



## **Testimony by Martin Lueken on North Dakota HB 1369**

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My name is Marty Lueken, and I am the director of the Fiscal Research and Education Center at EdChoice. Thank you for inviting me to speak today on the potential fiscal impact of HB 1369.

In general terms, the fiscal impact of an education choice program is the difference between savings accrued from students who use EEP funds to switch from a public school to a private school and the total cost of the program.

Under the Education Empowerment Program, up to \$5 million would be available to provide EEPs for eligible students, plus a \$200,000 allowance for administrative costs. This \$5.2 million to fund the program would not come from any funding allocated for public schools.

The net cost to the state for this program would not exceed \$5.2 million for the 2021-2023 biennium. This cost represents 0.3 percent of total spending for North Dakota public schools.

The fiscal impact on the state would be \$5.2 million for the biennium if all EEPs are given only to students who continue to be enrolled in public schools or students who would have enrolled in a nonpublic school setting even without the program in place.

If any students use an EEP to switch from a public school to a private school, then the net fiscal impact on the state will be lower than \$5.2 million, and under certain conditions the program could generate a net fiscal benefit for the state.

When students use an EEP to switch from public schools to private schools, the state experiences savings because it would no longer have to fund that child's education in the public school system. Thus, these students would offset some or all of the costs of the program, depending on the proportion of EEPs given to this groups of students.

Here's how the state would save money from this program. The cost of the EEP for students to enroll in a private school is 75% of the state's portion of the per-student payment rate, and this implies that the program has a break-even switcher rate of 75%. That is, if at least 75% of the students in the program switch from public schools to private schools, the program will generate a net savings for the state.

This 75% switcher rate is lower than switcher rates observed in education choice program from other states. This means that if the switcher rate with the program under consideration is in line with switcher rates observed in programs in other states, then the program will save state taxpayers money.

The actual switcher rates of these out-of-state choice programs are observed because they have caps on the number of scholarships, many more students apply for the scholarships than the number available, and the scholarships are awarded by a random lottery. Researchers have collected data on families who

apply for, but are not chosen in a random lottery, for a scholarship and recorded whether they enrolled their children in a public or private school after losing the lottery.

Researchers tend to find that around 90% of students who participate in educational choice programs switch from public schools. Therefore, the program under HB 1369 will likely generate net fiscal savings for the state.

An important question is: Can we expect this program to have a negative fiscal impact on North Dakota school districts, and will students be harmed? The answer I believe, based on the long history of experiences of current school choice programs, and informed by the substantial body of rigorous research, is “no.”

First, funding of K-12 public schools in North Dakota is not completely based on students – when students leave a district, the district loses state funds but still retains local funds and most federal funds because only the latter two categories are not enrollment-based. In addition, a part of state funding (about 15 percent of state funding) is also not student based and stays with districts when students leave.

Second, when students leave, it costs less to educate fewer students. Costs go down. Some costs are fixed, and some costs are variable. In the short run, districts have fixed costs such as building maintenance, debt service, and utilities. Variable costs are costs that can be reduced. Variable costs might include textbooks, software licenses, and personnel costs. In the long run, all costs are variable, meaning that over time districts can fully adjust operations to a change in enrollment.

Third, choice programs in states that already have them (including the oldest and largest programs) have not led to an exodus of students, and the public system still remains the dominant provider to this day. Overall, about 2% of K-12 students participate in education choice programs today. And research demonstrates that students benefit from these programs, both those who participate and those who remain in public schools. There are 27 studies that examine the effects of education choice programs on the outcomes of students who remain in public schools. Of these, 25 found positive and modest improvements in learning gains by public school students, 1 documented a negative program effect, and one could not detect any effect. In addition, a recent meta-analysis on the competitive effects of choice programs concluded:

*“In general, competition resulting from school-choice policies does have a small positive effect on student achievement. The lack of an overall negative impact on student outcomes might ease critics’ concerns that competition will hurt those students ‘left behind’ due to school-choice policies.”* (Jabbar et al., 2019, *Education Policy*)

These programs increase opportunities to make better matches between child and the education they receive. They also result in arrangements that teachers and parents often care about, such as smaller class sizes.

Many people tend to think of school funding as an accounting issue. But I also believe that how we fund education also reflects our values. One of those values is educational opportunity, and the Education Empowerment Program in North Dakota would provide a funding mechanism to promote even more opportunity for North Dakota’s families and children.

Thank you for your time and attention.