Does school choice drain public schools' funding and resources?

THE FRIEDMAN FOUNDATION FOR Educational Choice

NO

When students leave public school using vouchers, the public school is relieved of the duty / costs of educating those students. Declining enrollment typically leads to a revenue loss for public schools, but this is true whether the departing students switch to a private school or another public school. This too has a financial impact on the public school—a positive one.

Funding for public schools is determined by state laws and is generally implemented through a complex formula administered by the state government. Those school funding laws define not only the amount of state funds provided to public schools, but they often control (or limit) the amount of local tax revenue, which may be raised to fund public schools. In most states a public school's revenue loss caused by an enrollment decline is less than their average instructional costs per student.

Thus, as enrollment declines, the per student funding amount for the remaining public school students actually increases.

Public data show that states and cities typically increase their per-student spending in the years following school choice programs' inception. Take Milwaukee and Cleveland, for example: By 1992, Milwaukee's school choice program had been in place for two years, and according to the U.S. Census Bureau, the city's public schools spent $9,038 per student; by 2011, that figure had swelled to $14,244—a 58 percent increase in real dollars. Cleveland's school choice program launched in 1997, when the city was spending $9,293 per student. Cleveland was spending $15,072 per student in 2011—a 62 percent increase in real dollars over 15 school years.[1]

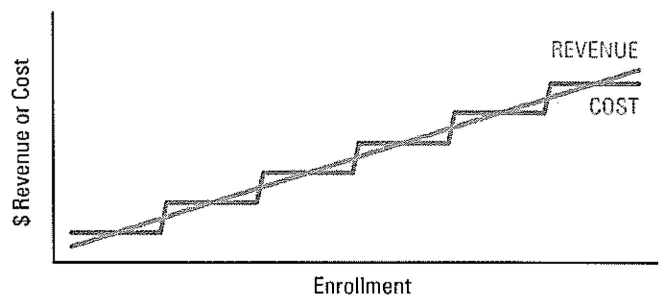
Some public school officials will argue that, though their cost burden falls with an enrollment decline, the rate of cost relief does not match the rate of revenue loss. In other words, they contend the revenue loss cannot be easily offset with corresponding cuts in instructional spending. That complaint is fair, but only to the extent that a school's cost structure moves in a stepwise fashion with enrollment. Because schools must fund classrooms, their marginal change in instructional costs is not perfectly linear with changes in enrollment.

Thus, there are ranges of enrollment change in which a school may incur a revenue loss while its instructional costs remain essentially flat (i.e., the tread or horizontal part of each step). However, this phenomenon alone is not sufficient to sustain a claim that a public school's financial capacity to educate its remaining students is substantially harmed by the departure of students using school vouchers.

Figure 1 provides a simple illustrative example of the relationship between school revenue and costs as enrollment changes. It shows clearly that both school revenue and instructional costs are positively correlated with enrollment and generally move together over a wide range of enrollment levels.

It is only over smaller ranges of enrollment change that instructional costs and revenue do not move in unison. Frankly, this type of minor discontinuity between revenue and costs as "customer" levels change is not unique to schools. Nearly all service businesses face this same type of operational challenge when customer demand wanes. Furthermore, managing the school's finances as enrollment changes is a standard part of what school officials are expected to handle, whether enrollment is declining because students are leaving to attend a private school with a school voucher or another public school.

FIGURE 1 Illustrative Relationship Between School Instructional Revenue and Costs



MYTH: Vouchers cost more money and strain public funds available for public education.

Opponents claim that providing school vouchers to pay private school tuition will cost government and, by consequence, taxpayers more money and that this will impair the ability of government to fund public education.

FACT: Vouchers save government and taxpayers money.

State governments typically save money when students use school vouchers to attend private schools. This, in turn, alleviates some pressure to raise taxes.

If society were to quickly pivot and replace the existing system of funding public schools with a universal voucher system for all students for the next school year, it is almost certain that the public cost would rise. However, this conclusion alone ignores three very important points:

1) all of the public good that would come from such a shift;

2) the government is already legally exposed to the cost of schooling for students now attending private schools; and

3) the current transition to vouchers across the country is following a much slower, more deliberate, course.

On the matter of the additional public good that would accompany a system of universal vouchers, many of those benefits are addressed elsewhere in the Friedman Foundation's FAQs. Also, there is one more important, little discussed, social inequity it will resolve. For families that meet their legal obligation to educate their children by using a non-public school, under our current system of funding public schools, they are denied any benefit for relieving the system of this cost burden. Were these families to, en mass, enroll their children in public school, the public cost most certainly would rise sharply.

Regarding the actual transition to school vouchers, state legislatures have been taking a very cautious approach given the financial exposure. Typically, voucher amounts have been set at less than the average funding per student sent by the state to public schools. Furthermore, these school choice programs either explicitly, or indirectly, limit the number of vouchers available to students already attending private schools.

Under that design, as more students use vouchers to leave public schools to attend private schools, the state saves the difference.

For example, if a state now sends $5,000 per student annually to public schools, and offers a $4,000 voucher to leave public school to attend private school, the state saves $1,000 each year for each participating student. In some cases, the voucher is worth the same amount as the state's per-student funding to public schools, making the program fiscally neutral.

EVIDENCE: Research shows voucher programs save money.

Susan Aud conducted a comprehensive study on the fiscal effects of all existing voucher and tax-credit scholarship programs in the United States from 1990 through 2006. That study reviewed both the effects on state government costs and on local school districts' financial capacity.

To ensure the study properly accounted for schools' "fixed" costs, Aud considered only public school cost "instructional expenditures" when calculating the potential cost savings that could accrue to public schools as their enrollment declines with students leaving to attend other, non-public schools under the various school choice program available.

Aud calculated that no school choice program had a negative overall fiscal impact, and most of them saved significant amounts of money. Her results showed school choice programs saved a net total of $22 million for state governments and reduced the instructional cost burden on local public school districts by $422 million between 1990 and 2006, a total fiscal benefit of $444 million.[2]

Aud also found that every city and state with a school choice program had experienced an increase in instructional spending per student at its public schools since the enactment of the school choice program.[3] Data from the National Center for Education Statistics confirm the same holds true for total education spending (see accompanying tables).

Five fiscal analyses have been conducted since Aud's comprehensive study:

- Aud and Leon Michos examined the D.C. Opportunity Scholarship Program and found that, as a result of the federal subsidies attached to the program, taxpayers saved $8 million per year. Aud and Michos also found that, as of 2006, the D.C. voucher program would save taxpayers more than $258,000 per year even without the federal subsidy.[4]

- Florida's Office of Program Policy Analysis and Government Accountability found that Florida's tax-credit scholarship program saved the state $39 million in fiscal year 2007-08 because of reduced education costs being greater than foregone tax revenue by $1.49 per student.[5]

- Robert Costrell found Milwaukee's voucher program generated $30 million in total savings on state taxes per year, as of 2009.[6]

- Florida's Legislative Office of Economic and Demographic Research found Florida's tax-credit scholarship program was saving the state $58 million per year as of 2012-13.[7]

- Patrick Wolf and Michael McShane found each participating student in the D.C. voucher program would have cost taxpayers nearly twice as much had they enrolled in D.C. public schools. They estimated the program saved taxpayers a total of $135 million from 2004 to 2009.[8]

In total, six analyses have found that school choice programs have a positive fiscal effect on taxpayers.