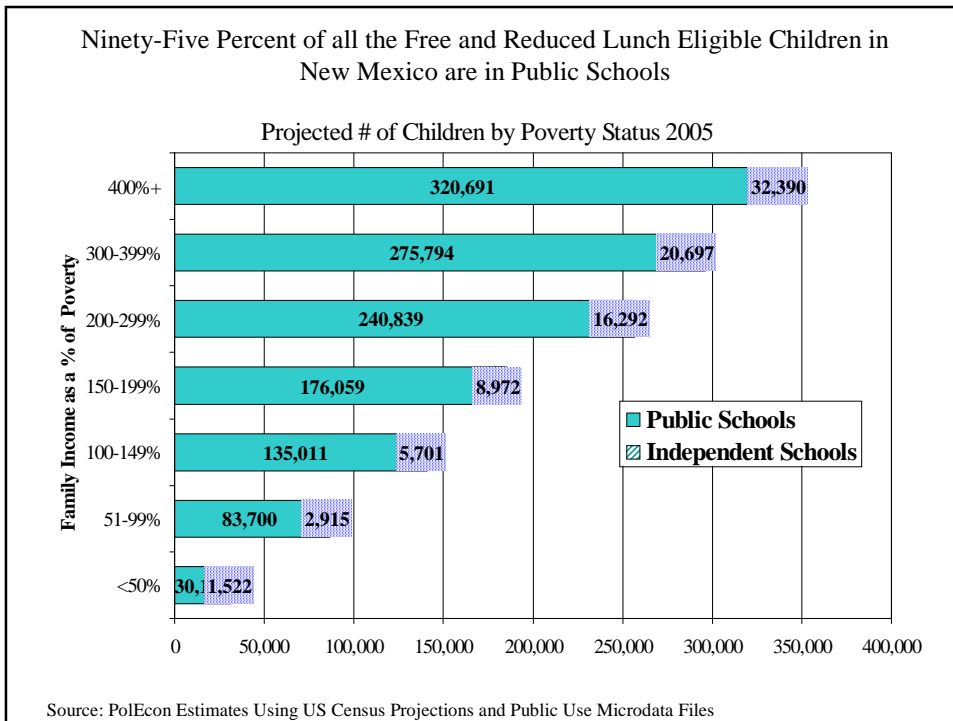
The key factor in determining the net impact of tuition tax credits is the number of students enrolled in public schools who will “migrate” or switch to independent schools as a result of the availability of CESF scholarships. Tuition scholarships lower the price of independent schools for those students who receive them. A number of studies have estimated the increase in demand for independent schooling as a result of changes in the price of the schools. The most widely cited studies¹ of the impact of changes in the price of independent schools on demand (the “price elasticity of demand”) indicate that the demand for independent schools increases as the price to families declines (and the demand decreases as the price rises), what is called a “negative price elasticity”. The range of estimates of the price elasticity of demand for private schooling between these studies is large, however. Chiswick and Koutroumanes (1996) estimate a price elasticity of about -0.50, suggesting that a ten percent decline in the price of independent schools would lead to a five percent increase in demand, while Gwartney and Stroup (1997) estimate the price elasticity of demand for independent schools to be -1.1, suggesting that a ten percent decline in the price of independent schools would lead to an increase in demand of 11 percent. Studies less often cited and less well documented have found price elasticities as high as -2.88.

Family Income is a Key Determinant of Demand

Although many studies have produced estimates of the price elasticity of demand for independent schooling, there is no direct evidence of how changes in price will affect the decisions of parents in New Mexico on where to have their children educated. An alternative to indirect estimates of the impact of price on the demand for independent schooling is to consider tuition tax credit scholarships as having an “income effect” on the demand for private schooling. With an income effect, tuition scholarships are treated as an increase in the income of the recipient families, spendable only on an independent school education. Unlike price effects, evidence on the effect that increases in income have on the demand for private schooling in New Mexico is available using detailed data from the 2000 Census of Population.

Figure 6 shows that the demand for private schooling in New Mexico increases sharply with increases in

Figure 5



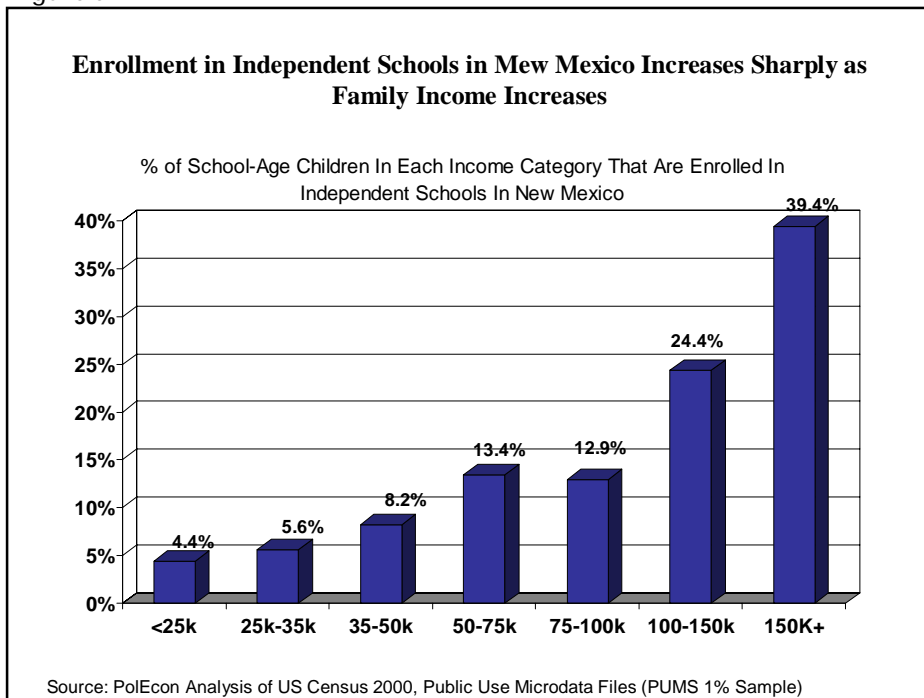
¹ Chiswick, B. R., and S. Koutroumanes, 1996. “An Econometric Estimate of the Demand for Private Schooling.” *Research in Labor Economics*, 15:209-237; and Gwartney, J. D., and R. L. Stroup, 1997. *Economics: Private and Public Choice* (8th Edition). Dryden, New York.

family income. The chart shows that while only 4.4 percent of New Mexico’s school age children in families with less than \$25,000 in annual income are in independent schools, the percentage grows to over 13 percent for children in families with annual incomes between \$50,000 and \$75,000. At an income level between \$100,000 and \$150,000, the percentage of school age children in independent schools increases to almost 25 percent.

These results suggest that the demand for independent schools is quite elastic in New Mexico (ranging from about 0.55 for the lowest income families to over 2.0 at the high end of the income scale), that as income increases the demand for independent schools rises, and that even among low-income families tuition scholarships are likely to result in a large increase in the demand for independent schooling.

While most studies of tuition tax credits analyze them as a price effect, some studies (West 1985) have suggested that they may rightly be treated as an income effect, similar to a gift of income spendable only on private schooling and one study’s literature review suggests that the income and price effects are likely to be similar.¹ We developed a price effect model that applies three price elasticities of demand for independent schools, a low elasticity of -0.50, a high elasticity of -1.5, and a moderate elasticity of -1.0. The moderate elasticity is our expected or “baseline” scenario. Few, if any, studies estimate a price elasticity of demand that is as low as -0.5.

Figure 6



We use U.S. Census Bureau population projections and data from the New Mexico Public Education Department on public and independent school enrollment trends to project the number of school aged children in public and independent schools to the year 2015. We use an average tuition price for New Mexico independent schools of \$3,553, as reported in a recent survey of independent school administrators, and inflated the price of tuition by 3.5 percent per annum to 2015 to produce an annual estimate of the price of independent schools for the forecast period. The impact that scholarships have on the demand for independent schools will depend upon the dollar value of scholarships awarded, so our model uses average scholarship values ranging from \$500 (a 14% reduction in price over the 2004 average tuition of \$3,553) to \$3,500 (a more than 98% reduction in the price of tuition). We calculated the reduction in price that scholarships of each dollar value would have on our forecast of the average price of tuition to 2015 and applied three separate estimates of elasticity: -0.50 (low), -1.0 (medium), and -1.5 (high) to projections of the number of public school students to 2015 in order to estimate the increase in demand for independent schools that would occur among public school students. For example, in 2009 we project the average price of independent school tuition in New Mexico to be \$4,009, the membership of public schools to be 335,882, and the number of independent school students to be 33,924. An average CESF scholarship award of \$1,250 would represent about a 31 percent reduction in the price of the average independent school tuition. Using our medium elasticity estimate of -1.0, a 31 percent decline in the price of private school tuition should increase demand for independent schools by over 10,000 students among families with children currently enrolled in New Mexico public schools.

CESFs Will Moderate the Tax Credit Induced Demand for Independent Schooling

Our analysis of the demand for independent schools in response to tuition tax credits is complicated by the fact that the price of independent schools will not be lowered for all parents who demand independent

¹ West, E. G., 1986. "The Real Cost of Tuition Tax Credits." *Public Choice* 46: 1-14. Utah State University, 2004. "Estimating Demand and Supply Response to Tuition Tax Credits for Private School Tuition in Utah." Report to the Legislative Management Committee of the Utah Legislature.

schools, as would be the case if tuition tax credits were available to all parents who chose to send their children to independent schools. We can estimate the demand for independent schooling among public school parents in New Mexico based on changes in the price, but the degree to which that demand is satisfied as a result of tuition tax credits will also depend upon the actions CESFs take in awarding scholarships. The distribution of scholarships between students currently enrolled in independent schools and those who will migrate from public schools, as well as the average size of scholarships, will ultimately determine the net fiscal impact of tuition tax credits because these factors will determine the number of students who migrate from public to independent schools.

Increased Demand for Independent Schools Does Not Equal Migration From Public Schools

Our forecast of the net fiscal impacts of tuition tax credits in New Mexico does not depend on selecting the most accurate price elasticity of demand for independent schooling. Although the number of *applicants* for scholarships will vary depending upon the actual price elasticity of demand, a more important determinant of migration will be the average size of tuition scholarships and, and the distribution of scholarships by CESFs between existing independent school students and migrating public school students. Arizona’s initial estimates of the number of students who would migrate to independent schools as a result of tuition tax credits were too high in part because they overestimated the impact price elasticity would have on the rate of migration and underestimated the impact of the decisions of scholarship granting organizations.

The experience of states such as Arizona and Florida suggests that the number of applicants for tuition tax credit funded scholarships will be greater than the available number of scholarships. In New Mexico, the supply of scholarship money will also be limited and fixed in any one year, and unlikely to be sufficient to award scholarships to all applicants. Under a tuition tax credit program where credits are not directly available to parents who send their children to independent schools, but rather are available for contributions to scholarship organizations that allow others to send their children to independent schools, the choice of using either a low, moderate, or high price elasticity of demand for independent schools is more critical for estimating the unmet demand (the difference between the number of scholarships awarded to public school students migrating students and the forecasted demand for migration) than it is for estimating net fiscal impacts.

Combing Models of the Supply of Tuition Tax Credits and the Demand for Scholarships with the Actions of CESFs to Estimate Public School Migration

Our projection of the supply of tax credits available for scholarships¹ is presented in Table 2. The demand for tuition scholarships will come from families of existing independent school students and price sensitive public school families. We assume that all current independent school students will attempt to obtain scholarships and

	2005	2006	2007	2008	2009	2010	2011	2012
Total Tuition Tax Credits(\$Mill)	\$6,23	\$12,91	\$23,98	\$24,27	\$24,59	\$24,92	\$25,26	\$25,63
Avg. Scholarship								
\$500	12,462	25,818	47,950	48,548	49,175	49,834	50,526	51,252
\$750	8,308	17,212	31,967	32,365	32,784	33,223	33,684	34,168
\$1,000	6,231	12,909	23,975	24,274	24,588	24,917	25,263	25,626
\$1,250	4,985	10,327	19,180	19,419	19,670	19,934	20,210	20,501
\$1,500	4,154	8,606	15,983	16,183	16,392	16,611	16,842	17,084
\$1,750	3,561	7,377	13,700	13,871	14,050	14,238	14,436	14,643
\$2,000	3,116	6,454	11,988	12,137	12,294	12,459	12,631	12,813
\$2,250	2,769	5,737	10,656	10,788	10,928	11,074	11,228	11,389
\$2,500	2,492	5,164	9,590	9,710	9,835	9,967	10,105	10,250
\$3,000	2,077	4,303	7,992	8,091	8,196	8,306	8,421	8,542
\$3,500	1,780	3,688	6,850	6,935	7,025	7,119	7,218	7,322

that their demand for scholarships is inelastic. That is, because families of independent school students have already made the threshold decision to enroll in independent schools, the dollar value of scholarships and their impact on the price of tuition will not affect the decision to apply for scholarships. The experience of other states suggests that a high percentage of independent school students will apply for scholarships.

¹ The supply equals 75 percent of total tax credit qualifying contributions, less 10 percent for administration of scholarship fund organizations.

We have already documented that demand for scholarships among families looking to migrate from public to independent schools will be elastic with respect to the size of the scholarship and the impact scholarships have on the price of independent school tuition. As the average size of scholarships increases, demand increases from public school families and the pool of scholarship applicants contains a higher percentage of potential public school migrants. This may help explain why, in other states that provide tuition tax credits for contributions to scholarship granting organizations, a high percentage of scholarships are awarded to students currently enrolled in independent schools.¹ In Arizona for instance, where the average value of scholarship awards is approximately \$1,000, the percentage of scholarships that go to students migrating from public schools is estimated to be between 10 and 20 percent.²

Table 3 presents our estimate of the demand for scholarships among independent and public school families, according to the average value of tuition scholarships. The table shows that as the dollar value of tuition scholarships increases, demand among public school families increases, and (perhaps as importantly in determining the “switch rate”, the number of public school students who will migrate) the number of public school families applying for scholarships as a percentage of all applicants increases dramatically. It is reasonable to assume that as public school families comprise a larger portion of all scholarship applicants, the percentage of scholarship awards to public school migrants will also increase.

Table 3
Components of Private School Demand by Value of Tuition Scholarship

Avg. Value of Scholarship	Current Independent School Families	Public School Families	Total Demand	Public School % of Demand
\$500	32,265	4,403	36,668	12.0%
\$750	32,265	6,604	38,869	17.0%
\$1,000	32,265	8,806	41,071	21.4%
\$1,250	32,265	11,007	43,272	25.4%
\$1,500	32,265	13,209	45,474	29.0%
\$1,750	32,265	15,410	47,675	32.3%
\$2,000	32,265	17,612	49,877	35.3%
\$2,250	32,265	19,813	52,078	38.0%
\$2,500	32,265	22,014	54,279	40.6%
\$3,000	32,265	26,417	58,682	45.0%
\$3,500	32,265	30,820	63,085	48.9%

Our estimate of the percentage of total demand for tuition tax credit scholarships that will come from public school families approximately equals the percentage of scholarships in Arizona that are awarded to migrating public school students when the average scholarship is worth \$1,000. To date, studies estimating the impact of tuition tax credits or evaluating the results of tuition tax credit programs have not examined the role that the value of scholarships awarded has played in generating demand among potential public school migrants and in the final distribution of scholarships between current independent school students and migrating students. Our analysis suggests that tuition tax credit programs may induce a higher rate of public school migration if the average size of scholarships is increased, because the pool of scholarship applicants from public school families (and thus potential migrants) is likely to increase.

¹ Increased awareness of the availability of scholarships among independent school families is also a likely reason, as is the possibility that some scholarship granting organizations may have an affiliation with some independent schools and may first look to meet existing needs among current independent school students.

² Lukas, C., 2003, op. cit.

To predict migration from public to independent schools as a result of tuition tax credits, we began by using the experience of other states, which indicates that 10-20 percent of scholarships were awarded to public school families at an average scholarship value of about \$1,000. Our model incorporates the fact that demand for scholarships (and thus applications) will increase among public school families as the dollar value of scholarships increases. As this occurs, the pool of scholarship applicants will contain a higher percentage of public school families, resulting in a higher percentage of scholarships being awarded to public school families. As Figure 7 shows, demand for scholarships among public school families is relatively low if the average dollar value of scholarships is small (\$500), and demand grows significantly as the value of scholarships rises. At the same time, a higher dollar value for each scholarship will result in fewer scholarship awards, because total funding for scholarships is fixed in any one year.

Figure 7

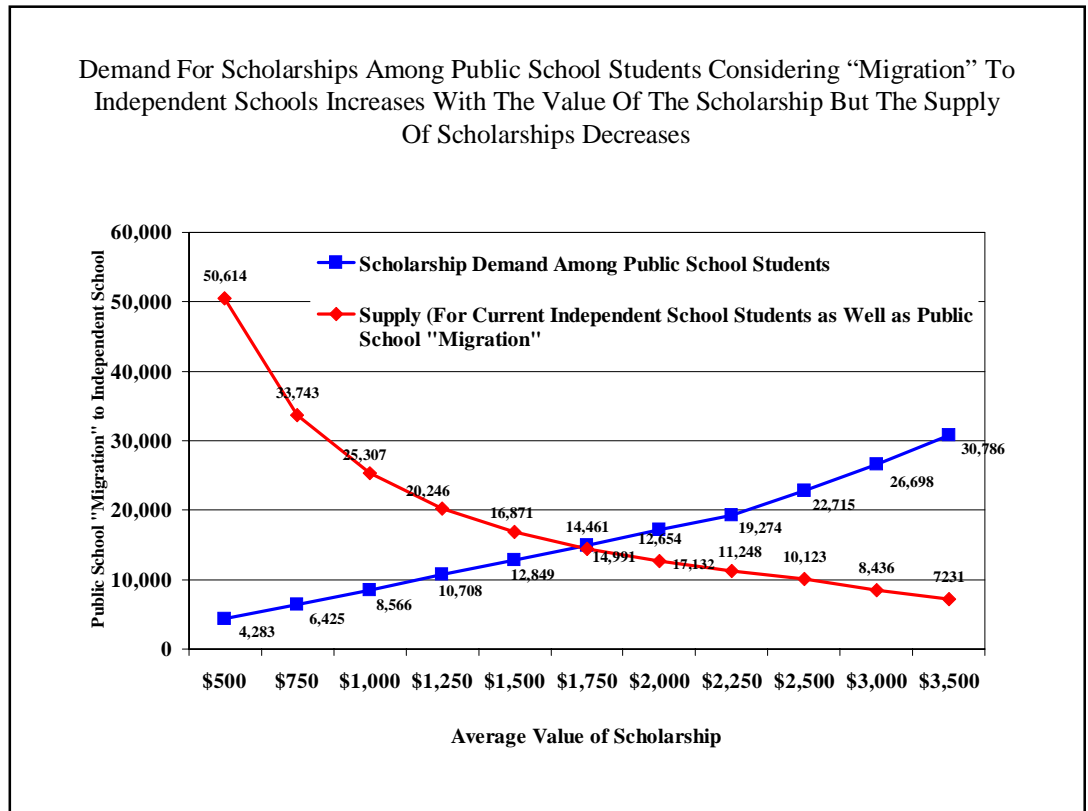


Table 4 presents our model calculations for the supply, demand, scholarship awards, and resulting migration from public to independent schools in the third year of the program, when tuition tax credits are fully implemented.

During the first two years of the program, before tax credits are more widely used, more funds become available for scholarships, and more CESFs are organized, demand will remain the same but the available supply of scholarships will be smaller and the percentage of demand for scholarships among public school families that is met will be much smaller.

Table 4
Supply and Demand for Independent School Scholarships by Value of Tuition Scholarship

Avg. Value of Scholarship	Total Demand	Demand From Public School Families	% of Scholarships To Public School Families	Total # of Available Scholarships*	Scholarships To Public School Families	% of Public School Demand Met
\$500	36,668	4,403	5.0%	47,950	2,398	56.0%
\$750	38,869	6,604	10.0%	31,967	3,197	49.8%
\$1,000	41,071	8,806	15.0%	23,975	3,596	42.0%
\$1,250	43,272	11,007	20.0%	19,180	3,836	35.8%
\$1,500	45,474	13,209	25.0%	15,983	3,996	31.1%
\$1,750	47,675	15,410	30.0%	13,700	4,110	27.4%
\$2,000	49,877	17,612	33.0%	11,988	3,956	23.1%
\$2,250	52,078	19,813	35.5%	10,656	3,783	19.6%
\$2,500	54,279	22,014	38.0%	9,590	3,644	17.0%
\$3,000	58,682	26,417	40.0%	7,992	3,197	12.4%
\$3,500	63,085	30,820	42.0%	6,850	3,222	10.7%

*Total scholarships in third year of program when program is fully implemented and with full taxpayer participation

Table 4 reflects the results from one of many model scenarios. It is a moderate scenario where the price elasticity of demand is assumed to be in the middle range of possible values and where the percentage of scholarships awarded to migrating public school students is relatively low at the lower end of scholarship values (reflecting the experience of other states). We believe that using a percentage of scholarships going to public school migrants in Arizona is conservative, because Arizona does require that 60 percent of scholarship money goes to children eligible for free or reduced lunches. Adding this requirement will increase the number of scholarships going to students currently in the public schools.

The most salient point made in Table 4 is the analysis indicating that only a relatively small percentage of the demand for scholarships among public school families will be met. Because public school migration to independent schools is the most important determinant of net positive fiscal impacts, any program expansion or design element that increases the program's ability to meet the demand for scholarships among public school families will increase the net fiscal benefits of the program.

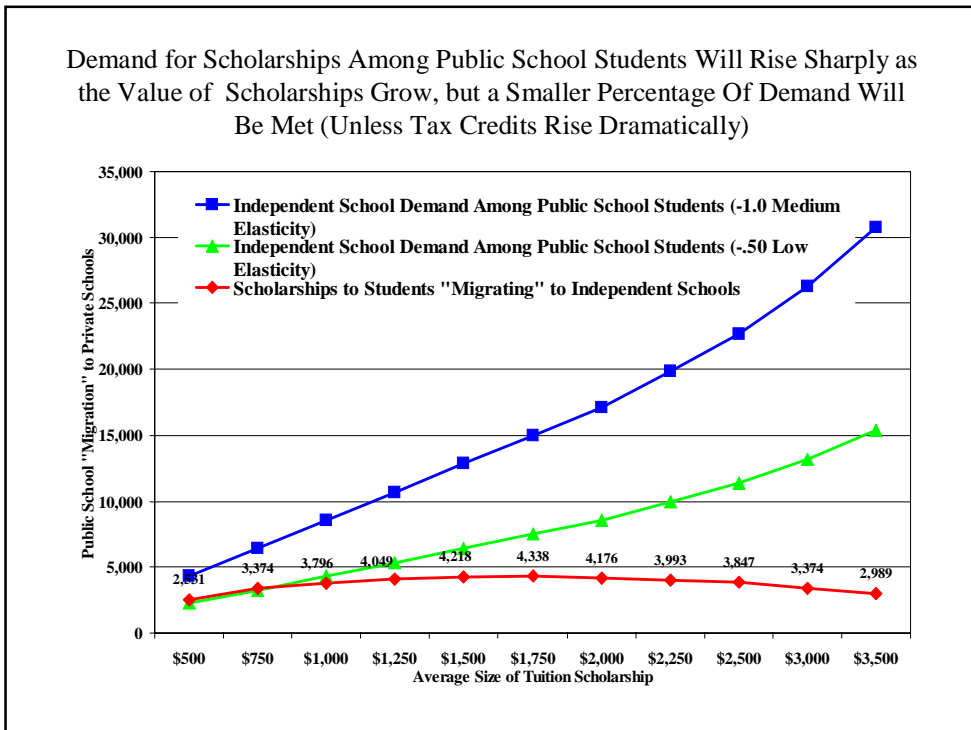
IV. State Budget Impacts

The net impact of tuition tax credits on state budgets is determined by:

- The individual and corporate tax revenue forgone as a result of tuition tax credits for contributions to CESFs.
- The number of public school students who migrate to independent schools as a result of receiving tuition tax credit funded scholarships.
- The reduction in per pupil, state education aid payments as a result of the migration of students from public to independent schools.

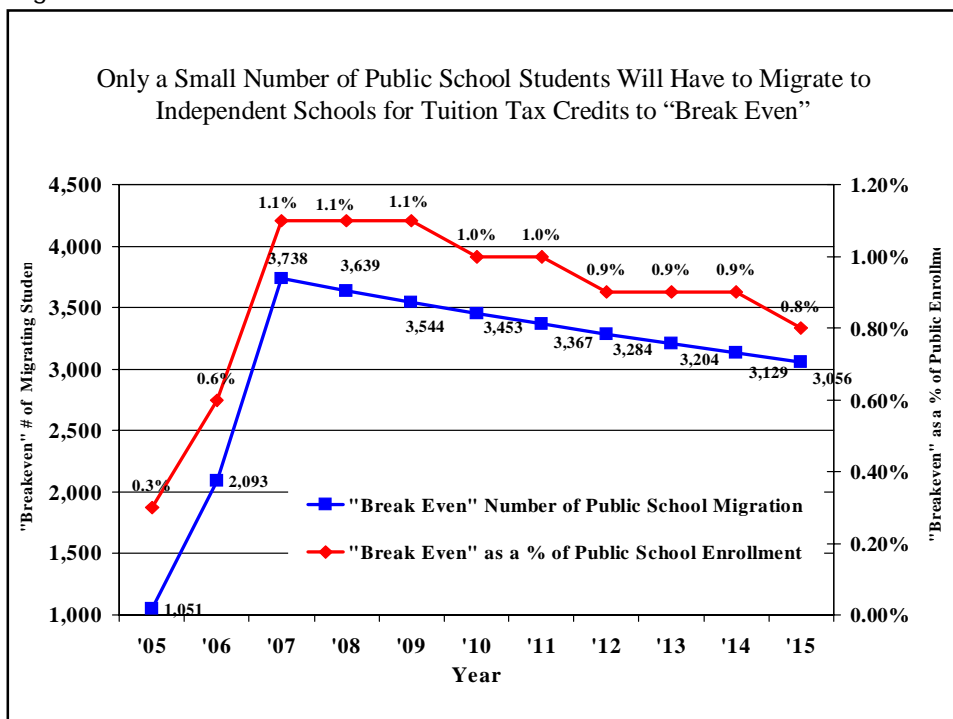
Only About One Percent of Public School Students (Just Over 3,700) Will Have to Migrate to Independent Schools for Tuition Tax Credits to Have a Net Positive Fiscal Impact on The State of New Mexico

Figure 8



For the 2002-03 school year (the most recent available), state aid to education averaged about \$5,300 per pupil. By 2005, we estimate that this amount will be at least \$5,930 using an average annual increase of four percent (below the most recent 10 year historical trend).

Figure 9



We estimate that the state will forego individual and corporate tax revenue of \$6.9 million in the first year of the tuition tax credit program, rising to about \$26.6 million by the third year, and increasing incrementally thereafter (at between 1.2% and 1.5% annually to 2015). For the state of New Mexico to incur no net expense as a result of a tuition tax credit program, enough students must migrate from public schools, at an average saving to the state of \$5,930 in state aid (in the first year), to offset the loss of state revenue.

Using our estimate of the revenue loss from tuition (Table 1, page 10), Figure 9 presents the number of students that would have to migrate from public to independent schools for the State of New Mexico to "break even", or have

zero net expenses from the program. The chart shows that the break even number of public school student migration increases as the program reaches full operation, and as awareness and use of tax credits increase. It also shows that the break even number declines after the third year, because the increase in per pupil expenditures by state government grows faster than the increase in tax credits.

In addition to the demand and supply factors discussed earlier, two factors will influence whether New Mexico achieves a “break even” or greater rate of migration from public schools:

- The requirement that 60 percent of scholarship dollars go to low-income (free or reduced lunch eligible) children.
- Decisions by CESFs about the average dollar value of scholarship awards.

Requiring that 60 Percent of Tuition Tax Credit Scholarship Dollars Go to Students Eligible for the Free or Reduced Lunch Program Virtually Assures that New Mexico Will do More than Break Even, and Will Save Money.

Requiring 60 percent of scholarship money to go to free and reduced eligible children will increase the number of scholarships that go to students migrating from public schools and decrease the number going to students currently enrolled in independent schools. It will also increase the average size of scholarships and result in a smaller number of scholarships.

Table 5 demonstrates the potential impact that requiring 60 percent of scholarship dollars go to free and reduced lunch eligible students will have on the distribution of scholarships. The table shows the number of scholarships available depending on the average size of the scholarship, the number that would have to go to free and reduced lunch eligible children, and the number of free and reduced eligible students in independent schools. The final column shows the number of scholarships that would be available for public school students in the unlikely event that every low-income student enrolled in independent schools received a tuition tax credit scholarship.

Scholarship values of \$500 and \$750 would make a large number of scholarships available to public school students. However, at these scholarship values, there would not be enough low-income students in independent schools to absorb all of the scholarships targeted for low-income students and demand among public school families would also be insufficient at those scholarship values to allow CESFs to meet the 60 percent requirement. Scholarship funds will have to offer higher value scholarships to induce demand among public school families with the result that fewer scholarships will be offered but the 60 percent requirement will be met.

At an average scholarship value of \$1,000, enough lower-income scholarships are available to provide every low-income student enrolled in independent schools a scholarship, and still provide over 5,800 low-income public school families with scholarships. There is enough demand for scholarships among public school families to absorb all of the 5,800 scholarships and more. This number of scholarships to public school

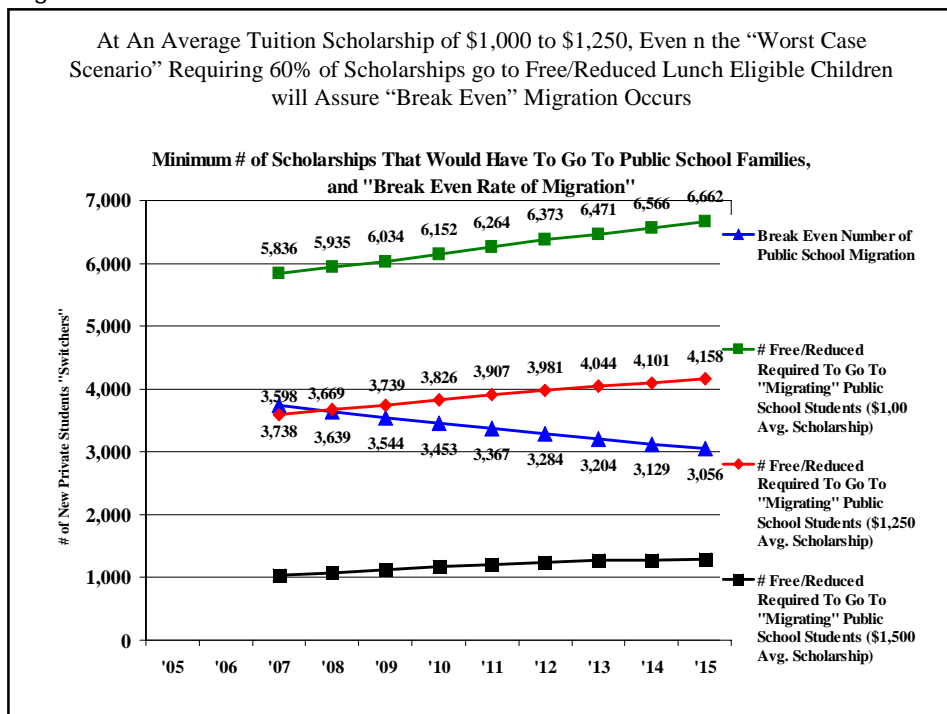
Table 5
The Impact of Low-Income Requirements on Public School Migration
(At Full Program Implementation , Year Three, \$24 million in Scholarships)

Avg. Scholarship	# of Scholarships	# Required For Free and Reduced Lunch Eligible Students	# of Free/Reduced Students in Independent Schools	Minimum # Going to Public School Migrants*
\$500	47,950	28,770	8,549	20,221
\$750	31,967	19,180	8,549	10,631
\$1,000	23,975	14,385	8,549	5,836
\$1,250	19,180	11,508	8,549	2,959
\$1,500	15,983	9,590	8,549	1,041
\$1,750	13,700	8,220	8,549	0
\$2,000	11,988	7,193	8,549	0
\$2,250	10,656	6,393	8,549	0
\$2,500	9,590	5,754	8,549	0
\$3,000	7,992	4,795	8,549	0
\$3,500	6,850	4,110	8,549	0

* This number represents the absolute minimum number of scholarships that would have to go to public school migrants in the unlikely event that every low-income student currently enrolled in independent schools was awarded a scholarship

families would represent about 20 percent of available scholarships, slightly above the Arizona experience of closer to 15 percent, but Arizona does not have a similar requirement as New Mexico's proposed "60 percent rule". It is possible that 5,800 (or 20 percent) of scholarships would go to public school migrants at an average scholarship value of \$1,000, however,

Figure 10



we believe it is more likely that CESFs will adjust the average size of scholarships upward, reducing the "outreach" effort required to meet the 60 percent requirement. The result will be a smaller number of scholarships that are guaranteed to go to public school students.

At an average scholarship of \$1,250 the state can be assured of a nearly "break even" rate of migration even in the worst case scenario where all demand among students currently enrolled in independent schools is met before any scholarships are awarded to students migrating from the public schools.

The above scenarios are all "worst case". They assume that no effort will be made to award scholarships to public school families, and only by requiring that 60 percent of scholarship money goes to low-income students would any scholarships be awarded to public school

students. Such a scenario is unrealistic and counter to the interests of independent schools in New Mexico. With excess capacity of nearly 30 percent, and an assumed desire to fulfill their educational mission, New Mexico's independent schools would have a strong incentive for a sizable percentage of scholarships to be awarded to families not currently enrolled in independent schools.

Under Our "Base Case" Moderate Scenario, Scholarships of at Least \$1,250 Will Result in a Net Positive Impact on the New Mexico Budget by the Time the Program is Fully Implemented

Table 6 presents our model estimates of the number of public school migrants at various scholarship values. The table combines the results of our taxpayer contribution (supply) model, demand model, with anticipated distribution of scholarships by CESFs.

Table 6
Projected Public School Migration
By Average Size of Scholarship

(Shaded Cells Represent Where "Break Even" Migration Occurs For That Year)

Avg. Scholarship	2005	2006	2007	2008	2009	2010	2011	2012
\$500	623	1,291	2,398	2,427	2,459	2,492	2,526	2,563
\$750	831	1,721	3,197	3,237	3,278	3,322	3,368	3,417
\$1,000	935	1,936	3,596	3,641	3,688	3,738	3,789	3,844
\$1,250	997	2,065	3,836	3,884	3,934	3,987	4,042	4,100
\$1,500	1,039	2,151	3,996	4,046	4,098	4,153	4,210	4,271
\$1,750	1,068	2,213	4,110	4,161	4,215	4,271	4,331	4,393
\$2,000	1,028	2,130	3,956	4,005	4,057	4,111	4,168	4,228
\$2,250	983	2,037	3,783	3,830	3,879	3,931	3,986	4,043
\$2,500	947	1,962	3,644	3,690	3,737	3,787	3,840	3,895
\$3,000	831	1,721	3,197	3,237	3,278	3,322	3,368	3,417
\$3,500	748	1,549	2,877	2,913	2,951	2,990	3,032	3,075

The table indicates that during the first two years of the program poses the most risk for a net negative fiscal impact from tuition tax credits. This would be consistent with the Arizona experience. However, the impact would be small, approximately \$1 million, and would be quickly recouped once the program reached full implementation in year three.

The table also shows that our scenario, using conservative assumptions about both the price elasticity of demand for private schooling and (more importantly) assuming a relatively low percentage of scholarships will be awarded to public school students, will result in as many as 4,110 students migrating from public to independent schools when the program is fully implemented in year three. This represents an increase in independent school enrollment of about 13 percent, well below the 29 percent capacity for expansion that independent school administrators indicate is available.¹

Figure 11 shows how the net fiscal impact is influenced by the tradeoff between the size of scholarship awards (higher average values create greater demand) and the available number of scholarship (higher value scholarship results in fewer scholarships). It also shows how annual savings grow over time.

Figure 12 shows how net savings from tuition tax credits grow over time, and again highlight the influence that the dollar value of scholarships have on net fiscal impacts. The chart shows that an average scholarship value of approximately \$1,750 is likely to maximize the net savings to the State of New Mexico.

Figure 11

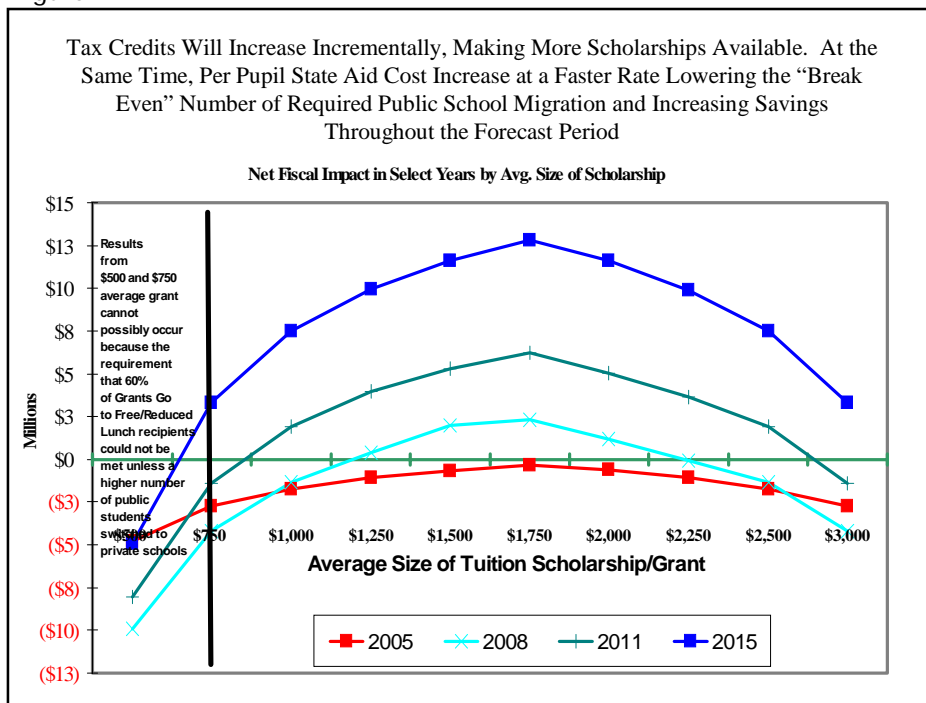
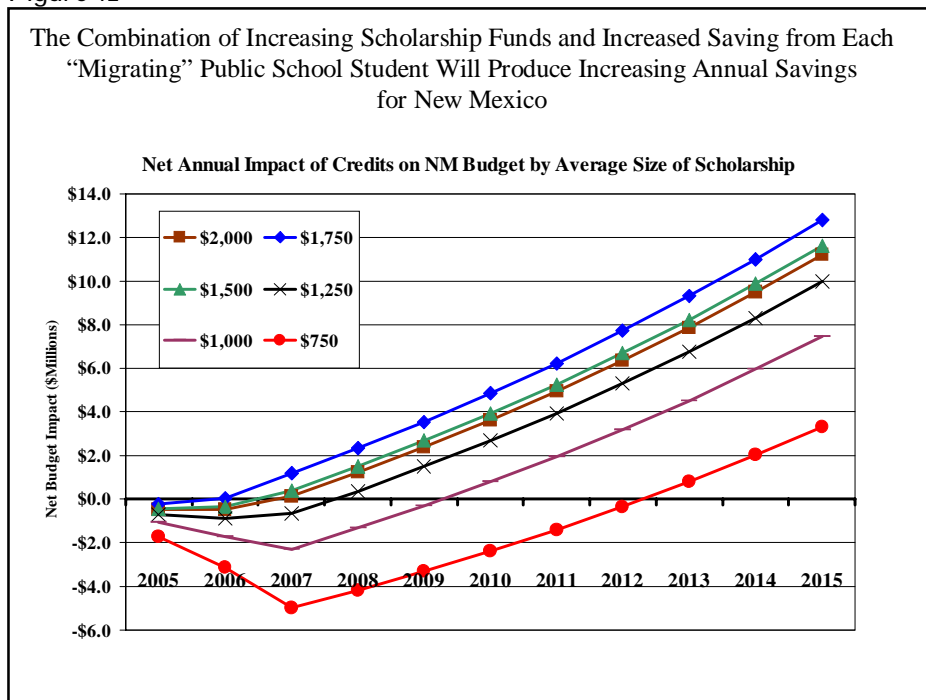


Figure 12



¹ Educate New Mexico survey of independent school administrators, May 2004.

V. The Impact on Local School District Finances

Evaluating the fiscal impacts of tuition tax credits on New Mexico school districts requires an understanding of how state education aid to communities will be affected, as well as some estimate of the variable costs associated with educating each child.

When students migrate from public to independent schools there is a loss of state aid to the school district, but there is also a decrease in costs associated with educating those children who migrate. Opponents of tuition tax credits and other efforts to increase parental choice often argue that the loss of students is not accompanied by a concomitant decrease in expenses. Increasingly, however, studies¹ have demonstrated that local school district expenditures are sensitive to declines in enrollment. Using detailed school district data on expenditures from the New Mexico Public Education Department, we employed an econometric approach to estimate the per pupil variable costs of educating each student in New Mexico. We use detailed school district financial data from all districts for the 2002-03 school year (the most recent available) to determine how much of the total per pupil cost of education is variable (associated with the addition or loss of students in a district) and how much of total per pupil district costs is fixed. For this study we consider variable costs to be those school district expenses that are variable over a period of at least one year. That is, school districts can reasonably be expected to adjust their costs to reflect enrollments levels from one year to the next. In addition, we included all district expenses such as transportation and debt expenses (except enterprise funds, such as cafeteria operations, and expenditures funded via federal programs) to capture the enrollment impacts on the full range of district expenses. We then developed simple linear regression models to estimate the cost structure of public schools in New Mexico. We tested many models, and used the model with the strongest ability to describe and predict the cost structure of public schools.

Our results indicate that for the 2002-03 school year the variable cost of educating each student in New Mexico was approximately \$6,600, or 78 percent of the total expenditures per pupil (excluding federal and enterprise funds).

By the 2005-06 school year, we estimate that the variable cost of educating each student in New Mexico public schools will have risen to \$7,128. Because the cost of educating each student in New Mexico's public schools is greater than the state education aid per pupil, the migration of students from public to independent schools will have a net positive impact on local school district finances.

Table 7 shows the net impact on school districts under a scenario where the average scholarship value is \$1,750 (our estimated scholarship value that maximizes public school migration). Net fiscal impacts range from a gain of \$1.3 million to a gain of \$8.2 million over the forecast period. If average scholarship values are higher or lower, school districts will experience a net fiscal gain that is marginally higher or lower than those presented in Table 7.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Loss of Students	1,068	2,213	4,110	4,161	4,215	4,271	4,331	4,393	4,458	4,527	4,599
Loss of Aid	\$6.33	\$13.65	\$26.36	\$27.76	\$29.24	\$30.82	\$32.50	\$34.28	\$36.19	\$38.21	\$40.37
Cost Reduction/ Pupil	\$7,128	\$7,413	\$7,710	\$8,018	\$8,339	\$8,672	\$9,019	\$9,380	\$9,755	\$10,145	\$10,551
Total Savings	\$7.61	\$16.40	\$31.69	\$33.37	\$35.15	\$37.04	\$39.06	\$41.21	\$43.49	\$45.93	\$48.53
Net Fiscal Impact (\$Millions)	\$1.28	\$2.76	\$5.32	\$5.61	\$5.91	\$6.22	\$6.56	\$6.92	\$7.31	\$7.72	\$8.15

¹ Gottlob (2004), Lindsay (2004), Aud (2004), Utah State University (2004).

The Impact on School Districts of Students Migrating to Independent Schools Will be Smaller Than the Impact of Ordinary Student Migration Between Districts

It is important to note that in any given school year, the movement of children to and from local school districts exceeds the 4,000 students forecasted to migrate from public schools. This means that in any year, school districts experience changes in state education aid that greatly exceed the changes that will occur as a result of a tuition tax credit program. When students leave a public school to attend a another public school in a different district, there is a loss of state aid for one school district, but districts do not usually argue that they are harmed financially and should be allowed to keep the state aid that accompanied the departing student. Experience in other states, however, suggest that school districts will argue that they are harmed when a student migrates to an independent school and there is a loss of the state aid associated with the student. In fact, the impact is the same regardless of whether a student migrates to another public school or to an independent school and the ordinary annual movement of students between school districts results in annual changes in state aid that will greatly exceed the changes that will occur as a result of a tuition tax credit program.

VI. Conclusions

Our analysis indicates that there will be significant taxpayer interest and participation in a tuition tax credit scholarship program. We estimate that by the third year of the program, \$26 million in contributions will make nearly \$24 million in scholarships available to families who want to send their children to independent schools, with a high percentage of scholarship funds targeted to low-income families. For the State of New Mexico to realize a net fiscal gain by offering tuition tax credits, the program must result in enough students migrating from public to independent schools to save state per pupil education dollars, equal to or greater than the cost of the tax credits in terms of forgone revenue.

We conclude that tax credit funded scholarships will have to induce only about 1 percent of public school students (less than 4,000) to migrate to independent schools for the state to “break even” or experience no net fiscal cost for the program. We conclude that tuition tax credit scholarships will induce a higher rate of migration because of the proposed requirement that 60 percent of scholarship money be awarded to low-income students. In addition, the interests of independent schools to increase enrollment and maximize revenue dictate that a higher portion of scholarships will be awarded to students not currently enrolled in independent schools.

Using a conservative estimate of migration from public schools, our forecasts indicate that the State of New Mexico may incur a small cost for the program of approximately \$1 million in each of the first two years, but that beginning in year three, annual savings to the state will be in a range of between \$1 and \$12 million each year until the year 2015 (the last year of our forecast). Using more moderate or optimistic scenarios result in forecasts of much greater savings to the State of New Mexico. It is quite possible that New Mexico will realize fiscal benefits in excess of our conservative estimate; it is our belief, however, that in fiscal matters it is better to err on the conservative side when producing forecasts. Our analysis also suggest that only a small percentage of the demand for scholarships among public school students will be met by the proposed tuition tax credit program. Expanding the program therefore could result in significantly greater public school migration and net savings for the state.

Local school districts will experience a reduction in state education aid, but also a reduction in expenses associated with a decrease in enrollments that will result in a net fiscal gains ranging from \$1.3 million in the first year of the program to \$8.2 million by year 2015.

About the Author

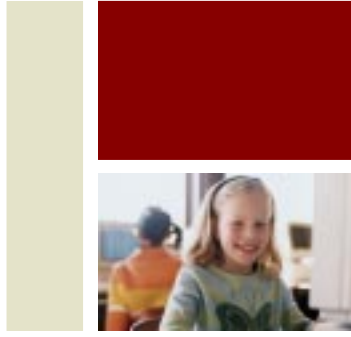
Brian J. Gottlob is the Principal of PolEcon Research. For fifteen years Brian has analyzed economic, demographic, fiscal, labor market and industry trends for private sector, government and not-for-profit organizations. Brian has extensive experience using and developing econometric models and with preparing economic, demographic, and fiscal impact analyses. He is a regular commentator in the media and a frequently requested speaker at seminars and conferences on issues affecting the economy. For ten years, Brian was a Vice President of the Business and Industry Association of New Hampshire where he conducted research on the New Hampshire economy and where he guided the organization's fiscal and economic policy activities. During that time, he developed a solid reputation among lawmakers, public officials, and the business community for his ability to produce accurate forecasts and projections of the impacts of changes in tax, regulatory and other public policy actions. Brian is on the Advisory Board of the New England Economic Project (NEEP), is a member of the National Association of Business Economics and is a part-time instructor at the Whittemore School of Business and Economics at the University of New Hampshire. Brian can be reached by email at bgottlob@poleconresearch.com.

About the Milton and Rose D. Friedman Foundation

The Milton and Rose D. Friedman Foundation, dubbed "the nation's leading voucher advocates" by the *Wall Street Journal*, is a non-profit organization established in 1996. The origins of the foundation lie in the Friedman's long-standing concern about the serious deficiencies in America's elementary and secondary public schools. The best way to improve the quality of education, they believe, is to enable all parents to have a truly free choice of the schools that their children attend. The Friedman Foundation works to build upon this vision clarify its meaning to the general public and amplify the national call for true education reform through school choice.

About the Albuquerque Partnership

The Albuquerque Partnership helps create healthy communities by protecting young people and families from risk-taking behaviors. The Partnership promotes community development by providing opportunities for empowerment, establishing high expectations, emphasizing educational commitment and including neighborhood associations and community organizations in the planning and implementation of substance abuse prevention activities. The Partnership serves Albuquerque and Bernalillo County and is comprised of multiple agencies, individuals and neighborhood associations. It is based on the conviction that the best way to create healthy communities is through coordinated, systematic efforts of key agencies, organizations and individuals.



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