Cato Analysis Raises Questions on Indiana Voucher Proposal

By **Sean Cavanagh** on April 26, 2011 1:59 PM

An analyst for the Cato Institute, a libertarian think tank normally friendly to school choice, is **questioning the budgetary impact** of closely watched Indiana legislation that would create one of the nation's most ambitious voucher programs.

In an online essay, Cato's **Adam B. Schaeffer** says the proposal would allow families to receive the financial benefits of two separate private school choice mechanisms—a form of "double-dipping" that would bring greater costs to the state than advertised.

The legislation, which is supported by Republican Gov. Mitch Daniels and GOP lawmakers, **cleared a big hurdle** last week when it was approved by Indiana's state Senate. It still needs either a vote of the state's House of Representatives, or approval by a conference committee, before it could go to the governor for his signature.

But Schaeffer, a policy analyst with Cato's **Center for Educational Freedom** who studies voucher proposals, says lawmakers should correct the bill to eliminate the possibility of a negative financial impact.

"Critics of expanding educational freedom always claim, incorrectly, that school choice programs are a drain on public resources," Schaeffer writes. "But the double-dipping that is allowed under this program could inadvertently prove them right—it would also make Indiana's existing education tax credit program a mere appendage to the new government voucher system. In short, it's an unforced error, and worth fixing."

The **Indiana legislation** would create a voucher system that would allow families with incomes of up to 150 percent of the standard for free or reduced-price lunches to receive access to vouchers. By the standards of school voucher programs, that provision is highly unusual, in that it would provide taxpayer funds for private-school costs for families that could be described as middle class. Private-school choice measures traditionally limit eligibility for vouchers to disadvantaged families, or targeted populations such as students with disabilities. For children in grades 1-8, the maximum voucher amount in Indiana would be $4,500.

But Schaeffer says that there's nothing in the Indiana bill that would prevent a family that receives a voucher through the legislation from also securing money through a separate, existing state voucher program, which offers private organizations tax credits if they support private school scholarships for students. For instance, a family that receives $4,500 in public money for a voucher could also apply for a tax credit—which would reduce state revenues by $2,000 or so. That would bring the total cost to the state to $6,500.

While the state would show a $4,500 "savings" based on the money given to a family through a private-school voucher, this fails take into account the reduced state revenue through the tax credit, Schaeffer says. Under his hypothetical example, the net impact for the state wouldn't be budget-neutral—it would be a $2,000 loss.

The Indiana proposal requires that the money that is saved per-student from families choosing private-school options be channeled back to their home districts. And at the local level, the Indiana program is likely to have a "strongly positive" impact on the resources available for each student, Schaeffer contends. But the impact on state funding, he says, "is a critical concern in its own right."

Tory Flynn, a spokeswoman for Indiana's House Republican caucus, argued that the costs to the state will be lower that Schaeffer's analysis suggests. Enrollment in the state voucher program is initially capped, and there are also caps on the state's tax credit program, which will limit the state's pricetag, she told me.

In addition, some of the costs of the tax credit program are carried by private sources—through the participating scholarship granting organizations—not the state, Flynn said. And even though families might be eligible to receive both a voucher and a tax credit, she added, that doesn't mean they would apply for both. The Republican official also noted that the legislation could still change in the week ahead.

"The argument he presents is a bit misleading," Flynn said.

(Indiana's Legislative Services Agency has conducted a **fiscal analysis** of the bill, based on various assumptions. I'll let readers decide whether they can deduce what costs or savings the proposal would bring.)

Schaeffer says that Indiana lawmakers could change the proposal to prevent unintended financial consequences, by modifying it to clarify that students already receiving tax-credit scholarships are not eligible to receive the new vouchers. Or lawmakers could specify that schools can only accept payment for a student from one state program or the other, not both.

If you've been following the Indiana proposal—or others structured in similiar ways—is Schaeffer's critique on target?