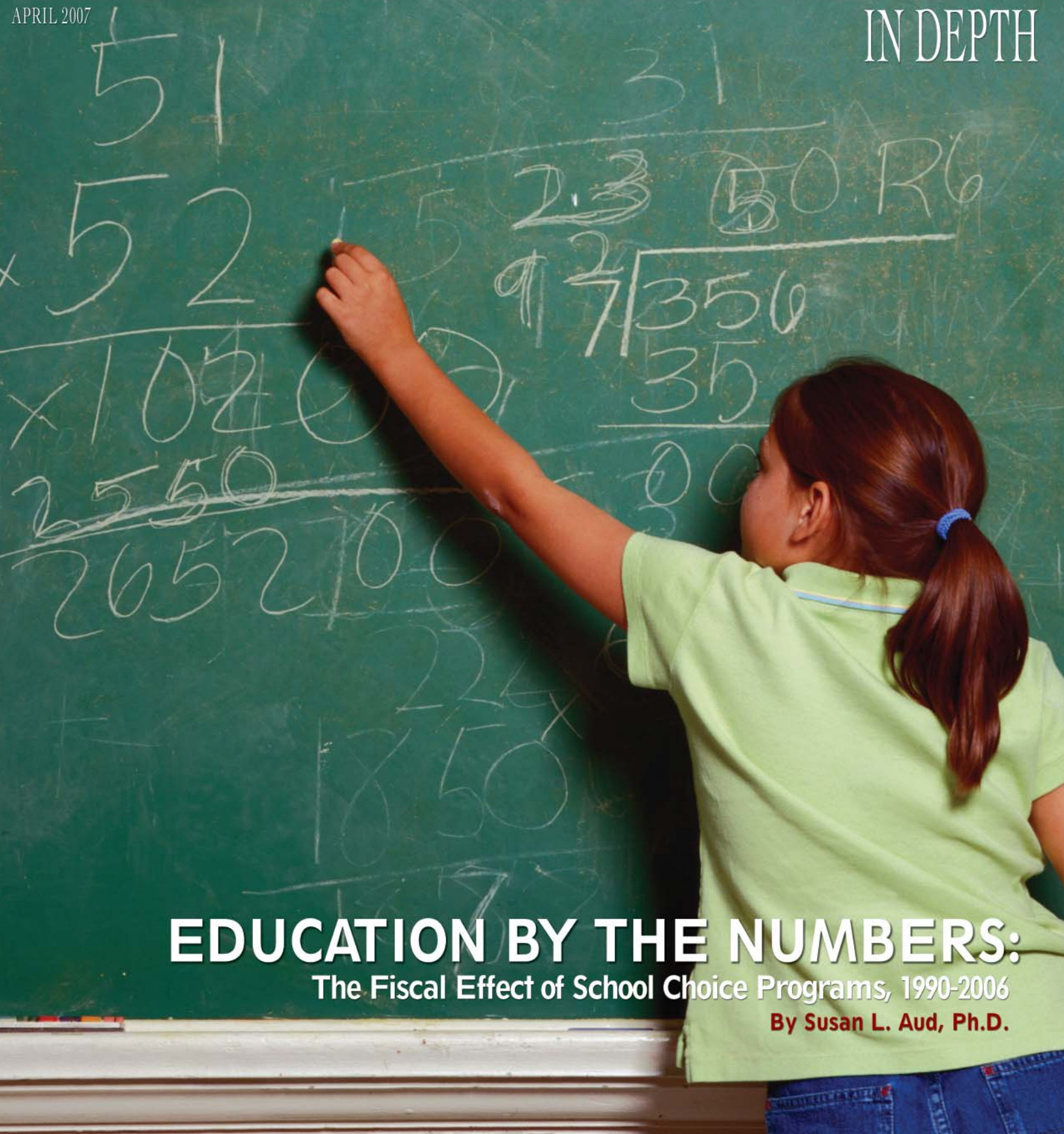


SCHOOL CHOICE

ISSUES

APRIL 2007

IN DEPTH



EDUCATION BY THE NUMBERS:

The Fiscal Effect of School Choice Programs, 1990-2006

By Susan L. Aud, Ph.D.

OUR CHALLENGE TO YOU

Our research adheres to the highest standards of scientific rigor. We know that one reason the school choice movement has achieved such great success is because the empirical evidence really does show that school choice works. More and more people are dropping their opposition to school choice as they become familiar with the large body of high-quality scientific studies that supports it. Having racked up a steady record of success through good science, why would we sabotage our credibility with junk science?

This is our answer to those who say we can't produce credible research because we aren't neutral about school choice. Some people think that good science can only be produced by researchers who have no opinions about the things they study. Like robots, these neutral researchers are supposed to carry out their analyses without actually thinking or caring about the subjects they study.

But what's the point of doing science in the first place if we're never allowed to come to any conclusions? Why would we want to stay neutral when some policies are solidly proven to work, and others are proven to fail?

That's why it's foolish to dismiss all the studies showing that school choice works on grounds that they were conducted by researchers who think that school choice works. If we take that approach, we would have to dismiss all the studies showing that smoking causes cancer, because all of them were conducted by researchers who think that smoking causes cancer. We would end up rejecting all science across the board.

The sensible approach is to accept studies that follow sound scientific methods, and reject those that don't. Science produces reliable empirical information, not because scientists are devoid of opinions and motives, but because the rigorous procedural rules of science prevent the researchers' opinions and motives from determining their results. If research adheres to scientific standards, its results can be relied upon no matter who conducted it. If not, then the biases of the researcher do become relevant, because lack of scientific rigor opens the door for those biases to affect the results.

So if you're skeptical about our research on school choice, this is our challenge to you: prove us wrong. Judge our work by scientific standards and see how it measures up. If you can find anything in our work that doesn't follow sound empirical methods, by all means say so. We welcome any and all scientific critique of our work. But if you can't find anything scientifically wrong with it, don't complain that our findings can't be true just because we're not neutral. That may make a good sound bite, but what lurks behind it is a flat rejection of science.

SCHOOL CHOICE BY THE NUMBERS: THE FISCAL EFFECT OF SCHOOL CHOICE PROGRAMS, 1990-2006

Prepared By:
Susan L. Aud, Ph.D.
Senior Fellow
Milton and Rose D. Friedman Foundation

April 2007

MILTON & ROSE D. FRIEDMAN
FOUNDATION

Educational
Choice

EXECUTIVE SUMMARY

School choice programs, which allow students to attend the public or private school of their choice using public funds, have taken root in the U.S. and are growing rapidly both in number and size. Their fiscal impact has become an important political issue. Proponents say school choice saves money because private schooling is more efficient, producing savings for both public schools and state budgets. Meanwhile, opponents say school choice drains money from public schools.

This study calculates the fiscal impact of every existing voucher and tax-credit scholarship program, in order to bring empirical evidence to bear on the debate over the fiscal impact of school choice. Of the 18 voucher and tax-credit scholarship programs in the United States, twelve began operations before the current school year and their fiscal impact can thus be assessed. We did not include school choice programs in Iowa, Illinois or Minnesota that provide personal tax credits or deductions for private school tuition, since assessing their impact would be prohibitively difficult.

Key findings include:

- School choice programs have saved a total of about \$444 million from 1990 to 2006, including a total of \$22 million saved in state budgets and \$422 million saved in local public school districts.
- Every existing school choice program is at least fiscally neutral, and most produce a substantial savings. Only Utah's Carson Smith voucher program and the two century-old "town tuitioning" programs in Maine and Vermont are neutral; every other school choice program has produced at least \$1 million in savings.
- In nearly every school choice program, the dollar value of the voucher or scholarship is less than or equal to the state's formula spending per student. This means states are spending the same amount or less on students in school choice programs than they would have spent on the same students if they had attended public schools, producing a fiscal savings.
- When a student uses school choice, the local public school district no longer needs to pay the instructional costs associated with that student, but it does not lose all of its per-student revenue, because some revenue does not vary with enrollment levels. Thus, school choice produces a positive fiscal impact for school districts as well as for state budgets.
- Programs that offer vouchers or scholarships both to public school students and to students who did not previously attend public schools are now offering large enough dollar amounts to attract at least 25 percent of their participants from public school students. Inducing greater numbers of students to migrate from public school to private school increases the fiscal savings generated for states and public schools from school choice.
- Instructional spending per student has consistently gone up in all affected public school districts and states. School choice has not prevented those states and districts from spending more on the students who remain in public schools.

ABOUT THE AUTHOR



Dr. Susan Aud is a Senior Fellow with the Milton and Rose D. Friedman Foundation. She also teaches Quantitative Methods in Political Science Research at the Paul H. Nitze School for Advanced International Studies at Johns Hopkins University, and Statistical Methods in Policy Analysis at George Mason University. While her research initially targeted the economic impact of changes to the market structure of public education, in recent years Dr. Aud has focused her research on the specifics of public education finance formulas at both the state and federal level.

ABOUT THE FRIEDMAN FOUNDATION



The Milton and Rose D. Friedman Foundation, dubbed “the nation’s leading voucher advocates” by the *Wall Street Journal*, is a non-profit organization established in 1996. The origins of the foundation lie in the Friedmans’ long-standing concern about the serious deficiencies in America’s elementary and secondary public schools. The best way to improve the quality of education, they believe, is to give all parents the freedom to choose the schools that their children attend. The Friedman Foundation builds upon this vision, clarifies its meaning to the public and amplifies the national call for true education reform through school choice.

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INTRODUCTION

In 1955 Milton Friedman proposed a revolutionary idea for public education in the United States – the government could pay for a child’s compulsory education without actually providing it.¹ Giving parents control over the spending of the education funding designated for their child and allowing them to choose from alternatives created by a thriving education marketplace, he proposed, would greatly increase both the effectiveness and the efficiency of the system.

But in the 1950s, like today, assigning students to schools based on their residential addresses, regardless of their needs or abilities, was so deeply entrenched that any alternative was considered too controversial. This was what we, as a nation, had come to know and find comfortable. And for a long time this attitude stubbornly resisted any attempt to extend parental choice in education. Even as people panicked in the early 1990s when healthcare reform threatened to take away our ability to choose doctors and hospitals, many were equally panicked by the idea that parents might be permitted to choose schools.

But at about the same time this panic over health care choice was occurring, Milton Friedman’s idea for school choice was finally getting its first big test. In 1990, frustrated low-income parents in Milwaukee were offered a chance to escape their failing urban school system with publicly funded school vouchers.² The Milwaukee Parental Choice Program has survived numerous attempts to shut it down, and has grown explosively – to the point where the voucher-using student population is equal to almost 20 percent of the public-school student population.

The success of Milwaukee’s program has inspired imitators. Today, what was once viewed as a radical idea has been accepted in the mainstream, as school choice programs increase in number and participation each year. As of the 2006-07 school year there are twelve voucher programs in existence in seven states and the District of Columbia. These programs allow parents to select a private school of their choice, using public funds to cover all or part of the student’s tuition. Several of these programs are aimed at special student populations, such as disabled students, foster children or low-income students. Together, these programs allowed more than 50,000 students to attend private schools in 2005-06.

In addition, there are six tax-credit scholarship programs in five states. These programs allow either individuals or corporations to receive a tax credit for donating money to scholarship granting organizations. These organizations then award scholarships to students, which they can use to attend the private schools of their choice. These programs allowed more than 68,000 students to attend private schools in 2005-06.

The debate over school choice has been passionate on both sides. Many suggest that allowing parents to choose their child’s school is important for providing all students with equal access to educational resources regardless of their ability to pay. This is why many school choice programs are focused on low-income or otherwise disadvantaged students. However, there is a more basic rationale for school choice, which is that the United States is a nation founded on the principle of liberty. Having the freedom to choose a school should be considered as normal as having the freedom to choose a doctor. Acceptance of this idea is rapidly gaining ground, as the number of school choice programs and participants continues to increase.

As the trend towards more school choice continues, it is worthwhile to assess the fiscal impact of these programs. There is still a strong contingent that believes school choice should only be allowed if it can be proven to not have a detrimental fiscal effect on the current system of public schools. And Milton Friedman himself didn’t just argue that choice would deliver a better education; he also argued that it would save money. Was he right? While there is not yet any truly open system of educational choice operating in the U.S., we can examine the financial impact of the more limited programs that have been enacted. Are they allowing the government to provide education at a reduced cost? This study examines the growing school choice movement and calculates the fiscal impact of each school choice program to date.



**SCHOOL CHOICE PROGRAMS
AND PARTICIPATION**

SCHOOL CHOICE PROGRAMS AND PARTICIPATION

Table 1 tracks the growth of school choice since 1990. In the 1990s school choice grew steadily, but slowly. The number of programs was small, and more importantly, many of them were operating under legislated participation caps. Thousands of students were excluded from these pioneering programs because of such arbitrary limitations. Over the last six years, however, as more states have begun to offer school choice to parents, and as the participation limits on school choice programs have been raised or even eliminated, the number of students receiving school choice has rapidly expanded. There are now a total of 21 school choice programs in eleven states and the District of Columbia. In the 2005-06 school year nearly 110,000 students nationwide were using voucher and tax-credit scholarship programs created since 1990 to attend a private school of their choice. And with eight more voucher and tax-credit scholarship programs starting in either 2006-07 or 2007-08, the number of participants can only be expected to grow.

In addition, it should be noted that school vouchers are not a new practice. Maine and Vermont both have long-standing voucher programs in the form of “town tuitioning,” a practice going back to the 19th century. Students in small towns that don’t have public schools at their grade level are sent to neighboring schools at public expense. Students can choose ei-

ther public or private schools, so town tuitioning is a form of voucher program – students can attend private schools using public funds. More than 6,000 students choose private schools through town tuitioning in Maine, and about 4,500 in Vermont.

However, the modern school choice movement really began in Milwaukee in the 1990-91 school year. In its first year this program provided 337 vouchers to students to attend private secular schools in Milwaukee. Local activists fought to expand legislated caps on participation, and by 1995 the program was providing 1,320 vouchers. In that year the program was expanded to include private religious schools. Court challenges held the expansion up until 1998, but once the expansion went into effect, participation soared.

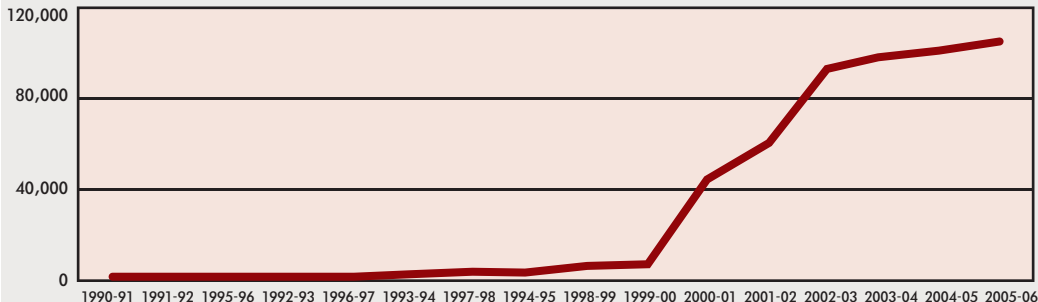
In 1995 another program, the Cleveland Scholarship and Tutoring Program, came into existence. In its first year of operation, 1996-97, this program provided vouchers to nearly 2,000 children living within the Cleveland Municipal School District. This more than doubled the number of children escaping failed urban school systems with vouchers.

In 1998-99 the first tax-credit scholarship program was enacted. Arizona’s individual tax credit for donations to School Tuition Organizations produced sufficient



Table 1

Participation In School Choice Programs Created Since 1990



	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Wisconsin Milwaukee Vouchers	337	504	591	718	786	1,320	1,606	1,501	5,740	7,596	9,104	10,391	11,209	12,778	14,427	14,825
Ohio Cleveland Vouchers						1,994	2,914	3,674	3,406	3,797	4,523	5,278	5,887	5,675	5,813	
Arizona Individual Tax-Credit Scholarships								128	365	15,081	18,049	19,559	20,134	21,146	22,522	
Florida McKay Vouchers									2	970	5,013	9,130	13,739	15,910	17,300	
Florida A+ Vouchers									57	51	47	556	640	763	734	
Pennsylvania Corporate Tax-Credit Scholarships										17,732	20,649	26,444	27,261	29,651	32,200	
Florida Corporate Tax-Credit Scholarships												15,585	11,550	10,473	13,739	
Washington, D.C. D.C. Vouchers														1,366	1,088	
Ohio Autism Vouchers														270	490	
Utah Carson Smith Vouchers																141
Arizona Disabled Student Vouchers																NEW
Arizona Foster Child Vouchers																NEW
Arizona Corporate Tax-Credit Scholarships																NEW
Iowa Individual Tax-Credit Scholarships																NEW
Ohio EdChoice Vouchers																NEW
Rhode Island Corporate Tax-Credit Scholarships																NEW
Utah Parent Choice Vouchers																NEW
Total	337	504	591	718	786	1,320	3,600	4,415	9,542	11,426	46,735	58,672	87,761	91,989	99,681	108,610

Note: Voucher programs in Maine and Vermont dating to the 19th century are not included here; over 10,000 students attend private schools at public expense each year through these programs. Programs in Illinois, Iowa and Minnesota that provide personal tax credits or deductions for educational expenses are also not included; these programs make choosing a private school somewhat easier for about 650,000 participating families.

funds to award 128 scholarships in its first year. Although the number more than doubled, to 365, the following year, the third year of the program saw a tremendous expansion after a court challenge to the program had been defeated. There were more than 15,000 scholarship recipients that year.

Florida's two voucher programs, the John M. McKay Scholarship for Students with Disabilities and the A+ Opportunity Scholarship Program for students in failing schools, joined the school choice movement the next year. While they started small, with only 59 vouchers in the first year, the two programs served more than 18,000 in the 2005-06 school year. The McKay program, which served 17,300 students that year, was the nation's largest voucher program (though it has since been overtaken again by Milwaukee's program).

In 2000, Pennsylvania's Educational Improvement program became available, providing corporate tax credits for donations to Scholarship Organizations. This was followed by Florida's Step Up corporate tax-credit scholarship program two years later. In the 2004-05 school year, the first federally funded voucher program began in Washington, D.C. This program, the Opportunity Scholarship program, reached its legislated maximum capacity of just over 1,800 students in 2006-07. Ohio's Autism Scholarship Program and Utah's Carson Smith Scholarship Program for students with special needs became available in the following few years.

It should be noted that many of these programs are operating at their maximum legislated capacity and that the waiting lists are quite extensive. The total number of parents interested in these pro-

grams is substantially higher than Table 1 suggest.

In addition to the programs listed above, three states - Iowa, Illinois and Minnesota - offer taxpayers a tax credit or deduction on their personal income taxes for education expenses, including expenses at private schools. These programs make choosing a private school somewhat easier for about 650,000 participating families. However, these programs are not included in this study, because they are so different from vouchers and tax-credit scholarships, and because calculating their fiscal impact would be prohibitively difficult.

In the 2006-07 school year seven new school choice programs were to begin operation, a higher number than in any previous year. Some of these programs are vouchers and others are tax-credit scholarships. Some will not actually provide vouchers or scholarships until the fall of 2007, because they began operation after the start of the school year in 2006. The most important of these is the nation's first universal voucher program, enacted in Utah in early 2007 and set to begin operations in fall 2007. The Parent Choice in Education Program will offer school vouchers to roughly 97 percent of the state's students. And since all new kindergartners are eligible, the program will be truly universal by 2020. The dollar amounts of the voucher are on a sliding scale by income and are on the low side - \$3,000 for students eligible for free and reduced lunch programs, gradually declining down to \$500 for wealthy students. But this program is still a tremendous breakthrough for Milton Friedman's vision of school choice, and provides hope that a true educational marketplace will soon be opened up.



THE FISCAL IMPACT OF SCHOOL CHOICE


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If a state spends \$6,000 per student in public schools and offers a \$5,000 voucher, every student who uses a voucher saves the state \$1,000.

The growth of school choice programs is changing how education is funded. On a limited basis, these programs are shifting control of a portion of public funding from the public school system to parents. In nearly every case, the portion given to parents represents only a fraction of the total funding per student.

In most states, a certain amount of revenue is allocated for each student, often referred to as the “formula” amount (it is also sometimes called the “base” or “foundation” amount). This is the amount that the state legislature has determined is required to cover the basic day-to-day costs of educating each child.³ The determination of the formula funding tied to each student is often incredibly complex, with multiple layers, acronyms, and indices that very few people understand. However, the basic outline of the system is straightforward: each school district is allocated an amount of funding based on its total enrollment and the state’s level of formula funding per student. This total amount of formula funding is then split between the district and the state according to each district’s ability to pay – wealthier districts are expected to shoulder a larger portion of their own funding from local revenue, while in poorer districts the state picks up a larger share of the funding. The method of determining each district’s ability to pay varies from state to state, but is generally based on either the relative property value or income level in each district.



A young child with light brown hair, wearing a light blue shirt, is sitting at a desk in a classroom. The child is looking down and writing in a notebook with a pencil. The background is slightly blurred, showing other students and classroom furniture.

The three main sources of school funding – federal, state, and local – are all affected differently by school choice. School choice programs typically redirect some or all of the state portion of school funding. State departments of education can pass the entire state portion of funding on to parents, rather than the district, with no fiscal effect to the state. The state spends the same amount either way. And if only a portion of state funding is redirected, as is often the case, the state can simply pocket the difference as a fiscal benefit. For example, if a state spends \$6,000 per student in public schools and offers a \$5,000 voucher, every student who uses a voucher saves the state \$1,000.

Although our analysis will examine only the state savings from formula revenue per student, any school choice participants who qualify for various supplemental state programs, such as programs for disadvantaged students or gifted students, would have a higher total amount of state aid associated with them. As a result, the actual savings to the state from school choice programs will be greater than our analysis indicates.

The redirection of state formula revenue to parents does not generally affect the local or federal revenue going to a public school district. Federal revenue for education is received by districts either as direct grants or as grants passed through the state. Most of these grants, such as Title I of the No Child Left Behind Act and the national school lunch program, are designed to increase the educational resources of disadvantaged students. The formulas for determining the amount of federal funds a district receives through these programs are based in part on the

number of disadvantaged students living within the district's boundaries, as determined by the U.S. Census. Since students using school choice do not change residence, school choice will not affect federal revenue for public schools. What's more, federal funding levels generally do not change much even when the number of disadvantaged students in a district changes, thanks to hold-harmless provisions, small state provisions, set-asides and discretionary provisions at both the state and district level.

Local public education revenue is generally raised by property taxes. In some cases, school boards are able to set their own tax rates and collect the amount of revenue they determine is necessary. In other cases, the school board must go to a local governing board, such as a city council or county board of supervisors, and request their school budget from the total property taxes collected – meaning that education competes with other public services for local revenue.

Either way, local funding usually does not have a defined, enrollment-based formula driving it, so local revenue is likely to be affected only by especially large changes in enrollment. School choice programs therefore do not generally remove any local funds from public schools, even though students and their associated costs are being removed from those schools. This means that when a student leaves a public school using a voucher, the school's costs go down by one student's worth, but its revenue goes down by less than one student's worth. The difference is quite substantial – in most states, local funding makes up over 35 percent of all school revenue. This effect provides a financial

windfall for public schools. However, some school choice programs do redirect local revenue as well as state revenue.

While public education revenue is determined by state formulas, politics or a combination of both, a school district's expenditures are governed by the superintendent and the school board, within legal and accounting boundaries. Total expenditures, naturally, are normally limited to total revenue.

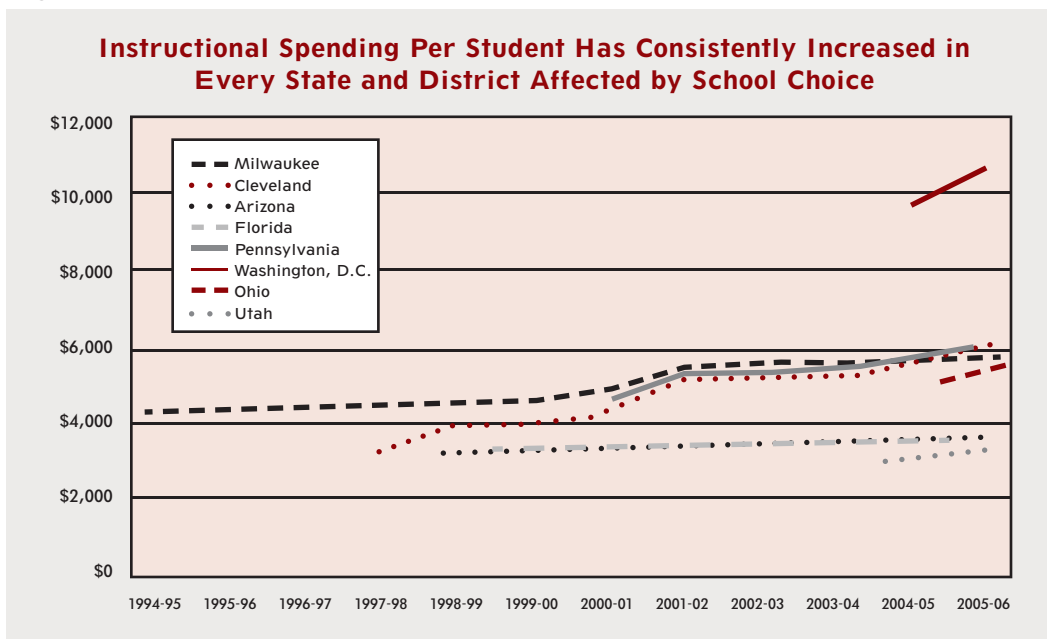
When enrollment changes, there should be an accompanying change in so-called "current" expenditures. Current expenditures are the operating expenditures for a given year; they do not include long-term expenses such as building costs or bond payments. While all current expenditures will be reduced by the departure of students, in order to keep this analysis as conservative as possible we assume that the change in expenditures will be limited to instructional expenses. This is the subcategory of current expenditures that includes only the classroom expense, not


transportation, lunch programs, administration or other non-instructional support services and expenditures. This minimizes our calculation of the reduction in district costs when a student leaves. The actual savings to local school districts from school choice programs will therefore be larger than our analysis suggests.

We make this conservative assumption to ensure that our analysis takes into account the widespread complaints brought by school choice opponents about fixed costs. Opponents of vouchers argue that giving parents control of any amount of public education funding hurts public schools, because public schools are not able to reduce their costs sufficiently when a student leaves with a voucher.

These complaints are badly overblown. Public school districts adjust their expenditures to meet changes in enrollment whenever students enter or leave a school district, regardless of the reason. Enrollment levels in school districts are constantly shifting from year to year,

Figure 1



A woman with blonde hair and glasses is looking down at a document she is holding. The background is a blurred bookshelf.

and districts respond by changing their spending levels. Many urban districts have faced declining enrollment for years and have reduced their workforces and building stocks accordingly. Similarly, districts with growing enrollment build more schools and hire more teachers every year. There is no reason school districts should find it more difficult to respond to changes in enrollment due to school choice than to all the other existing causes of enrollment change.

However, because of these complaints, it has become the standard practice for fiscal analyses of school choice programs to make some accommodation for fixed costs. To keep our analysis conservative, we have not only excluded from our analysis all reductions in costs outside the category of current expenditures, but we have even excluded all reductions in current expenditure costs other than instructional costs. By assuming that only instructional expenditures are affected by changes in enrollment, we provide the maximum leeway for the role of fixed costs.

In fact, our data show that per-student instructional expenditures have uniformly increased in all the districts and states affected by school choice programs (see Figure 1). This shows that, even with the redirection of some revenue to parental control under school choice programs, states and districts were able to spend more on the students that remained in the public schools.

To summarize: for each school choice program, our analysis assumes that when a student receives a voucher the local public school district will lose the state formula revenue associated with that student, while federal and local revenue will

be unchanged. This loss of revenue will be offset by a reduction of public education expenses equal to the instructional expenditures per student for that year. The fiscal impact for the state will be the difference between the total amount spent on the vouchers or scholarships and the total amount of formula funding that would otherwise have been spent on the students using them. Statewide averages will be used for all programs other than city-based programs in Milwaukee, Cleveland and Washington, D.C., where local averages will be used. The particular components of each state funding system or voucher program will be accounted for as well. For example, where the cost of a voucher program is shared between state and local governments, we adjust our cost calculations accordingly.



ARIZONA



Arizona has been proactive on the school choice front. It enacted the first tax-credit scholarship program, for individual taxpayers, in 1997. In the 2005-06 legislative session, Arizona passed two new voucher programs, one for disabled students and one for students in foster care, as well as a tax-credit scholarship program for corporate taxpayers. These four programs could realistically offer more than 30,000 vouchers and scholarships to students in Arizona for the 2007-08 school year. Within a few years they will likely serve more than 5 percent of the roughly 900,000 school children in Arizona.

Arizona's public education funding system is known as Base Equalization funding. There are four components to the formula – basic support, transportation, soft capital (desks and books) and capital outlay (buildings).⁴ Each of these funding components multiplies a set amount by the average daily attendance of a district to determine the funding level for that district.⁵

Formula aid has been declining as a percentage of total state funding per student over the last decade in Arizona. In 1998-99, 92 percent of all state funding for schools was formula aid; by 2003-04, only 74 percent was. This has not been an uncommon trend, as legislatures have increasingly prioritized categorical programs over formula aid. Unfortunately, it means state funding is less directly associated with the level of enrollment in each local district.

To determine the savings for the Arizona state education budget from school choice, we consider only the formula portion of the state funding per student. This is appropriate, as this is the portion of the budget that would change as enrollment in public schools changes.

The only Arizona program whose fiscal impact can be calculated is the school tuition organization individual tax credit; the other three programs are too new to analyze. To determine the effect this program has had on state funding, we first determine the difference between the formula revenue per student and the average scholarship amount for each year of the program's existence, and multiply this difference by the number of scholarships awarded in that year to students who had previously been in public schools. Then we add to this the average scholarship amount for each year multiplied by the number of scholarships awarded in that year to students who were already in private schools.

Because the program awards some scholarships to students who are already attending private schools, it is necessary for us to estimate how many participants fall into this category. These students do not generate savings from reduced public school expenditures. We estimate the percentage of participants who would probably have attended a public school prior to receiving a scholarship using an estimate of the price elasticity of demand for a private school education. The price elasticity of demand tells us the change in the percentage of people who purchase something (in this case, private schooling) when its price changes by 1 percent. Since school choice effectively reduces the price of private schooling, the price elasticity of demand for private schooling allows us to estimate how many new students will migrate from public to private schools based on the dollar value of the scholarships. The most recent research on price elasticity of demand for private schooling suggests that for each 1 percent decline in tuition costs, private school enrollment will increase by 1.32 percentage points.⁶ We applied this price elasticity of demand to the average scholarship amounts for each year and the average cost of private school tuition.⁷ This allows us to estimate the number of students who would leave private schools if the program were discontinued.

In the eight years it has been in existence, Arizona's individual tax credit program has cost the state about \$29 million (see Table 2). This is equal to approximately \$250 per scholarship awarded. If the average scholarship amount continues to increase over time, however, a greater proportion of participants will be public school students moving to private schools with scholarships, improving the program's fiscal impact on the state.

Table 2

Arizona's Personal Tax-Credit Scholarships Have Saved \$18 Million

	Number of Donations	Total Amount of Donations	Number of Scholarships	Estimated Public School Students Receiving Scholarships	Estimated Private School Students Receiving Scholarships	Average Scholarship	Average State Formula Spending per Student	Difference Between State Formula Spending and Average Scholarship	State Savings From Public School Students Receiving Scholarships	State Savings From Private School Students Receiving Scholarships	State Budget Fiscal Impact
1998-99	4,248	\$1,816,799	128	36	92	\$811	\$2,667	\$1,856	\$66,933	\$74,564	(\$7,631)
1999-00	32,023	\$13,781,341	365	79	286	\$653	\$2,745	\$2,092	\$164,531	\$186,984	(\$22,453)
2000-01	38,249	\$17,701,284	15,081	4,261	10,820	\$899	\$2,840	\$1,941	\$8,268,975	\$9,727,154	(\$1,458,179)
2001-02	46,755	\$24,924,656	18,049	4,824	13,225	\$893	\$2,868	\$1,975	\$9,528,893	\$11,809,601	(\$2,280,708)
2002-03	52,161	\$26,171,191	19,559	6,367	13,192	\$1,142	\$2,771	\$1,629	\$10,374,695	\$15,064,863	(\$4,690,168)
2003-04	58,122	\$29,445,494	20,134	6,636	13,498	\$1,214	\$3,087	\$1,873	\$12,426,431	\$16,386,588	(\$3,960,157)
2004-05	63,830	\$31,871,900	21,146	7,294	13,852	\$1,334	\$2,857	\$1,523	\$11,104,762	\$18,478,887	(\$7,374,126)
2005-06	69,232	\$42,191,748	22,522	7,598	14,924	\$1,370	\$2,857 ⁸	\$1,487	\$11,294,604	\$20,445,727	(\$9,151,123)
State Total											(\$28,944,544)
	Estimated Public School Students Receiving Scholarships	Average Instructional Spending per Student	Average State Formula Spending per Student	Difference Between State Formula Spending and Instructional Spending	Public School Districts Fiscal Impact						
1998-99	36	\$3,144	\$2,667	\$477	\$17,194						
1999-00	79	\$3,328	\$2,745	\$583	\$45,868						
2000-01	4,261	\$3,416	\$2,840	\$576	\$2,456,034						
2001-02	4,824	\$3,868	\$2,868	\$1,000	\$4,823,585						
2002-03	6,367	\$4,065	\$2,771	\$1,294	\$8,237,072						
2003-04	6,636	\$4,141	\$3,087	\$1,054	\$6,997,101						
2004-05	7,294	\$4,381	\$2,857	\$1,525	\$11,119,980						
2005-06	7,598	\$4,635	\$2,857 ⁹	\$1,779	\$13,516,434						
Local Total					\$47,213,269						
Combined Total					\$18,268,725						

We turn now to the program's impact on local public school districts. Instructional expenditures are reduced when public school students receive scholarships. As indicated in Table 2, these cost savings substantially outweigh the reduction in state funding received by local public school districts, producing a net fiscal gain for local public school districts in Arizona totaling \$47 million. In reality, the savings are likely to be much larger, both because of the conservative assumptions in our analysis (discussed above), and because most of the scholarship students come from disadvantaged backgrounds and require larger educational expenditures than the average student requires.

As Arizona implements its two new voucher programs and its new corporate tax-credit scholarship program, the additional savings generated are likely to be substantial.



FLORIDA



Like Arizona, Florida was an early entrant to the school choice movement. The school choice programs that it has offered to date target particular types of students. The McKay Scholarship Program is a voucher program for students with disabilities, the A+ Opportunity Scholarship Program is a voucher program for students in chronically failing schools, and the state also has a corporate tax-credit scholarship program for low-income students. In the 2005-06 school year more than 31,500 students in Florida received vouchers and scholarships from these three programs. Although this represents only 1.2 percent of Florida's 2.5 million students, the state has been a school choice leader.

Florida's public education funding system is known as the Florida Education Finance Program (FEFP).¹⁰ The FEFP uses a foundation funding amount per student, the Base Student Allocation (BSA), and multiplies this by the weighted number of full-time equivalent students in each district.¹¹ The weights are mainly based on student grade levels, with add-on weights for severe special needs, English language learners and vocational students. In addition to the BSA there are several categorical programs, the funding of which is determined according to separate formulas. The total FEFP amount for each district is then divided between the state and the district according to the district's ability to pay, as determined by property values and legislatively determined tax rates. So the total FEFP amount represents both state and local funding. The state's FEFP spending rose from 76 percent of total state spending in 1999-2000 to 85 percent in 2003-04.

A+ Opportunity Scholarship Program

The A+ Opportunity Scholarship Program was established in 1999 and offered students in chronically failing schools the opportunity to attend a private school of their choice with school vouchers. To be considered chronically failing, a school had to have received a state rating of "F" for two consecutive years, based on its scores on the Florida Comprehensive Assessment Test. In 2006, the Florida Supreme Court struck down the A+ program. Since then, students who were previously receiving A+ vouchers have been made eligible to receive scholarships through Florida's tax-credit scholarship program (see below).

During the seven years that this program was in existence, students received vouchers that averaged between \$3,000 and \$4,100 each. In each year, the average voucher amount exceeded state formula spending per student, and the growth in the average voucher amount was greater than the growth in the state FEFP spending per student. However, districts had the total voucher amounts for their students deducted from their state aid. Therefore, the program resulted in a total savings to the state of about \$2 million (see Table 3). This represents the difference between what the state paid for vouchers and what it would have paid for the same students in FEFP aid to public schools.

Table 3

Florida's A+ Vouchers Saved \$3 Million

	Number of Vouchers	Total Amount of Vouchers	Average Voucher	Average State Formula Spending per Student	Difference Between State Spending per Student and Average Voucher	State Budget Fiscal Impact
1999-00	57	\$175,205	\$3,074	\$2,934	\$140	\$1,967
2000-01	51	\$176,900	\$3,469	\$3,091	\$378	\$19,259
2001-02	47	\$155,494	\$3,308	\$2,986	\$322	\$15,152
2002-03	556	\$2,058,600	\$3,703	\$3,081	\$622	\$345,564
2003-04	640	\$2,546,850	\$3,979	\$3,230	\$749	\$479,650
2004-05	763	\$3,126,618	\$4,098	\$3,378	\$720	\$549,204
2005-06	734	\$2,982,448	\$4,063	\$3,446	\$617	\$453,084
State Total						\$1,869,880
	Number of Vouchers	Average Instructional Spending per Student	Average Voucher	Difference Between Average Voucher and Instructional Spending	Public School Districts Fiscal Impact	
1999-00	57	\$ 3,712	\$3,074	\$639	\$36,399	
2000-01	51	\$ 3,863	\$3,469	\$394	\$20,090	
2001-02	47	\$ 3,939	\$3,308	\$630	\$29,625	
2002-03	556	\$ 4,070	\$3,703	\$367	\$204,310	
2003-04	640	\$ 4,301	\$3,979	\$321	\$205,483	
2004-05	763	\$ 4,423	\$4,098	\$325	\$247,834	
2005-06	734	\$ 4,548	\$4,063	\$485	\$355,907	
Local Total					\$1,099,648	
Combined Total					\$2,969,528	

Although the A+ program reduced state aid to local public school districts, the average instructional spending per student in Florida was greater than this amount for each year of the program's existence. This created a net fiscal savings for school districts. Over seven years, their total net savings was about \$1 million (see Table 3).

McKay Scholarship Program

The McKay program is slightly more complicated to analyze than most other voucher programs. Its participants are disabled students, and these students require additional educational resources. Thus, in addition to state FEFP spend-

ing, the state's portion of funding for Exceptional Student Education (ESE) and ESE transportation programs must be considered. There is substantial variation in the amount of funding associated with each disabled student, so we cannot calculate the effect on state finances without more data than we possess. However, the amount of the voucher is limited to actual spending that the student would have generated in public school, so the worst possible case is that the program is revenue neutral for the state. If students do not use the full amount of the voucher because their private school tuition is less than this amount, then the program would generate a savings for the state.

However, we can calculate the fiscal impact on local public school districts. Florida's average instructional expenditures for exceptional students are known to have exceeded the average McKay voucher amount for each year.¹² As the program has grown, the annual cost savings to school districts have grown to more than \$40 million per year, totaling \$139 million over seven years (see Table 4). It is likely that, as more parents choose to exercise choice through this program, the savings will grow.

Corporate Tax-Credit Scholarships

Finally, Florida's corporate tax-credit scholarship program has provided scholarships of up to \$3,500 to eligible students since 2002. Students must have family incomes of no more than 185 percent of federal poverty guidelines to participate. While \$3,500, the scholarship limit set by the legislation creating the program, is more than the state portion of FEFP spending per student, the dollar amount of the scholarships has been constant over the four years of the program's existence while the state's FEFP spending per student has increased. By 2005-06 the two amounts were virtually even, and by 2006-07 the program is probably resulting in a savings to the state (see Table 5).

Table 4

Florida's McKay Vouchers Have Saved \$139 Million

	Number of Vouchers	Total Amount of Vouchers	Average Voucher	Average Instructional Spending per Exceptional Student	Difference Between Average Voucher and Instructional Spending	Public School Districts Fiscal Impact
1999-00	2	\$3,525	\$1,763	\$7,092	\$5,329	\$10,658
2000-01	970	\$5,883,636	\$6,066	\$7,726	\$1,660	\$1,610,200
2001-02	5,013	\$27,843,446	\$6,634	\$7,991	\$1,357	\$6,802,641
2002-03	9,130	\$53,320,966	\$6,769	\$8,500	\$1,731	\$15,804,030
2003-04	13,739	\$81,755,700	\$6,814	\$8,910	\$2,096	\$28,796,944
2004-05	15,910	\$97,276,718	\$6,835	\$9,462	\$2,627	\$41,795,570
2005-06	17,300	\$107,686,252	\$6,926	\$9,462	\$2,536	\$43,872,800
						Total \$138,692,843

Table 5

Florida's Corporate Tax-Credit Scholarships Have Saved \$42 Million

	Number of Scholarships	Total Amount of Scholarships	Average Scholarship	Average State Formula Spending per Student	Difference Between State Spending per Student and Average Scholarship	State Budget Fiscal Impact
2002-03	15,585	\$50,000,000	\$3,500	\$3,081	(\$419)	(\$6,530,115)
2003-04	11,550	\$40,000,000	\$3,500	\$3,230	(\$270)	(\$3,118,500)
2004-05	10,473	\$36,655,500	\$3,500	\$3,378	(\$122)	(\$1,277,706)
2005-06	13,497	\$47,239,500	\$3,500	\$3,446	(\$54)	(\$728,838)
State Total						(\$11,655,159)
	Number of Scholarships	Instructional Spending per Student	Average State Formula Spending per Student	Difference Between State Formula Spending and Instructional Spending	Public School Districts Fiscal Impact	
2002-03	15,585	\$4,070	\$3,081	\$989	\$15,413,281	
2003-04	11,550	\$4,301	\$3,230	\$1,071	\$12,364,503	
2004-05	10,473	\$4,423	\$3,378	\$1,045	\$10,940,210	
2005-06	13,497	\$4,548	\$3,446	\$1,102	\$14,875,964	
Local Total					\$53,593,957	
Combined Total					\$41,938,798	

As with Florida's other school choice programs, the state formula revenue lost by districts through the corporate tax-credit scholarship program is less than the amount that local districts would have had to spend for the basic instructional needs of the participating students had they remained in public schools. The total savings to local public districts over the four years of the program is more than \$53 million (see Table 5).

The combined fiscal impact of the three Florida school choice programs indicates an increase in state education costs of \$10 million. However, this increase is dwarfed by a total savings to local public school districts of \$194 million. This net savings of nearly \$184 million occurred even as parents' options and overall satisfaction increased.¹³



IOWA



Iowa's individual tax-credit scholarship program, enacted in 2006, will begin offering scholarships to students in the 2007-08 school year. This program allows individuals to take a credit against their income taxes worth 65 percent of their donation to a School Tuition Organization. Since passage of the legislation, several School Tuition Organizations have been formed. In the first year, the amount of funds available to each organization will be dependent upon the share of school enrollment covered by the geographic area that they represent.¹⁴ After that, funds will be apportioned based on enrollment at the private schools served by each organization. In 2006, \$2.5 million in tax credits were available; fundraising efforts met this limit within only a few months. In 2007, the limit increases to a total of \$5 million.

We do not know how many scholarships may be offered in the next school year, or the average amount of these scholarships. However, Iowa bases its public education funding on a legislatively-determined "Cost per Student," plus an annual allowable growth percentage. This foundation amount was \$4,931 for the 2005-06 school year. The program will create net savings for the state as long as the average scholarship is less than this amount. Similarly, the average instructional expenditure per student for 2003-04 (the latest year for which figures are available) was \$4,923.¹⁵ Any difference between the state formula revenue and this number will generate cost savings at the local level.



MAINE



Since 1873, Maine has practiced "town tuitioning." This form of school voucher allows students in small towns without public schools at their grade level to attend nearby public or private schools at public expense. In 2004-05, the most recent year for which data are available, 13,959 students participated, of whom 6,052 chose private schools.

Our analysis considers town tuitioning to be revenue neutral. The towns in which the students reside must pay tuition for them to attend schools of their choice regardless of whether they choose public or private schools (Maine public schools charge tuition for students they receive through tuitioning). Therefore, when parents choose to attend private schools rather than public schools they have not fundamentally changed the fiscal situation. We could calculate the difference between the existing tuition rates at public schools and private schools if we had the necessary data, and call that the fiscal impact of the program. However, since we lack the necessary data for such an analysis, and the towns are paying tuition to schools of choice either way, it is appropriate to treat town tuitioning as revenue neutral.



OHIO



Like Arizona and Florida, Ohio adopted school choice early in the history of the movement, and has become a bellwether state for school choice. Cleveland is the home of the second modern voucher program, and Ohio now has a total of three school voucher programs - more voucher programs than any other state, and behind only Arizona (with its two voucher programs and two tax-credit scholarship programs) for the total number of school choice programs in the state.

Cleveland Scholarship and Tuitioning Program

In March 1995, the Ohio General Assembly enacted legislation that allowed up to 1,500 low-income students in the Cleve-

land Municipal School District to receive vouchers of up to \$2,250 to attend private schools of their choice. The legislation originally allowed up to 50 percent of the recipients to be students who were already attending private schools, though that number was subsequently lowered to 25 percent.¹⁶ The program survived a stiff court challenge that went all the way to the U.S. Supreme Court, where it was upheld in a landmark decision. Its participation limits have been repeatedly expanded; in the 2004-05 school year it provided 5,675 vouchers worth up to \$3,450 each.

Up to 25 percent of voucher recipients could have attended private schools before they received vouchers. Since the dollar value of the Cleveland voucher is not very high relative to other programs, it will be less effective at inducing migration from public schools to private schools. We will assume that a full quarter of participating students – the maximum allowed by law – are students who would have attended private school anyway. Even with this conservative assumption, the Cleveland voucher program generates a small net savings to the state. Over the last nine years, the total net savings are just over \$83,000 (see Table 6).

The instructional spending per student in Cleveland public schools has been greater than the state formula revenue that the district would have received for the students in the program had they remained in public schools, so every public school student who leaves with a voucher generates a savings for the Cleveland Municipal School District. Even with the conservative assumption that only 75 percent of participating students would have attended public schools without the program, the school district has still saved more than \$61 million since the program's inception (see Table 6).

Autism Scholarship Program

In addition to the Cleveland voucher program, Ohio provides up to \$20,000 in state funding for privately provided education services, including private school tuition, for students with autism. Assessing the fiscal impact of the Autism Scholarship Program is difficult, as autism ranges in severity from very mild to very severe, meaning that private school costs for these students will also vary considerably. To make matters worse, Ohio school districts do not currently report data on instructional spending for autistic students.¹⁷ Since Ohio does not make sufficient data available, we cannot calculate the program's fiscal impact on local public school districts.

We can, however, calculate its fiscal effect on the state of Ohio. Funding for disabled students in Ohio uses weights for the various categories of special needs. For example, a disabled student receiving a weight of 2.5 would generate special education funding for the local school district equal to two and a half times the foundation funding level for one regular student. Students with autism receive a weight of 4.735 for their Basic Aid portion of the formula revenue. In addition, these students are counted in the general enrollment and generate funds that way as well. Determining the formula revenue associated with an autistic student requires multiplying the foundation amount (\$5,169 in 2005 and \$5,283 in 2006) by 5.735. This gives us the total funding burden that is shared between the state and the local districts. We multiply this by the local share percentage (which is 0.68) to determine how much is funded locally. What is left over after this local share is subtracted is the average state formula spending per student. The results of the calculations for 2005-06 and 2006-07 are shown in Table 7.

Even though the program serves very few students, and even if we make the conservative assumption that each student uses the maximum voucher amount of \$20,000, the Ohio Autism Scholarship Program has generated \$1 million in savings for the state.

Educational Choice Scholarship Program

Finally, Ohio has implemented the Educational Choice Scholarship Program, which provides school vouchers for students assigned to public schools that have been designated as being in a state of “academic watch” or “academic emergency” for two of the last three years. While it is too early to assess the fiscal impact of the program, it should be noted that the dollar amount of the scholarship, \$4,250 for students in grades K-8 and \$5,000 for high school students, is less

Table 6

Cleveland Vouchers Have Saved \$61 Million

	Estimated Public School Students Receiving Vouchers	Estimated Private School Students Receiving Vouchers	Average Voucher Amount	Average State Formula Spending per Student	Difference Between State Formula Spending and Average Voucher	State Savings from Public School Students Receiving Vouchers	State Cost from Private School Students Receiving Vouchers	State Budget Fiscal Impact
1996-97	1,496	499	\$2,488	\$1,934	(\$554)	(\$828,471)	\$1,240,305	(\$2,068,776)
1997-98	2,186	729	\$2,904	\$2,213	(\$691)	(\$1,509,123)	\$2,115,490	(\$3,624,613)
1998-99	2,756	919	\$1,879	\$2,660	\$781	\$2,151,490	\$1,725,811	\$425,679
1999-00	2,555	852	\$2,029	\$2,900	\$871	\$2,224,169	\$1,727,712	\$496,458
2000-01	2,848	949	\$2,017	\$3,205	\$1,188	\$3,382,947	\$1,914,347	\$1,468,601
2001-02	3,392	1,131	\$2,199	\$3,351	\$1,152	\$3,906,733	\$2,486,535	\$1,420,199
2002-03	3,959	1,320	\$2,342	\$3,504	\$1,162	\$4,598,082	\$3,090,564	\$1,507,518
2003-04	4,415	1,472	\$2,786	\$3,656	\$870	\$3,839,961	\$4,100,472	(\$260,511)
2004-05	4,256	1,419	\$2,686	\$3,750	\$1,064	\$4,529,029	\$3,810,330	\$718,700
State Total								\$83,255

	Number of Vouchers	Average State Formula Spending per Student	Average Instructional Spending per Student	Difference Between State Formula Spending and Instructional Spending	Public School District Fiscal Impact
1996-97	1,496	\$1,934	\$4,771	\$2,837	\$4,243,072
1997-98	2,186	\$2,213	\$3,721	\$1,508	\$3,295,715
1998-99	2,756	\$2,660	\$4,460	\$1,800	\$4,960,586
1999-00	2,555	\$2,900	\$4,489	\$1,590	\$4,060,507
2000-01	2,848	\$3,205	\$4,883	\$1,679	\$4,779,954
2001-02	3,392	\$3,351	\$5,469	\$2,118	\$7,186,003
2002-03	3,959	\$3,504	\$5,782	\$2,278	\$9,017,736
2003-04	4,415	\$3,656	\$6,154	\$2,498	\$11,028,306
2004-05	4,256	\$3,750	\$6,707	\$2,958	\$12,588,455
Local Total					\$61,160,333
Combined Total					\$61,243,588

Table 7

Ohio's Autism Vouchers Have Saved \$1 Million

	Number of Vouchers	Maximum Voucher Amount	Average State Formula Spending per Student	Difference Between State Formula Spending and Maximum Voucher	State Budget Fiscal Impact
2005-06	270	\$20,000	\$21,505	\$1,505	\$406,350
2006-07	490	\$20,000	\$21,238	\$1,238	\$606,620
Total					\$1,012,970

than the state's average instructional expenditures, which were \$5,610 in 2003-04 and have almost certainly increased since then. Therefore, it is likely that the 2,272 students receiving vouchers in 2006-07 are creating a net fiscal benefit to their local districts. The program's fiscal impact on the state would require a more detailed calculation for which the necessary data are not yet available.

PENNSYLVANIA

Pennsylvania's legacy in the school choice movement is the passage of the first corporate tax-credit scholarship program. This legislation, enacted in 2001, allows corporations to take a credit equal to 75 percent of a donation to a Scholarship Organization, or 90 percent if the company commits to making the donation two years in a row, up to a maximum credit of \$200,000. In the 2006-07 school year more than 32,000 students were receiving vouchers through this program and, to date, more than 1,900 companies have pledged well over \$100 million in donations.¹⁸

Unfortunately, Pennsylvania's public education funding system is not directly based on enrollment, as in most states. Rather, the Pennsylvania legislature sets the total funding level for each of its major programs – basic education funding, base supplement, poverty supplement, foundation supplement, tax effort supplement, growth supplement, small district assistance, and limited English proficiency supplement. These totals are then allocated among the 500 school districts in the state according to their Market Value to Personal Income Aid Ratio (MV/PI AR), with some intervening steps. This means that the total public education funding for the state is not necessarily affected by changes in enrollment. No doubt a dramatic change in enrollment levels would be noticed and would prompt the legislature to adjust spending accordingly. But it is not clear how large a change would be necessary to get the legislature's attention, and other factors (such as political pressure) will also affect the legislature's decision. At minimum, we cannot confidently predict changes in total funding based on changes in enrollment. Making matters worse, the Basic Education Funding program contains a hold-harmless provision that guarantees each district will always receive at least the level of funding it received in the previous year, plus a 3.5 percent increase – regardless of changes in enrollment.¹⁹

Consequently, it would appear that the more than 30,000 students that receive vouchers under the Education Improvement Tax Credit program may not have saved the state any funding. The \$161 million in tax credits that Pennsylvania

has offered corporations since the program began six years would, in fact, be in addition to total state public education funding.

Local public school districts, however, have greatly benefited from this program. The departure of students using scholarships would not have caused any of their education funding to decrease, leaving them with the same amount of money for fewer students. On the cost side, districts save the instructional expenditures associated with the students receiving scholarships. As in Arizona, scholarship recipients in Pennsylvania could have attended private school prior to receiving a scholarship. Therefore, it is necessary to estimate how many students would be likely to return to public schools if the scholarships were not provided. For the six years this program has existed, we estimate that approximately 30 percent of recipients were migrants from public schools to private schools (for the method used to calculate this estimate, see the Arizona section).

Table 8

Pennsylvania's Corporate Tax-Credit Scholarships Have Saved \$144 Million

	Number of Scholarships	Estimated Public School Students Receiving Scholarships	Average Instructional Spending per Student	Public School District Fiscal Impact
2001-02	17,732	6,600	\$5,728	\$37,804,800
2002-03	20,649	6,286	\$5,959	\$37,456,571
2003-04	26,444	7,982	\$6,411	\$51,170,421
2004-05	27,261	8,352	\$6,680	\$55,792,388
2005-06	29,651	7,955	\$6,960	\$55,361,973
2006-07	32,200	9,282	\$7,238	\$67,186,261
			Local Total	\$304,772,414
			State Fiscal Impact	(\$161,166,000)
			Combined Total	\$143,606,414

As shown in Table 8, Pennsylvania's school districts would have needed to spend an additional \$305 million if the public school students that received vouchers had remained in their public schools. The entire amount is considered a savings, as districts would not have experienced a decrease in revenue when these students left. Even if the additional state funds of just over \$161 million required for the program are considered, the Educational Improvement Tax Credit program has created a net savings of more than \$144 million since the program began.



RHODE ISLAND



As of January 2007, Rhode Island students can receive private school scholarships under the new corporate tax credit for donations to Scholarship Organizations. Although each corporate donor can receive a credit of up to \$100,000, the entire program is limited to \$1 million, meaning that it could probably offer fewer than 1,000 scholarships per year.

It is too early to assess the fiscal impact of this program. Such a determination will be problematic even later, as Rhode Island does not use a funding formula to provide state education aid. In the 2003-04 school year the state share of education spending was \$5,335 per student. Any average scholarship below this amount should save the state money, and since tax-credit scholarships are generally well below \$2,000 on average in other states this will probably be the case in Rhode Island. However, because Rhode Island's school revenue per student is determined annually through the budget process without a foundation formula, it might go up or down at any time. Rhode Island is currently considering a switch to a student-based funding formula.

It is likely that the scholarship program will save local districts money, as the state's average instructional expenditures per student are high compared to the rest of the country. In 2003-04, they were \$7,930. Consequently, local districts would realize large savings as public school students migrated to private schools.



UTAH



Utah is a recent entrant to the school choice movement, adopting its first program about two years ago. However, it has made up for lost time by becoming the first state to adopt a universal voucher program.

In March 2005, Utah created its first school choice program, the Carson Smith Scholarship Program for Students with Special Needs, modeled on Florida's McKay Scholarship Program. It allows the parent of any disabled student to receive a voucher of \$3,625.50 if the student receives fewer than three hours per day of special needs instruction, or \$6,042.50 if the student receives more than three hours per day. While there are more than 50,000 students in the state who could be eligible to participate in this program, participation is limited by the total amount allocated for the program, which is currently \$2.5 million annually.

The dollar amount of the vouchers allowed under the Carson Smith program are derived from Utah's Minimum School Program (MSP) funding formulas. The MSP determines state funding for each district based on the district's weighted pupil units (WPUs). Each student is considered to be a single WPU, except for kindergartners, who are 0.55 WPUs. Special needs students receive a WPU of 1.5 if they receive fewer than three hours per day of special education instruction, and 2.5 if they receive more than three hours. The dollar value of the voucher is equal to the formula funding generated by the participating students - that is, the state's funding amount per WPU times either 1.5 or 2.5. The funding amount per WPU was set by the legislature at \$2,417 for the 2006-07 school year.

By limiting the voucher amount to the formula funding for a student, Utah has created a program that is revenue neutral for the state. The state treasury spends the same amount on each student's voucher as it would have spent on that student in public school. As for the impact on local public school districts, it is likely that the loss of state revenue for

students who use the voucher is much less than their reduction in costs. Unfortunately, reliable expenditure data on special education students in Utah are not available. The National Center for Education Statistics' Common Core of Data indicates that Utah instructional expenditures were \$3,451 per student in 2003-04; if we were to rely on the assumption implicit in the state's funding formula – namely, that special education students require either one and a half or two and a half times the spending of a regular student – we could conclude that special education students in Utah cost either \$5,177 or \$12,943 to educate. In both cases, the vouchers of \$3,625.50 or \$6,042.50 would create substantial cost savings for school districts.

In February 2007, Utah became the first state in the nation with a universal voucher program. The Parent Choice in Education Program offers a voucher to every student in public schools, every student in private school whose family income is below 185 percent of federal poverty guidelines, and every new kindergarten student. Since fewer than 5 percent of Utah students attend private schools, roughly 97 percent of the state's students already qualify for vouchers; the provision making new kindergarten students eligible will raise the percentage to 100 by 2020. The dollar value of the voucher is on a sliding scale by income; families below 185 percent of federal poverty guidelines get \$3,000, and the amount is reduced as families get less poor, to a minimum of \$500 for wealthy families.

The program does not begin until fall 2007. However, with such low voucher amounts and such a small number of private school students eligible, the state will almost certainly save a substantial amount of money. And since Utah's instructional expenditures per student are higher than its state formula funding amount (see above), local public school districts will also realize a savings on every student who uses these vouchers. A recent study calculated that the program could be expected to save the state about \$700,000 each year, and save local public school districts \$26 million each year.



VERMONT



Since 1869, Vermont has practiced “town tuitioning.” This form of school voucher allows students in small towns without public schools at their grade level to attend nearby public or private schools at public expense. In 2004-05, the most recent year for which data are available, 8,040 students participated, of whom 4,445 chose private schools.

Our analysis considers town tuitioning to be revenue neutral. The towns in which the students reside must pay tuition for them to attend schools of their choice regardless of whether they choose public or private schools (Vermont public schools charge tuition for students they receive through tuitioning). Therefore, when parents choose to attend private schools rather than public schools they have not fundamentally changed the fiscal situation. We could calculate the difference between the existing tuition rates at public schools and private schools if we had the necessary data, and call that the fiscal impact of the program. However, since we lack the necessary data for such an analysis, and the towns are paying tuition to schools of choice either way, it is appropriate to treat town tuitioning as revenue neutral.



WASHINGTON, D.C.



The Washington, D.C. Opportunity Scholarship Program is the only federally funded school choice program in the nation. Signed into law in January 2004, it provides vouchers worth up to \$7,500 for low-income students to attend private schools of their choice. This program provides another option for parents in the District to leave a school system plagued by extremely low achievement, crumbling buildings and the one of the highest spending levels per student in the nation. Since charter

schools became an option for parents in D.C., enrollment in regular public schools has declined from 77,000 to just over 50,000. In addition, privately funded school voucher programs have helped D.C. students escape the failing public system.

Table 9

Washington D.C. Vouchers Have Saved \$8 Million					
	Number of Vouchers	Average Formula Spending per Student	Washington D.C. Fiscal Impact	Maximum Voucher Amount	Total Washington D.C. & Federal Fiscal Impact
2004-05	1,027	\$8,532	\$8,762,364	\$7,500	\$1,059,864
2005-06	1,716	\$9,516	\$16,329,456	\$7,500	\$3,459,456
City & Federal Total					\$4,519,320
	Number of Vouchers	Average Instructional Spending per Student	Average D.C. Formula Spending per Student	Difference Between Formula Spending and Instructional Spending	Public School District Fiscal Impact
2004-05	1,027	\$9,646	\$8,532	\$1,114	\$1,144,078
2005-06	1,716	\$10,742	\$9,516	\$1,226	\$2,103,816
School District Total					\$3,247,894
Combined Total					\$7,767,214

Although the program offers participants one of the largest dollar amounts of all school choice programs, D.C. public school spending per student is also very high. D.C. public schools are funded by a formula that had a foundation level of \$8,002 in 2006-07. This is the amount that is allocated when students enroll in D.C. public schools, and the amount deducted when they leave. Thus, every student who uses the program produces a positive fiscal impact.

Because the vouchers are paid for by the federal government, not the city government, the city saves the entire foundation amount for every student who leaves public schools for the voucher program. To allow for this unusual situation, we first calculated the program's fiscal impact on the city, and then its total fiscal impact including both the city and the federal government. The law creating the voucher program also provides for large additional financial grants to D.C. public schools, but these grants are not integral to the school choice program and thus are not included in our calculations.

In the first two years of the program, the D.C. voucher program has saved the city more than \$25 million in formula funding that would have been allocated to D.C. public schools. Factoring in the cost of the vouchers borne by the federal government, conservatively assuming that all students used the maximum value, the total fiscal impact of the program

on the combined city and federal budgets is about \$5 million. The local public school district, the District of Columbia Public Schools, has saved more than \$3 million over the course of the program because reduced instructional expenditures have outweighed the lost formula revenue for participating students (see Table 9). These savings are in addition to the federal grant money that has accompanied the voucher program.²⁰



WISCONSIN



The final program we examine is the one that got it all started – the Milwaukee Parental Choice Program. This program has been existence for more than sixteen years and provides vouchers to 17,275 Milwaukee students in 2006-07. The dollar value of the voucher is limited to the amount of state equalization aid per student received by the Milwaukee public school district in the same year.

Wisconsin’s “equalization aid” formula is three-tiered, combining spending limits, enrollment levels and the dollar value of property per student to determine aid per student. While the system is complicated in practice, funding levels do vary with enrollment.

The Milwaukee voucher program contains an unusual funding system that requires the local public school district to bear some of the cost of funding the vouchers. Before 1999, the vouchers were funded entirely by the state budget. Because the maximum scholarship amount was equal to the state formula funding per student, the program was revenue neutral for the state before 1999. Since the 1999-2000 school year, however, the cost of the vouchers has been shared between the state and the local school district, Milwaukee Public Schools. In the 1999-00 and 2000-01 school years, the state paid half of the cost of the vouchers and the local district paid the other half. From the 2001-02 school year through the present, the state has paid 55 percent of the cost, and the district has paid 45 percent. Thus, since 1999-2000 the program has generated substantial savings for the state, because the state has saved the full amount of state formula funding for each student who uses a voucher, but has borne only 50 percent or 55 percent of the cost of the vouchers. The total savings to the state since 1999 is \$217 million (see Table 10).

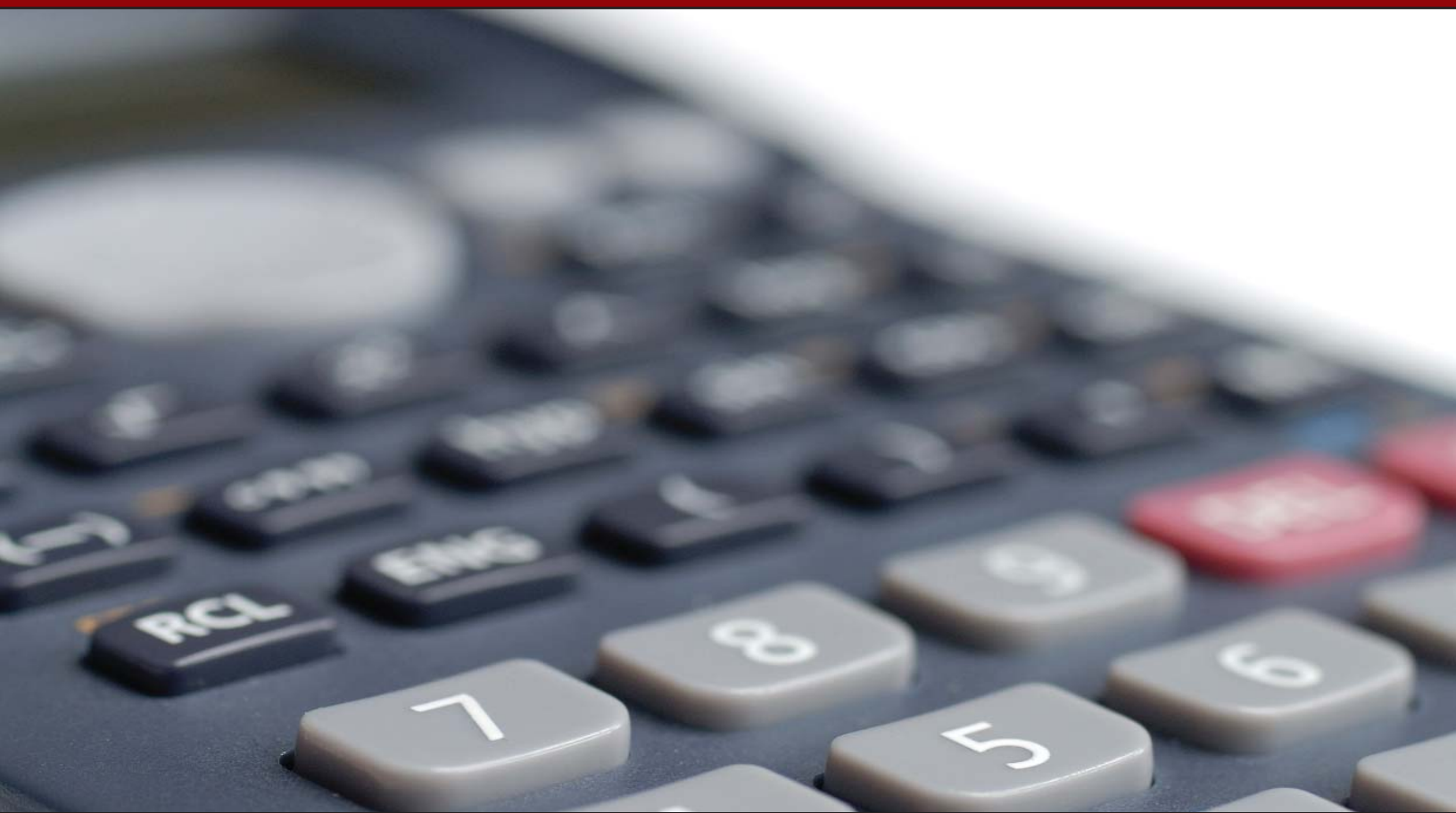
On the local side, instructional expenditures per student have consistently been approximately \$300 larger than state formula revenue.²¹ This means that before 1999, each student receiving a voucher saved the local school district about \$300. After 1999, however, the district started sharing the cost of the vouchers. The district has responded by raising local taxes, so there has been no loss of money to local schools. However, the need to raise taxes is occasioned by the voucher program, so this is a negative fiscal impact nonetheless – it reduces the district’s ability to raise taxes for other purposes. The total cost to the local public school district, accounting for both the district’s share of voucher costs and the savings realized because reduced instructional spending outweigh reduced state formula funding, has been \$188 million (see Table 10).

Obviously the requirement that the local public school district share the cost of the voucher program has produced a dramatic change in its fiscal impact. Before this requirement was implemented, the program was revenue neutral for the state and saved money for the local public school district. The new requirement, however, has generated a large fiscal benefit for the state while imposing an equally large cost on the district. Given that the fiscal effect of the program has been changed so drastically by this unusual funding system, it is worth noting that the local school choice movement in Milwaukee opposes this system and is working to change it so that local costs will be reduced.

Table 10

Milwaukee Vouchers Have Saved \$28 Million

	Number of Vouchers		Maximum Voucher Amount		State Share of Voucher Funding		State Budget Fiscal Impact
1990-91	337		\$2,446		100%		\$0
1991-92	504		\$2,643		100%		\$0
1992-93	591		\$2,745		100%		\$0
1993-94	718		\$2,985		100%		\$0
1994-95	786		\$3,209		100%		\$0
1995-96	1,320		\$3,667		100%		\$0
1996-97	1,606		\$4,373		100%		\$0
1997-98	1,501		\$4,696		100%		\$0
1998-99	5,740		\$4,894		100%		\$0
1999-00	7,596		\$5,106		50%		\$19,392,588
2000-01	9,104		\$5,326		50%		\$24,239,400
2001-02	10,391		\$5,553		55%		\$25,965,550
2002-03	11,209		\$5,783		55%		\$29,169,741
2003-04	12,778		\$5,882		55%		\$33,822,088
2004-05	14,427		\$5,943		55%		\$38,582,847
2005-06	15,887		\$6,351		55%		\$45,404,252
State Total							\$216,576,467
	Number of Vouchers	Estimated Difference Between State Formula Spending and Instructional Spending	Resulting Local Savings	Maximum Voucher Amount	Local Share of Voucher Funding	Local Voucher Funding Amount	Local Public School District Fiscal Impact
1990-91	337	\$300	\$101,100	\$2,446	0%	\$0	\$101,100
1991-92	504	\$300	\$151,200	\$2,643	0%	\$0	\$151,200
1992-93	591	\$300	\$177,300	\$2,745	0%	\$0	\$177,300
1993-94	718	\$300	\$215,400	\$2,985	0%	\$0	\$215,400
1994-95	786	\$300	\$235,800	\$3,209	0%	\$0	\$235,800
1995-96	1,320	\$300	\$396,000	\$3,667	0%	\$0	\$396,000
1996-97	1,606	\$300	\$481,800	\$4,373	0%	\$0	\$481,800
1997-98	1,501	\$300	\$450,300	\$4,696	0%	\$0	\$450,300
1998-99	5,740	\$300	\$1,722,000	\$4,894	0%	\$0	\$1,722,000
1999-00	7,596	\$300	\$2,278,800	\$5,106	50%	\$19,392,588	(\$17,113,788)
2000-01	9,104	\$300	\$2,731,200	\$5,326	50%	\$24,243,952	(\$21,508,200)
2001-02	10,391	\$300	\$3,117,300	\$5,553	45%	\$25,965,550	(\$22,848,250)
2002-03	11,209	\$300	\$3,362,700	\$5,783	45%	\$29,169,741	(\$25,807,041)
2003-04	12,778	\$300	\$3,833,400	\$5,882	45%	\$33,822,088	(\$29,988,688)
2004-05	14,427	\$300	\$4,328,100	\$5,943	45%	\$38,582,847	(\$34,254,747)
2005-06	15,887	\$300	\$4,766,100	\$6,351	45%	\$45,404,252	(\$40,638,152)
Local Total							(\$188,227,967)
Combined Total							\$28,348,500



**THE TOTAL NATIONAL FISCAL EFFECT
OF SCHOOL CHOICE SINCE 1990**

THE TOTAL NATIONAL FISCAL EFFECT OF SCHOOL CHOICE SINCE 1990

Of the twelve school choice programs for which data are available, all twelve are at least fiscally neutral when the impact on state budgets and local public school districts is combined. Most produce substantial fiscal savings – only the two century-old town tuitioning programs are fiscally neutral for both the state and local districts. Utah’s Carson Smith program is neutral for the state, and the impact on local districts cannot be calculated due to missing public school data. Each of the other nine school choice programs has generated savings of at least \$1 million.

All nine voucher programs analyzed are at least fiscally neutral for state budgets. Five produce fiscal savings for state budgets, while four are neutral. For the local public school districts affected, two of the voucher programs (the town tuitioning programs) are fiscally neutral, four produce fiscal savings, two cannot be analyzed due to missing public school data, and one (the Milwaukee voucher program) produces fiscal costs. The Milwaukee program has an unusual funding system, opposed even by the local school choice movement, that requires the local district to pay 45 percent of the cost of the vouchers. The district has chosen to meet this requirement by raising local taxes so that existing public school revenues are not affected, but the local fiscal impact is still negative.

All three of the tax-credit scholarship programs analyzed produce fiscal costs for state budgets, but they also produce larger savings for local public school districts. Pennsylvania’s program produces radically larger costs for the state and benefits for local districts because of the state’s unusual funding system; Pennsylvania statewide school spending is not directly tied to enrollment levels, as in other states. If Pennsylvania were to fund education based on enrollment levels, both the costs to the state and the savings for local districts would be reduced considerably.

Overall, these twelve school choice programs have saved a total of nearly half a billion dollars. Because voucher and scholarship amounts are typically well below state formula funding per student in the public school system, state budgets have saved a total of \$22 million. In addition, the migration of students from public schools to private schools has allowed districts to reduce their instructional spending levels, spreading their local and federal revenue over fewer students. School choice allows students to attend the schools of their choice at a lower cost than they would incur in the public school system, contrary to the dire fiscal speculations of its critics.



Table 17

School Choice Has Saved \$444 Million Since 1990

	Program Began	Data Available Through	State Budget Fiscal Impact	Public School Districts Fiscal Impact	Total Fiscal Impact
Vermont Town Tuitioning	1869	2004-05	\$0	\$0	\$0
Maine Town Tuitioning	1873	2004-05	\$0	\$0	\$0
Wisconsin Milwaukee Vouchers	1990-91	2005-06	\$216,576,467	(\$188,227,967)*	\$28,348,500
Ohio Cleveland Vouchers	1996-97	2004-05	\$83,255	\$61,160,333	\$61,243,589
Arizona Individual Tax-Credit Scholarships	1998-99	2005-06	(\$28,944,544)	\$47,213,269	\$18,268,725
Florida McKay Vouchers	1999-2000	2005-06	\$0	\$138,692,843	\$138,692,843
Florida A+ Vouchers	1999-2000	2005-06	\$1,869,880	\$1,099,648	\$2,969,528
Pennsylvania Corporate Tax-Credit Scholarships	2000-01	2006-07	(\$161,166,000)**	\$304,772,414	\$143,606,414
Florida Corporate Tax-Credit Scholarships	2002-03	2005-06	(\$11,655,159)	\$53,593,957	\$41,938,798
Washington, D.C. D.C. Vouchers	2004-05	2005-06	\$4,519,320	\$3,247,894	\$7,767,214
Ohio Autism Vouchers	2004-05	2006-07	\$1,012,970	N/A ¹	\$1,012,970
Utah Carson Smith Vouchers	2005-06	N/A	\$0	N/A ¹	\$0
Arizona Disabled Student Vouchers	2006-07	New	New	New	New
Arizona Foster Child Vouchers	2006-07	New	New	New	New
Arizona Corporate Tax-Credit Scholarships	2006-07	New	New	New	New
Iowa Individual Tax-Credit Scholarships	2006-07	New	New	New	New
Ohio EdChoice Vouchers	2006-07	New	New	New	New
Rhode Island Corporate Tax-Credit Scholarships	2006-07	New	New	New	New
Utah Parent Choice Vouchers	2007-08	New	New	New	New
Total			\$22,296,189	\$421,552,391	\$443,848,581

* Milwaukee's voucher program only creates costs for the local public school district due to an unusual funding system that requires the district to bear part of the cost of funding the vouchers. Without this unusual system, the program would have been revenue neutral for the state and would have saved the local school district \$28 million. The local school choice movement in Milwaukee supports changing the funding system to reduce the local fiscal burden.

** Pennsylvania's program only creates such high costs for the state due to an unusual state funding system in which statewide school spending is not directly tied to enrollment levels. If Pennsylvania's public school funding varied with enrollment, state costs would be radically reduced, and the savings to local public school districts would be reduced by an equal amount.

¹ Public school spending data are unavailable.

ENDNOTES

¹ See Milton Friedman, *Capitalism and Freedom*, University of Chicago Press, 1962, p.89.

² For a detailed account of this experience see Daniel McGroarty, *Break These Chains: The Battle for School Choice*, Prima Publishing, 1996.

³ Not all states fund public education through the use of a foundation formula. In these cases, it is much more difficult to determine how total state revenue changes when enrollment changes.

⁴ Although soft capital and capital outlay are not typically variable expenses, Arizona includes them in the formula portion of state revenue and multiplies that average daily membership by a set amount for these categories.

⁵ The process is actually much more complex than this simple description implies. Many variables such as student characteristic weights, a teacher experience index, and average daily bus route miles are factored into the formula as well. The amount considered here is the portion of state funding that is based on enrollment and that changes when enrollment changes.

⁶ David M. Brasington, "School Choice and the Flight to Private Schools: To What Extent Are Public and Private Schools Substitutes?" Louisiana State University Economics Department, Working Paper 2005-02, December 6, 2004.

⁷ The best available data on private school tuition levels comes from the 1999-2000 Private School Universe Survey conducted by the U.S. Department of Education's National Center for Education Statistics. Unfortunately, the survey stopped collecting data on tuition levels after 1999-2000. We assume that the average tuition would have increased by 5 percent per year since then.

⁸ As the 2005-06 data are not yet available, we assume that the state formula spending per student remained constant from 2004-05. However, it is more likely that this number increased, making this a conservative estimate. State formula spending cannot be imputed from previous years' data, as is the case with instructional expenditures, because it is much more subject to political changes and other unpredictable factors.

⁹ As the 2005-06 data are not yet available, we assume that the state formula spending per student remained constant from 2004-05. However, it is more likely that this number increased, making this a conservative estimate. State formula spending cannot be imputed from previous years' data, as is the case with instructional expenditures, because it is much more subject to political changes and other unpredictable factors.

¹⁰ The FEFP was enacted by the Florida legislature in 1973 in order to provide equalization of revenue while recognizing varying local property tax bases, varying educational program cost and varying costs of living. See Florida Department of Education, 2002-03 *Funding for Florida School Districts: Statistical Report*, EIAS Series 2003-06, September 2002.

¹¹ For the 2006-07 school year the BSA is \$3,961.81. This is the per-student amount that the state estimates is required to cover the basic operational expenses of an average student in Grades 4-8 (students in other grades are weighted more heavily and so receive more funds).

¹² Based on data from the Florida School Indicators Report, available at <http://data.fldoe.org/fsir>. These are averages across all disabilities. An analysis breaking down data by type of disability would be more precise. However, using the average across all disabilities is legitimate, since research has shown that the population of students using the McKay program is similar to the general disabled student population in Florida in both type and severity of disabilities. See Jay P. Greene and Greg Forster, "Vouchers for Special Education Students: An Evaluation of Florida's McKay Scholarship Program," Manhattan Institute, June 2003.

¹³ Greene and Forster, "Vouchers for Special Education Students."

¹⁴ Shirley Ragsdale, "Tuition Donors Score Big Tax Credit," Des Moines Register, November 27, 2006.

¹⁵ Source: National Center for Education Statistics, Common Core of Data.

¹⁶ Jay P. Greene, William J. Howell and Paul Peterson, "An Evaluation of the Cleveland Scholarship Program," Program on Education Policy and Governance, Harvard University, September 1997.

¹⁷ The Ohio Legislative Office of Education Oversight performed a formative evaluation of the program in its first year and concluded that, although six of the eleven districts with participating students reported no negative financial impact, there were insufficient public school data to draw any definitive conclusions.

¹⁸ "Education Tax Credits," Reach Foundation, available at <http://www.paschoolchoice.org>.

¹⁹ In addition to Basic Education Funding, Pennsylvania has formulas that determine funding for special education, vocational/technical education, block grants and educational assistance funding.

²⁰ The analysis in this study relies on averages in an effort to maintain consistency across programs. For a more detailed fiscal analysis of the D.C. Opportunity Scholarship program, see Susan Aud and Leon Michos, "Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program," Cato Institute and Milton and Rose D. Friedman Foundation, 2006.

²¹ The National Center for Education Statistics' Common Core of Data has data for 1994 through 2003. Over this time, the difference between state aid per pupil and instructional expenditures per student ranged from \$126 to \$393, with an average of \$311.

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