

NEVADA'S OPPORTUNITY SCHOLARSHIPS: A WIN FOR STUDENTS AND TAXPAYERS

*Nevada's educational choice option boosts per-pupil funding,
while saving taxpayer dollars*



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Abstract

The Nevada Educational Choice Scholarship Program (hereafter the "Opportunity Scholarship" program, as it is more commonly known) produces a net savings to the state. For the current Fiscal Year 2018, we estimate that taxpayers have saved \$1.14 in state education funding for every dollar lost in Modified Business Tax (MBT) revenue due to credits for scholarship contributions. We further estimate that, as a greater proportion of approved tax credits are used to finance scholarships, taxpayer savings could increase to \$1.92 for every dollar lost in revenue due to tax credits.

Student participation of 1,692 in the scholarship program for the current fiscal year has in effect increased available K-12 per-pupil funding by about \$4, but that number could increase to \$27 as additional scholarships are awarded with existing credits. We further assess that expanding student participation to 25,000 (approx. 5 percent of statewide public school enrollment) could increase available per-pupil funding by as much as \$235. *An increase in per-pupil funding of this magnitude mimics the effects of an additional \$116 million in annual education funding.*

Similarly, Nevada's universal Education Savings Accounts program would also generate a net savings to the state, but the program has yet to be funded. Like Opportunity Scholarships, the average value of an ESA would be much less than what the state spends annually on a per-pupil basis, but it is difficult to estimate the fiscal benefits without having access to more information.

“*An increase in per-pupil funding of this magnitude mimics the effects of an additional \$116 million in annual education funding.*”

Scope

This report evaluates the fiscal impact of the Opportunity Scholarship program on state K-12 education funding, both in regards to net savings and increases to available per-pupil funding. It further projects additional savings to the state if student participation increased to 25,000, which would represent about 5 percent of total public school enrollment. The report also assesses the potential taxpayer savings of funding Nevada's other school-choice program — Education Savings Accounts ("ESAs") — which since 2015 has been written into state law but has yet to secure funding.

Background

The 2015 Nevada Legislature established the Opportunity Scholarship program via Assembly Bill 165 to expand educational opportunity for low- and middle-income students.¹ The program enables participating students to attend private schools using scholarships financed with Modified Business Tax credits.

All businesses in Nevada with taxable wages of greater than \$50,000 paid by the employer (after health care deductions) incur MBT liability. That liability equals 1.475 percent of taxable wages in excess of \$50,000. For example, if a firm's total taxable wages are \$60,000, its MBT liability equals \$147.50 ($\$60,000 - \$50,000 = \$10,000 \times .01475$).² MBT revenues are deposited into the State General Fund.

Businesses wishing to participate in the scholarship program are first required to notify the scholarship organization of their intent to contribute to the program and to seek tax credits pursuant to the program's guidelines. The scholarship organization then must apply to the Department of Taxation for approval of the proposed credits. If approval is granted, the businesses submit their contribution to the scholarship organization, and then receive tax credits in an amount equal to their contribution to be applied against their MBT liability.

The amount of tax credits that may be granted under the program was capped at \$5 million for Fiscal Year 2016 and \$5.5 million for Fiscal Year 2017. Thereafter the cap will increase by 10 percent annually. Notably, Senate Bill 555 from the 2017 Nevada Legislature granted a one-time installment of \$20 million in additional credits for Fiscal Year 2018, a political compromise which resulted in the state's other school-choice program, *Education Savings Accounts*, remaining unfunded for the 2017-2019 biennium.³ Because the amount of MBT credits awarded each year is capped, businesses must apply and the Nevada Department of Taxation must approve all scholarship contributions before tax credits are granted. Opportunity Scholarship tax credits have accounted for approximately 1 percent of the state's MBT revenues since the program's inception.

Students of households with income equal to 300 percent or less of the federal poverty line are eligible to apply for scholarships.⁴ Scholarship funds may be used to pay for private school tuition, distance education programs and/or dual-credit programs in public schools. The Nevada Department of Education determines the maximum scholarship amount any student may receive per year,

based on the Consumer Price Index. For Fiscal Year 2017, the funding provided on behalf of any one student was capped at \$7,755. For Fiscal Year 2018, the cap was \$7,934.

The dollar amount of scholarships awarded has been less than the amount of tax credits approved each fiscal year, which lessens the fiscal benefit realized by the state. As shown in Exhibit 1, the scholarships equaled 53 percent of the value of the approved tax credits in Fiscal Year 2017, and 57 percent of the approved tax credits in Fiscal Year 2018 (through Jan 2018).

Exhibit 1

Dollar Amount of Scholarships Funded Through the Program Has Been Less Than Approved Credits

Fiscal Year	Program Cap	Tax Credits Approved	Value of Scholarships
2017-18	\$26.05 m	\$ 13.56 m	\$7,663,931
2016-17	\$5.5 m	\$5.5 m	\$2,909,646
2015-16	\$5 m	no data	no data

Source: Nevada Department of Education

For Fiscal Years 2016 through 2018, three scholarship funding organizations administered the application process and awarded scholarships: AAA Scholarship Foundation, Education Fund of Northern Nevada, and Dinosaurs and Roses.⁵ Per NRS 388D.270(d), scholarship funding organizations are authorized to expend up to 5 percent of scholarship contributions for administrative purposes.

The Nevada Department of Education oversees the Opportunity Scholarship program. It provides lists of approved private schools and scholarship funding organizations and publishes regular reports.

In Fiscal Year 2018, the Opportunity Scholarship program awarded scholarships to 1,692 students. The average scholarship amount was \$4,529. The number of students who were awarded scholarships increased by 47 percent between Fiscal Years 2017 and 2018 as shown in Exhibit 2. This growth accompanied an increase in the cap of tax credits awarded from \$5.5 million to \$26.05 million.

1 See <https://www.leg.state.nv.us/App/NELIS/REL/78th/2015/Bill/1513/Text>

2 NRS 363B.110

3 SB555 (2017) authorized a one-time boost of \$20 million in available MBT credits for FY18

4 For 2016-17, 300% of the FPL for a family of four is \$73,800

5 Three add'l scholarship granting organizations have been approved for FY2018: America's Scholarship Konnection, Children's Tuition Fund of Nevada, and Nevada Action for Choice Access

Exhibit 2

The Number of Scholarship Recipients Has Increased Over Time

Fiscal Year	Number of Students	Number of Private Schools
2017-18	1,692	133
2016-17	1,153	140
2015-16	541	145

Source: Nevada Department of Education

As Exhibit 3 illustrates, the Opportunity Scholarship program serves a diverse student population across Nevada. In Fiscal Year 2018, about 31 percent of scholarship recipients were Caucasian; 30 percent were Hispanic; and 11 percent were African American.

Exhibit 3

The Scholarship Program Serves a Diverse Student Population (FY18)

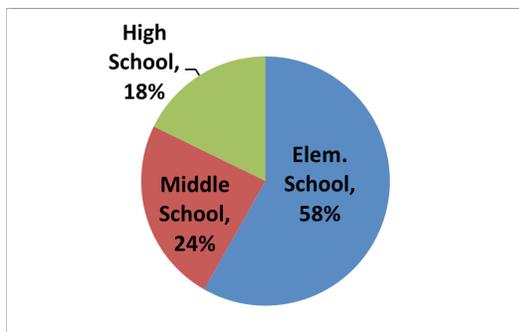
Reported race/ethnicity	Totals
African American	181
Asian	126
Caucasian	521
Hispanic	504
Native American	4
Native HI/P Island	25
Mixed Race	102
Not Reported	224

Source: Nevada Department of Education

For the current fiscal year, most scholarship recipients are enrolled in elementary school (see Exhibit 4).

Exhibit 4

Most Scholarship Students Are in Elementary School



Source: Nevada Department of Education

The scholarship program currently serves 1,692 students, or less than one-percent of total public school enrollment of approximately 492,000 statewide.⁶

What is the fiscal impact of the Opportunity Scholarship Program?

The Opportunity Scholarship program produces a net savings to the state. This savings is derived from the difference between current per-pupil spending levels and the value of the average scholarship awarded. For Fiscal Year 2018, the average value of Opportunity Scholarships is \$4,529, while the overall public cost per-pupil is approximately \$9,165.⁷ Thus, while the state foregoes \$4,529 in MBT revenues due to tax credits for each scholarship awarded, it simultaneously foregoes the responsibility of educating a student at the cost of \$9,165 per year. For the current fiscal year, this has resulted in a net savings to the state of approximately \$1.95 million (see Exhibit 5).

Exhibit 5

Scholarship Program Saves the State Money on Education

Fiscal Year 2017-18	Amount
Education Savings	
Number of scholarship recipients	1,692
Savings per recipient	x \$9,165
Total Education Savings	\$15,507,180
Revenue Lost	
Tax Credits Awarded	\$13,561,336
Ratio (Saves \$1.14 for each \$1 spent)	1.14
Net Savings	\$1.95 million

Source: NPRI analysis of financial data provided by Nevada Department of Education, 2018

For every dollar awarded in Modified Business Tax credits for scholarship purposes, the state saves \$1.14.

However, the state is not maximizing the potential fiscal benefits of the Opportunity Scholarship program. This is because the value of total scholarships awarded thus far is much less than the value of tax credits awarded, indicating a degree of inefficiency. Of course, because tax credits may be rolled over from one year to the next, these savings are expected to materialize in the future. However, such future savings cannot be calculated in relation to the current fiscal year.

For Fiscal Year 2018, \$13,561,336 in tax credits have been awarded for scholarship purposes. Assuming that 5 percent of this is used for administrative purposes, as is permitted,

⁶ See <http://www.doe.nv.gov/DataCenter/Enrollment/>

⁷ Per the National Center for Education Statistics, 2015, available at www.nces.ed.gov

that leaves \$12,883,269 available for scholarship awards. At an average scholarship value of \$4,529, this is sufficient to provide 2,844 students with scholarships. Currently, only 1,692 students have been awarded scholarships for Fiscal Year 2018.

Providing an additional 1,152 students with scholarships (for a total of 2,844) would dramatically increase the savings realized by the state, as Exhibit 6 illustrates.

Exhibit 6

Increasing Number of Scholarships Awarded Would Save the State Millions More for FY18

Fiscal Year 2017-18	Amount
Education Savings	
Number of scholarship recipients	2,844
Savings per recipient	x \$9,165
Total Education Savings	\$26,065,260
Revenue Lost	
Tax Credits Awarded	\$13,561,336
Ratio (Saves \$1.92 for each \$1 spent)	1.92
Net Savings	\$12.5 million

Source: NPRI analysis of financial data provided by Nevada Department of Education, 2018

Under this scenario, for every dollar awarded in Modified Business Tax credits, the state would save \$1.92, for a total net savings of \$12.5 million for Fiscal Year 2018.

What is the effect of the Opportunity Scholarship program on per-pupil spending?

The Opportunity Scholarship program increases available per-pupil funding. This is so because, as scholarships are awarded, total public school enrollment declines. While it is true that the state receives fewer revenues as a result of scholarship-financing tax credits being awarded, the loss of revenue is less than what the state spends annually per-pupil enrolled in traditional public schools.

To date, student participation of 1,692 has had the effect of increasing per-pupil spending levels by about \$4. If the number of scholarships awarded increased to 2,844, per-pupil spending would increase by \$27. Extrapolating further, if 25,000 students participated in the scholarship program, per-pupil spending could increase by as much as \$235 (see Exhibit 7).

Exhibit 7

Per-Pupil Spending Levels Increase as Student Participation Increases

Potential Per-Pupil Spending Increases	
Number of Recipients	Per-Pupil Increase
2,844	\$27
5,000	\$45
10,000	\$91
15,000	\$138
20,000	\$186
25,000	\$235

Source: NPRI analysis

Notably, a per-pupil spending increase of \$235 mimics the effect of an additional \$116 million in annual education funding.

Thus, to achieve a per-pupil spending increase of this magnitude, the state has two options: 1) Expand student participation in the scholarship program to 25,000, or 2) Increase education spending by \$116 million annually.

What would be the fiscal impact of funding Education Savings Accounts (ESAs)?

Education Savings Accounts remain unfunded despite the program having been codified into Nevada law during the 2015 legislative session. Assuming that the average value of an awarded ESA were comparable to that of Opportunity Scholarships, one would expect the state to save between \$1.50 and \$2.00 for every dollar expended by the state for financing ESAs.

Recommendations

Set a goal of increasing participation in the Opportunity Scholarship program to 25,000 students. Such would represent about 5 percent of total public school enrollment statewide. This goal is not insurmountable, as both Arizona and Florida now enroll approximately 5 percent of total students in choice programs. Assuming the average value of awarded scholarships remains unchanged at \$4,529, this would require expanding the annual cap on MBT credits to approximately \$120 million.⁸

“This goal is not insurmountable, as both Arizona and Florida now enroll approximately five percent of total students in choice programs.”

Better promote and advertise the Opportunity Scholarship program. Current student participation of only 1,692 suggests many Nevadans are unaware of the program’s existence. Certainly, student demand of this and similar choice programs should well exceed 1,692, as proven by the pre-enrollment period for Education Savings Accounts. (Before it was clear that ESAs would remain unfunded for the 2017-19 biennium, the program attracted about 10,000 interested students who submitted preliminary applications.) This suggests that thousands more students might be interested in participating in the Opportunity Scholarship program, but may still be unaware it exists. A coordinated, state-directed outreach program could help to achieve better awareness, thus maximizing taxpayer savings.

Fund Education Savings Accounts. Appropriating money for ESAs would provide a much-needed second school-choice option for struggling students and families. Like Opportunity Scholarships, doing so would also provide a net savings to state education funding, as the average value of ESAs would be far less than what the state spends annually per-pupil on K-12 education.

8 This number accounts for 5% administrative use of tax credits, per NRS 388D.270(d)

The Nevada Policy Research Institute

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