

# Policy Analysis

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Routing

## *Saving Money and Improving Education How School Choice Can Help States Reduce Education Costs*

by David Salisbury

### Executive Summary

Historically, elementary and secondary education has been the largest item in state budgets. During the past three decades, state spending on public education has grown both in terms of revenues spent per pupil and as a percentage of total personal income. Spending on K-12 education is expected to continue to rise during the next few years, mainly because of the increased number of teachers and other school personnel that will be needed to meet increased enrollment.

In view of the large share of state budgets devoted to public education and the cost increases expected in the future, it is appropriate to ask how state policymakers might reduce the rate of growth of local and state spending on education. One of the most promising means for doing so is school choice. To demonstrate the potential impact of school choice on state budgets, this

paper draws from legislative and independent evaluations of the fiscal effects of such programs in the states that have enacted or are contemplating enacting them.

Results from existing programs in Arizona, Milwaukee, Cleveland, Florida, Pennsylvania, Maine, and Vermont indicate that school choice makes fiscal sense. In addition, analyses of proposed school choice programs in Utah, South Carolina, New Hampshire, Baltimore, and Virginia conclude that those programs would save money and give an idea of the savings that could result from similar programs in other states.

Thus far, much of the debate over school choice has focused on the educational benefits it could bring. It can bring significant fiscal benefits as well.

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**The large portion of taxpayer dollars allocated to education deserves intense scrutiny as state legislatures address the challenges in balancing their budgets.**

## Education and State Budgets

Historically, spending on elementary and secondary education has consumed the largest share of state budgets. In 2004 spending on K-12 education accounted for nearly 22 percent of state budgets, and some states spend 25 percent or more on education (Table 1).<sup>1</sup> Employment in public education is by far the largest component of state and local government; it accounts for nearly three in five jobs at the local level and close to half (45 percent) at the state level.<sup>2</sup> The large portion of taxpayer dollars and employment allocated to education suggests that the area deserves intense scrutiny as state

legislatures address the challenges in balancing their budgets.<sup>3</sup>

In spite of rhetoric to the contrary, spending on education has continually increased both in terms of revenues spent per pupil and as a percentage of total personal income. Figure 1 shows the growth in average expenditures per pupil between 1965 and 2001. Between 1985 and 1990 expenditures per pupil grew by 14 percent. After a brief leveling off, they continued to grow through the 1990s. Between 1995 and 2001 per pupil expenditures rose 15 percent to \$8,992.<sup>4</sup>

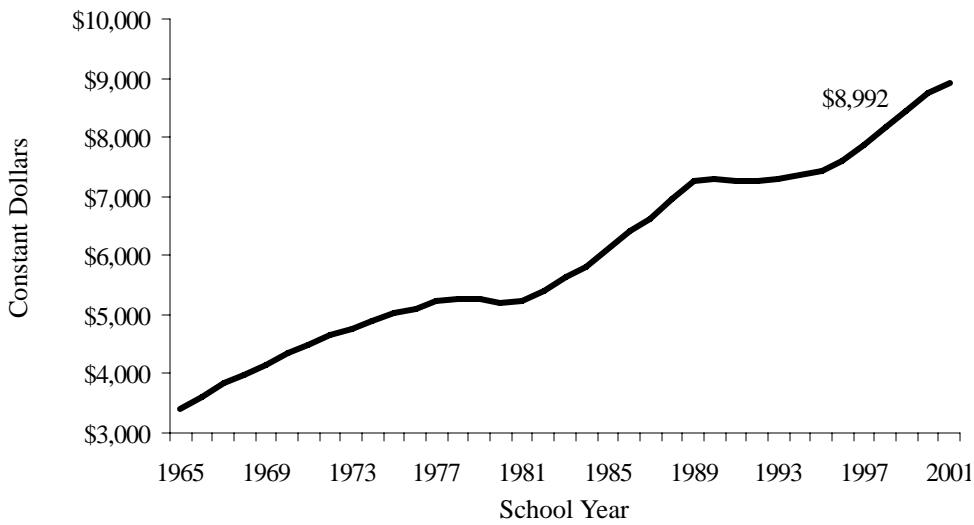
Another indicator of the rising cost of education is the ratio of local and state spending on education to total personal income. Between

**Table 1  
Percentage of State Budgets Spent on K-12 Education, 2003**

10%–15.9%		16%–20.9%		21%–25.9%		26%–30.9%		31%–40%	
West Virginia	12.5	Rhode Island	16.0	Oklahoma	21.8	Minnesota	26.4	Michigan	31.5
Connecticut	13.8	Nebraska	16.1	Illinois	22.3	Idaho	26.6	Vermont	38.0
Wyoming	14.4	Tennessee	16.4	New Mexico	22.7	Georgia	26.9		
Oregon	15.1	Virginia	16.9	New Jersey	22.7	N. Hampshire	27.5		
Alaska	15.5	Arkansas	17.3	Alabama	23.1	Texas	28.8		
South Dakota	15.5	North Dakota	17.5	Colorado	23.4	Utah	30.5		
		Maine	17.7	N. Carolina	23.4				
		Maryland	18.1	Washington	23.6				
		Pennsylvania	18.1	California	24.0				
		South Carolina	18.2	Delaware	24.7				
		Iowa	18.3	Indiana	24.8				
		Wisconsin	18.3	Kansas	24.9				
		Massachusetts	18.4	Missouri	25.0				
		Nevada	18.6						
		Arizona	18.8						
		Ohio	19.0						
		Montana	19.1						
		Kentucky	19.2						
		Mississippi	19.8						
		Louisiana	20.0						
		Hawaii	20.2						
		New York	20.3						
		Florida	20.4						

Source: National Association of State Budget Officers, *2003 State Expenditure Report* (Washington: National Association of State Budget Officers, 2004), Table 8, <http://www.nasbo.org/Publications/PDFs/2003ExpendReport.pdf>.

**Figure 1**  
**Average Expenditures per Pupil (for fall enrollment)**



Source: *Digest of Education Statistics 2003*, Table 166.

1950 and 1999 public revenue spent on elementary and secondary education as a percentage of personal income grew from about 2.3 percent to 4.5 percent. Except for a period in the early and mid-1970s, when the percentage of total personal income going to education peaked at about 5 percent, parents and other taxpayers have been spending a larger share of their income on public education than they used to.<sup>5</sup>

Interestingly, the sources of public school revenue have shifted since 1970. Federal funding rose from 8 percent to nearly 10 percent in 1978 and since has declined to just slightly more than 7 percent. As shown in Figure 2, during the same period state government replaced local government as the principal funding source for schools. In 1970 local sources provided 52 percent of school funding while the state provided 40 percent. In 2001-02 the figures were almost reversed.<sup>6</sup> That shift has placed increased fiscal stress on state budgets.

## Reasons for the Rising Cost of Education

Explanations for the cost increases in public education generally relate to three factors:

increase in the number of employees in relation to student enrollment, artificially high labor costs, and patterns of teacher retention.

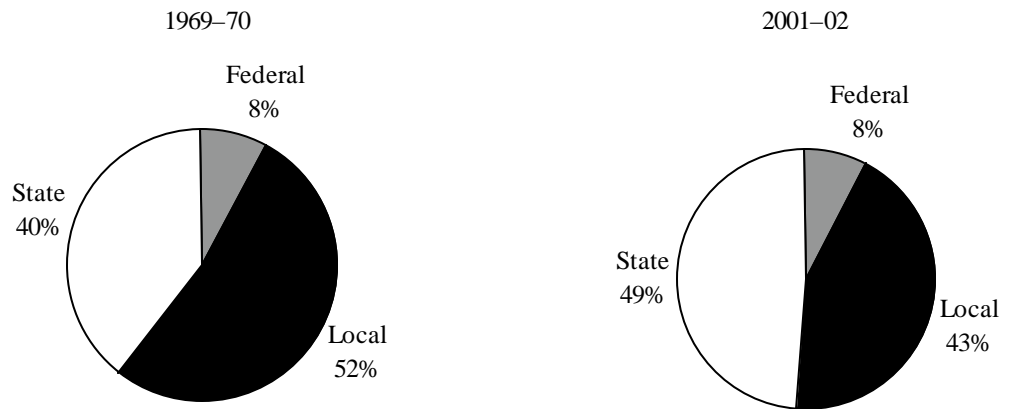
### Increase in Number of Employees in Relation to Student Enrollment

Public education has undergone explosive employment growth, making it America's third-largest growth industry throughout the 1990s. During the 10-year period between 1988 and 1998, public education expanded the number of its employees by 23.7 percent, exceeding the 20.7 percent growth rate for the overall private economy. During the same period, only employment in health services and business services grew more than employment in public education.<sup>7</sup>

During the past 20 years, the rate of employment growth in public education has been more than twice the rate of growth in the number of students.<sup>8</sup> As shown in Figure 3, between 1979 and 2000 student enrollment grew by 13 percent. During the same period the total number of school employees grew by 61 percent, and the number of teachers grew by 35 percent. Nationally, public schools now have about 1 employee for every 8.1 students,<sup>9</sup> and teachers make up only 40

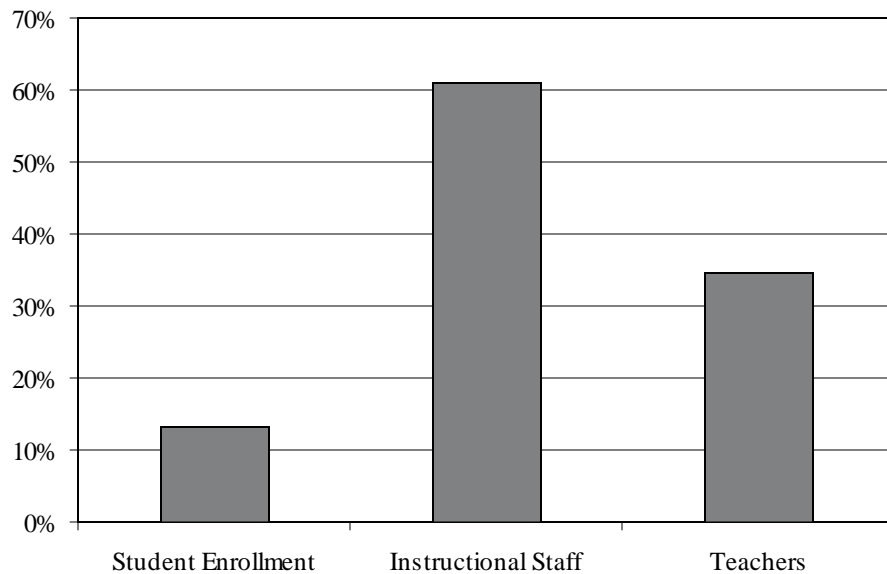
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**Figure 2**  
**Percentage Distribution of Revenue for Public Elementary and Secondary Schools, by Source, School Years 1969–70 and 2001–02**



Sources: *Digest of Education Statistics 2003*, Table 156; and C. Cohen and F. Johnson, *Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2001–02* (Washington: U.S. Department of Education, National Center for Education Statistics, 2004), Table 2, <http://nces.ed.gov/pubs2004/2004341.pdf>. The most recent data available are for 2001–02.

**Figure 3**  
**Growth in Student Enrollment, Instructional Staff, and Number of Teachers, 1979–2000**



Source: *Digest of Education Statistics 2003*, Tables 36 and 64.

Note. Instructional staff includes nonteacher school employees.

**Table 2**  
**Pupil/Teacher Ratios in Public Schools, 1970–2001**

Year	Pupil/Teacher Ratio	Year	Pupil/Teacher Ratio
1970	22.3	1986	17.7
1971	22.3	1987	17.6
1972	21.7	1988	17.3
1973	21.3	1989	17.2
1974	20.8	1990	17.2
1975	20.4	1991	17.3
1976	20.2	1992	17.4
1977	19.7	1993	17.4
1978	19.3	1994	17.3
1979	19.1	1995	17.3
1980	18.7	1996	17.6
1981	18.8	1997	17.2
1982	18.6	1998	16.9
1983	18.4	1999	16.6
1984	18.1	2000	16.4
1985	17.9	2001	16.3

Sources: For 1970–95: National Center for Education Statistics, Downloadable Tables from *State Comparisons of Education Statistics: 1969–70 to 1996–97*, <http://nces.ed.gov/pubs98/98018/data/tab24.prn>. For 1996–2001: *Digest of Education Statistics, 2003*, Table 63.

percent of total school employees.<sup>10</sup>

The growth in public school employment in relation to student enrollment is reflected in the decline in the pupil/teacher ratio. In 1970 the average pupil/teacher ratio in public schools was 22.3. By 2001 the ratio had declined to 16.3 (Table 2).

#### **Artificially High Labor Costs**

Labor costs in public schools tend to be artificially high compared with those in private schools and with salaries of other professionals in the same occupational category. The higher pay is likely due to the strong influence of the teacher unions. Through negotiation, political pressure, and the threat of strikes, the teacher unions are able to artificially increase salaries beyond what they would be otherwise. Today the average public school teacher’s salary is 35 percent greater than that of the average private school teacher.<sup>11</sup> According to the latest compensation survey data published

by the Bureau of Labor Statistics, the average hourly wage for workers in teachers’ occupational category (“professional, specialty, and technical”) was \$28.74. For example, registered nurses earned \$25.72 per hour, psychologists earned \$29.19 per hour, and urban planners earned \$26.12 per hour. By comparison, elementary school teachers earned \$31.79 per hour and secondary school teachers earned \$31.87 per hour.<sup>12</sup> Also, health insurance and retirement benefits are much higher for public school teachers than for private school teachers. Benefits for public-sector employees as a whole are about 31.3 percent of salary; they are only 15.8 percent of salary for private-sector employees.<sup>13</sup> Benefits for public school teachers average 21.5 percent of salary, while the comparable figure for private school teachers is 18 percent.<sup>14</sup>

#### **Patterns of Teacher Retention**

Another factor that contributes to artifi-

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cially high labor costs in public schools is the granting of tenure, which creates a high concentration of faculty at the top of the salary scale. Private schools generally do not grant tenure and therefore have a teacher turnover and attrition rate approximately twice that of the public schools. For that reason, private schools have a much flatter mix of faculty on the salary ladder than do public schools. According to the U.S. Department of Education's Schools and Staffing Survey for 1993-94, private schools had 45.2 percent of faculty with 10 or more years' experience. The comparable number for public schools was 64.8 percent.<sup>15</sup> Combined with the fact that public schools pay higher salaries than do private schools, the larger number of faculty who are paid at the top of the salary schedule results in higher average labor costs for public schools. Although private schools employ a smaller portion of teachers with high levels of experience, they are able to maintain a high-quality level of service.<sup>16</sup>

John Wenders, an economist at the University of Idaho, compared costs of public and private schools and attempted to account for the differences. He found that, on average, public schools cost 42 percent more than private schools for comparable services (taking into consideration different student demographics and additional costs for providing special education and complying with other mandates that fall on public schools).<sup>17</sup>

Wenders also showed that the additional public school costs are dissipated primarily into bloated labor costs, massive growth in the number of school employees in relation to student enrollment, and what economists call "rent-seeking" activities. Rent-seeking activities are those that are directed toward lobbying for additional funds and favorable regulations rather than improvements or services.<sup>18</sup>

## **Predictions of Future Costs of Education**

Experts predict that the cost of K-12 education will continue to rise for at least the

next few years mainly because of increases in the number of teachers and other school personnel that will be needed to meet changes in enrollment, which is projected to rise by 4.3 percent by 2013.<sup>19</sup> Enrollment increases are expected to occur nationwide, except in the Northeast, where a decrease is expected. The largest amount of growth is projected to occur in the West, where an increase of 13 percent is expected by 2013.<sup>20</sup>

To accommodate that increase in enrollment, the nearly nine million jobs in state and local education are expected to increase by 2.1 million by 2012, a 25 percent increase. That rate of growth is substantially above the 14 percent increase projected for all occupations combined.<sup>21</sup> Per pupil expenditures in constant dollars are projected to increase by 26 percent by 2012.<sup>22</sup>

## **Reducing the Growth of Education Costs through School Choice**

In view of the large portion of state budgets devoted to public education and the cost increases expected in the future, it is appropriate to ask how state policymakers might reduce the rate of growth of education costs. If state policymakers wish to balance budgets and control spending increases, they should focus attention squarely on education. Because education consumes such a large portion of state budgets, any legislative failure to address education costs will create pressure for increased taxes or for disproportionate cuts in other state services.

One of the most promising means of reducing the growth of state education costs is school choice. In very basic terms, school choice saves public funds by providing parents some (or all) of private school costs. If families exercise this option, it saves public funds because of the difference between average costs of private and public schooling per pupil. According to the most recent data available from the National Center for Education Statistics, average private elementary school

**Table 3**  
**Private Elementary and Secondary Tuition by Type of School and Level, 1999–2000**

Type of School	Average Tuition	Type of School	Average Tuition
All Private Schools	\$4,689	Other Religious	\$4,063
Elementary	\$3,267	Elementary	\$3,503
Secondary	\$6,053	Secondary	\$6,536
Combined	\$6,779	Combined	\$4,260
Catholic	\$3,236	Nonsectarian	\$10,992
Elementary	\$2,451	Elementary	\$7,884
Secondary	\$4,845	Secondary	\$14,638
Combined	\$6,780	Combined	\$12,363

Source: *Digest of Education Statistics 2003*, Table 61 (1999–2000).

Note: Elementary schools have grades six or lower and no grade higher than eight. Secondary schools have no grade lower than seven. Combined schools have grades lower than seven and higher than eight. Excludes prekindergarten students.

tuition in the United States is less than \$4,000, and average private secondary school tuition is around \$6,000 (Table 3). Since average per pupil spending for public schools is \$8,992, states would save money by allowing students to choose private schools.<sup>23</sup>

Whenever a student leaves the public system, that’s one child fewer that the state must educate at a higher public cost.<sup>24</sup> Shifting a portion of student enrollment to private schools would enable states to slow the growth of education costs without affecting the per student level of funding. Per student funding for public schools would remain the same, but because more students would be using lower-cost private schools, overall state expenditures for education could be reduced. In states experiencing high enrollment growth, choice would allow the private sector to absorb a portion of that growth, reducing the burden on state budgets. In those states the public school budget would continue to grow, but not at the rate that it otherwise would.

By offering choice to slow rising education costs, policymakers are not “giving up” on public schools. Choice simply allows states to spend more wisely and focus resources on

fewer students. Many educators believe that smaller classes result in better education. If they are right, a decline in student enrollment at public schools would result in better education for public school students.

Ignoring the very rich discussion and analysis that surround the political and philosophical concerns about school choice, this analysis restricts its focus to the cold reality of limited state budgets that must provide a wide array of programs and services. The fiscal benefits of school choice show that it should be part of a responsible state budgetary strategy.

### **Fiscal Impact of School Choice on State Budgets**

To show the potential fiscal impact of school choice on state budgets, this paper examines those states that have enacted school choice programs and draws from legislative and independent evaluations of the fiscal effects of such programs. The following sections examine school choice programs in seven states where choice has existed for some time and for which fiscal impact data are available.

**One of the most promising means of reducing the growth of state education costs is school choice.**

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These states are Arizona, Wisconsin, Ohio, Florida, Pennsylvania, Maine, and Vermont.<sup>25</sup>

### **The Arizona Tuition Tax Credit Program**

Arizona's seven-year-old tuition tax credit program<sup>26</sup> demonstrates that making use of private schools is fiscally responsible. Arizona's K-12 enrollment reached a new high in 2003, with public and private enrollment hitting 1.1 million.<sup>27</sup> Arizona gained 8,400 children aged 5 to 12 in 2004—more than any other state. The state's school-age population is expected to increase by 12 percent by 2013.<sup>28</sup> By providing scholarships for students to attend private schools, the tax credit program helps lighten the burden on public schools and public school budgets.

The Arizona Scholarship Tax Credit Program makes scholarships available to students through privately funded school tuition organizations (STOs).<sup>29</sup> Individual taxpayers who contribute to any STO can claim a dollar-for-dollar credit of up to \$500 toward their state income taxes. For married couples, the maximum credit is \$625.<sup>30</sup> Taxpayer donations to STOs have increased steadily each year. In 2004 program revenues were \$32 million, an 8.2 percent increase over 2003.<sup>31</sup>

Because private schools generally cost less than the state spends to educate students in public schools, the state saves money when a student transfers from a public to a private school.<sup>32</sup> According to a detailed analysis of state funding for public education, Arizona spends between \$8,500 and \$8,900 per student to educate children in public schools. The average portion of that amount that is based on student enrollment is \$4,600. That means that \$4,600 is the amount of funding lost when a student leaves to attend a private school. The remaining portion not allocated to schools on an enrollment basis (about \$4,300) remains with the school district, even when a student leaves to attend a private school.<sup>33</sup>

During the early years, most scholarships went to students (usually low income) who were already attending private schools.<sup>34</sup> Scholarships going to students who are already in private school are considered an

additional cost to the state, since those children would have most likely attended private school without the help of a scholarship. However, when a student who would have otherwise attended public school chooses a private school scholarship instead, the state and localities save money.

According to a 2005 report from the Arizona Department of Revenue, 21,160 STO scholarships were awarded for students to attend private schools in 2004, a growth rate of 15 percent over the previous year.<sup>35</sup> Precise data showing what portion of those students were previously in public school are not available. However, using a survey of school tuition organizations, researchers at the Goldwater Institute estimated that between 2,000 and 4,000 students would be forced to return to public school without the scholarship tax credit. Their return would cost taxpayers twice as much per pupil as private school tuition. Projections for the program predict that the state will begin to save money once 7,348 scholarships are granted to students who otherwise would attend public schools. It is expected that that breakeven point will be reached by 2007 or sooner.<sup>36</sup>

It could be argued that a reduction in public school enrollment will not offset Arizona's public school costs since most students will still be in those schools. However, existing funding mechanisms show that public school costs are affected by increases or decreases in enrollment. State and school district budgets are regularly adjusted up or down on the basis of enrollment projections. Though some costs (such as infrastructure, transportation, and utilities) are not reduced by the departure of a single student from the public system, the departure of a critical mass certainly has a cost reduction effect. Additional savings are realized by not having to build a new school building, hire additional teachers, or purchase technology for additional students. Even if Arizona does not reduce its actual costs, the scholarship grant program will certainly reduce the rate of cost growth, offsetting the need for future tax increases or cuts in other items in the state budget.



The Goldwater Institute recently conducted an analysis of the Arizona public school funding formula to determine what portion of state school funding is tied to students when they enter or leave a public school district. On the basis of that analysis, researchers were able to approximate the savings to the state and local districts under a system of education grants that could be used by any student at a public or private school. Using the reasonable assumption that under such a system 5 percent of public school students would transfer to private schools, a program that offered education grants of \$3,500 to elementary students and \$4,500 to high school students would have resulted in a net savings of \$32.4 million to the state and local districts in fiscal year 2003. Under that scenario, school districts would have had approximately 40,000 fewer students, yet total funding in half of the state's school districts would have remained unchanged, and in the other half it would have decreased by less than 1 percent.<sup>37</sup>

### **Milwaukee Parental Choice Program**

The Milwaukee Parental Choice Program is one of the oldest and largest school choice programs in the country. First enacted in 1990, it gives vouchers of up to \$5,943 to low-income Milwaukee families to enroll their children in nonreligious or religious private schools. Participation in the program grew from 341 students in 1990–91 to 13,978 students in 2004–05 and from the original 7 participating private schools to 117 schools.<sup>38</sup> The program is limited to families living in the Milwaukee Public School District with incomes at or below 175 percent of the poverty level (\$34,274 for a family of four in 2005–06).<sup>39</sup>

In 2004–05 the program cost the state \$87,362,100.<sup>40</sup> However, that amount is substantially less than the cost of educating students in the Milwaukee Public Schools (MPS). In the 2004–05 school year per pupil spending in the MPS was \$11,321, compared to a maximum voucher amount of \$5,943.<sup>41</sup> A report issued by the MPS estimated that, if

the choice program were eliminated, the district would incur \$70 million in added operating expenses and would have to borrow an additional amount of up to \$70 million for new facilities (assuming that nearly all of the voucher students returned to the MPS).<sup>42</sup>

One additional fiscal benefit of the program that should not be overlooked is the capital investment made by participating Milwaukee private schools that have expanded classroom space and renovated schools to accommodate increased demand. A 2003 study by the Milwaukee-based American Education Reform Council found that area private and charter schools had invested nearly \$100 million in completed and planned capital projects, saving the MPS the expense of building additional classroom space.<sup>43</sup>

### **Cleveland Scholarship and Tutoring Program**

The Cleveland Scholarship and Tutoring Program, implemented in 1995, allows students in kindergarten through grade 10 to receive scholarships to enroll in nonreligious or religious private schools. The program gives priority to low-income families earning below 200 percent of the federal poverty level (\$37,700 for a family of four in 2004). No more than half of new scholarship recipients can be children who were previously enrolled in private schools.<sup>44</sup>

The legislation also allows students to use scholarships to attend public schools adjacent to the Cleveland Municipal School District. Unfortunately, to date no public schools have chosen to participate. Participation in the scholarship program grew from 1,995 in 1996–97 to 5,675 in 2004–05. (As is implied by the name of the program, the CSTP also provides tutoring grants for students in Cleveland public schools.)

The maximum scholarship amount, originally set at \$2,250, was raised to \$2,700 in 2003.<sup>45</sup> That is a very low scholarship amount relative to the cost of private schools in the Cleveland area. The low scholarship amount provides CSTP students with access to only the lowest-cost private schools. As is

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the case in most communities, those tend to be already established religiously subsidized schools. Relatively few nonreligious schools are able to accept students.

The maximum \$2,700 amount spent on scholarships is substantially lower than the per student cost in the Cleveland public schools, which currently exceeds \$10,000.<sup>46</sup> Obviously, when students can be educated outside the public school system at less cost, the state saves money.

In a study conducted for the Ohio Department of Education, KPMG Public Services Consulting calculated the fiscal effect of the CSTP on state, local, and federal revenue. Because the CSTP is so small and students are drawn from across the Cleveland public school district, the district was not able to reduce administrative costs or eliminate any teaching positions. Nevertheless, KPMG concluded that the program had a positive fiscal impact on Cleveland public schools. That was largely due to the fact that local revenue, which is generated through local property taxes, was not reduced by the absence of CSTP students, which resulted in a higher per pupil revenue for Cleveland public schools. In essence, Cleveland public schools had the same number of local dollars to spend on fewer pupils.<sup>47</sup>

Historically, the low dollar amount of the voucher eliminated from the program all but the lowest-cost private schools, most of which tended to be religiously affiliated.<sup>48</sup> A new bill, signed on June 30, 2005, by Gov. Bob Taft, raised the maximum voucher amount from \$2,700 to \$3,450. The legislation will also make vouchers available to 14,000 additional children across the state whose schools are under “academic emergency.”<sup>49</sup> The increased voucher amount along with expansion of the program to additional students should allow the state to realize greater fiscal benefits from the program. Revenue saved could be applied to other state programs or returned to the taxpayers in the form of a tax cut.

#### **Florida’s Corporate Income Tax Credit Scholarship Program**

In 1999 the Florida legislature passed two

school choice initiatives, the A+ Opportunity Scholarship Program and McKay Scholarships for Children with Disabilities, which were supported by legislators from both sides of the political aisle. By January 2002 a third option, the Corporate Income Tax Credit Scholarship Program, was in effect.<sup>50</sup> This discussion will focus on the CITC, as it has been heavily analyzed.

As originally enacted, the CITC encouraged donations to authorized scholarship organizations, which, in turn, offered as much as \$3,500 to students from low-income families. Corporations that contributed to scholarships received dollar-for-dollar tax credits up to 75 percent of their state tax liabilities. The total annual program cap was \$50 million, which could serve a minimum of 14,285 students (\$50 million divided by the maximum scholarship value of \$3,500).<sup>51</sup>

Two independent groups have studied in detail the fiscal effect of this program, which currently has around 13,000 low-income students participating and 20,000 on the waiting list.<sup>52</sup> Florida TaxWatch (the public watchdog organization for fiscal accountability in Florida) and the Collins Center for Public Policy located at Florida State University conducted separate, independent, and in-depth analyses of the CITC.<sup>53</sup> Both groups concluded that the program has a positive fiscal impact on state education revenues.

According to the Florida TaxWatch report, “The Corporate Income Tax for Scholarships Program shows that increasing the funding levels of this innovative program for low-income students will result in nearly \$1 billion in taxpayer savings over the next eight years and help Florida meet its constitutional obligation to reduce class size.”<sup>54</sup> Florida TaxWatch went on to say that “substantial additional savings would result if the \$50 million statewide maximum is increased.”<sup>55</sup> Program expansion would increase Florida’s ability to meet its reduced class size mandate (so-called Amendment 9) because it would reduce “the numbers of classrooms and teachers that will be needed.”<sup>56</sup>

The Collins Center was more tentative in its conclusions, stating that although “the

program is too new to use actual program data to prove results . . . the Corporate Income Tax Credit Scholarship Program will likely result in slight declines in state tax revenues, but these declines will likely be offset by increases in the amount of statewide net revenue available for education. These net revenues could reach more than \$600 million over the next ten years.”<sup>57</sup>

Florida TaxWatch advocated increasing the annual limit in its February 2003 Research Report. It found that the greater the size of the CITC, the greater the fiscal benefit. The greater number of students and families affected by this choice plan, the fewer the number of public schools to be constructed, portable classrooms to be bought or rented, and teachers to be hired. Scenarios were presented and costed for a CITC program at annual maximum levels of \$75 million and \$100 million. “Expanding the CIT Credit for Scholarships Program would reduce the need for public education funds, thereby resulting in cost savings by reducing the staffing and number of classrooms needed otherwise to fulfill the constitutional requirements of Amendment 9. Consequently, the CITC . . . benefits both public and nonpublic education while enabling parental choice of schools for their children.”<sup>58</sup>

Given the conclusions of those two studies, it is not surprising that the Florida legislature voted to increase the CITC to \$88 million starting in school year 2004–05. However, in school year 2003–04 only \$32 million in scholarship tax credits was approved, well short of the new maximum cap. Thus, the short-lived increase to \$88 million was reduced to the original \$50 million limit with the balance going back into funding for public education.<sup>59</sup> Even though the number (14,285 or more) of potential student beneficiaries is high, the \$50 million program cap is only one-third of 1 percent of the \$15.5 billion state education budget.<sup>60</sup>

In conclusion, the CITC demonstrates that allowing children to attend private schools for less money than the state spends per pupil in public schools makes fiscal

sense. Not only does the CITC reduce the need for funds for public education, it also reduces the number of classrooms and school buildings needed to keep up with growth in enrollment. Such an approach benefits all students, including those in public schools, while allowing parents an opportunity to choose schools for their children.

### **The Pennsylvania Educational Improvement Tax Credit (EITC)**

In 2001 Pennsylvania became the first state to enact a corporate tax credit for education. Then-governor Tom Ridge signed the \$30 million credit into law May 17, 2001, effective for the 2002–03 school year. It allowed corporations a 75 percent tax credit on their state taxes for a one-year commitment to the program and 90 percent for a two-year promise. Corporations could donate up to \$100,000 each year to one of Pennsylvania’s 127 authorized nonprofit scholarship organizations.

In its short lifespan, the EITC program has enjoyed considerable success. In December 2003 Gov. Edward Rendell signed into law an increase in the cap on the tax credits, raising available funding to \$40 million. The contribution limit was doubled to \$200,000 per business firm.<sup>61</sup> The FY06–07 budget, signed by Governor Rendell on July 7, 2005, increased the statewide cap on the tax credit to \$44 million.<sup>62</sup>

To date, only one analysis has assessed the fiscal effects of this relatively new law. Robert Maranto, a professor at Villanova University, examined Futuro Educacional (Futures in Education), one of 127 local scholarship-granting organizations and one of the first to distribute private scholarships in the 2001–02 school year. Maranto found that this program, with only 47 participating students, saves taxpayers and Philadelphia City Schools between \$136,000 and \$360,000 annually.<sup>63</sup> The higher figure is based on the cost of educating all 47 scholarship students in the Philadelphia City School District at an annual cost of \$7,669 per student. The lower figure is based on a survey of Futuro parents, in which the parents or guardians of 23 of

**Not only does the CITC reduce the need for funds for public education, it also reduces the number of classrooms and school buildings needed to keep up with growth in enrollment.**

**Pennsylvania  
statewide  
budgetary savings  
is about \$147  
million to \$205  
million.**

the 47 students said they would have put their children in the Philadelphia public schools had it not been for the scholarship.<sup>64</sup>

Statewide, “an estimated 15,000–20,000 low-income students are benefiting from the contributions of more than \$18.9 million from nearly 1,000 Pennsylvania corporations,” which suggests that the average scholarship ranged from \$945 to \$1,260 per student.<sup>65</sup> Using those averages, it is possible to calculate the potential statewide impact of the new \$40 million program, of which \$27 million (or two-thirds, as mentioned above) goes to students to attend nonpublic schools. At least 21,163 and as many as 28,217 pupils could benefit.<sup>66</sup> Plus, if all those students attended public school the prior year, the approximate statewide savings in state education disbursements would range from \$173.7 million to \$231.7 million.<sup>67</sup> Offset that by roughly \$27 million lost in corporate tax revenue, and the statewide budgetary savings is about \$147 million to \$205 million.

Although Pennsylvania’s program is encouraging, it is still rather small. The initial \$30 million (now \$40 million) still is less than 1 percent of the total state education budget.<sup>68</sup> Although the program is small, it is already saving Pennsylvania a significant sum.

**“Town Tuitioning” in Maine and Vermont**

Since the 1880s both Maine and Vermont have used vouchers for students living in communities without public schools. Those towns provide tuition for students to attend local private schools or public schools in neighboring communities. In Maine the amount of the voucher is capped at the average cost of educating a student in the state’s public high schools.<sup>69</sup> In Vermont allowable tuition amounts vary from town to town and by grade level.<sup>70</sup>

As of October 2004, 6,193 students from 55 different communities attended private schools in Maine through this program. In Vermont 95 towns “tuition out” students. Of the nearly 7,000 Vermont students who participate in tuitioning, 41 percent choose a private school.<sup>71</sup>

A 2001 study of town tuitioning in Maine and Vermont identified significant cost savings associated with the policy. At the same time, the researchers determined that the competitive effects of town tuitioning yielded a 3.4 point overall improvement in test scores for both private school and public school students. The report concludes that the financial value of town tuitioning is large enough to merit attention by people concerned both with fiscal responsibility and with improving education.<sup>72</sup>

Some private schools in Maine are known as town academies. They are private schools that exist in towns with no public high school and whose student body is largely made up of students whose tuition is paid by the sending town, since the sending town has no public high school of its own. According to a November 2004 report by the Maine Association of Independent Schools, Maine provided town academies with an average of \$6,615 per pupil in tax revenue through the town tuitioning program in 2001–02. The same year per pupil expenditures in Maine’s public schools averaged at least \$8,178.<sup>73</sup> That translates into a one-year cost savings of more than \$7,650,000 to the taxpayers of Maine based on the enrollment of publicly subsidized students attending town academies during the 2001–02 school year. The report also revealed that Maine’s town academies spent an average of \$640 per student per year above the tax-supported tuition. Private funds accounted for more than \$25 million in expenditures that taxpayers did not have to make.<sup>74</sup>

**Fiscal Studies of Proposed  
School Choice Programs:  
How School Choice Can  
Affect the Bottom Line**

Each year new school choice legislation is introduced in a number of states.<sup>75</sup> In several cases, legislative or independent groups conducted studies to show the potential fiscal effect of the proposed program. The follow-

ing sections provide information about the fiscal impact of school choice proposals in several states.

### **The Push for School Choice in Utah**

The push for school choice in Utah has, to a large extent, been motivated by demographic changes that are placing increased burdens on taxpayers and public schools. Currently, the share of personal income that Utahans pay for schools is the third-largest in the country.<sup>76</sup> However, because of the number of large families with school-age children, Utah spends less than any other state per student, and the average classroom in Utah has more students than the average classroom in any other state.<sup>77</sup> Indications are that enrollment pressure on the state's public schools will only get worse. According to the Governor's Office of Planning and Budget, by 2018 the number of school-age children will increase by more than 140,000, creating the need to expand classroom space, build additional schools, and hire additional teachers.<sup>78</sup>

In addition to high enrollment demands on the state's public schools, Utah has the lowest portion of school-age children enrolled in nonpublic schools (fewer than 3 percent). For that reason, policymakers in the state legislature have promoted school choice as a means to relieve the public system from the fiscal burden of future enrollment increases. By shifting some of the future enrollment burden to private schools, the state would save money that could be reallocated among public school students or redirected to other state needs.<sup>79</sup> Fiscal impact models produced by the Utah Office of the Legislative Fiscal Analyst indicate that the state could indeed save money through such an approach.<sup>80</sup>

According to a recent study conducted for the Utah legislature, tuition tax credits would save the state between \$53.9 million and \$92.9 million annually. Over 13 years, total savings would be between \$755 million and \$1.2 billion.<sup>81</sup> Additional savings would include money saved by the local school districts in school construction costs, which

could easily exceed \$1 billion over the first 13 years following implementation of a tuition tax credit, depending on the number of students who switched from public to private schools.<sup>82</sup>

Because of the fast pace of enrollment growth in the state, most urban Utah school districts would continue to grow even with a tuition tax credit program in place. However, the growth would be offset somewhat by a portion of those students switching to private schools. Since local property taxes are not affected by reduced levels of student enrollment, a slower growth rate or even a declining enrollment trend is fiscally beneficial to school districts. A 2004 report by the Utah Taxpayers Association showed that Utah school districts with slower or declining growth in enrollment have reduced capital needs and therefore are able to allocate a larger percentage of their property tax revenues to instructional costs.<sup>83</sup>

In 2005 the Utah state legislature considered two school choice bills: one to provide vouchers to children with disabilities and the other to provide tax credits to parents whose children switch from public to private schools. Although the tax credit bill failed to pass, the legislature approved the Carson Smith Scholarships for Students with Special Needs Act, which will provide scholarships of up to \$5,700. It is likely that the legislature will consider tuition tax credits again in the next legislative session.

### **South Carolina: The Universal Scholarship Tax Credit Proposal**

In 2005 South Carolina considered a proposal that would provide parents with dollar-for-dollar tax credits for tuition costs. In addition, the proposal included scholarship tax credits for individuals or businesses that contribute to scholarship-granting organizations that in turn distribute scholarships to low-income families.<sup>84</sup>

Under the proposal, students from families earning less than \$75,000 per year would qualify for vouchers that pay up to 80 percent of tuition at a private school or out-of-dis-

**According to a recent study conducted for the Utah legislature, tuition tax credits would save the state between \$53.9 million and \$92.9 million annually.**

**An education tax credit of the type being proposed could save South Carolina \$931.3 million per year after a five-year phase-in.**

trict public school. Students who qualify for the federal free and reduced lunch program would receive vouchers that pay 100 percent of tuition.<sup>85</sup>

Studies by researchers at Clemson University's BB&T Center for Economic Education showed that an education tax credit of the type being proposed could save the state \$931.3 million per year after a five-year phase-in. Under the proposal, much of the savings would be passed on to school districts, resulting in a revenue-neutral position for the state. For every student who migrated to a private school, the local government would save the funds it would have contributed to that student's education. The savings were estimated at between \$4,267 and \$6,614 per student, creating a net fiscal benefit for the school districts.<sup>86</sup>

To arrive at that estimate, researchers estimated the resources freed to the districts as a result of decreased student enrollment. The analysis was done to address the concern that education has large fixed costs that are not reduced by a decrease in student enrollment. Fixed costs include teachers who are under contract and facilities that have recently been built to house public school students. Since public schools will have to continue to pay those costs, even for fewer students, no reduction in expenses can be expected. To evaluate this argument, the researchers used statewide cost and enrollment data to compare cost variation with fluctuation in student enrollment. The results showed that more than 80 percent of the variation in cost is attributable to the number of students enrolled, casting doubt on the fixed-cost argument against cost savings. The analysis estimated the resources freed by the departure of a single pupil to be \$6,422.<sup>87</sup> That is roughly \$600 less than the amount of the reduction in per pupil funding provided by the state. The result is that there would be more state per pupil support available after tax credits were offered.<sup>88</sup>

In response to the Clemson study, the South Carolina School Boards Association together with the South Carolina Association

of School Administrators commissioned a study by the economic consulting firm Miley and Associates. The study charged that the Clemson estimates of savings were too large.<sup>89</sup> The controversy over the estimates motivated the Clemson researchers to gather additional data, and an updated report was released in March 2005. The savings estimated in the second analysis, although somewhat smaller, still exceeded the amount withheld per student by the state, leaving public schools with more money per remaining student than would have been the case without tuition tax credits.<sup>90</sup>

In summary, the proposed school choice program would save more than \$2.8 billion over five years, with the bulk of the savings coming in the later years of the program. Looking at the fiscal effects another way, the analysis showed that per pupil spending in the state's public schools would increase faster if the school choice proposal were enacted than it would otherwise, climbing to \$15,536 in 2011 and giving districts an average of \$1,419 more to spend per child. All in all, public schools would gain more than they would lose under the proposal.

### **New Hampshire: Raising per Pupil Spending in Public Schools**

As is the case in most states, public schools in New Hampshire are funded by a combination of state and local funds. Per pupil spending averages \$9,980 with the state kicking in about one-third of that amount.<sup>91</sup> Public school administrators in New Hampshire have historically argued that the level of state per pupil spending (currently \$3,390) is insufficient to cover the cost of educating the children residing in that state.<sup>92</sup> Assuming that their assessment is correct, the loss of some students to private schools should be desirable from a financial perspective because the loss of state dollars associated with each departing student would be less than the reduction in costs incurred to educate the child in public schools.

In 2003 the New Hampshire state legislature entertained a proposal to allow 2,000 children who are entering or currently

enrolled in New Hampshire public schools to use vouchers worth 80 percent of the per pupil amount spent by the state to attend private schools in the state.<sup>93</sup> The legislature determined that the vouchers would cost the education general fund \$9,653,641 in FY04, \$13,826,671 in FY05, \$19,718,804 in FY06, and \$24,261,465 in FY07.<sup>94</sup> However, those costs would be offset somewhat by enrollment decreases resulting from more children attending private schools.

To more precisely determine the fiscal effects of the program on public school districts, the Concord-based Josiah Bartlett Center for Public Policy conducted a fiscal analysis of the proposal.<sup>95</sup> The Bartlett analysis included a breakdown of private and public school enrollment for every town and school district in the state. On the basis of that breakdown, researchers were able to predict approximately how many public school students would switch to private schools and what the fiscal impact would be on each individual school district.

Researchers also estimated the amount by which spending on public schools rises or falls with the number of students, excluding fixed costs (such as heating and electricity) that would not change much even with lower numbers of students. The resulting analysis showed that the variable cost of educating one additional elementary student in public schools (including all transportation and debt costs) was at least \$5,920, or about 73 percent of total per pupil costs.<sup>96</sup>

The analysis showed that most school districts would have more money to spend on their students if a school choice program such as the one being considered were in place and fully implemented in its first year. Although the districts stand to lose 80 percent of the state per pupil funds they currently receive, that revenue loss would be more than offset by a reduction in enrollment and the associated variable costs of educating fewer students. The only districts that would not have more money to spend per student are those that currently receive no state aid, since those districts would not recoup the 20 percent of state

funds left over after paying for vouchers for their students. Nevertheless, those districts would enjoy lower enrollments, and the decrease in the variable costs of educating fewer students would offset any revenue loss. Overall, the analysis showed that the school choice program would make an additional \$8,791,057 available to public schools for every 2,000 students in the choice program. Legislation similar to the 2003 proposal has been introduced each year in the New Hampshire legislature.<sup>97</sup>

A school choice program that provides vouchers to students in an amount less than the variable costs of educating each student in the public schools can be expected to save money. The departure of students increases the revenues available to the students who remain in public school classrooms. The New Hampshire case illustrates that point very clearly and shows the financial benefits of school choice for school districts.

### **A School Voucher Program for Baltimore, Maryland**

In March 1996 Baltimore's mayor Kurt L. Schmoke, a Democrat, called for dramatic reform of the city's school system. Citing low test performance on the Maryland School Performance Assessment Program, the mayor said, "It's time to give all Baltimore parents the option to pull their children out of poorly run schools and place them in schools where they believe their children will get a better education."<sup>98</sup> Since that time, advocates have pushed for legislation that would provide school choice to Baltimore families.<sup>99</sup> In March 2005 the Maryland Public Policy Institute issued a report showing that a school voucher program designed for low-income students could save Baltimore more than \$30 million over 10 years. The voucher amount would be \$7,000, approximately 75 percent of the per pupil expenditure in Baltimore public schools.<sup>100</sup> To allow for gradual growth in the supply of private schools, the proposed program would be phased in over 10 years and limited to public school students from families whose income is at or below 185 percent of the poverty line.<sup>101</sup> After year two,

**A school voucher program designed for low-income students could save Baltimore more than \$30 million over 10 years.**

**Even after paying the fixed costs associated with enrollment losses, the overwhelming majority of school districts come out ahead.**

low-income students already in private schools would also become eligible.

By year 10 the program would cost the state of Maryland about \$100 million per year to cover the cost of the vouchers for Baltimore students. However, the vouchers would provide significant savings for Baltimore schools as a result of lower enrollment. Since Baltimore spends nearly \$9,000 per year to educate a student in the city's public schools, a \$7,000 voucher would save approximately \$1,300 for each student who transferred to a private school (allowing for a 10 percent administrative cost). That amount results in a total savings of more than \$30 million in 10 years.<sup>102</sup>

Baltimore school officials have appealed to the state for additional financial resources, citing a recent Baltimore Circuit Court ruling that halted the city's plan to pay down a budget deficit by saving resources and cutting programs.<sup>103</sup> A school voucher program funded at the state or local level could be used to help solve the current fiscal crisis in the Baltimore schools.

#### **Virginia: The Fiscal Effect of Tuition Tax Credits on State and Local Budgets**

Virginia, a mostly conservative state, would seem to be a promising place for school choice. Poll data show that two-thirds of Virginians support school choice in principle, yet school choice has yet to pass the state legislature. School choice bills have been introduced each year with varying degrees of success. In 2005 lawmakers considered a bill sponsored by Delegate Chris Saxman (R-20th District) that would have granted a scholarship of up to \$5,000 per student and a 25 percent tax credit to businesses that donate to scholarship organizations.<sup>104</sup>

A study by the Thomas Jefferson Public Policy Institute released earlier in the year found that under a program such as the one proposed by Saxman each \$5,000 scholarship would cost the state \$1,442.<sup>105</sup> Because the amount of state aid varies greatly between local jurisdictions, the effect of the tax credit on state finances would be different depending on where the student lived.

State aid ranges from as little as \$982 per student in Fairfax City to as much as \$4,587 in the city of Buena Vista. To show the effect of tuition scholarships, researchers provided a district-by-district analysis that revealed the state savings per pupil in each of the 132 school districts. In all except 8 of the 132 school districts, the state would reap financial benefits when students left their local public school system.<sup>106</sup>

The study also examined whether local public school districts would gain or lose funding with tuition tax credits. To determine that, researchers looked at the current local contribution per pupil, the fixed costs that would remain in a school district regardless of lower student enrollment, and the revenue from state retail sales and use taxes. Results showed that 91 of the 132 school districts would derive a net gain of more than \$1,000 for each student who chose to transfer to a private school. (Some school districts would derive a net gain of as much as \$8,600 per departing student.) Twenty school districts would have between \$500 and \$999 more per student available for redirection to other uses, and 21 school districts would gain less than \$500. Only 3 school districts would actually lose money as a result of a tuition tax credit.

Overall, tuition tax credits would save state resources and also have a positive fiscal impact on local school finances. Even after paying the fixed costs associated with enrollment losses, the overwhelming majority of school districts come out ahead.<sup>107</sup> Savings as a result of the tuition tax credit program could also, of course, be used to provide tax relief.

#### **Local School Choice: Possibilities for Savings at the Local Level**

Although school choice will most often be enacted through state legislation, towns or local school districts in some states could consider adopting school choice as a way to cope with local budget challenges.<sup>108</sup> As noted earli-



er, local school choice programs exist in Maine and Vermont, and those programs have demonstrated significant cost savings. To evaluate the potential effect of school choice on local budgets, the Yankee Institute for Public Policy in Hartford, Connecticut, produced a downloadable calculator in Microsoft Excel that allows one to input information about a town or district school budget, including per pupil cost, annual cost increases, and projected population increases.<sup>109</sup> The District Grants for Non-Public Schooling Calculator can be used to compare a town or district's annual education expense under a policy without tuition grants and a policy of grants for private school attendance. Representative analyses conducted by the Yankee Institute indicate that towns or school districts would benefit significantly from a policy of school choice because of savings from lower enrollment. Savings are especially large in towns or districts considering new school building construction or expansion.<sup>110</sup>

## **Fiscal Impact Summary**

Predicting the fiscal impact of school choice is not an exact science. To a large extent, the conclusions about the fiscal impact of an existing or proposed program will depend on the assumptions used to estimate the number of students that would migrate from public to private schools under a school choice scenario. Also, different researchers may use different estimates of variable costs and fixed costs and the amount of savings that public schools experience because of decreased student enrollment. Different assumptions will lead to different conclusions about the fiscal impact of a program. However, most studies to date have found that the impact is positive.

Also, it is important to note that bolder, more universal school choice programs would tend to result in more positive fiscal benefits for public schools. Obviously, the departure of only a few students from selected public schools does not appreciably reduce expenses for that school or school district. Only when

significant numbers of students migrate to private schools is a school or district able to reduce staff or costs for building maintenance or transportation. Therefore, school choice programs that provide choice to a larger number of students produce the most significant cost savings for states.

Table 4 provides a brief summary of the fiscal impact of the existing school choice programs in several states and also summarizes the available fiscal evaluations that have been done on school choice programs proposed but not yet enacted in other states. The general conclusion is that school choice makes sound fiscal sense and can be part of a responsible state budgetary strategy.

## **Issues Facing States Attempting to Reduce the Growth of Spending on Education**

Although the fiscal benefits of school choice are apparent, there are a number of issues that must be dealt with as policymakers attempt to implement school choice programs in their states. The following sections discuss a number of important issues that policymakers should consider in crafting and implementing school choice legislation.

### **Funding Formulas**

Funding for education in most states is extremely complex. Typically, only a handful of people in each state understand how the state's school-funding formulas work or how much money is actually spent per pupil when all sources are considered.<sup>111</sup> In addition, many states distribute funds to school districts differently according to a locality's wealth and its ability to pay for basic educational services.<sup>112</sup> Understanding the fiscal effect of a school choice policy on state and local revenues typically requires a detailed and rather sophisticated analysis.

The complexity and lack of transparency of public school funding formulas make it diffi-

**School choice programs that provide choice to a large number of students produce the most significant cost savings for states.**

**Table 4**  
**Fiscal Impact of School Choice on State and Local Budgets: A Summary**

State and Program	Fiscal Impact
Arizona, Tuition Tax Credit Program	Projections for the program predict that the state will save money once 7,348 scholarships are granted to students who otherwise would attend private schools. One study predicts that the breakeven point will be reached by 2007 or sooner. A program that offered education grants of \$3,500 to elementary students and \$4,500 to high school students would have resulted in a net savings of \$32.4 million to the state and local districts in FY03.
Wisconsin, Milwaukee Parental Choice Program	Milwaukee Public Schools would incur \$70 million in added expenses and would have to borrow an additional \$70 million for new facilities if nearly all the voucher students returned to MPS.
Ohio, Cleveland Scholarship and Tutoring Program	A KMPG study found positive fiscal impact on Cleveland public schools. The presence of 1,222 fewer students in public schools results in higher per pupil revenue for the Cleveland Municipal School District.
Florida, Corporate Income Tax Credit Scholarship Program	Studies by Florida TaxWatch and Florida State University's Collins Center concluded that the program has a positive fiscal impact on state education revenues.
Pennsylvania, Educational Improvement Tax Credit	The program saves Philadelphia City public schools between \$136,000 and \$360,000 annually. The approximate statewide savings is between \$147 million and \$205 million annually.
Maine and Vermont, "Town Tuitioning"	A 2001 study of the Maine and Vermont town tuitioning programs identified significant cost savings associated with those programs. A study examining Maine's use of private "town academies" concluded that the program saved taxpayers nearly \$8 million during the 2001-02 school year. Also, Maine's town academies spent an average of \$640 per student per year above the tax-supported tuition revenue. Those private funds accounted for more than \$25 million in expenditures that taxpayers did not have to bear.
Utah, Tuition Tax Credit Program (proposed)	Tuition tax credits would save the state between \$53.9 million and \$92.9 million annually. Over 13 years, total savings would be between \$755 million and \$1.2 billion. Additional savings would include money saved on school construction costs by local school districts.
South Carolina, Universal Scholarship Tax Credit (proposed)	The program could save the state \$931.3 million per year after a five-year phase-in.
New Hampshire, Vouchers (proposed)	The school choice program would make an additional \$8,791,057 available to public schools for every 2,000 students in the program.
Maryland, Baltimore Voucher Program (proposed)	The program would save Baltimore more than \$30 million over 10 years.
Virginia, Tuition Tax Credit (proposed)	Ninety-one of 132 school districts would derive a net gain of more than \$1,000 for each student who chose to transfer to a private school.

Sources: See notes to relevant sections of the text.

cult for state officials to identify funds as money “saved.” Costs may go down as a result of lower enrollment, but the money saved may continue to be spent in other ways or at other jurisdictional levels. Savings will depend on how policymakers choose to allocate the funds. If policymakers choose to increase the per pupil allocation for students who remain in public schools, the net expenditures will not go down, but public schools will have more funds to spend per pupil. Of course, a state or school district knows it is saving money if it is able to reduce staff or expenditures for building maintenance and school buses. For states and districts that are experiencing high enrollment growth, the savings may be less obvious, and calculating them may require estimating the cost of educating students who would have remained in public schools if not for the school choice plan.

### **Fixed Costs**

This analysis focuses on the cost savings that states and districts can attain by allowing a larger portion of students to attend private schools that, on average, cost less than what the state pays to educate students in public schools. Under school choice, public schools experience a decrease in funds, but they also experience a decrease in costs as a result of lower student enrollment. Of course, not all public school costs decrease proportionately to the level of student enrollment. For example, school building debt, utilities, maintenance costs, teachers’ salaries, and administration are not reduced appreciably by the departure of a few students using vouchers or tax credit scholarships. Those fixed costs must be taken into consideration when crafting a fiscally sound school choice program.

Nevertheless, the portion of costs that is truly fixed is not as large as many people think. According to a thorough analysis of school funding in South Carolina, the portion of costs that fluctuates on the basis of student enrollment is nearly 80 percent of total per student funding. The other 20 percent is used to cover fixed costs such as utilities and building maintenance.<sup>113</sup> A similar

analysis of Arizona public school finances showed that \$4,309 of the \$8,500 to \$9,000 funding that public schools receive per student is allocated irrespective of student enrollment. In other words, this is the average amount of funding that districts keep even when students leave the district.<sup>114</sup> If a voucher or tax credit is equal to or less than the variable student funding, school districts with declining enrollments will not have problems meeting their ongoing fixed costs.

Moreover, the National School Boards Association acknowledges that a “school district would realize significant savings” if “sizeable numbers of students from a single grade in a single school or from a school with small pupil population transferred out.” In that case, “the school district could cut costs by reducing staff and perhaps expenditures for building maintenance and school buses.”<sup>115</sup>

### **Start-Up Costs**

As has been shown, school choice programs can save money by transferring a large portion of the public school enrollment to private schools. Savings will grow as more students use vouchers or tuition tax credits to attend private schools. However, there may be some additional start-up costs that must be planned for during the early stages of the program. Most school choice plans deal with start-up costs by limiting the use of vouchers or tax credit scholarships to public and private school students who are entering kindergarten or the lower elementary school grades. Public and private school students in higher grades can be phased in a year at a time.

Some school choice programs limit participation to students who are in public schools. Families of private school students might think it unfair to withhold a voucher or tax credit scholarship from students just because they are already in private school. Although such a reaction is understandable, offering vouchers or tax credit scholarships to all students, including those already in private school, would make the program prohibitively expensive, at least in the early

**If policymakers choose to increase the per pupil allocation for students who remain in public schools, the net expenditures will not go down, but public schools will have more funds to spend per pupil.**

**Where possible, independent and neutral oversight bodies should be formed to oversee and administer school choice programs.**

stages. Once sufficient enrollment has migrated to private schools, the savings can be used to extend vouchers or tax credit scholarships to existing private school students. A phase-in of this type also helps to preempt charges that the program will benefit wealthy families disproportionately.

Other start-up costs might include costs for record keeping, student transportation, monitoring student eligibility, and disbursement of funds. But judging from existing programs, those costs appear to be minimal.<sup>116</sup>

### **Loss of Federal Dollars**

Opponents of vouchers or tuition tax credits routinely claim that school choice would harm public schools because public schools would lose federal funds as a result of declining enrollment. But, on average, federal funds constitute only about 8 percent of total education funds.<sup>117</sup> Also, most federal funds are targeted to the most difficult to educate students, including those with learning disabilities and those who live in low-income neighborhoods. It has been shown that federal funding does not typically cover the incremental costs of educating a special needs student compared with a non-special-needs student. Therefore, when such students transfer to private schools, the public school system benefits because the forgone federal dollars are more than offset by the reduced cost of educating those students.<sup>118</sup> Also, federal programs all come with a significant amount of red tape and often impose unnecessary and costly regulations on schools and school districts. In many cases, the loss of federal funds would be offset by decreased administrative costs and increased local flexibility.

### **Impact on Nonprofit Charities**

Nonprofit charitable organizations in some states have opposed tuition tax credits out of fear that existing charities (including school district charitable foundations) will be harmed because contributions to such charities are tax *deductible* (which only reduces the basis for computing the amount of tax owed). Contributions to scholarship-granting organ-

izations, on the other hand, can be used to claim a dollar-for-dollar tax *credit* that is subtracted directly from the final amount of tax owed. Some observers have argued, therefore, that taxpayers would redirect their charitable giving toward scholarship organizations, hurting other nonprofit charities.

That is likely an overblown fear. Tax-creditable donations to scholarship-granting organizations reduce taxes paid by an amount equal to the donation. After-tax discretionary income is not reduced by such donations. Individuals and businesses still have the same incentives to donate their after-tax income to existing 501(c)3 charities as they do currently without the presence of a tuition tax credit. In other words, individuals and businesses are able to donate to existing charities and to tax-creditable scholarship-granting organizations without having to make additional financial sacrifices. Also, according to studies of giving patterns, people give because they are committed to the cause for which they give.<sup>119</sup> It is unlikely that a tuition tax credit would have a significant impact on other charitable giving.

### **Management Challenge**

Implementation and management of a school choice program require strong commitment and support from those who are responsible for administering the program. For that reason it is wise to avoid turning responsibility for the program over to established public education authorities who may not believe in the program's philosophy or viability and may gain the least from its success. Where possible, independent and neutral oversight bodies should be formed to oversee and administer school choice programs. Those bodies can consist of competent business and civic leaders appointed by the governor or the legislature. Provisions for the establishment of such bodies should be included in the legislation proposing the school choice program.<sup>120</sup>

### **Transportation**

Under most school choice programs, transportation is left up to parents, who often orga-

nize car pools or make other arrangements for transporting their children to the chosen school. If policymakers are concerned that transportation will pose a significant barrier to parents seeking to exercise choice, a school choice plan can include some provision for transportation as part of the program, either through a transportation voucher or through the public school district transportation program. Eventually, as more students migrate to private schools, new schools will be created in locations where the demand is greatest, and parents will be able to choose a school that is closer to their home.

School districts that have implemented public school choice have designed innovative methods to deal with transporting neighborhood children who may attend several different schools.<sup>121</sup> Some urban districts, such as Washington, D.C., provide students with bus tokens for public transportation.

### **Public Perception**

Will the populace accept carefully devised school choice programs as responsible, cost effective actions? Surveys of public support for school choice generally show strong support for the idea, but public response to school choice depends greatly on how the issue is framed.

For example, a 2004 national Phi Delta Kappa poll on education found that only 42 percent of adults favored school choice. However, researchers have argued that the poll was worded in such a way as to lower support.<sup>122</sup>

To gauge the degree to which word selection affects public support for school choice, the Milton and Rose D. Friedman Foundation commissioned Wirthlin Worldwide to conduct a “split sample survey.” Some respondents were asked the same question used in the Phi Delta Kappa poll: “Do you favor or oppose allowing students and parents to choose a private school to attend at public expense?” Pollsters also asked an equal number of respondents a more neutrally worded question: “Do you favor or oppose allowing students and parents to choose any school, public or private, to attend using public funds?” The results showed a remarkable differ-

ence in how people responded. The more neutrally worded question netted support from 63 percent of respondents, while the Phi Delta Kappa question showed support from 42 percent of the public—a difference of more than 20 percent.<sup>123</sup>

African Americans exhibit strong support for school choice. The 2002 national opinion poll by the Joint Center for Political and Economic Study found 57 percent support for vouchers among blacks, 75 percent support among blacks under age 35, and 74 percent support among black households with children.<sup>124</sup>

Hispanic support for school choice is also strong. A Latino Coalition poll of 1,000 Hispanic adults conducted in 2003 found that 56 percent of Hispanic adults support allowing low-income parents to use vouchers.<sup>125</sup> The Joint Center’s 2002 poll found 69 percent support among Hispanic households with children. Polls in areas of the country where public schools are perceived to be of extremely low quality tend to show even greater support among minorities. For example, a poll by the Archdiocese of New Orleans found that 89 percent of African-American respondents said yes to vouchers when asked whether students in failing schools should be allowed to transfer to other schools, public, private, or religious.<sup>126</sup>

Clearly, public support for school choice exists, and public officials should be able to pass school choice measures by building on that support.

### **Effect on Educational Quality**

What impact does school choice have on the quality of schooling? As school choice expands in the United States, it is becoming increasingly clear that choice helps schools, including public schools, improve. A 2003 study of Florida’s A+ Opportunity Scholarship Program, in which students in failing public schools receive vouchers, showed that the most improvement was found in public schools that were most directly challenged by voucher competition.<sup>127</sup> The study confirmed the findings of an earlier study that found that “failing [public] schools that faced the prospect of vouchers made improvements

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that were nearly twice as large as gains displayed by other schools in the state.”<sup>128</sup> Public schools that faced voucher competition implemented a number of effective reforms including hiring more reading specialists, implementing one-on-one tutoring programs, and developing reading programs that focus on phonics.<sup>129</sup> Studies of Milwaukee, San Antonio, Maine, and Vermont as well as other locations also show positive improvements in public schools motivated by vouchers.<sup>130</sup> Studies also show that students who move to private schools do better than they were doing in their previous school.<sup>131</sup>

**The X Factor = Change**

Much of the opposition to school choice comes from a normal and natural fear of the unknown. Few people relish the discomfort of change; most people are naturally apprehensive about having to learn to function in a new educational environment. Most parents are already psychologically vested in the current form of education, and many are comfortable with this arrangement. Therefore, policymakers should expect some resistance to school choice proposals as a result of the normal fear of change and should avoid viewing those persons who are resisting as adversaries. Policymakers should seek to address the legitimate fears and concerns of people who can help identify problems, and thus make the proposal better, but should also realize that some objections are simply based on the fear of change. Many people once opposed deregulation of the telecommunications industry because of fears of higher costs and lower quality of service. But today people have come to regard low-cost long-distance and high-quality customer service as the norm. Today competition between UPS, Federal Express, and the U.S. Postal Service is seen as generally positive even though initial proposals to deregulate package delivery were opposed because of concerns about higher prices or lower quality.

Of course, under a school choice program, parents who are satisfied with public schools will be able to freely exercise their preference and remain with the status quo. That fact

can be emphasized to assure those who like the current public school system that they will be able to continue with that system.

## **Summary and Conclusion**

Legislative and independent evaluations of the fiscal effects of educational choice programs have identified significant cost savings associated with school choice. Results from programs in Arizona, Milwaukee, Cleveland, Florida, Pennsylvania, Maine, and Vermont indicate that allowing an increasing number of students to attend private schools for less money than is spent per student in public schools makes sound fiscal sense. Analyses of proposed school choice programs in Utah, South Carolina, New Hampshire, Baltimore City, and Virginia reveal that those programs could indeed save money and are reflective of the savings that could result from similar programs in other states. School districts in states where no constitutional prohibition exists could adopt school choice unilaterally. Analyses of local school choice programs show that significant savings can be realized through local option school choice, while maintaining a high level of quality for students who remain in public schools. Policymakers at the state and local level can, therefore, look to school choice as part of a fiscally responsible budgetary strategy.

## **Notes**

1. In 21 states spending on education was exceeded narrowly by spending on Medicare. On average, spending on elementary and secondary education accounted for 21.7 percent of state budgets in fiscal year 2003 while Medicare accounted for 21.4 percent. See National Association of State Budget Officers, *2003 State Expenditure Report* (Washington: NASBO, 2004) Tables 3 and 5, <http://www.nasbo.org/Publications/PDFs/2003ExpendReport.pdf>. Average Medicare spending is expected to exceed spending on elementary and secondary education in FY04. FY04 spending data will be published by NASBO in September 2005. At the time of this writing, FY03 are the latest available.
2. Samuel M. Ehrenhalt, “Public Education: A Major American Growth Industry in the 1990s,” State University of New York, Albany, Nelson A.

Rockefeller Institute of Government, March 2000.

3. Education is also one of the most politically charged areas of state spending. According to a leading study of the topic, the state teacher associations rank as the most influential lobby in the large majority of states. See Myron Lieberman, *The Teacher Unions* (New York: Free Press, 1997), pp. 105–6; and Ronald J. Hrebenor and Clive S. Thomas, *Interest Group Politics in the Midwestern States* (Ames: Iowa State University Press, 1993), p. 348. Also, Mike Antonucci of the Education Intelligence Agency, a teacher union watchdog organization, has published useful information about teacher union political spending. See Mike Antonucci, “Thy Voice in My Behalf: Teacher Union Political Spending,” Education Intelligence Agency, 2002.

4. U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2003* (Washington: National Center for Education Statistics, December 2004), Table 166, <http://nces.ed.gov/programs/digest/d03/tables/dt166.asp>. Cited hereafter as *Digest of Education Statistics, 2003*. Note that the \$8,992 annual per pupil expenditure reported in Figure 1 is for the 2001–02 school year using enrollment figures for fall 2001, the most recent year for which data are available. Taking a longer view, per pupil expenditures in 2001–02 were nearly 20 times what they were in 1919–20 (inflation-adjusted dollars using fall enrollment figures). Between 1971 and 2001 per pupil expenditures doubled, rising from \$4,479 to \$8,992. Because state administrative expenditures are excluded from those figures, they are for comparative purposes only and are lower than the true per student total costs of public education. In an exhaustive analysis of education spending, Myron Lieberman and Charlene Haar point out that the reports of current expenditures typically exclude expenditures for property acquisition, improvements to land and existing structures, instructional equipment, and debt retirement, among other things. Lieberman and Harr estimate that the cost per pupil in public education is generally underestimated by about 15 percent. See Myron Lieberman and Charlene Haar, *Public Education as a Business: Costs and Accountability* (Oxford, UK: Rowman & Littlefield, 2003), p. 26.

5. U.S. Department of Education, National Council for Education Statistics, *The Condition of Education 2002*, Section 6, Indicator 42. The 2002 edition is the last to report revenue as a percentage of total personal income. More recent editions omit this calculation.

6. The share of revenues for 1969–70 through 2000–01 is reported in *Digest of Education Statistics 2003*, Table 156; the share of revenues for 2001–02 is reported in C. Cohen and F. Johnson, *Revenues*

*and Expenditures for Public Elementary and Secondary Education: School Year 2001–02* (Washington: U.S. Department of Education, National Center for Education Statistics, 2004), Table 2, <http://nces.ed.gov/pubs2004/2004341.pdf>.

7. See Ehrenhalt. Data on employment in public education are drawn from an annual survey of government employment conducted by the U.S. Bureau of the Census. Data on other industries are based on the current employment statistics survey conducted by the U.S. Bureau of Labor Statistics. See also Teresa L. Morisi, “Employment in Public Schools and the Student-to-Employee Ratio,” *Monthly Labor Review*, July 1994, pp. 40–44.

8. As a localized example of increased growth in the number of employees in relation to growth in student enrollment, consider the Detroit Public Schools. In 1996–97 the Detroit Public Schools enrolled 183,447 students and employed a staff of 22,077. After that time, employment rose to 23,800 even though student enrollment fell every year, hitting 147,800 during the 2003–04 school year. See Andrew Coulson, “Detroit Students Need Choice,” *Detroit Free Press*, July 27, 2004, [http://www.freep.com/voices/columnists/emack27\\_20040727.htm](http://www.freep.com/voices/columnists/emack27_20040727.htm). A study of staffing and students in Virginia’s public schools by the Clare Boothe Luce Policy Institute showed that more than half of that state’s school districts added instructional staff during the last eight years even though the number of students they had to educate declined. See Clare Boothe Luce Policy Institute, “Too Much of a Good Thing: Staffing and Students in Virginia’s School Districts,” 2005, <http://www.cblpolicyinstitute.org/>.

9. The true pupil/staff ratio is probably closer to 6.1 as some states report staff on a full time equivalent (FTE) basis. Reporting staff numbers on an FTE basis greatly underestimates the number of employees, primarily because a large number of employees work only during the school year, and reporting them on a full-year basis greatly reduces their gross numbers. For example, teacher aides are employed only during the school year. Yet their numbers are reported by dividing their total number of hours worked during the year by 2,080. The result is that the reported number of FTE aides is about half the number of aides employed during the school year. For more information about this statistic, see John T. Wenders, “The Direct Political Clout of the Education Establishment,” Education Excellence Idaho, June 2004, <http://www.edexidaho.org/pb/pb3.pdf>.

10. Note that Table 83 of the *Digest of Education Statistics 2003* gives 52.2 percent as the proportion of school employees who are teachers, but that number is inflated because employees are report-

ed on an FTE basis, which underestimates their number. For specifics on calculating the percentage of employees who are teachers, see Wenders, "The Direct Political Clout of the Education Establishment."

11. Dale Ballou and Michael Podgursky, *Teacher Pay and Teacher Quality* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1997), Table 6.1, p. 131, shows that private school teachers' salaries are 65.9 percent of those of public school teachers. In these data, an adjustment was made for private school teachers who were part of religious orders by excluding all Catholic teachers who were never married. A 1993-94 National Center for Education Statistics study found that private school salaries were 64 percent of those in public schools. See Donald H. McLaughlin and Stephen Broughman, *Private Schools in the United States: A Statistical Profile* (Washington: U.S. Department of Education, August 1997), Table 3.12, <http://nces.ed.gov/pubs/ps/459t3120.asp>. More recent U.S. Department of Education data show that all private school teachers' salaries are 64.3 percent of those of public school teachers. See U.S. Department of Education, National Council for Education Statistics, *Digest of Education Statistics 2001* (Washington: U.S. Department of Education, 2002), Table 76.

12. U.S. Department of Labor, Bureau of Labor Statistics, "National Compensation Survey: Occupational Wages in the United States, July 2003," August 2004, <http://www.bls.gov/ncs/ocs/sp/ncbl0635.pdf>.

13. U.S. Census Bureau, *Statistical Abstracts of the United States 2000*, Table 691, p. 435, <http://www.census.gov/prod/2001pubs/statab/sec13.pdf>.

14. See Michael Podgursky, "Fringe Benefits," *Education Next*, Summer 2003, pp. 71-76; and Ballou and Podgursky, p. 154, n. 2. A study of teachers' salaries in Pennsylvania found that teachers' benefits as a percentage of total salary were 36.1 percent; for comparable employees in the private sector benefits were 23 percent of salary. See David J. Wynne and Charles W. Watters, "Teacher Compensation: How It Compares with the Private Sector," *Government Union Review* 12, no. 3 (Summer 1991): Table 2, p. 39.

15. U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2001*, Table 68.

16. For an overview of research on the effectiveness of private schools, see Andrew Coulson, "Private Schools Are Closing the Achievement Gap," *School Reform News*, April 2005, p. 5; Derek Neal, "The Effects of Catholic Secondary Schooling on Educational Achievement," *Journal of Labor Economics*

15, no. 1 (1997), <http://www.heartland.org/pdf/21654i.pdf>; William G. Howell and Paul E. Peterson, *The Education Gap: Vouchers and Urban Schools* (Washington: Brookings Institution, 2002), chap. 6; and U.S. Department of Education, National Center for Education Statistics, "A Profile of the American High School Sophomore in 2002," <http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2005338>.

17. Other researchers have shown that special education and its growth are insufficient to account for overall cost growth in public education. See, for example, Eric A. Hanushek, "Spending on Schools," in *A Primer on America's Schools*, ed. Terry M. Moe (Stanford, CA: Hoover Institution Press, 2001). Using the best available estimate of the cost differential for special education—2.3 times the cost of regular education—the increase in the number of special education students between 1980 and 1990 can explain less than 20 percent of the expenditure growth.

18. John Wenders, "The Extent and Nature of Waste and Rent Dissipation in U.S. Public Education," *Cato Journal* 25, no. 2 (Spring-Summer 2005): 217-44. Eric A. Hanushek also points to increased labor costs and patterns of teacher salaries as the major explanations for rising education costs. See Hanushek, "Spending on Schools."

19. U.S. Department of Education, National Center for Education Statistics, *Projections of Education Statistics to 2013*, 32d ed., October 2003, Table 5, p. 50. Cited hereafter as *Projections of Education Statistics to 2013*.

20. Enrollment in public elementary and secondary schools is expected to increase in 30 states and decrease in 20 states and the District of Columbia. See *ibid.*, p. 6, [http://nces.ed.gov/programs/projections/ch\\_1.asp#2](http://nces.ed.gov/programs/projections/ch_1.asp#2).

21. U.S. Bureau of Labor Statistics, "Economic and Employment Projections," Table 2, "Employment by Major Occupational Group, 2002 and Projected 2012," news release, February 11, 2004, <http://www.bls.gov/news.release/ecopro.toc.htm>. The 2.1 million increase includes educational administration, libraries, and higher education. The National Center for Education Statistics projects a 5 percent increase in elementary and secondary teachers. See *Projections of Education Statistics to 2013*.

22. *Projections of Education Statistics to 2013*, p. 19.

23. *Digest of Education Statistics 2003*, Table 166. The figures cited here probably underestimate the actual real costs of both public and private schools for the reason that reported public school costs typically omit such real costs as capital outlays and pension liabilities. Likewise, many private schools



are subsidized by religious bodies. On the basis of a review of the literature on private versus public school operating cost differences, University of Idaho economist John Wenders concludes that private school per pupil operating costs average about 50 percent of public school costs when adjusted for private school subsidies and other peculiarities. For information on the real cost of public schools, see Lieberman and Haar. For information about subsidies to Catholic schools and comparative public and private school costs, see Wenders, "The Extent and Nature of Waste and Rent Dissipation in U.S. Public Education," pp. 222–25.

24. This analysis avoids any arguments about whether private schooling is superior to public. That topic has been dealt with exhaustively elsewhere. What is central to this paper is the salubrious financial effect of allowing parents to choose the place and manner of their children's primary and secondary education. For an overview of research on the effectiveness of private versus public schools, see the following: Coulson, "Private Schools Are Closing the Achievement Gap," p. 5; Neal; and Howell and Peterson, chap. 6. Also, a new survey by the National Center for Education Statistics provides comparative information on private and public schools in a variety of areas including academic achievement, extracurricular activities, schools and teachers, and school safety. See U.S. Department of Education, National Center for Education Statistics, "A Profile of the American High School Sophomore in 2002."

25. Small school choice programs also exist in Illinois, Minnesota, and Iowa. Illinois allows a 25 percent tax credit for education expenditures including private school tuition of up to \$500 per family. Minnesota allows families to deduct education expenses up to \$1,625, including tuition at private schools. Iowa allows families earning \$45,000 or less to count 25 percent of tuition and book expenses toward a tax credit of up to \$1,000. Those programs are not considered in this report either because they are extremely small or because no fiscal impact data are available.

26. The Private School Tuition Tax Credit bill was passed on April 7, 1997. The credit became effective for the taxable year beginning January 1, 1998. See Arizona Statutes 43-1089, Credit for Contributions to School Tuition Organization, <http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/43/01089.htm&Title=43&DocType=ARS>.

27. Daryl James, "More Kids Than Ever Attend School," *Phoenix East Valley Tribune*, June 2, 2005.

28. *Projections of Education Statistics to 2013*, Table A and Table 4, pp. 6 and 49.

29. STOs are tax-exempt, nonprofit organizations under Section 501(c)(3) of the I.R.S. Code and may be founded by individuals or by organizations but must make scholarships available to more than one private school.

30. Starting in 2005 the \$625 cap on the tax credit for married couples was raised to \$825. In 2006 it will increase to \$1,000, thus eliminating the "marriage penalty." See Vicki Murray, "Tax Credit Scholarships Provide a Win-Win Scenario," *Tucson Citizen*, May 19, 2005, p. 5B; and Alliance for School Choice, "Tax Credits Scholarship, Elimination of Marriage Penalty," news release, May 6, 2005, [http://www.allianceforschoolchoice.org/media\\_20050506\\_az.php](http://www.allianceforschoolchoice.org/media_20050506_az.php).

31. Arizona Department of Revenue, "Individual Income Tax Credit for Donation to Private School Tuition Organizations: Reporting for 2004," 2005, p. 3. For a history of Arizona's Tax Credit Program, see Vicki Murray, "The Battle for School Choice in Arizona," *Organization Trends* (Capital Research Center), November 2004, pp. 4–5.

32. For a survey of Arizona private school tuition costs, see Vicki Murray, "Survey of Arizona Private Schools: Tuition, Testing, and Curricula," Goldwater Institute Policy Report no. 199, January 5, 2005. According to this survey, the average elementary and middle school tuition for Arizona private schools is \$3,700.

33. See Susan L. Aud and Vicki Murray, "A Guide to Understanding State Funding of Arizona Public School Students," Goldwater Institute Policy Report no. 200, January 19, 2005, <http://www.goldwaterinstitute.org/article.php/525.html>. Different sources give conflicting figures for the amount of money spent per student in Arizona public schools. According to the U.S. Department of Education, Arizona's average per pupil expenditure is \$7,657. See Frank Johnson, "Revenues and Expenditures by Public School Districts: School Year 1999–2000," in *Statistics in Brief*, U.S. Department of Education, National Center for Education Statistics, April 2004, <http://nces.ed.gov/pubs2004/2004319.pdf>. The National Education Association, the country's largest teacher union, says that the state spends \$7,614 per student, based on 2003–04 academic year data. See National Education Association, "Rankings & Estimates: Rankings of the States 2003 and Estimates of School Statistics 2004," Table F-4, May 2004, p. 40, <http://www.nea.org/edstats/images/04rankings.pdf>. *Education Week's* "Quality Counts 2005" report, which ranks states by the amount spent on K–12 education, claims that Arizona spends \$6,010 per student; however, that figure is based on 2001–02 data. See <http://www.edweek.org/ew/articles/2005/01/06/17over>

iew-s1.h24.html. Because the Goldwater Institute report used the latest Arizona Department of Education financial data for all 218 regular state public school districts, it is the most accurate computation of per student spending.

34. See Glen Y. Wilson, "The Equity Impact of Arizona's Education Tax Credit Program: A Review of the First Three Years," March 2002, <http://www.asu.edu/educ/eps/EPRU/documents/EPRU%202002-110/epru-0203-110.htm>; and Kevin G. Welner, "Education Tax Credits: No Net Benefit to Arizona's Impoverished Students," Arizona State University, Education Policy Research Unit, February 2003, <http://www.asu.edu/educ/eps/EPRU/documents/EPSL-0302-105-EPRU.doc>.

35. Arizona Department of Revenue, "Individual Income Tax Credit for Donation to Private School Tuition Organizations: Reporting for 2004," 2005, p. 3. According to another report from the Arizona Department of Revenue, the tuition tax credit resulted in a "cost" to the state in 2002 of between 0.24 percent and 0.44 percent of overall state funding for K-12 education. In terms of federal, state, county, and local funding for FY02, "the revenue loss is infinitesimal." See Joint Legislative Budget Committee, "All Funding: K-12 M&O [maintenance and operation], Capital and All Other," FY 1995 through FY 2004, prepared February 19, 2004. The report does not estimate savings due to decreased student headcount.

36. See Carrie Lips Lukas, "The Arizona Scholarship Tax Credit: Providing Choice for Arizona Taxpayers and Students," Goldwater Institute Policy Report no. 186, December 11, 2003, Table 7, <http://www.goldwaterinstitute.org/article.php/380.html>. See also Goldwater Institute, "Growth of Arizona School Tuition Tax Credit Program Exceeds Projections," news release, April 7, 2004, <http://www.goldwaterinstitute.org/article.php/450.html>.

37. Aud and Murray.

38. Wisconsin Department of Public Instruction, Division for Finance and Management, School Management Services, "Milwaukee Parental Choice Program (MPCP), MPCP Facts and Figures for 2004-2005," p. 1, <http://www.dpi.state.wi.us/dpi/dfm/sms/doc/mpc04fnf.doc>.

39. Wisconsin Statutes, section 119.23, <http://www.legis.state.wi.us/statutes/Stat0119.pdf>; and Milwaukee Parental Choice Program, "Frequently Asked Questions—2005-06 School Year," <http://www.dpi.state.wi.us/dpi/dfm/sms/doc/mpcfaq05.doc>.

40. Wisconsin Department of Public Instruction, Division for Finance and Management, School Management Services, "Milwaukee Parental

Choice Program (MPCP), MPCP Facts and Figures for 2004-2005," p. 1.

41. 2004 Milwaukee Public School District, "Comprehensive Annual Financial Report and Fiscal Year 2005 Adopted MPS Budget." The \$11,321 figure is the MPS district expenditures total combining construction, operations, extension, and categorical divided by MPS enrollment figures. See Milwaukee Parental Choice Program, Wisconsin Legislative Fiscal Bureau, Informational Paper 29, <http://www.legis.state.wi.us/lfb/Informationalpapers/29.pdf>. See also information on cost and fiscal impact of the Milwaukee school choice program at [http://www.schoolchoiceinfo.org/facts/index.cfm?ftp\\_id=7&fl\\_id=1#](http://www.schoolchoiceinfo.org/facts/index.cfm?ftp_id=7&fl_id=1#).

42. Jason A. Helgerson and Audra D. Millen, "Analysis of FY02 Fiscal Impact on MPS if MPCP Is Eliminated," Milwaukee Public Schools, Policy Memorandum, June 25, 2001.

43. American Education Research Council, "Schools That Choice Built," January 2003, <http://www.schoolchoiceinfo.org/data/research/SchoolsBuilt.pdf>. Several reports have attempted to describe the fiscal impact of the program on both state and local budgets. The conclusions of those reports have sometimes been contradictory because some reports do not take into consideration all ways in which the program affects revenues. Also, some studies have ignored cost savings due to pupil departures. See Wisconsin Legislative Audit Bureau, "Milwaukee Parental Choice Program: An Evaluation," February 2000, [http://www.legis.state.wi.us/lab/reports/00-2\\_full.pdf](http://www.legis.state.wi.us/lab/reports/00-2_full.pdf); and F. Howard Nelson, Rachel Egen, and Dwight Holmes, "Revenues, Expenditures and Taxpayer Subsidies in Milwaukee's Voucher Schools," paper presented at the 2001 annual meeting of the American Education Finance Association, Cincinnati, OH, March 2001.

44. Scholarship amounts are based on the family's income. For families with incomes below 200 percent of the federal poverty level, scholarships can be for as much as 90 percent of a private school's tuition or \$2,700, whichever is less. Families are required to pay the remaining 10 percent of the tuition cost. Families with higher incomes are required to pay an additional portion of private school tuition costs. Ohio Revised Code, Sections 3313.974-3313.979. See also Cleveland Scholarship and Tutoring Program Information, [www.SchoolChoiceInfo.org](http://www.SchoolChoiceInfo.org).

45. For families with incomes below 200 percent of the poverty level, the scholarship pays 90 percent of the private school's tuition up to \$2,700. Families must pay the remaining tuition. For families above the 200 percent poverty level, the scholarship pays

a maximum of 75 percent of tuition.

46. Ohio Department of Education, "2002-03 Cleveland Municipal School District Expenditure Flow Model, Expenditure per Pupil Report, FY2003," September 7, 2003.

47. See KPMG Public Services Consulting, "Cleveland Scholarship and Tutoring Program, Management Study Final Report," September 9, 1999. A series of articles in the *Akron Beacon Journal* claimed that the Cleveland voucher program was a fiscal drain on public schools, but that claim is contrary to the KPMG analysis. See Dennis J. Willard and Doug Oplinger, "Voucher Plan Leaves Long List of Broken Vows: Program Costs Public Schools, Doesn't Raise Private Enrollment and Leaves Handicapped Students Behind," *Akron Beacon Journal*, December 14, 1999, p. A10.

48. Amy Hanauer, "Cleveland School Vouchers: Where the Students Go," Policy Matters Ohio, January 2002, p. 2, <http://www.policymattersohio.org/pdf/WhereStudentsGo.pdf>. See also "Cleveland Catholic Schools Subsidize Voucher Students," Buckeye Institute Policy Note, November 1996, <http://www.heartland.org/pdf/21651c.pdf>; and Lillian Omand, "The Struggle for School Choice Policy after *Zelman*: Regulation vs. the Free Market," Cato Institute Policy Analysis no. 495, October 29, 2003.

49. H.B. 66, FY06-07 State Budget, 126th Ohio General Assembly, [http://www.legislature.state.oh.us/BillText126/126\\_HB\\_66\\_EN1\\_N.html](http://www.legislature.state.oh.us/BillText126/126_HB_66_EN1_N.html). See also Bob Taft, "Taft Signs Budget Reforming Ohio Tax Code," news release, June 30, 2005, <http://governor.ohio.gov/releases/063005BudgetBill.htm>.

50. See American Education Reform Council, "Legislative History, Florida," [http://www.schoolchoiceinfo.org/facts/index.cfm?ftp\\_id=3&fl\\_id=3](http://www.schoolchoiceinfo.org/facts/index.cfm?ftp_id=3&fl_id=3). In early 2005 Florida's governor, Jeb Bush, introduced a plan to create a fourth school choice program that would give a "reading compact scholarship" to any public school student who scored in the lowest level on the reading portion of the Florida Comprehensive Assessment Test for three years in a row. In spite of the success of the three school choice plans that already exist in the Sunshine State, the Florida Senate rejected the Bush proposal. See Carrie Johnson, "Bush Rebuffed on Class Size," *St. Petersburg Times*, May 6, 2005, [http://www.sptimes.com/2005/05/06/news\\_pf/State/Bush\\_rebuffed\\_on\\_class.html](http://www.sptimes.com/2005/05/06/news_pf/State/Bush_rebuffed_on_class.html).

51. 2001 Florida Statutes, Title XIV, chap. 220.187.

52. "The Empire Strikes Back: Florida's School-Choice Success Terrifies the Establishment," *Wall Street Journal*, Review & Outlook, March 25, 2004.

53. Florida TaxWatch, [www.FloridaTaxWatch.org](http://www.FloridaTaxWatch.org);

and Collins Center for Public Policy, [www.CollinsCenter.org](http://www.CollinsCenter.org).

54. Michael Fisher et al., "Increase the Current Limits on the Corporate Income Tax Credit for Scholarships Program to Help Alleviate the Fiscal Burden of Amendment 9 Class-Size Reduction Requirements," Florida TaxWatch Research Report, February 2003, <http://floridatxwatch.org/resources/pdf/CITCreditforScholarshipsProgramkbBG2mfkbfm0310.pdf>.

55. Ibid.

56. Ibid.

57. Collins Center for Public Policy, "Fiscal Impact of New Scholarship Program Minimal," news release, April 1, 2002, [http://www.collinscenter.org/newsroom/newsroom\\_show.htm?doc\\_id=107023](http://www.collinscenter.org/newsroom/newsroom_show.htm?doc_id=107023). For full report, see Collins Center for Public Policy, "The Florida Corporate Income Tax Credit Scholarship Program," April 1, 2002, [http://www.collinscenter.org/usr\\_doc/Corporate\\_Income\\_Tax\\_Analysis.pdf](http://www.collinscenter.org/usr_doc/Corporate_Income_Tax_Analysis.pdf).

58. Fisher et al.

59. Senate Staff Analysis and Economic Impact Statement for Florida Bill SB 22-E, FEFP and Tax Credits for Contributions to Nonprofit Scholarship Funding Organizations, sponsored by Senators Bennett and Lynn, October 22, 2003. See report at [www.flsenate.gov/data/session/2003E/Senate/bills/analysis/pdf/2003s0022E.ap.pdf](http://www.flsenate.gov/data/session/2003E/Senate/bills/analysis/pdf/2003s0022E.ap.pdf).

60. See "Governor's Proposed Budget Fiscal Year 2004-2005," [www.ebudget.state.fl.us](http://www.ebudget.state.fl.us).

61. Act 2003-48, Article XX-B, Educational Improvement Tax Credit, December 23, 2003, [http://www.paschoolchoice.org/reach/lib/reach/EITC\\_-\\_Statute\\_as\\_Amended\\_by\\_Act\\_2003-48.doc](http://www.paschoolchoice.org/reach/lib/reach/EITC_-_Statute_as_Amended_by_Act_2003-48.doc).

62. Alliance for School Choice, "PA Expands Education Tax Credit Program to Thousands More Children," news release, July 7, 2005, [http://www.allianceforschoolchoice.org/media\\_center.aspx?IITypeID=3&IID=2302](http://www.allianceforschoolchoice.org/media_center.aspx?IITypeID=3&IID=2302). For the legislative history of tax credits in Pennsylvania, visit the REACH Foundation website, <http://www.paschoolchoice.org/reach/cwp/browse.asp?a=1370&bc=0&c=45656&reachNav=|32950>.

63. Robert Maranto, "Getting More, Paying Less: Children, Taxpayers, and Public Schools Benefit from the Educational Improvement Tax Credit," *Commonwealth Policy Brief* 3, no. 3 (March 2003), <http://www.commonwealthfoundation.org/education/pb03/pb03-03.pdf>.

64. Ibid.

65. Ibid.
66. Based on dividing the \$27 million by the average scholarship values of \$1,260 and \$945, respectively, inferred from Maranto's report.
67. Based on an average per pupil expenditure in Pennsylvania of \$8,210. See National Center for Education Statistics, <http://nces.ed.gov/edfin/graphs/topic.asp?INDEX=1>.
68. Total state budgeted funds for education in the 2004-05 Governor's Budget are \$9.3 billion. See [http://www.pdeinfo.state.pa.us/education\\_budget/site/default.asp](http://www.pdeinfo.state.pa.us/education_budget/site/default.asp).
69. See Jay Brennan, "Preserving Independent Education in Maine: An American Tradition of Independence in Education—Town Academies," Maine Association of Independent Schools, November 2004, p. 6.
70. See Vermont Department of Education, "School Data and Reports: Allowable Tuition Rate Report" (updated 1/28/05), <http://www.state.vt.us/educ/new/html/data/allowable.html>.
71. Maine Department of Education, "Private School Resident Enrollment by Grade," October 1, 2004, <http://www.maine.gov/education/enroll/aproct/2004/octprg04.htm>; and Christopher Hammons, "The Effects of Town Tuitioning in Maine and Vermont," Milton and Rose D. Friedman Foundation, 2001, p. 24, [http://www.schoolreport.com/friedman\\_study.pdf](http://www.schoolreport.com/friedman_study.pdf).
72. See Hammons, p. 19.
73. Average per pupil expenditure in Maine public schools is in reality higher than the \$8,178 figure since this figure excludes several significant expense categories such as capital costs, transportation, and debt service. Private schools must cover those expenses out of tuition so the comparable figure for public schools would be higher.
74. See Brennan, p. 6. The names and tuition rates for in- and out-of-state private schools attended by Maine students are found at <http://www.maine.gov/education/data/tuitionrates/ptuit05.htm>. Note that the reimbursable amount for any K-8 student is \$5,831.98. For students in grades 9-12, the reimbursable amount is \$6,879.56. That compares with the 2003 statewide average per pupil operating cost of \$7,018.79. See Maine Department of Education, "2002-03 Maine Resident Students: per Pupil Operating Costs," <http://www.state.me.us/education/data/tuitionrates/tuitrate.htm>.
75. As of April 5, 2005, the following states were considering new school choice proposals: South Carolina, Texas, Indiana, Arizona, Ohio, Missouri, New Hampshire, Florida, and Minnesota.
76. Alaska and Wyoming spend a larger amount on public education in relation to personal income. However, both of those states rely heavily on energy severance taxes, which are paid primarily by out-of-staters, to fund education and other government services. Residents in those states actually pay little personal income toward education. See Utah Foundation, "Utah's Education Paradox," Report no. 628, November 1999; and Jay Evanson, "Take a Closer Look at Utah's Education Paradox," *Deseret News*, January 16, 2000, p. AA1.
77. U.S. Census Bureau, *Public Education Finances 2001* (Washington: Government Printing Office, 2001), Figure 4, "Current Spending per Pupil for Elementary-Secondary Education by State: 2000-01"; and National Education Association, "Rankings & Estimates Update, Fall 2003," Table 4, "Student-Teacher Ratio in Public K-12 Schools, Fall 2002-02 (Revised)," 2003, <http://www.nea.org/edstats/images/03rankingsupdate.pdf>.
78. Governor's Office of Planning and Budget, "Economic and Demographic Summary, 2000-2030," Table 1, <http://www.governor.state.ut.us/Projections/R0102B30.xls>. See also Utah Foundation, "Utah's Education Paradox."
79. Tuition tax credit legislation has been introduced in the Utah legislature each of the past five years. For a history of school-choice-related legislation in Utah, see Krista Kafer, "School Choice 2003," Heritage Foundation, 2003. For information on upcoming legislation, see <http://www.choiceineducation.org/Issue.htm> and <http://www.edexutah.org/>.
80. S.B. 34, introduced in the 2003 legislative session, would have provided dollar-for-dollar tax credits of up to \$2,100 to parents and taxpayers who contribute to scholarship-granting organizations. Although the bill didn't pass, a legislative fiscal analysis revealed that issuing tuition tax credits would have reduced income tax revenue to the state by an estimated \$12,343,200 in FY04 and \$19,329,600 in FY05. However, the loss of that revenue to the state and the additional expenses would have been offset by reduced appropriations to the public schools due to students going to private schools rather than public schools. Subtracting the offset amounts from the appropriations showed that although the cost to the state during the first year of the program would have been just over \$900,000, the program would have produced a net savings of \$494,700 in the second year and \$53 million in savings over 13 years. See Office of Legislative Fiscal Analyst, "Fiscal Note, SB34s2, Tuition Tax Credits," January 31, 2003, <http://www>.

le.state.ut.us/lfa/fnotes/2003/sb0034s1.fn.pdf. Another tax credit bill (HB271) was introduced in the 2004 legislative session. That bill included a \$2,000 average “refundable” tax credit program under which the state would make payments to families who pay little or no taxes. The fiscal analysis showed a savings to the state of \$7.2 million in the first two years. See Utah Office of the Legislative Fiscal Analyst, “Fiscal Note and Fiscal Note Assumptions, House Bill 271, Tuition Tax Credits,” February 11, 2004. That same month, the Utah State Office of Education released its own fiscal analysis predicting a \$3.5 million savings in year one but a drain of \$9.5 million in year two. The fiscal analyses differed because the Legislative Fiscal Analyst and the Utah School Boards Association used different estimates of how many students would switch from public to private school. See Ronnie Lynn, “Expert Says Tuition Credits May Hurt Public Schools,” *Salt Lake Tribune*, February 23, 2004. The Utah School Boards Association also commissioned a study of H.B. 271. That study assumed a maximum credit of only \$1,000, thus lowering the number of families that would be expected to switch from public to private schools. See PriceWaterhouseCoopers, “Financial and Economic Impacts of Utah’s Proposed Tuition Tax Credit Legislation,” commissioned by Salt Lake City, Utah, School Boards Association, January 19, 2004. Subsequent analyses have produced estimates closer to those of the LFA. See Roberta Q. Herzberg and Chris Fawson, “Estimating Demand and Supply Response to Tuition Tax Credits for Private School Tuition in Utah,” final report to the Utah Legislature, Legislative Management Committee, December 1, 2004, Table 1, <http://le.utah.gov/documents/final%20report-pdf.pdf>.

81. Herzberg and Fawson, Table 1.

82. With a cumulative switch rate of students from public to private schools of 0.5 percent per year over 13 years, the state would avoid building 55 new schools. At an average construction cost per student of \$12,308, estimated savings would be \$1.68 billion. See Utah State Legislature, Office of the Legislative Analyst, “Tuition Tax Credit Fiscal Impact Model,” April 2, 2004.

83. “Urban School Districts Benefit from Declining Enrollment,” *Utah Taxpayer* 29, no. 4 (February 2004): 1, <http://www.utahtaxpayers.org/>. Although school districts with declining enrollment receive fewer state dollars per student than districts with increasing enrollments, the former districts still come out ahead. That is because the local property tax base remains intact. The report showed that school districts with declining enrollments spend nearly twice as much property tax per student for instruction and operation expenses as fast-growing districts. Urban school districts with declining

enrollments enjoy lower pupil/teacher ratios, lower property tax rates, higher per student spending, and higher teachers’ salaries than districts with growing enrollments. For the full report, see Utah Taxpayers Association, “Urban School Districts Benefit from Declining Enrollment,” February 11, 2004, [http://www.utahtaxpayers.org/reports/04\\_Feb\\_declining\\_enrollment12.pdf](http://www.utahtaxpayers.org/reports/04_Feb_declining_enrollment12.pdf).

84. South Carolina, Office of the Governor, “Gov. Sanford Unveils ‘Put Parents in Charge’ Act,” news release and executive summary, February 26, 2004, <http://www.scgovernor.com/interior.asp?SiteContentId=68&pressid=75&NavId=54&ParentId=0>. The measure was narrowly defeated on a House floor vote, but the governor plans to reintroduce the measure in 2006. See “Misplaced Glee over Choice Loss,” *Post and Courier*, May 6, 2005, p. A10, <http://archives.postandcourier.com/archive/arch05/0505/arc05062304325.shtml>.

85. H 3652 “South Carolina Put Parents in Charge Act,” February 24, 2005, <http://www.scstatehouse.net/html-pages/house2.html>. To qualify for the federal free or reduced lunch program, a student’s family income must be at or below 185 percent of the poverty level (or about \$35,000 for a family of four).

86. Cotton M. Lindsay, “Fiscal Impact of the Universal Scholarship Tax Credit Proposal,” Final Report, Clemson University, March 2005, <http://www.scpolicycouncil.com/marginalcostreport/lindsay3.doc>. This is an update of a March 2004 study, <http://www.scpolicycouncil.com/content/FiscalImpact1.doc>. See also Cotton M. Lindsay, “The Marginal Cost of a Student: A Further Analysis,” March 2005, <http://www.scpolicycouncil.com/index.asp?content=marginalcoststudent>. The Clemson study has been highly praised by a number of top economists. See “What the Experts Say: Praise for Cotton Lindsay’s Fiscal Impact Study on Put Parents in Charge,” South Carolina Policy Council, March 2, 2005, <http://www.scpolicycouncil.com/>.

87. Since some students cost more to educate than others, researchers also examined the incremental cost for students of different types, including handicapped and gifted students. Their analysis showed that the cost savings achieved by the public school of the departing high-cost student exceeds the head-count reduction of support by the state. Even if mostly low-cost students in a public school migrated to private schools (cream skimming) and only high-cost students remained, the school would still benefit financially. See Lindsay, “The Marginal Cost of a Student: Further Analysis.”

88. The Clemson study also considered the effect of giving tax credits to the more than 50,000 students already enrolled in private schools, who, under the proposal, become eligible for the tax

credits on a delayed schedule. By the end of the five-year phase-in, all income-qualified private school students would be eligible for tax credits.

89. Miley and Associates, "Marginal Cost and the Fiscal Impact of a Proposed Tuition Tax Credit in South Carolina," prepared for the South Carolina School Boards Association and the South Carolina Association of School Administrators, February 2005, [http://www.scsba.org/acrobat/050207\\_mileystudy/050207\\_mileystudy\\_complete.pdf](http://www.scsba.org/acrobat/050207_mileystudy/050207_mileystudy_complete.pdf). For a response to the Miley study, see Lindsay, "The Marginal Cost of a Student," p. 18.

90. In April 2005 the South Carolina State Budget and Control Board (BCB) issued a report stating that the tuition tax credit proposal would cost the state \$29 million in the first year and more than \$231 million in the fifth year of implementation. See William C. Gillespie and Gordon O. Shuford, "H.3652 'Put Parents in Charge Act' State Revenue Loss and Expenditure Savings," South Carolina Budget and Control Board, April 11, 2004, <http://www.allianceforqualityed.org/BEA%20fiscal%20impact%20report,%20April%202005.pdf>. However, the BCB report used a much lower estimate of the number of students that would migrate from public to private schools and a starkly different figure for the amount of savings that would result from decreases in student enrollment. In a memo responding to the BCB report, Clemson economist Cotton Lindsay criticized the report, pointing out that the BCB estimates were not backed by any sound data analysis. "The BCB report," Lindsay states, "notes only that the migration rate 'was difficult to estimate,' but gives no further indication of how the small number was determined." See Cotton M. Lindsay, "State Budget and Control Board Report on H. 3652: Assessments and Analysis," Clemson University, April 18, 2005, available from BB&T Center for Economic Education and Policy Analysis, Clemson University, Clemson, S.C.

91. New Hampshire Department of Education, "State Average Cost per Pupil and Total Expenditures 2002-2003," March 2, 2004, <http://www.ed.state.nh.us/ReportsandStatistics/FinancialReports/AvgCostPerPupilTotalExp/AvgCostPerPupilTotalExp2002-2003/AvgCostPerPupilTotalExp2002-2003.htm>.

92. The \$3,390 figure is for fiscal year 2004.

93. HB 754, An Act establishing an education certificate program to allow parental choice in the selection of schools for children, introduced in the 2003 legislative session, <http://www.gencourt.state.nh.us/legislation/2004/HB0754.html>.

94. HB 754-FN-Local-Fiscal Note, <http://www.gencourt.state.nh.us/legislation/2004/HB0754.html>.

95. Brian J. Gottlob, "The Fiscal Impacts of School

Choice in New Hampshire," Josiah Bartlett Center for Public Policy, February 2004, <http://www.jbartlett.org/pdf/NHChoiceV70020204.pdf>.

96. Estimate of variable costs per student ranged from \$5,920 to \$7,200. The researchers used the conservative figure of \$6,363 to conduct the remaining analysis. The estimated value of the proposed voucher is \$2,700 (80 percent of \$3,390).

97. The most recent proposal is SB 131, <http://gen.court.state.nh.us/legislation/2005/SB0131.html>. Brian Gottlob, the author of the earlier study, issued an updated analysis based on SB 131. His analysis showed a savings to the state budget of \$2 million in the first biennium and \$32 million over the first eight years. See Brian J. Gottlob, "A School Choice Certificate Program Could Save the State Budget \$32 Million over Eight Years," Josiah Bartlett Center for Public Policy, February 2005, [http://www.jbartlett.org/pdf/school\\_choice\\_certificate.pdf](http://www.jbartlett.org/pdf/school_choice_certificate.pdf).

98. "Schmoke's Retreat to School Choice," *Baltimore Sun*, March 17, 1996. See also Kurt L. Schmoke, "Why School Vouchers Can Help Inner-City Children," remarks delivered at a Manhattan Institute luncheon, August 1999, [http://www.manhattan-institute.org/html/cb\\_20.htm](http://www.manhattan-institute.org/html/cb_20.htm).

99. State Representative Howard Rawlings, a Democrat from West Baltimore and chairman of the House Appropriations Committee, proposed voucher bills during the 1990s. See Robert Holland, "School Choice Goes on Offense: Updating the Post-Zellman Landscape," Lexington Institute, October 2002, p. 11.

100. To arrive at this estimate, the \$7,000 voucher amount was allowed to grow at a rate of 3 percent each year to adjust for cost-of-living changes. See Dan Lips, "A School Voucher Program for Baltimore City," Maryland Public Policy Institute, March 2005, <http://www.mdpolicy.org/research/education/BaltimoreVoucherStudy.pdf>.

101. Since 81 percent of the students in Baltimore public schools participate in the free and reduced school lunch program, the majority of students would be eligible for vouchers. See *ibid*.

102. This savings amount is based on a 10-year phase-in schedule under which 1,000 vouchers would be awarded in the first year. Each year an additional 1,000 vouchers would be awarded until 10,000 vouchers were available in year 10. Also, 20 percent of all newly awarded vouchers would go to low-income students already enrolled in private schools. See *ibid*.

103. Molly Hunter, "Maryland Court Orders Better

Funding for City Schools, State Will Appeal,” Campaign for Fiscal Equity, August 30, 2004, <http://www.schoolfunding.info/news/litigation/8-30-04baltimore.php3>.

104. Virginia Legislature, H.B. 1942, “The Children at Risk in Education Tuition Assistance Grant and Education Investment Tax Credits,” proposed on February 7, 2005, <http://leg1.state.va.us/cgi-bin/legp504.exe?ses=051&typ=bil&val=hb1942>. The Saxman bill was passed by the House of Delegates but died in the Senate Finance Committee.

105. This cost includes the cost to the state of a 25 percent tax credit on a \$5,000 scholarship (\$1,250), the cost to the state for the scholarship organization’s administrative costs (\$139), and the first year’s state administrative cost for each scholarship (\$35). See Christian N. Braunlich, “A Virginia Educational Improvement Tax Credit,” Thomas Jefferson Institute for Public Policy, January 2005, [www.thomasjeffersoninst.org/pdf/articles/Full\\_TT\\_C\\_Study.pdf](http://www.thomasjeffersoninst.org/pdf/articles/Full_TT_C_Study.pdf). It should be noted that the state Department of Taxation estimated that the state’s administrative cost would decline to less than \$2.50 per scholarship by the fourth year of operation, lowering the state’s cost per scholarship to \$1,391.50. See Virginia Department of Taxation, “2004 Fiscal Impact Statement, HB 1036,” January 20, 2004.

106. The eight exceptions have only 8 percent of eligible students.

107. An earlier analysis of tuition tax credits and their potential impact on state and local revenues was conducted by Carlisle E. Moody, professor of economics at the College of William and Mary, and George Mason University economist Jerry Ellig. Their analysis showed that the cost savings of a tuition tax credit would outweigh the state revenue loss by approximately \$18 million annually. See Carlisle E. Moody and Jerry Ellig, “The Universal Tuition Tax Credit: Achieving Excellence in Education without a Tax Increase,” Virginia Institute for Public Policy, September 1999.

108. The constitutions of most states have language that would likely prohibit local option school choice. Nevertheless, school districts or towns in some states could presumably send students to private schools without the permission of their respective state legislatures. In 1998 the Philadelphia suburban Southeast Delco School District in Delaware County, Pennsylvania, adopted a local student grant program to allow students to attend private schools using a tuition voucher. The Pennsylvania state court ruled against the school district but not on state constitutional grounds. Rather, the court said the state’s public school code did not grant local districts the authority to offer tuition assistance for some of their students to go elsewhere (even though

a number of school districts in Pennsylvania were at the time paying for some special education students to attend private schools). The court’s ruling meant that the Pennsylvania General Assembly could correct the situation by simply amending the education code. However, no further action has been taken on this issue. See David Kirkpatrick, “School District Based Vouchers,” Allegheny Institute for Public Policy, 1998.

109. The District Grants for Non-Public Schooling Calculator is found at [http://www.yankeeinstitute.org/files/DGNS\\_Calculator.xls](http://www.yankeeinstitute.org/files/DGNS_Calculator.xls).

110. See Non-partisan Action for a Better Redding, “The Redding School Choice Plan,” 2003, <http://www.betterredding.org/>. The District Grants for Non-public Schooling calculator has been used to show the financial benefits to municipalities of using private school scholarships as an alternative to school construction by the Claire Booth Luce Policy Institute (Virginia), the Nevada Policy Research Institute, and the Grassroots Institute of Hawaii.

111. For a discussion of the complexity of state public school funding, see Aud and Murray.

112. For example, in Virginia counties receive funds on the basis of a complex calculation of a county’s local wealth. That creates wide differences in how much state funding districts receive. For example, Page County receives 55.5 percent of its funds from the state, whereas the more prosperous Fairfax County (a Washington, D.C., suburb) garners only 14.7 percent. Lil Tuttle, Clare Boothe Luce Policy Institute, Richmond, VA, e-mail to David Salisbury, May 21, 2003.

113. Cotton M. Lindsay, “The Marginal Cost of a Student: A Further Analysis.” See also Susan L. Aud, “An Analysis of South Carolina per Pupil State Funding,” Milton and Rose D. Friedman Foundation, February 2004, <http://www.friedmanfoundation.org/scstudy.pdf>.

114. Aud and Murray.

115. National School Boards Association, “Setting the Record Straight,” chap. 3 of *Keep Public Education Public: Why Vouchers Are a Bad Idea*, February 2003, p. 28, <http://www.nsba.org/site/docs/33800/33737.pdf>.

116. Arizona allows school tuition organizations to use up to 10 percent of their revenue for administration. Scholarship-granting organizations in Florida must disburse 100 percent of their funds on scholarships. All administrative costs must be obtained from private charitable sources. Columbia University Teachers College economist Henry Levin estimates that a universal voucher program, in which all students receive vouchers, would cost as much as 25 per-

- cent of current spending. Henry Levin, "Educational Vouchers: Effectiveness, Choice, and Costs," *Journal of Policy Analysis and Management* 17, no. 3 (1998): 373-92. But his estimate fails to consider any efficiency gains that would be made in response to competition. According to Eric Hanushek: "The most obvious way to introduce cost control pressures is through choice programs that institute competition among schools. If schools compete in part on the basis of their costs, more schools might find it in their interest to use alternative technologies to control costs." Eric Hanushek, *Making Schools Work: Improving Performance and Controlling Costs* (Washington: Brookings Institution Press, 1994), p. 114.
117. U.S. Department of Education, National Center for Education Statistics, "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2002-03," April 2005, Table 2.
118. Federal funds allocated through the Individuals with Disabilities in Education Act cover only about 15 percent of the dollar costs for special education. American Association of School Administrators, "IDEA Funding: Time for a New Approach," February 20, 2001, [http://www.aasa.org/government\\_relations/idea/Mandatory\\_2003\\_Proposal.pdf](http://www.aasa.org/government_relations/idea/Mandatory_2003_Proposal.pdf).
119. Arizona State University, ASU Center for Nonprofit Leadership Management, *Arizona Giving and Volunteering*, [http://www.asu.edu/copp/nonprofit/res/res\\_givvol.htm](http://www.asu.edu/copp/nonprofit/res/res_givvol.htm).
120. Arizona, Michigan, and the District of Columbia are examples of jurisdictions that created independent and neutral bodies to oversee school choice programs instead of relying solely on established public education authorities. The school voucher program in Washington, D.C., is operated by the Washington Scholarship Fund, an independent nonprofit charity. Arizona and Washington, D.C., established independent boards of charter schools to grant charters under their charter school laws. In addition to local and state school boards, Michigan allows public and private universities to authorize charter schools. See Jeanne Allen, "The Simple Guide to Charter School Laws: A Progress Report," Center for Education Reform, 2005, [http://www.edreform.com/\\_upload/simple\\_guide.pdf](http://www.edreform.com/_upload/simple_guide.pdf). States in which school choice programs are overseen by independent bodies produce higher gains in student achievement than states in which programs fall under traditional school district management. See Center for Education Reform, "Strong Charter School Laws Boost Achievement," news release, February 11, 2004, [http://www.edreform.com/\\_upload/charter\\_school\\_laws.pdf](http://www.edreform.com/_upload/charter_school_laws.pdf).
121. Hillsborough County, Florida, uses a system of "school choice badges" that help bus drivers get students to the right schools. See <http://apps.sdhc.k12.fl.us/schoolchoice/transportation.htm>.
122. Lowell C. Rose and Alec M. Gallup, "The 36th Annual Phi Delta Kappa/Gallup Poll of the Public's Attitudes toward the Public Schools," Phi Delta Kappa, 2004, <http://www.pdkintl.org/kappan/k0409pol.htm#voucher-a>.
123. Dee Allsop and Anne Rzeszut, "America Continues to Support School Choice," Wirthlin Worldwide, August 2004. See also Milton and Rose D. Friedman Foundation, "National Study Raises Question of Bias in Annual Phi Delta Kappa Poll: Results Show Majority of Americans Support School Vouchers," news release, August 20, 2004, <http://www.friedmanfoundation.org/news/2004-08-20.html>.
124. David A. Bositis, "2002 National Opinion Poll on Education," Joint Center for Political and Economic Study, 2002, [http://www.jointcenter.org/publication\\_s1/PublicationsDetail.php?recordID=53](http://www.jointcenter.org/publication_s1/PublicationsDetail.php?recordID=53).
125. Latino Coalition, "2003 National Hispanic Survey," August 2003, <http://www.thelatinocoalition.com/news/pdf/2003NationalSurveyOfHispanicAdultsTopline.pdf>.
126. Archdiocese of New Orleans, "Opinions on Parental Choice in Education," February 2004, available from Archdiocese of New Orleans, 7887 Walmsley Avenue, New Orleans, LA 70125-3496.
127. Jay Greene and Marcus Winters, "When Schools Compete: The Effects of Vouchers on Florida Public School Achievement," Manhattan Institute, August 2003.
128. Jay Greene, "An Evaluation of the Florida A-Plus Accountability and School Choice Program," Manhattan Institute, February 2001.
129. Carol Innerst, "Competing to Win: How Florida's A+ Plan Has Triggered Public School Reform," Urban League of Greater Miami and others, 2000, <http://www.edreform.com/index.cfm?fuseAction=document&documentID=124>.
130. Caroline Hoxby, "School Choice and School Productivity (or Could School Choice Be a Tide That Lifts All Boats?)," National Bureau of Economic Research Working Paper W8873, April 2002, <http://econpapers.repec.org/paper/nbrnberwo/8873.htm>; Martin R. West and Paul E. Peterson, "The Efficacy of Choice Threats within School Accountability Systems: Results from Legislatively Induced Experiments," Harvard University, March 23, 2005, [http://www.ksg.harvard.edu/pepg/PDF/Papers/West\\_Peterson\\_ChoiceThreats.pdf](http://www.ksg.harvard.edu/pepg/PDF/Papers/West_Peterson_ChoiceThreats.pdf); Rajashri Chakrabarti, "Impact of Voucher Design on Public School Performance: Evidence from Florida and Milwaukee Voucher Programs," *Education Next*, Summer 2004; Jay Greene and Greg Forster, "Rising to the Challenge: The Effect of School Choice on Public Schools in Milwaukee and



San Antonio,” Manhattan Institute Civic Bulletin no. 27, October 2002, [http://www.manhattan-institute.org/html/cb\\_27.htm](http://www.manhattan-institute.org/html/cb_27.htm); and Hammons.

131. For an overview of research on school choice and

its effect on student achievement, see Gerard Robinson, “Survey of School Choice Research,” Marquette University, Center for the Transformation of Learning, Spring 2005, [http://www.schoolchoiceinfo.org/data/hot\\_topics/0412schoolchoice.pdf](http://www.schoolchoiceinfo.org/data/hot_topics/0412schoolchoice.pdf).

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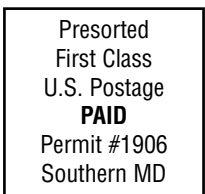
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