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Fiscal Effects of the Iowa Education Savings Account Program

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Summary

This brief presents the results of a fiscal analysis of the Iowa Education Savings Account Program. The Iowa Education Savings Account Program offers eligible parents the opportunity to receive their children's per-pupil state funding directly into a parent-controlled education savings account (ESA), a fund earmarked for educational expenses. This program covers a range of costs such as private school tuition, tutoring, credentialing, therapies, online learning, and more. Before accessing other approved expenses, parents are required to utilize the funds for tuition and fees at an accredited non-public school.

Iowa Students First Education Savings Accounts Program

- In the long run, the program will generate \$55.0 million in net fiscal benefits annually from its first cohort of students.
- The Iowa Education Savings Account (ESA) Program provides ESAs worth up to \$7,413 for eligible students. This amount is worth 49% of the total per-pupil cost for Iowa public schools.
- The total cost for the ESA program is \$124.2 million for the first year. This cost represents 1.6% of the \$7.9 billion funding that Iowa public schools receive from local, state, and federal sources. The program cost represents 0.4% of the state's total expenditure on public services.
- During school year 2023-24, the program's first year, the program generated an estimated \$16.7 million in net fiscal costs for state and local taxpayers combined. This short-run net cost represents 0.2% of total funding devoted to Iowa public K-12 schools.

Fiscal Analysis of the Iowa Education Savings Account Program

This brief presents the results of a fiscal analysis of the Iowa Education Savings Account Program. The Iowa Education Savings Account Program offers eligible parents the opportunity to receive their children's per-pupil state funding directly into a parent-controlled education savings account (ESA), a fund earmarked for educational expenses. This program covers a range of costs such as private school tuition, tutoring, credentialing, therapies, online learning, and more. Before accessing other approved expenses, parents are required to utilize the funds for tuition and fees at an accredited non-public school.

This analysis estimates the fiscal effects of Iowa's ESA program for the 2023-24 school year, the first year of the program. I estimate the short run and long run fiscal effects on state and local taxpayers combined for the program's first year's cohort of ESA students. The analysis employs the same methods used in Lueken (2021) and Lueken (2018).¹

Students are eligible for the ESA program in its first year if they are entering kindergarten, previously attended a public school, or attended private school the previous year and come from a family with income that does not exceed 300% of the federal poverty level. An estimated 502,788 students in Iowa are eligible for the program during its first year. This represents 95.7% of all K-12 public and private school students in Iowa.

Based on a recent report by the Iowa Department of Education, 16,757 students used an ESA at an Iowa accredited nonpublic school for the 2023-24 school year.² This participation represents 3.3% of eligible students. The average ESA cost is \$7,413.³ The total program cost amounts to \$124.2 million (Table 1).

Table 1: Participation and Cost for the Iowa Students First Education Savings Accounts Program

	SY 2023-24
Total number of students eligible for ESA	502,788
Number of ESAs	16,757
ESA participation as % of eligible students	3.3%
Avg. ESA amount	\$7,413
Total ESA cost	\$124,219,641

Sources: Iowa Department of Education; EdChoice

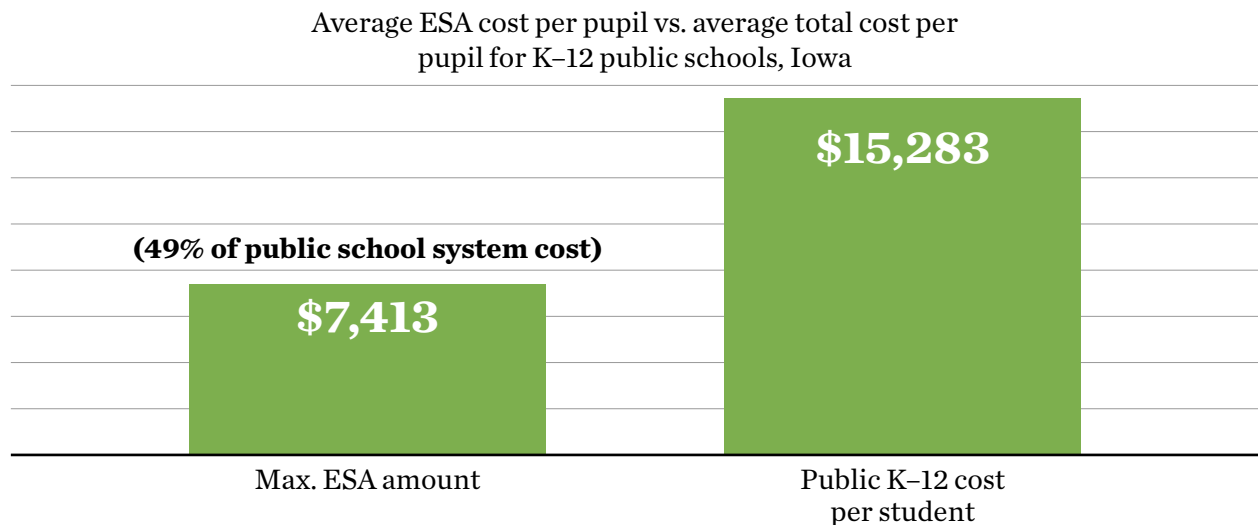
Some people voice concerns that choice programs open to students currently enrolled outside the public school system will blow up state budgets. To put the program's cost in context, Table 2 compares it to total funding for Iowa public schools and the state's total expenditures for FY 2023. The \$124.2 million ESA program cost represents 1.6% of the \$7.9 billion funding that Iowa public schools receive from local, state, and federal sources. The program cost represents 0.4% of the state's total expenditures on public services in FY 2023.⁴

Table 2: Iowa ESA program cost as percentages of total funding for public schools and total state expenditures

Total ESA cost	\$124,219,641
Total K-12 funding from all sources	\$7,909,835,000
ESA cost as % of IA public K-12 funding	1.6%
Total state budget	\$29,743,000,000
ESA cost as % of IA total state budget	0.4%

Sources: U.S. Department of Education, National Center for Education Statistics; National Association of State Budget Officers

The maximum ESA amount is worth 49% of the total per-pupil cost for Iowa public schools (Figure 1). This funding gap implies net fiscal benefits worth more than \$7,800 when a student switches from a public school to a private school via the ESA program. These fiscal benefits are distributed among state taxpayers, local taxpayers, and school districts.

Figure 1: Comparing the cost of Iowa's ESA program to Iowa public school costs

Switchers represent an important factor for determining the fiscal effects of a choice program because taxpayers no longer fund students when they aren't enrolled in public schools. Switchers are students who would have enrolled in a public school without any financial assistance from a choice program. These students represent both a cost when they participate in the ESA program and savings when they leave a public school.

A recent policy brief by EdChoice estimated that about 70% of Iowa ESA students were enrolled in public schools before they participated in either Iowa's tax-credit scholarship program or the ESA program.⁵ This implies that 11,730 ESA students are switchers and generate savings for taxpayers.

When students leave public schools for any reason, educational costs decrease by some variable amount. In the short run, some costs are variable while other costs are fixed or quasi-fixed.⁶ Economists estimate that roughly two-thirds of total costs are variable in the short run.⁷ In the long run, all costs become variable as public schools can fully adjust for a change in student enrollment over time.

The present analysis assumes that three categorical expenditures are variable in the short run: instruction, instructional staff support services, and student support services.⁸ Based on the most recently available federal school finance data, 60% of total costs are variable in the short run for Iowa public schools, or \$9,613 per student. The 11,730 switchers in the ESA program generate approximately \$107.5 million in short-run variable savings. These savings offset 87% of the total ESA cost of \$124.2 million. Thus, the program's first year generated an estimated \$16.7 million in net costs overall for state and local taxpayers combined (Table 3). Put in context, this short-run net cost represents 0.2% of total funding devoted to Iowa public K-12 schools.

Over time, districts can adjust educational costs fully for the cohort of students who switch from public schools. The analysis uses average total cost per student for public schools to estimate long run savings, or \$15,283 per student. For the program's first year, we estimate \$179.3 million in savings annually in the long term for the program's first year cohort. Thus, the program will generate \$55.0 million in net fiscal benefits annually over the long run from that particular cohort of students.

Table 3: Short run and long run fiscal effects on state and local taxpayers combined

Est. % of ESA students who are switchers	70%
Number of switchers	11,730
Short-run fiscal effects	
Total per-pupil cost for public schools	\$15,283
% of total costs that are variable in the short run	60.0%
Short run avg. variable cost per student	\$9,163
Est. short-run variable savings	\$107,483,473
Total ESA cost	(\$124,219,641)
Net short-run fiscal effect	(\$16,736,168)
Long-run fiscal effects	
LR avg. variable cost per student	\$15,283
Est. long-run variable savings	\$179,268,394
Total ESA cost	(\$124,219,641)
Net long-run fiscal effect	\$55,048,753

Note: numbers in parentheses denotes a negative value

NOTES

1. Martin F. Lueken (2021), Fiscal Effects of School Choice: Analyzing the costs and savings of private school choice programs in America, EdChoice, Fiscal Research and Education Center, <https://www.edchoice.org/wp-content/uploads/2021/11/The-Fiscal-Effects-of-School-Choice-WEB-reduced.pdf>; Martin F. Lueken (2018), The fiscal effects of tax-credit scholarship programs in the United States, *Journal of School Choice*, 12(2), pp. 181-215, <https://doi.org/10.1080/15582159.2018.1447725>

2. Iowa Department of Education (2024), Certified enrollment for 2023-24 holds steady; 16,757 ESA participants enrolled at Iowa accredited nonpublic schools, Press Release, June 26, <https://educate.iowa.gov/press-release/2024-01-26/certified-enrollment-2023-24-holds-steady-16757-esa-participants-enrolled-iowa-accredited-nonpublic>

3. EdChoice (2024), The ABCs of School Choice: The comprehensive guide to every private school choice program in America, 2024 Edition, <https://www.edchoice.org/wp-content/uploads/2023/11/2024-ABCs-of-School-Choice.pdf>

4. National Association of State Budget Officers (2023), 2023 State Expenditure Report: Fiscal Years 2021-2023, https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/SER%20Archive/2023_State_Expenditure_Report-S.pdf

5. Martin F. Lueken (2024). The Reality of Switchers, Fiscal Research and Education Center, EdChoice, <https://www.edchoice.org/wp-content/uploads/2024/03/Switcher-Brief.pdf>

6. Martin F. Lueken (2017). On Educational Costs: Fixed, Quasi-fixed and Variable Costs, EdChoice, <https://www.edchoice.org/wp-content/uploads/2017/06/2017-3-Fixed-vs-Variable-Cost-One-Pager.pdf>

7. Benjamin Scafidi (2012), The Fiscal Effects of School Choice Programs on Public School Districts, Friedman Foundation for Educational Choice, retrieved from EdChoice website: <https://www.edchoice.org/wp-content/uploads/2015/07/The-Fiscal-Effects-of-School-Choice-Programs.pdf>; Robert Bifulco and Randall Reback (2014), Fiscal Impacts of Charter Schools: Lessons from New York, *Education Finance and Policy* 9(1), pp. 86-107, http://dx.doi.org/10.1162/EDFP_a_00121

8. This method is similar to Scafidi (2012), who found that enterprise operations and food service categorical expenditures were also variable in the short run, in addition to instruction, instructional staff support services, and student support services. The present analysis excludes enterprise operations and food service from variable cost estimates and is therefore more cautious.