NEPC Review: Michigan Student Opportunity Scholarships: Overview and Fiscal Analysis (Mackinac Center, May 2022)

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Summary

A recent report by the Mackinac Center, *Michigan Student Opportunity Scholarships: Overview and Fiscal Analysis*, claims that the Michigan Student Opportunity Scholarship (MSOS) neovoucher program has the potential to create fiscal benefits for the state of Michigan and its school districts. It comes as state policymakers consider both the impact of school neovouchers on student achievement and the financial cost of a neovoucher system. Unfortunately, the Mackinac Center’s report is more misleading than it is useful. To inform its assumptions about the factors influencing the fiscal impact of neovoucher policies, the report relies overwhelmingly on problematic reports and approaches produced by think tanks that regularly advocate for school choice. Because of this, it paints a misleadingly rosy picture of how the MSOS will impact the state’s finances and the finances of its school districts. On closer examination, the assumptions the analysis relies upon are flawed in several ways, rendering the report’s results, conclusions, and broad policy recommendations useless for Michigan voters and policymakers.
I. Introduction

The push for expansion of voucher policies by school choice advocates often includes claims about research. Most commonly, advocates claim that research shows that students’ test scores rise when they receive vouchers to help them move from public to private schools (despite recent academic reviews showing mixed results for voucher recipients). For policymakers, student outcomes are only half of the “bang for your buck” consideration, so voucher advocates also make claims about the fiscal benefits of voucher policies. A recent example is the Mackinac Center report *Michigan Student Opportunity Scholarships: Overview and Fiscal Analysis*, authored by Ben DeGrow (the Mackinac Center’s Director of Education Policy) and Martin Lueken (Director of EdChoice’s Fiscal Research and Education Center). The report aims to inform Michigan voters and policymakers about the fiscal impact of the Michigan Student Opportunity Scholarship (MSOS), trying to dispel arguments that vouchers and voucher-like programs pose a financial threat to the fiscal status of the State of Michigan or of the individual school districts within it.

The MSOS proposes to fund a type of voucher called an education savings account (ESA) for students and their families to spend on school tuition or approved educational services such as tutoring or counseling. The ESAs created by the proposed MSOS would be funded using a tax credit system—similar to systems implemented in Kentucky and Missouri—through which taxpayers receive a dollar-for-dollar tax credit for donations to nonprofits that then distribute scholarships (vouchers) to students.

In this review, I comment on the report’s use of literature and methods, the validity of its findings and conclusions, and its usefulness for informing policy design and implementation. Because the MSOS resembles conventional vouchers in their diversion of public re-
sources to support private school tuition and related expenses, it is referred to here as a neovoucher program.³

II. Findings and Conclusions of the Report

The report finds that the Michigan Student Opportunity Scholarship (MSOS) will likely have a positive fiscal impact on Michigan and its school districts. It estimates the fiscal impact between a $106 million loss and a $386 million benefit. It concludes that the MSOS is worthwhile because of likely positive effects on student achievement and likely financial benefits for Michigan and its districts.

III. The Report’s Rationale for Its Findings and Conclusions

The report relies on several assumptions. It assumes, for example, that voucher and neovoucher programs improve student achievement. This claim is not supported by recent high-quality scholarship,⁴ but it allows the authors to sidestep questions of policy and program efficacy in order to focus on questions of financial cost and burden. The report also makes key assumptions about factors that influence the fiscal impact of a neovoucher policy, such as the rate of “switchers,” variable costs, and variation among school districts in Michigan. The validity of each of these assumptions is reviewed in detail in Section VI of this review.

IV. The Report’s Use of Research Literature

The report relies overwhelmingly on sources published by three think tanks. It includes 35 endnotes, in which 19 of the 35 (54%) come from the Cato Institute, Mackinac Center, or EdChoice (formerly the Friedman Foundation for Educational Choice). It also does not engage with or cite any peer-reviewed studies on the effectiveness of choice programs on student outcomes.⁵ As well, it cites only one peer-reviewed study examining the fiscal impacts of voucher policies.⁶

In a footnote, the authors claim that “[o]f 175 rigorous research studies on the impacts of private school choice programs, measurable positive impacts outpace measurable negative impacts by more than 12 to one.”⁷ Unfortunately, the footnote in which this statement appears points to the 123s of School Choice report published by EdChoice, a misleading review relying overwhelmingly (68% of citations) on cherry-picked, non-peer-review published reports written by choice advocates.⁸

The habit of narrowly citing think tank reports and studies published by choice advocates extends to the report’s use of literature to inform its methods. For example, to inform its estimate of switcher rates and variable costs, it relies exclusively on an overly narrow set of

http://nepc.colorado.edu/thinktank/opportunity-scholarships
three reports authored by strong advocates of school choice, each of which comes up short when seriously scrutinized. I discuss these shortcomings in detail in section VI, but it is worth noting here that the treatment of variable costs (within school district costs which change as enrollment changes) and switcher rate (the percentage of students who would switch from a public school to a private school option if a voucher or neovoucher were available) are the two primary components for estimating the fiscal impact of a neovoucher program. The oversimplified approach of the source reports to policy design, implementation, evaluation, and reform casts doubt on the validity of their conclusions—including conclusions about variable costs and switcher rates that are adopted in the methodology of the current study. The practice of building on flawed studies of educational policy creates the illusion of methods and findings built on a strong research base, but the reality more closely resembles a house of cards.

V. Review of the Report’s Methods

The analysis of fiscal impacts related to Michigan Student Opportunity Scholarship (MSOS) relies on three equations. The first equation helps a reader determine if Michigan will save money if MSOS is implemented:

\[
\text{State net fiscal impact} = \text{program costs} - \text{savings when students leave public schools}
\]

In this equation, program costs are the total costs incurred by the state to fund MSOS. Within the report, program costs are assumed to be $500 million. This amount assumes tuition tax credit donations meeting the MSOS cap for donations. The savings when students leave public schools are calculated using the minimum per-pupil student state foundation allowance in Michigan (i.e., $8,700, the money the district would have received) and multiplying it by the number of switchers. A switcher is a student who would leave a public school for a private school if offered a neovoucher. The report estimates the total number of switchers by dividing the total dollars available for neovouchers ($450 million) by the average neovoucher amount (either $6,000 or $4,000) and the “switcher rate,” which is the percentage of total students categorized as switchers. It offers no empirical grounding for the average neovoucher amounts used, simply stating the highest amount a neovoucher can reach is $7,830, and the average amount is likely to be lower than that because only students with disabilities and students who qualify for a free or reduced-price lunch qualify for the maximum amount.

The second equation is for district net fiscal impact:

\[
\text{District net fiscal impact} = \text{Decreases in variable costs} - \text{Revenue reduction}
\]

To calculate district net fiscal impact, the report uses an estimate of state average variable per-pupil costs for school districts in Michigan and subtracts from that amount the “enrollment-based reduction in state aid revenue” or the total lost state foundation allowance ($8,700). It uses a modified version of an approach to estimating variable costs that esti-
mates the percentage of total expenditures from instruction, pupil support services, and instructional staff support services.\textsuperscript{12} It estimates that variable costs for school districts in Michigan are 61.7\% of total expenditures, or roughly $8,755. It multiplies the net between variable costs and the loss in per-state revenue ($8,755 − $8,700 = $55) by the total number of switchers.

The final equation is a simple sum of the state and district fiscal impact:

\[ \text{Net fiscal impact} = \text{State net fiscal impact} + \text{District net fiscal impact} \]

\section*{VI. Review of the Validity of the Findings and Conclusions}

The report’s methods are straightforward but embedded with specious assumptions. I review each of these assumptions in detail below.

\subsection*{Assumptions About Switchers}

Switcher rates are important for fiscal impact studies because they account for the rate at which a state neovoucher program is financing the education of students who want a private school education and cannot afford it or a private school education for students whose families can afford to send their child to private school regardless. The report argues that a high-enough switcher rate makes MSOS financially worthwhile.\textsuperscript{13} Its analyses rely on two switcher rates of 60\% and 90\%. The 60\% rate comes from an EdChoice survey.\textsuperscript{14} The 90\% rate is from an analysis of the costs and savings of private school choice programs in the United States.\textsuperscript{15}

The report claims that the 60\% rate is conservative and the 90\% switcher rate is supported by “the body of empirical evidence on private school voucher programs, based on random assignment, which provides information on switcher rates.”\textsuperscript{16} To be clear, the body of empirical evidence mentioned by the report does not attempt to study or draw conclusions about switcher rates. A recent study,\textsuperscript{17} and another preceding it,\textsuperscript{18} use this body of literature to infer switcher rates from the control groups of randomized control trials.\textsuperscript{19} The logic underlying this approach is that students who lose a voucher lottery and go to a private school represent nonswitchers, or those students who will attend a private school regardless. It follows that students who do not attend a private school after losing a voucher lottery are switchers. This approach is misleading for several reasons, but chief among them is that it suffers from issues with construct validity (i.e., whether the estimates are actually a proxy for a true switcher rate) and external validity (i.e., whether estimates coming from small, randomized control trials can be generalized to a larger population).\textsuperscript{20}

\subsection*{Assumptions About Variable Costs}

The report claims that if per-pupil variable costs associated with educating a student are higher than the loss in revenue associated with that student leaving, the district fiscal im-
pact will be positive. Variable costs are first defined as costs “which vary directly with enrollment.” It should follow then that district fixed costs are those costs which do not vary with changes in enrollment. However, the report also claims “[i]n the long run, all costs are variable, meaning that schools can adjust fully over time to changes in enrollment.” This statement is misleading, and it reflects the report’s casual approach to estimating variable costs. In that context, it is important to notice three things about how the report approaches estimating variable costs:

First, by relying on the logic that in the long run all costs are variable costs, the report misses an opportunity to model costs in a nuanced and informative way. A recent study demonstrated how this could be done: It included an adjustment for the elasticity of variable costs to account both for differences in the capacity to adjust short-run variable costs across school districts and for the possibility that variable costs might be “sticky” or difficult to change at the exact rate at which enrollment changes.

Second, the report makes no effort to distinguish between the programs that make up variable costs, obscuring the budget-making process by reducing it to broad expenditure categories instead of specific resources and programs sensitive to enrollment changes. The report relies on a modified version of an earlier report on the fiscal effects of school choice programs on public school districts to estimate an average variable cost of school districts in Michigan. It estimates variable costs as the percentage of costs originating from broad expenditure categories such as instruction, pupil support services, and instructional staff support services.

Finally, the report makes no attempt to understand how variable costs may vary for different students. If, for example, a high proportion of switchers are students with high-cost disabilities, then one could infer that educational costs of students leaving a school district well exceed the loss in state revenue by a significant amount. However, the report makes no mention of how this, or the other factors mentioned, might change their assumptions about variable costs.

**Assumptions About State Averages**

The report assumes that switchers and variable costs are constant across school districts in Michigan. If the fiscal impact of a neovoucher program is concentrated in a large urban school district such as Detroit Public Schools, however, using state averages to estimate district fiscal impacts obfuscates which districts are financially impacted by neovouchers programs and what the impact is for those districts.

**VII. Usefulness of the Report for Guidance of Policy and Practice**

The Mackinac Center's report is more misleading than it is useful. It cites an overly narrow body of literature to inform questionable assumptions. It then uses these assumptions to
facilitate back-of-the-envelope calculations that offer dubious estimates of the fiscal impact of the Michigan Student Opportunity Scholarship (MSOS) on Michigan and its districts. The approach is akin to a “garbage in, garbage out” problem, because the key assumptions are so poorly grounded. The report’s reliance on a deeply flawed study, which itself builds on a questionable study, is evidence of this problem and how it grows worse with each successive report.

Still, it is worth noting the report’s impact. Although it is unlikely to influence the academic community, it has already impacted public discourse. The Wall Street Journal editorial board uncritically cited it to argue in favor of the MSOS. The WSJ editorial notwithstanding, there is little if anything in this report that should be used to inform policy.
Notes and References

1 Several peer-reviewed literature reviews have examined the literature studying the impact of school vouchers and school choice on student achievement. A few of these reviews are listed below. In general, high-quality reviews of the impact of school vouchers find mixed results. Consistently, the authors of these reviews note that the inferences about the impact of vouchers must be understood by considering the context in which these are implemented and the side effects of vouchers and school choice.


4 See, for example:


5 In recent years, several scholars have reviewed the literature reporting the impact of school voucher programs on student achievement and other outcomes of interest for policymakers, such as school segregation. See, for
Several studies have examined the fiscal impacts of vouchers and, more broadly, school choice. Most of this literature has focused on the fiscal impact of students leaving traditional public schools to attend charter schools. For examples, see:


http://nepc.colorado.edu/thinktank/opportunity-scholarships
For more specific critiques of The 123s of School Choice, see:

The report relies on three sources to inform its approach to estimating the fiscal impact of neovouchers:


For example, see:

The Michigan Student Opportunity Scholarship (MSOS) program has a financial cap of $500 million. However, the program is designed to allow for 10% of total funds to be allocated for program operating costs ($50 million). Therefore, the total amount available to students is $450 million ($500 million−$50 million).


Consider if the Michigan neovoucher program has a switcher rate of 100%, the state has not taken on the burden of funding the private school education of students who would not have otherwise received public funding. The only funded students would be those whom the state would have supported in a public school if they had not used the neovoucher. If the switcher rate is 50% and 100,000 students participate in the state's neovoucher program, however, Michigan taxpayers would be subsidizing private school for 50,000 students whose families and parents would have sent their child to private school regardless. Using the report’s most conservative estimate of average ESA per student ($4,000 per scholarship), this would be an expense of roughly $200 million for Michigan taxpayers.

It is unclear why the report arrives at a switcher rate of 60% from survey results. In a footnote, it states that “...on average, 40% of respondents indicate private school as their most preferred setting for their children when asked, ‘If it were your decision and you could select any type of school, and financial costs and transportation were of no concern, what type of school would you select in order to obtain the best education for your child?’” The report argues that because 40% of parents indicate their first choice is private schools, this group of respondents represents nonswitchers (families who would send their child to a private school with or without access to a voucher). It follows using the report’s logic that the remaining 60% of parents are switchers, or those who would choose private school if a voucher or neovoucher were available. It is important to note that the question implies an ideal scenario with no barriers to a family’s preferred school choice. A different
interpretation of the results would be that only 40% of all respondents would prefer a private school, implying the switcher/nonswitcher estimate would have to come from that subset of respondents. For example, if 100 families are surveyed, then 40 would prefer to send their children to a private school. The other 60 would prefer some alternative such as a traditional public school or charter school. Researchers conducting the survey would need to ascertain of the 40 families who responded that their first choice is a private school as to how many would send their student to a private school regardless of whether a voucher were available or not.


For an earlier review of this approach to estimating switcher rates, see:


Huertas and Koutsavlis criticize Costrell’s (2008) approach to estimating switcher rates by leveraging a criticism similar to the criticism I leverage about the use of EdChoice survey results in endnote 11. In essence, parents who select into a lottery are part of a subset of parents who prefer private school. Therefore, an estimate of switchers and nonswitchers that relies on this population should not be generalized to a larger population.

These shortcomings can be understood further by considering the validity framework offered by Shadish, Cook, and Campbell (2002). The authors note that the quality of an inference drawn from a quantitative estimate, such as an estimate of a switcher rate, should be tested against four types of validity: statistical validity, internal validity, construct validity, and external validity. Statistical validity refers to the measurement of a variable (e.g., switcher rate); internal validity considers whether or not an estimate is influenced by confounding factors, in this case, that a family’s choice about whether or not to switch is influenced only by the availability of a neovoucher; construct validity focuses on if what is being measured reflects the concept of interest (i.e., a switcher rate); and external validity refers to whether an estimate can be generalized from the setting being studied to a larger public. Even if Lueken’s (2021) claim that estimates of rates were statistically and internally valid (which is already a big leap to make) is correct, questions about the construct and external validity of the estimates make them useless for the purpose of estimating the appropriate switcher rate for a fiscal impact study. Questions about the construct validity of the estimates are raised by the fact that estimates come from a pool of losers from voucher lotteries. The authors argue the percentage of lottery losers
who still attend a private school is evidence of nonswitchers (those students who would attend private school with or without a voucher). Following Lueken (2021) and Costrell’s (2008) logic, those students who decide not to attend private school after being denied a voucher are evidence of switchers, students who would leave public schools if offered a voucher. The reality, however, is that the choice of a family to send their child to private school after being denied a voucher is not the same as the choice a family makes about where to send their child when given the opportunity of a voucher. In addition, the report does not consider the possibility that the program might initially or eventually have a switcher rate of, for example, 20% or 40%. Perhaps most importantly, it is not clear how even if one accepts the assumption that students attending private school would (with the subsidy) be 40% of the population, how does this get one to a 60% switcher rate? Putting aside the inappropriateness of the switcher rate estimates used in the report, a second problem emerges when one considers whether an approach relying on lottery studies is generalizable to a larger public of students eligible to participate. Students and families making up the sample of lottery studies typically have unique characteristics, both in their demand for vouchers and their demographics characteristics (e.g., educational needs and student educational history). Families participating in lotteries are already more likely to want their student to attend a private school than the average student, and whether public school was ever considered (or attended) by a student is unclear. So not only do Lueken’s (2021) estimated switcher rates face questions around their construct validity, it is unclear why the estimates are appropriate to use for a subset of students who qualify for a statewide neovoucher program.


In fact, districts in the United States report “cross-subsidizing” special education with general funds because federal and state funding for special education are inadequate. Cross-subsidizing is the practice of using general fund monies to fund federally mandated programs such as special education, because categorical funds provided by the federal or state government are inadequate to cover all costs incurred by providing for the
educational needs of students with disabilities.

See, for example:


See, for example:


For a discussion of the political economy surrounding the production of knowledge around school choice see:


Following are only three of several NEPC reviews reviewing reports similar to the report reviewed here:


