

A photograph of a young girl with dark hair tied back, wearing a blue corduroy jacket over a red shirt. She is sitting at a desk, looking down intently at something on the surface. A blue backpack is visible in the foreground.

# SPREADING FREEDOM AND SAVING MONEY

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*The Fiscal Impact  
of the D.C.  
Voucher Program*

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BY SUSAN L. AUD  
AND LEON MICHOS

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## Executive Summary

In August 2004 the first ever federally funded school voucher program began in Washington, D.C. Eligible students could attend a private school of their choice in the District of Columbia. Each participant received up to \$7,500 for school tuition, fees, and transportation. In addition, the D.C. Public School System (DCPS) and D.C. charter school system each received \$13 million in federal grants to improve their programs.

This study examines the fiscal impact of the voucher program on DCPS and the District of Columbia. The program is currently funded by the federal government and creates a net inflow of funds to both the District and DCPS. This study also examines the fiscal impact of the program under several proposed changes to the law. Those scenarios include funding the program locally, making it universally available to all D.C. public school students, and expanding capacity by including regional private schools.

Our findings include the following:

- The current program saves the city nearly \$8 million, mostly because it is federally funded and includes a federal grant to public schools.
- If federal grant subsidies were withdrawn and the program were locally funded, the city would still save \$258,402 due to the greater efficiency of school choice.
- A locally funded universal program would maximize the economic benefits of school choice, saving \$3 million.
- The process by which both DCPS and its schools are funded is not conducive to efficiency or excellence. The voucher program currently allows the central administration to retain an even higher share of overall funding than it did previously, leaving the management of reduced expenditures predominately at the school level. A universal school choice program could help to put a larger share of resources into the hands of schools.

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## **Introduction**

In the second half of the 20th century, many traditionally monopolistic sectors of the U.S. economy, such as the telecommunications and airline industries, were privatized in order to improve efficiency. Other government monopolies, such as the U.S. Postal Service, began to face competition in the form of entrepreneurial corporations that saw an opportunity to capture market share from the public sector by providing higher-quality service at a lower cost. Fortunately for U.S. consumers, we can now pay virtually nothing for long-distance telephone service, fly cross-country for less than the cost of the gasoline to drive, and have packages delivered overnight.

Nonetheless, one government bastion still holds a near total monopoly on its customers, requires a larger and larger share of tax dollars each year, and faces a constant stream of criticism for the declining quality of the product it provides. The U.S. public education system has become a self-protective bureaucracy whose only solution to declining performance is increased funding and then, when that fails, more increases in funding.

Another solution, initially proposed in the 1950s, has gained ground in the last decade. It is now being tried in several school districts, although often without public funding. That solution is to open the public education system to competition by allowing consumers to take their educational dollars with them to the public or private schools of their choice.<sup>1</sup> The premise is that schools will be forced to improve both quality and efficiency in order to successfully compete for students and the funds they generate.

A completely open program of publicly funded school choice has yet to be attempted in the United States. Strong opposition from local teachers' unions and successful court challenges have prevented some states from implementing even limited programs, regardless of parental support.<sup>2</sup> Nonetheless, limited publicly funded voucher programs have been operating for 15 years in Milwaukee and for nearly a

decade in Cleveland. The state of Florida has established two limited programs—one for students in consistently failing public schools and the other for special-needs students.

The unique characteristic of congressional oversight in the District of Columbia, however, allowed for a national debate and the passage of a federally funded pilot program for the city. The D.C. Opportunity Scholarship program, passed by Congress and signed by the president in January 2004, provides tuition vouchers of up to \$7,500 for low-income children to attend private schools in the District.

As this program is intended to provide a laboratory setting for future voucher programs, its academic impact on participants is being closely assessed.<sup>3</sup> The fiscal impact, however, has not yet been thoroughly analyzed. This paper examines how the D.C. voucher program has affected the city's finances as well as those of the D.C. Public School System (DCPS) and its schools. The first section describes the motivation and history behind the D.C. voucher legislation and provides a detailed summary of both the voucher law and D.C. public education funding mechanisms. There follows an examination of the fiscal impact of the voucher program on D.C. educational funding in 2004–05, the first year of the voucher program. Several proposed changes to the program, such as local funding or expansion of the program, are then considered. The paper concludes with a discussion of how to optimize the fiscal impact of the program.

**The U.S. public education system has become a self-protective bureaucracy whose only solution to declining performance is increased funding.**

## **Motivation behind the D.C. Voucher Program**

DCPS faces myriad problems: declining enrollment, crumbling facilities, high crime rates, repeated claims of fraud and waste, and—most important—notoriously low educational achievement. Those problems, which have persisted for more than a century, currently seem to be approaching crisis level.<sup>4</sup>

In the spring of 2005, 80 percent of 10th grade students at DCPS high schools failed the Stanford-9 basic-skills test in math (scoring at

**In the 2000–01 school year, DCPS had total expenditures of \$15,196 per student, well over the national average of \$9,360 for that year.**

the “Below Basic” proficiency level), and 57 percent failed in reading.<sup>5</sup> Similarly, on the National Assessment of Educational Progress (NAEP), used to compare achievement between states, 64 percent of 4th graders and 71 percent of 8th graders failed in math in 2003.<sup>6</sup> Adding insult to injury, that dismal performance is purchased with nearly the highest per pupil spending of any district in the nation. In the 2000–01 school year, DCPS had total expenditures of \$15,196 per student, well over the national average of \$9,360 for that year.<sup>7</sup>

Not surprisingly, when parents were given a no-cost option of removing their children from DCPS schools and placing them in public charter schools in 1997, they began leaving in droves. The enrollment mix went from 77,000 DPCS students and 300 charter school students in 1997–98 to 64,000 DCPS students and 14,000 charter school students in 2003–04.<sup>8</sup> The strong desire of parents to exert control over their children’s education, coupled with the continued downward spiral of DCPS, led some local leaders to give their support to the voucher option. Kevin Chavous, a D.C. Council member and strong supporter of public schools, recognized that external pressure was going to be the only way to improve D.C. schools.<sup>9</sup>

## District of Columbia School Choice Incentive Act of 2003

After substantial debate at both the local level and in the U.S. Congress, the D.C. School Choice Incentive Act of 2003 was signed into law in January 2004 as part of the Consolidated Appropriations Act of 2004. The act established the first ever federally funded K-12 voucher program. The program is targeted at low-income families, and the act established a five-year program that allows participating students to attend private schools of their choice within the District of Columbia. Eligible students are provided with scholarships of up to \$7,500 that can be used to pay for tuition, fees, and transportation.

A maximum of \$14 million in scholarships is provided for each fiscal year, and no more

than 3 percent of that amount may be used for the administrative purposes of operating the program. Furthermore, the D.C. School Choice Incentive Act provides an additional \$13 million for DCPS and \$13 million for District of Columbia charter schools. Those additional funds were intended to allow DCPS and charter schools to upgrade their facilities and improve their academic programs. Information on the use of those federal grant funds was not obtainable at the time of publication.

## D.C. Public School System Budgeting Process

Typically, public schools in the United States receive a majority of their funding from local and state sources, with a smaller portion coming from federal grants. Through a system of funding formulas, local and state revenues are distributed to school districts, which in turn distribute those revenues to schools within their jurisdictions. Local school boards have the responsibility of regulating schools within their districts, and the task of regulating the school districts is left each state’s education agency.

The District of Columbia is not a state and has only one school district. Thus DCPS acts in the capacity of a local education agency and is overseen by the State Education Office (SEO), created in July 2000 as part of the Executive Office of the Mayor.<sup>10</sup> Furthermore, because the District is not a state, all of its governmental revenue is received from local and federal sources.

Local revenues are appropriated annually by the mayor and the D.C. City Council through the city’s budgeting process and must be approved by Congress. Local funds are distributed to the SEO and are used to operate both public and charter schools within the District of Columbia. In addition, a portion of the local funds is used by the SEO to fund administrative agencies and to provide additional funding for students with special educational needs. The District also receives education funding from private

sources and from intradistrict transfers. Intradistrict transfers are generally federal formula grants allocated to D.C. for the administration of federal programs, such as the school lunch program, and to reimburse schools for Medicaid-eligible costs.<sup>11</sup>

In fiscal year 2005 D.C. allocated a total of \$943 million to DCPS. A majority of that funding (\$760 million) came from taxes via local appropriations. Federal revenue and private sources accounted for \$128 million, while the remaining \$54 million was intradistrict transfers.<sup>12</sup> Of the total revenue, DCPS distributed roughly half (\$426.7 million) directly to schools for current operating expenditures, the SEC retained \$192.4 million, and DCPS reserved the remaining \$324 million for central administration.<sup>13</sup> DCPS central administration allocated just over half of its amount to special education (\$103.4 million) and transportation (\$66.3 million).<sup>14</sup>

Like most states, DCPS relies on spending formulas to collect and distribute revenues on the basis of the number of students enrolled. Unlike most states, however, the District uses two separate funding formulas to accomplish those tasks, and the two formulas are dissimilar in many ways. The first formula, referred to

as the Uniform per Student Funding Formula (UPSFF), is the main mechanism used to distribute local revenues from the District of Columbia to DCPS and D.C. charter schools. The second funding formula, referred to as the Weighted Student Formula (WSF), is used to distribute local revenues from DCPS to each public school within the District of Columbia. Both formulas are based on student counts and therefore represent what the D.C. City Council and the D.C. School Board, respectively, consider to be the amount of variable funding required to educate an additional public school student.

**The D.C. School Choice Incentive Act of 2003 established the first ever federally funded K-12 voucher program.**

## **The Uniform per Student Funding Formula**

The UPSFF is used to ensure that local resources are distributed equitably among public and charter schools within the District of Columbia. The formula is based on school enrollment in October of the prior school year, multiplied by a base funding level. The base funding level is then multiplied by add-on weights, depending on student grade levels and characteristics (Table 1).

**Table 1**  
**UPSFF Category Weights**

Category	Add-on Weight
Pre-kindergarten	1.17
Kindergarten	1.03
Grades 1–3	1.03
Grades 4–5	1.00
Grades 6–8	1.03
Grades 9–12	1.17
Ungraded elem./middle/junior high	1.03
Ungraded senior high	1.17
Special education level 1 (add-on)	0.55
Special education level 2 (add-on)	0.85
Limited English proficiency (add-on)	0.40

Source: D.C. code division VI, title 38, subtitle X, chapter 29, subchapter I.

Note: Additional weights exist for special education schools, adult education, special education level 3 and level 4, residential special education, and summer school.

The base level of funding each student received for 2004–05 was \$6,903.60.<sup>15</sup> Add-on weights were associated with grade level, special educational needs, and limited English proficiency. Each add-on weight is multiplied by the base level to come up with the level of local funding for that specific category.

The grade-level-adjusted figures ranged from a low of \$6,903.60 for students in 4th or 5th grade to \$8,077.21 for high school students. The average across all student types was \$8,532. That was the amount allocated when students came to DCPS and the amount deducted when they left because of either graduation or moving to another school.

## The Weighted Student Formula

Although the UPSFF is the mechanism used to distribute funds from the city government to DCPS, the D.C. School Board created its own formula, the WSF, to distribute funds from DCPS to local schools. The purpose of that formula is to give principals substantial financial control over their schools and make them accountable for their expenditures. In fact, more than 90 percent of all school-level funding is distributed by the WSF formula.

The base amount for the WSF is \$4,620 per student, only about 67 percent of the

base amount of \$6,903.60 per student under the UPSFF. That indicates that DCPS central administration retains nearly one-third of the variable funding it receives from the city government. In addition, the base amount of the WSF has been flat for the last three years, while the base amount of the UPSFF has increased by nearly 8 percent over the same time. That means an even larger proportion of the base amount of the UPSFF is being retained for central administration, and a smaller proportion is being allocated to the schools.<sup>16</sup>

Like the UPSFF, the WSF relies on weights that take into account student grade level, special educational needs, and limited English proficiency. The WSF grade-level weights, however, are different from those in the UPSFF. Whereas 4th and 5th graders are weighted at 1.0 in the UPSFF, with students in other grades receiving more, students in grades 6–12 are weighted at 1.0 under the WSF (Table 2). The WSF includes an add-on weight for low-income students, as defined by enrollment in the free and reduced lunch program. Furthermore, WSF weights associated with special educational needs, free and reduced lunch, and limited English proficiency vary by grade level, which is not the case with the UPSFF.

The weighted student formula is intended to tie resources to students and to provide local schools with a high degree of flexibility in responding to student needs. The role of cen-

**Table 2**  
**WSF Weights by Type of Student**

Category	Preschool	Kindergarten	Grades 1–3	Grades 4–5	Grades 6–8	Grades 9–12	Nongraded
Basic level funding	1.19	1.19	1.06	1.01	1.00	1.00	1.06
Special education level 1	1.55	1.55	0.62	0.62	0.50	0.50	1.55
Special education level 2	1.55	1.55	0.62	0.62	0.50	0.50	1.55
Special education level 3	2.34	2.34	1.56	1.56	1.56	1.56	2.34
Special education level 4	3.12	3.12	3.12	3.12	3.12	3.12	3.12
ESL (add-on)	0.56	0.56	0.56	0.56	0.56	0.56	0.56
Free/reduced lunch (add-on)	0.09	0.09	0.09	0.09	0.10	0.10	0.09

Source: District of Columbia Public Schools: FY 2005 Operating Budget, p. 399, [www.k12.dc.us/dcps/budget/FY05docs/DCPS\\_FY2005\\_Proposed-budget.pdf](http://www.k12.dc.us/dcps/budget/FY05docs/DCPS_FY2005_Proposed-budget.pdf).

tral administration is to assist school principals and, at the same time, allow them the flexibility necessary to target specific needs. In theory, such flexibility increases efficiency because schools are allowed to respond to changing circumstances. Competitive pressure to maintain enrollment should be a driving force that motivates principals to design programs that best meet the needs of their students. If students were allowed to choose which DCPS school to attend, the formula would work as a voucher program within DCPS. Since students are assigned to schools by attendance zones, the student-centered funding system does not produce the same healthy competitive effects as a voucher program.

In the absence of school choice, many problems have arisen as principals have faced continual declines in enrollment. One such problem is that principals have reduced their teaching staffs in order to retain administrative staff.<sup>17</sup> Consequently, more than 15,000 elementary school students in the District attend a school without an art teacher, and 12,000 have no music teacher. Also, the student weights allow schools to increase their funding simply by reclassifying regular students as special-education or LEP students. That method of funding special-education and LEP programs creates an incentive for school principals to identify an increasing number of students as disabled or LEP and therefore in need of special services.<sup>18</sup>

The problem is not necessarily the formula; it may be due to a lack of market pressure caused in part by the absence of school choice. If public schools were open to parental choice, the WSF would be a good way to distribute funds because principals would work to attract and keep students in order to increase their funding. However, declining enrollment over the past decade has led the D.C. School Board to question whether schools should continue to be 90 percent variably funded. Although the recent voucher program represents another form of exit for students, as will be discussed in the next section, it is far from the underlying cause of fiscal difficulties for DCPS principals.

## Fiscal Impact of the D.C. Voucher Program

Given that the costs of the D.C. voucher program are fully paid by the federal government, it stands to reason that the D.C. government would gain financially from the program. The D.C. government no longer has to provide UPSFF revenue to DCPS for each student participating in the voucher program. While the D.C. government unambiguously gains from the program, it is less clear whether the same holds true for DCPS. DCPS loses UPSFF revenue on each voucher student, as it would on any student who left the system, but it gains \$13 million from the federal grant that is part of the voucher program. If the reduction in UPSFF revenues is less than the \$13 million federal grant, then DCPS gains from the voucher program. In addition, DCPS no longer has to bear the cost of educating the students who leave.

### Impact on D.C. Government and DCPS Revenue

When students and their parents choose to participate in the D.C. voucher program they are no longer counted in the enrollment totals of the UPSFF.<sup>19</sup> Therefore, the D.C. government is no longer obligated to provide DCPS with \$6,903.60 per student in base funding, plus the weighted add-ons required by the formula. That is no different from what happens when a student leaves for a charter school or moves out of the District. Students using vouchers do receive as much as \$7,500 to attend the private schools of their choice, but those funds come from the federal government, not the District. Therefore, every student who participates in the program saves the D.C. government the corresponding UPSFF amount. Those funds can be either returned to taxpayers or spent on other public needs.

In 2004–05, the first year of the voucher program, 1,027 students chose to participate in the program rather than attend their assigned public schools.<sup>20</sup> Most of those students were concentrated in the lower grade levels, with 72 per-

**Competitive pressure to maintain enrollment should be a driving force that motivates principals.**

**Table 3**  
**UPSFF Comparison**

Category	Weight	DCPS Students		DCPS and Voucher Students	
		No. Students	Total USPFF	No. Students	Total USPFF
Prekindergarten	1.17	4,417	\$35,680,862	4,417	\$35,680,861
Kindergarten	1.03	4,897	\$34,821,897	5,043	\$358,60,590
Grades 1–3	1.03	14,820	\$105,382,810	15,192	\$108,027,993
Grades 4–5	1.00	10,183	\$70,299,739	10,411	\$71,873,759
Grades 6–8	1.03	12,834	\$91,261,296	13,062	\$92,882,537
Grades 9–12	1.17	13,124	\$106,002,217	13,177	\$106,430,309
Ungraded K–5	1.03	336	\$2,389,198	-336	\$2,389,198
Ungraded 9–12	1.17	1,038	\$8,384,146	-1,038	\$8,384,146
LEP (add-on)	0.40	5,341	\$14,748,851	5,416	\$14,955,959
Special ed. level 1 (add-on)	0.55	1,678	\$6,371,332	1,724	\$6,545,994
Special ed. level 2 (add-on)	0.85	2,515	\$14,758,171	2,561	\$15,028,102
DCPS enrollment		61,650		62,677	
DCPS UPSFF revenue			\$490,100,518		\$498,058,920
Savings to D.C. from voucher program					\$7,958,402

Note: The base formula amount for all students is \$6,903.60.

cent attending kindergarten through 5th grade.<sup>21</sup> There were only 53 high school students who were able to participate in the program. That is likely due at least in part to the limited amount of excess space immediately available in the District's private secondary schools. Although information on special-needs students is limited, approximately 9 percent of the voucher students, or 92 students, have special needs. For purposes of our analysis, we assume that those students would be evenly divided between Level 1 and Level 2, as students in the higher need levels are not likely to be able to find a suitable program for \$7,500. Finally, it should be noted that some of those students attended private or charter schools prior to the inception of the voucher program.

UPSFF funding for 2004–05 was based on the October 2003 enrollment counts. In October 2003 there were 61,650 DCPS students.<sup>22</sup> Some of those students undoubtedly left DCPS to participate in the voucher program in 2004–05, but DCPS would have continued to receive full funding for those students during their first year in the program. However, as that provision has only a one-year impact, and the number of voucher

students in the prior-year enrollment count is unknown, for the sake of simplicity, we assume that no students were dually funded. This yields the most aggressively negative estimate of the potential effect on DCPS finances.

To determine how voucher students changed the total UPSFF revenue allocated to DCPS from the D.C. government, it is necessary to determine how much UPSFF funding they represent. In Table 3 the total UPSFF revenue associated with each weighted category under the current voucher program (column 4) is compared to what UPSFF revenue would have been without the program (column 6). With the current voucher program in place, D.C. would have needed to allocate roughly \$490 million to DCPS, rather than the \$498 million required without the voucher program.<sup>23</sup> In other words, the voucher program saved the D.C. government almost \$8 million. DCPS had its UPSFF revenue reduced by that amount because it enrolled 1,027 fewer students.<sup>24</sup>

Although the UPSFF revenue received by DCPS was reduced by nearly \$8 million, overall revenue to DCPS actually increased, due to the federal grant of \$13 million provided to DCPS

to improve school facilities. Therefore, the current voucher program netted DCPS a \$5 million gain. Furthermore, average spending per student is higher with the voucher program than without the program, as will be demonstrated below. Considering only UPSFF revenue, average spending per student increased slightly from \$7,946 (\$498 million for 62,677 students) without the program to \$7,950 (\$490 million for 61,150 students) with the program.

The voucher program saves the D.C. government money and at the same time has a positive effect on DCPS revenues. DCPS revenue increases because of the federal grant that is part of the program. However, that additional support essentially negates the oft-cited rationale for voucher programs—that creating competition will induce the public schools to operate more efficiently. Any competitive effect depends on public schools facing the prospect of smaller overall budgets if they lose students to vouchers. When schools do not face any budgetary consequences if they lose students, vouchers do not create a competitive effect. As a result, the idea that a voucher program can provide the rising tide that lifts all boats is not coming into play in the D.C. voucher program, and, therefore, not only are the program's total

costs much higher than necessary, but the program is not creating an incentive for DCPS to better manage its finances.

### **Impact on School-Level Finances**

In addition to having an impact at the district level, voucher students have an effect on the amount of funds distributed to schools. That effect is all the larger because the D.C. School Board has chosen to fund schools almost entirely on the basis of enrollment. When a student leaves DCPS, the school that student attended loses the amount of WSF funding associated with the student's grade level and characteristics. Principals are expected to then reduce their expenditures by a commensurate amount. Therefore, to calculate the fiscal impact the program has had on school finances, it is necessary to adjust the WSF for the loss of the 1,027 students who chose to participate in the voucher program.

Without the current voucher program, local schools would have received an additional \$5.9 million in WSF funding (Table 4). That means each voucher student, on average, is considered to have a variable cost to educate of approximately \$5,700. That is higher than the base amount because very few of the participating students fell into the 1.0 weighting category, and they were all low-income because

**The idea that a voucher program can provide the rising tide that lifts all boats is not coming into play in the D.C. voucher program.**

**Table 4**  
**WSF Reduction Associated with the D.C. Voucher Program**

Category	Category Weight * No. of Students * WSF Base Amount	WSF Reduction
Kindergarten	1.19 * 146 * \$4,620	\$802,678
Grade 1–3	1.06* 372 * \$4,620	\$1,821,758
Grade 4–5	1.01* 228 * \$4,620	\$1,063,894
Grade 6–8	1.00 * 228 * \$4,620	\$1,053,360
Grade 9–12	1.00 * 53 * \$4,620	\$244,860
LEP (add-on)	0.56 * 72 * \$4,620	\$186,278
FRL (add-on)	0.09 * 1072 * \$4,620	\$445,737
Special education level 1 (add-on)	0.62 * 46 * \$4,620	\$131,762
Special education level 2 (add-on)	0.62 * 46 * \$4,620	\$131,762
Total WSF funds for voucher students		\$5,882,092

**One way to strengthen the current program would be to have it funded exclusively by the D.C. government.**

only low-income students are eligible for the program.

A key argument made against voucher programs is that such programs place financial pressures on public schools because public schools find it difficult to reduce costs in response to falling revenues that result from declining enrollment. A school system's ability to reduce costs in response to declining enrollment depends on the degree to which costs are either variable or fixed. If costs tend to be variable, then schools can quickly reduce expenditures in response to falling enrollment. The opposite holds true when a higher proportion of costs is fixed.

That issue is somewhat negated in the DCPS because the D.C. School Board has mandated that nearly all school-level revenue, and therefore expenditures, be variable. That requires principals to reduce their expenditures in response to a loss of enrollment. However, to test whether principals are able to do so, a regression model was developed to determine how total school-level expenditures change in response to a one-student change in enrollment after controlling for the low-income enrollment, LEP enrollment, and special-needs designations. The number of teachers and dichotomous variables for school type (elementary, middle, high, and alternative) were also included as independent variables.

According to the results of the analysis, the marginal (variable) cost associated with educating one more basic student was \$3,424 in 2003, while the marginal cost of educating a student who participated in the free and reduced lunch program was \$4,288. A low-income student who had limited English proficiency had a marginal cost \$6,058.<sup>25</sup> As that is typical of students in the voucher program, this analysis confirms that principals are able to reduce their costs by an amount similar to the reduction in WSF funding that they receive when a student leaves. That is not surprising, given the D.C. funding procedure.

It seems apparent that the current structure of the program is financially very beneficial to the D.C. government, results in a net gain for DCPS even with 1,027 fewer students, and does not hurt D.C. schools in any way that

is different from any other type of enrollment decline. However, the program falls far short in creating competitive pressure that might induce DCPS to raise its quality. Although market forces are one of the primary rationales behind voucher programs, such forces are reversed in the D.C. voucher plan. There is, in fact, a financial incentive for the District and DCPS to encourage students to leave their system and participate in the voucher program. The next section examines how the program could be better structured to optimize financial and academic outcomes.

## Fiscal Impact of Changes to the D.C. Voucher Program

Although advocates of vouchers reluctantly cheered the D.C. voucher program as a chance to establish a pilot study of the benefits of school choice, that program is a weak example of what a voucher program ought to resemble. Because DCPS is rewarded for declining enrollment, the program fails to create incentives to improve fiscal responsibility and accountability.

### A Locally Funded Means-Tested Voucher

One way to strengthen the current program would be to have it fully funded locally by the D.C. government. The voucher amount under this scenario would remain \$7,500 per student, but DCPS would no longer receive \$13 million in federal grants. Without the federal grants, DCPS would lose UPSFF revenue as a result of declining enrollment. The prospect of smaller budgets due to declining enrollment would provide DCPS with the necessary incentive to improve fiscal responsibility and accountability. Furthermore, the D.C. government would have a greater incentive to monitor DCPS because the voucher amount would be less than the average UPSFF amount, meaning that the D.C. government would save money for every student using a voucher.

Since the voucher amount is \$7,500 per student and 1,027 students participated in the program in its first year, the D.C. government

**Table 5**  
**Comparison of DCPS FY05 Revenue with the Current Voucher Program, without the Current Voucher Program, and with D.C. Paying for the Voucher Program**

	Current Voucher Program	No Voucher Program	Voucher Program Funded by D.C.
DCPS UPSFF revenue from D.C.	\$490,100,518	\$498,058,920	\$490,100,518
DCPS federal voucher-related grant	\$13,000,000	\$0	\$0
DCPS all other revenue sources	\$444,865,215	\$444,865,215	\$444,865,215
DCPS total revenue	\$947,965,733	\$942,924,135	\$934,965,733
DCPS average UPSFF revenue per student	\$7,950	\$7,946	\$7,950
DCPS average total revenue per student	\$15,376	\$15,050	\$15,165

Note: DCPS enrollment is 61,560 with either voucher program and 62,677 without a voucher program.

would need to devote \$7.7 million to fund the program. Because DCPS enrollment with the program in place is 61,650 students, the city would continue to provide DCPS with \$490 million in UPSFF funding (Table 3). Therefore, it would cost the District of Columbia \$497.7 million to fund both the voucher program and the UPSFF portion of the DCPS budget (\$490 million + \$7.7 million). Without the voucher program, DCPS enrolls 62,677 students and receives \$498 million in UPSFF funding. The city therefore saves \$258,402 even if it fully funds the voucher program itself.

UPSFF funding levels are independent of whether the program is funded by the federal government or by the D.C. government, because DCPS enrollment is the same regardless of who funds the voucher program. In either case, DCPS receives \$490 million in UPSFF funding from the city (Table 5). Although UPSFF funding remains constant in both scenarios, DCPS revenues decline by \$13 million when the D.C. government funds the program. That is because DCPS would stand to lose the federal grants that were part of the program when it was funded by the federal government.

Furthermore, including all DCPS funding sources, average spending per student is \$15,165 when the program is fully funded by D.C. That represents a \$115 per student increase relative to average spending without the voucher program. But it also represents a \$211 per student decrease relative to average

spending when the federal government fully funds the program.

The fiscal impact on school-level WSF funds when the program is appropriated from local funds is identical to the fiscal impact when the program is federally funded. That is because students' decisions to participate are independent of the funding source. Rather, participation depends on factors such as the amount of the vouchers and the number of private schools participating in the program. In either case, 1,027 students choose to participate in the program, leading to a decline in local school revenues of \$5.9 million. However, as our analysis has demonstrated, D.C. principals are able to reduce their expenses commensurately when their enrollments decline.

#### **Locally Funded Universal Voucher**

Given that nearly every voucher student saves D.C. money, as well as giving parents control over where their children attend school, it might be beneficial to open the program up to all parents rather than just to a limited number of low-income parents. Expanding access to the program will allow the benefits of competition to develop, attracting new private schools into the market and creating an incentive for public schools to attract and retain as many students as possible. To assess the fiscal impact of such a scenario, we made calculations of the UPSFF similar to those in the analysis above, but the number of voucher students is allowed

**Expanding the program to include all families would allow the benefits of competition to develop.**

**Table 6**  
**The Effect of Expanding the D.C. Voucher Program**

Category	Weight	DCPS Students <sup>a</sup>		Voucher Students <sup>b</sup>	
		No. Students	Total UPSFF	No. Students	Total Voucher
Prekindergarten	1.17	3,976	\$32,112,776	442	\$3,315,000
Kindergarten	1.03	4,539	\$32,274,054	504	\$3,780,000
Grades 1–3	1.03	13,673	\$97,225,194	1,519	\$11,394,000
Grades 4–5	1.00	9,370	\$64,686,384	1,041	\$7,808,250
Grades 6–8	1.03	11,756	\$83,594,284	1,306	\$9,796,500
Grades 9–12	1.17	13,124	\$106,002,217	53	\$397,500
Ungraded K–5	1.03	302	\$2,150,278	34	\$252,000.00
Ungraded 9–12	1.17	1,038	\$8,384,146	0	\$0.00
LEP (add-on)	0.40	4,872	\$134,52,907	542	\$0.00
Spec. ed. 1 (add-on)	0.55	1,552	\$5,891,394	172	\$0.00
Spec. ed. 2 (add-on)	0.85	2,305	\$13,525,291	256	\$0.00
DCPS enrollment		57,778		4,900	
D.C. tax revenue req'd			\$459,298,925		\$36,742,500
UPSFF savings to D.C.			\$2,011,886		

<sup>a</sup> UPSFF base amount = \$6,903.60.

<sup>b</sup> Voucher amount = \$7,500.

to increase to include 10 percent of total enrollment in public schools including the 1,027 students already using vouchers.

In the District of Columbia as elsewhere, there are many fewer private high schools than private elementary schools. It is therefore possible that, after the creation of a universal voucher program, there might be a temporary period when D.C. private schools would be unable to accommodate all secondary students who wished to use the program. That would be particularly likely to be a problem if the program continued to exclude private schools outside the D.C. city limits.

To take that possibility into account, the analysis was performed under two scenarios. Under the first, it is assumed that the number of secondary school students currently using the program (53) does not increase. In this scenario, 10 percent of current DCPS elementary enrollment transfers to the voucher program. Under the second scenario, we assume that secondary school students transfer into the voucher program at the same rate as elementary students; that is, 10 percent of DCPS

enrollments in all grades transfer to the voucher program.

Under the first scenario for expanding the program, student participation would increase from 1,027 students to 4,900. In that case, the District would be required to allocate \$459 million under the UPSFF and \$37 million to the voucher program, for a total of just over \$496 million. That represents a decrease of slightly more than \$2 million in revenues compared to those needed without the voucher program (Table 6).

Finally, advocates of vouchers have suggested that the D.C. voucher program be expanded to include private schools in neighboring counties. Tuition costs for private secondary schools in D.C. are some of the highest in the country, yet much more affordable private secondary schools are available in neighboring counties in Virginia and Maryland.<sup>26</sup>

There would actually be two types of impact from such a change. The first would be a rise in the number of private schools in which students could enroll. The second would be a likely drop in the voucher amount

**Advocates of vouchers have suggested that the D.C. program be expanded to include private schools in neighboring counties.**

required. Although students would still be allowed to spend up to \$7,500, fewer students would use the full amount permitted. As this analysis assumes that all students use the maximum voucher amount, only the increase in capacity will be reflected in our analysis. Although this requires that capacity be drawn from neighboring counties, it is quite likely that if a universal voucher were in place private secondary schooling capacity for D.C. students would increase commensurately.<sup>27</sup>

Like the previous scenario, this scenario assumes that 10 percent of public school students would choose to participate. In this case, high school as well as elementary school students would enter the program. Even if students were allowed to take their D.C. funds to schools outside the District of Columbia, the total cost to D.C. taxpayers would be less than if there were no voucher program.

Under the second scenario for expanding the program, student participation would increase from 1,027 students to 6,268. The city would be required to allocate \$448 million under the UPSFF and \$47 million to the vouch-

er program, for a total of just over \$495 million. This represents an decrease of just under \$3 million in revenues compared to those needed without the voucher program (Table 7).

It is possible to analyze the impact a universally funded voucher program would have on school-level WSF funding. Overall funding would fall by \$39 million, and average spending per student would decrease slightly to \$5,723. Grades 1 through 3 would experience a decline in revenue of approximately \$8.6 million, and revenues would decline by roughly \$7.8 million for grades 9 through 12. Of the 6,267 students who would use vouchers to attend private schools of their choice, we assume 3,995 would qualify for the free and reduced school lunch program, 515 would be LEP, and 884 would be classified as needing special education.

**Expanding into neighboring counties would increase parental choice and reduce program cost.**

## Summary and Conclusions

The District of Columbia public school system has been plagued with problems that

**Table 7**  
**The Effect of Expanding the D.C. Voucher Program with New Secondary Capacity**

Category	Weight	DCPS Students <sup>a</sup>		Voucher Students <sup>b</sup>	
		No. Students	Total UPSFF	No. Student	Total Voucher
Prekindergarten	1.17	3,976	\$32,112,776	442	\$3,313,104
Kindergarten	1.03	4,539	\$32,274,054	504	\$3,782,230
Grades 1–3	1.03	13,673	\$97,225,194	1,519	\$11,394,223
Grades 4–5	1.00	9,370	\$64,686,384	1,041	\$7,808,291
Grades 6–8	1.03	11,756	\$83,594,284	1,306	\$9,796,760
Grades 9–12	1.17	11,859	\$95,787,278	1,318	\$9,882,461
Ungraded K–5	1.03	302	\$2,150,278	34	\$252,000
Ungraded 9–12	1.17	934	\$7,545,731	104	\$778,500
LEP (add-on)	0.40	4,872	\$13,273,966	541	\$0
Spec. ed. 1 (add-on)	0.55	1,552	\$5,734,199	172	\$0
Spec. ed. 2 (add-on)	0.85	2,305	\$13,282,354	256	\$0
Enrollment		56,409		6,268	
D.C. tax revenue req'd			\$448,246,400		\$47,007,670
UPSFF savings to D.C.			\$2,803,950		

<sup>a</sup> UPSFF base amount = \$6,903.60.

<sup>b</sup> Voucher amount = \$7,500.

**The current D.C. voucher program is not creating any type of competitive pressure for D.C. public schools to improve. Funding the program locally could remedy that problem.**

make it a national debacle. Its academic performance is abysmal, its financial accountability has been nonexistent, it has undergone several iterations of administrative restructuring, and many of its schools are falling apart. Consequently, it is no surprise that parents who can do so often choose alternatives to the public school system, such as charter or private schools. That has resulted in a steady decline in enrollment during the last decade.

A large proportion of D.C. parents, however, does not have the economic means to send their children to private schools. The D.C. voucher program was designed to give some of those parents the choice of private schooling. The offer of \$7,500 for private school tuition has generated a waiting list of interested parents, and expansion of the program is currently being considered.

The fiscal impact of the program must be assessed. It would not be helpful to further jeopardize a school system that is already dealing with myriad problems. As has been demonstrated here, the voucher program, with its unique characteristic of federal funding, has resulted in a substantial economic benefit to the D.C. government in that D.C. no longer has to allocate funding to DCPS according to the Uniform per Student Funding Formula that is associated with program participants. Similarly, the program has been a windfall for DCPS, as it no longer has the 1,027 students in the voucher program, but it receives a net gain of \$5 million over what it would have received without the program because of the associated federal grant. This means that it has nearly an additional \$100 per student remaining. The only entity that does not gain is the federal government, as it has to fund students who were previously the responsibility of D.C. and also has to pay out an additional \$26 million in grants to D.C. public and charter schools just to make the deal palatable to legislators.

The current D.C. voucher program seems to be a win-win fiscal situation for the D.C. government and DCPS. However, it is not creating any type of competitive pressure for D.C. public schools to improve. Funding the pro-

gram through the D.C. government rather than the federal government could remedy that problem.

It must be noted that there are many anomalies in the funding of the D.C. education system that need to be considered. The first is that the funding of DCPS by the D.C. government is done through the UPSFF, which has a base amount of nearly \$7,000 and increases each year, while the base amount of the WSF is only \$4,620 and has been flat for at least the last three years. That means DCPS is taking an ever-increasing chunk of D.C. funds for central administration. Similarly, the UPSFF represents only about half of total funding for D.C. public education. Of the \$1 billion allocated for public education, only about half is allocated on the basis of enrollment and only about one-third ends up in schools. That is a clear indication of a school system that needs to improve its fiscal accountability.

Finally, the amount of funds currently being spent by the voucher program (\$8 million) represents only approximately 0.8 percent of total funds spent on public education in the District of Columbia, although the program served about 1.6 percent of all D.C. students. Not only does this represent a net savings, it also indicates that the program in its present form is not significantly affecting DCPS finances one way or the other. Expanding the program, however, could introduce the benefits of competition and create a cost savings.

## Notes

1. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), pp. 85–107.
2. Although the Supreme Court ruled 5 to 4 in favor of vouchers in June 2002, rejecting the argument that they violate the First Amendment's Establishment Clause, the Colorado Supreme Court ruled in 2004 that the state's school voucher program violated its constitutional mandate for local control of the provision of education. Florida's 1999 voucher law has been challenged in state courts since its inception. The Florida Supreme Court heard the case in 2004.
3. Westat, Georgetown University, and Chesapeake Research Associates were awarded a contract to

evaluate the academic effects of the program.

4. For a complete narrative of the history of the DCPS and its problems, see Casey Lartigue Jr., "The Need for Educational Freedom in the Nation's Capital," Cato Institute Policy Analysis no. 461, December 10, 2002.

5. District of Columbia Public School System, Academic Performance Database System, <http://silicon.k12.dc.us/apds/publicSummary.asp>.

6. National Center for Education Statistics, "NAEP: The Nation's Report Card," State Profiles, <http://nces.ed.gov/nationsreportcard/states/profile.asp>.

7. National Center for Education Statistics, Education Finance Statistics Center, Public School District Finance Peer Search, [http://nces.ed.gov/ccd/districtsearch/district\\_detail.asp?ID2=1100030&details=4](http://nces.ed.gov/ccd/districtsearch/district_detail.asp?ID2=1100030&details=4).

8. District of Columbia State Education Office, "The State of Education in the District of Columbia: Establishing a Baseline," June 2004, Exhibit 10.

9. Spencer S. Hsu, "How Vouchers Came to D.C.," *Education Next* (Hoover Institution), no. 4 (2004).

10. District of Columbia State Education Office.

11. District of Columbia Public School System, "Keeping Our Promise to the District's Children: Proposed FY 2006 Operating Budget District of Columbia Public Schools," January 12, 2005, pp. 55-56.

12. Ibid., p. 36.

13. Ibid., p. 34.

14. Ibid., p. 36.

15. This amount has risen each year. For example, the base was \$6,419 in 2003 and \$6,551 in 2004. See D.C. Code, division VI, title 38, subtitle X, chapter 29, subchapter I.

16. District of Columbia Public Schools, "Keeping Our Promise to the District's Children," p. 26.

17. Ibid.

18. For evidence of the overidentification of children as disabled, see Marie Gryphon and David Salisbury, "Escaping IDEA: Freeing Parents, Teachers, and Students through Deregulation and Choice," Cato Institute Policy Analysis no. 444, July 10, 2002. See also Wade F. Horn and Douglas Tynan, "Time to Make Special Education 'Special' Again," in *Rethinking Special Education for a New Century*, ed. Chester E. Finn et al. (Washington:

Thomas B. Fordham Foundation and Progressive Policy Institute, 2001), pp. 23-51. Jay P. Greene and Greg Forster, "Effects of Funding Incentives on Special Education Enrollment," Manhattan Institute, December 2002.

19. Technically, the students continue to be counted for the first year they are in the program, as both formulas use prior-year enrollment counts.

20. U.S. Department of Education, Institute of Education Sciences National Center for Education Evaluation and Education Assistance, "Evaluation of DC Opportunity Scholarship Program: First Year Report on Participation," April 2005, Appendix D. No changes were incorporated for students who dropped out of the program midyear.

21. Ibid., Table D-2.

22. Actual enrollment for all categories of students in the DCPS was 65,099. Several of the categories, such as alternative schools, are not being considered here.

23. This amount does not take into account the UPSFF funding associated with the other categories of students, such as adult education, residential special needs, or summer school.

24. This analysis considers only the UPSFF portion of DCPS revenue, as that revenue is dependent on student counts. The remaining DCPS revenue would not be affected by the voucher program.

25. All coefficients were significant beyond the 0.05 level.

26. According to a survey of private schools in the District of Columbia, Maryland, and Virginia, median tuition at D.C. private secondary schools is \$16,075, and median tuition at private secondary schools in neighboring counties of Maryland and Virginia is \$6,920. See David F. Salisbury, "What Does a Voucher Buy? A Closer Look at the Cost of Private Schools," Cato Institute Policy Analysis no 486, August 2003, p. 5, <http://www.cato.org/pubs/pas/pa-486es.html>.

27. There are established nationwide school voucher programs in both the Netherlands and Chile. Under the Chilean program, introduced in 1982, private school enrollment doubled in the first decade and continued to increase thereafter, with much new supply coming on line. Roughly 50 percent of all Chilean students are now enrolled in nongovernment schools. The Netherlands went from having a nationwide state-run school system with no parental choice to a national voucher program in 1917. Roughly 70 percent of Dutch students are now enrolled in private schools (virtually all of which were created after the program's introduc-

tion). See Andrew J. Coulson, "Market Education and Its Critics: Testing School Choice Criticisms against the International Evidence," in *What America*

*Can Learn from School Choice in Other Countries*, ed. David Salisbury and James Tooley (Washington: Cato Institute, 2005), pp. 149–53.

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