

DOCUMENT REVIEWED: "The Fiscal Impact of the Milwaukee Parental Choice Program: 2009 Update"

AUTHOR: Robert Costrell

PUBLISHER/THINK TANK: School Choice Demonstration Project; Department of Education Reform University of Arkansas

DOCUMENT RELEASE DATE: April 10, 2009

REVIEW DATE: April 29, 2009

REVIEWER: Clive Belfield

E-MAIL ADDRESS: Belfield@QC.Edu

PHONE NUMBER: 718-997-5448

SUGGESTED CITATION:
Belfield, C. R. (2009). *Review of "The Fiscal Impact of the Milwaukee Parental Choice Program: 2009 Update."* Boulder and Tempe: Education and the Public Interest Center & Education Policy Research Unit. Retrieved [date] from <http://epicpolicy.org/thinktank/review-fiscal-impact-Milwaukee>

Summary of Review

A report from the School Choice Demonstration Project examines issues concerning the funding formula used for the Milwaukee Parental Choice Program (MPCP). It finds that the program generates a net saving to taxpayers in Wisconsin but imposes a significant fiscal burden on taxpayers in Milwaukee. However, these findings depend significantly on how many students would have attended public school if the voucher option were not available, as well as on the actual resource requirements for those new voucher users. The report ignores the second assumption. It considers the first, although its key findings about the existence and magnitude of any savings and burdens are nonetheless dependent on that assumption. The issues raised by this report highlight some ways in which voucher policies are complex to design and implement and must be carefully evaluated on both efficiency and equity grounds.

Review

I. INTRODUCTION

The Milwaukee Parental Choice Program (MPCP) is the largest and longest-running voucher program in the United States. It has grown significantly since its inception in 1990, when it was limited by law to just 1% of students in low-income families within the Milwaukee Public School district, with the vouchers redeemable only at non-religious schools. By 2008-09, the enrollment cap had been expanded such that almost 20,000 students participate, with religious schools eligible since 1998 to redeem the vouchers.¹ The MPCP is the most prominent U.S. voucher program and as such has received considerable academic and policy interest.²

Robert Costrell's policy analysis report, *The Fiscal Impact of the Milwaukee Parental Choice Program: 2009 Update* examines how funding is allocated for MPCP.³ This is an important issue for two reasons. First, there is very little research on voucher financing, yet the programs currently operating in the U.S. differ dramatically even on simple dimensions such as the value of the voucher and the number of participating students. Second, the research on student performance (which is voluminous) finds very small academic differences between voucher participants and non-users.⁴ Consequently, the other dimensions of policy evaluations, such as the equity or efficiency of vouchers, take on increased importance. As regards efficiency, important questions are: Do voucher programs cost less or more than regular public education programs? And, how, if at all, do voucher programs alter the burden of financing for education? Costrell's new report addresses both questions.

The report is actually an update on an earlier

attempt to address questions of efficiency. In the prior report, which explained in more detail the mechanics of the MPCP, Costrell calculated that the program did generate efficiency gains.⁵ That report also found emphatically that the MPCP significantly shifts the burden of funding for education: it places a heavier burden on taxpayers in Milwaukee (as opposed to taxpayers throughout the state). However, the details of these findings (the size of the savings and the extent of the shift) depend upon the following: the amounts allocated respectively to public schools and voucher students, the numbers of students enrolling in private school through the MPCP, and whether those enrollees would have enrolled in private school absent the voucher. These figures change annually and so this new report updates the figures for 2009. In addition, there was some attempt by Wisconsin policymakers to counterbalance the resource transfer. The updated report investigates whether the burden of funding has in fact been lightened for Milwaukee taxpayers.

II. FINDINGS AND CONCLUSIONS OF THE REPORT

The report undertakes an analysis of the funding formula for the MPCP, based on 2008-09 data on enrollments and funding amounts. It states the following: enrollment in the MPCP is growing such that there are now almost 20,000 voucher recipients; the average amount of the voucher for each of these students was \$6,501 in FY2006; and the equivalent spending in the Milwaukee Public Schools (the average per-pupil revenue limit) was \$8,833. Moreover, the report projects that the value of the voucher will fall farther behind the MPS per-pupil revenues. The respective figures for fiscal year

2009 are projected to be \$6,607 for the voucher and \$9,462 for the public schools.

Together, these facts—large enrollments and relatively low-value vouchers—suggest that the MPCP could yield significant resource savings as students migrate from the public to the private sector. The report estimates the net fiscal benefit (the savings to the public sector) to be \$37 million for fiscal year 2009.⁶

However, the report also concludes that this net fiscal benefit is not allocated evenly. The specifics of the funding formulas for public education and the voucher program are found to be that Milwaukee property taxpayers incur a large fiscal penalty, while other property taxpayers and state taxpayers reap a large fiscal benefit. The report estimates that, for the fiscal year 2009, Milwaukee taxpayers lose \$45 million, whereas other property taxpayers gain by \$52 million and state taxpayers gain by \$30 million. (Hence, the net gain of \$37 million is arrived at by subtracting \$45 million from the sum of \$52 million and \$30 million). This imbalance has been called the “funding flaw” in public debates in Wisconsin.

Recently, the state investigated whether a choice levy and poverty aid allocations succeeded in addressing this resource imbalance. The levy and aid formulas are constructed to allocate education resources more heavily to Milwaukee. The new report, however, finds that public debate over the “funding flaw” is confused and that the flaw has not been properly resolved through the choice levy and poverty aid.

III. THE REPORT’S RATIONALE FOR ITS FINDINGS AND CONCLUSIONS

The report uses publicly available data on the Milwaukee Parental Choice Program along with information on the funding for-

mulas for education. The data are then analyzed to calculate each of the following: the net fiscal benefit from the program; the fiscal burden to Milwaukee property taxpayers; and the corresponding fiscal benefits to taxpayers across Wisconsin.

These calculations are in essence accounting exercises, albeit complicated ones. Therefore, the findings and conclusions of the report flow logically as long as the report uses appropriate data and fully and correctly interprets the funding formulas.

IV. THE REPORT’S USE OF RESEARCH LITERATURE

The report does not rely heavily on extant literature for its analysis.

There is only one parameter for which extant literature is reviewed and incorporated: namely, the proportion of voucher students in Milwaukee who would have attended private school even if the voucher program had not existed. This parameter may also be examined in its inverse form, namely as the proportion of students who now use vouchers but would otherwise have been enrolled in the Milwaukee Public School (MPS) system. In this form, the parameter corresponds to the proportion of students who are “genuine switchers” from public to private.

The report determines that the best estimate of the proportion of voucher users who are genuine switchers is 90%. This figure is derived from a review of the literature. This relied-upon literature, however, includes information on other voucher programs, many of which differ substantially from MPCP in eligibility, financing, and support services.

As explained below, this switcher percentage is key to the other calculations. All sav-

ings disappear, for example, if the number changes from 90% to 70% (see Section VI, below). And, in addition to the literature issue just mentioned, there are two reasons for readers to question whether 90% may be too high an estimate. First, the MPCP has been in existence for a sufficiently long time such that it is likely to have affected residential decisions. Families who wish to send their children to private school may move into the district in order to take advantage of the voucher (or, more likely, families who would have moved out of the city will stay). The programs' longevity may also have increased the likelihood that private schools have incorporated the voucher into their enrollment plans. Second, the 90% figure is partly based on enrollment projections for Catholic schooling over recent decades. These have been declining, but the MPCP has stimulated enrollments in schools with religious faiths other than Catholic. There is no evidence that enrollment demand in other faiths mirrors the same path of decline as has been seen for Catholic schools.

Perhaps more importantly, the report does not integrate its findings into the broader public policy debate and literature on education vouchers. This is unfortunate because the resources used by voucher programs should be explicitly incorporated in policy evaluations. The report presents important findings on funding and resources but does not draw any general conclusions from them.

Also, the report does not consider any federal funding formulas for education, some of which may be substituted for poverty aid (also in possibly distorting ways). For example, recent research on Title I allocations suggests that they displace state funding that would have otherwise gone to high-need schools.⁷

V. REVIEW OF THE REPORT'S METHODS

The main analysis of the report rests on a relatively simple idea. Every student who exits the Milwaukee Public School (MPS) system for a private school saves taxpayer dollars; and the amount of the saving is equal to what MPS would have spent on that student. If vouchers are offered to induce students to switch to a private school, then the saving will be reduced by the amount of the voucher. So as long as the voucher is less than the public school expenditure, there remains a positive saving. Also, if the voucher is redeemed by students who would have attended private school anyway, then this further reduces the savings from the voucher program—by the amount of the voucher. In the new report, these effects are represented in a formula referred to as “Net Impact” (page 3).

Critically, each of these effects is hard to measure. As noted below in Section VI, the report does include a table that addresses the sensitivity of its findings due to possible mis-measurement of the second effect (the number of students who would have attended private school anyway). However, as explained below, the report does not properly measure the first effect (the net resource savings as students switch from the public to the private sector).

Implicit in the report's calculations of the resources saved per switcher is that the average per-pupil revenue-limit expenditure in MPS is an accurate reflection of what is actually saved. There are two general reasons why it is not an accurate reflection, but neither is addressed in the report (or by analyses performed by the Wisconsin Legislative Fiscal Bureau).⁸

First, students who use vouchers are unlike-

ly to require the same resources as the average (or remaining) MPS student. There is a significant body of research showing that families who use vouchers differ systematically from families who do not use vouchers. As such, their children have different educational needs. One very important distinction is that voucher users are much less likely to require special educational services. On average, a student requiring special educational services receives 1.9 times more than the average level of expenditure.⁹ Another important distinction is that voucher users come from families where mothers have higher education levels.¹⁰ More educated parents are likely to be able to provide home and educational resources that help their children do well in school. This reduces pressure for remedial or behavioral services. Also, voucher students may be concentrated in particular grades, and the resources required are not uniform across grade levels.¹¹ Finally, the correct measure of resource savings is not the average per-student expenditure but the marginal saving as each student exits with a voucher. With large fixed costs (such as school buildings and teacher contracts), the MPS expenditures are unlikely to fall proportionately for each exiting student.

A second reason why the Net Impact formula used in the report is only an approximation is that the voucher schools provide only a subset of the services provided by public schools. Voucher students may be eligible for transportation and special educational services, and these are provided by the district. Some administrative and supervisory costs are also incurred by the district. A more appropriate reflection of the resource savings accrued from each voucher user is the amount that is spent at the school site. This amount is significantly below the per-pupil revenue-limit expenditure.

It is of course still possible that the state of Wisconsin is saving resources for every student that uses a voucher instead of the public school system. But this resource saving should be calculated as accurately as possible; and both of the above-described factors are likely to modify the report's estimates of the total saving and fiscal burden.¹² These cost considerations cannot simply be ignored. Indeed, basic behavioral economics suggests that private schools would, for a given voucher value, seek to enroll students who require fewer resources. More importantly, including all of these factors is very likely to *reduce* the calculated savings from the MPCP.

VI. REVIEW OF THE VALIDITY OF THE FINDINGS AND CONCLUSIONS

The two main conclusions of the report are that the MPCP saves Wisconsin taxpayers a large amount (\$37 million in FY2009) and that property taxpayers in Milwaukee face a large fiscal burden (\$45 million).

However, the exact dollar amounts depend upon an accurate count of the number of genuine switchers. They also depend upon the actual resource savings from a proper cost accounting of the requirements of the students who did switch.

Even small changes in the proportion of genuine switchers result in large changes in the dollar amounts. The report's estimate of the proportion of students who are genuine switchers is 90% of all voucher users. It is this 90% figure that yields the total saving of \$37 million. However, even using the report's own Net Impact formula, if the actual percentage of switchers is 80%, the resource savings fall to \$19 million; and at 70%, the resource saving is effectively zero (the report's Table 1). If the actual resource re-

quirements of switchers are modified as just explained, the dollar magnitudes are likely to be reduced further. The probability that the MPCP results in net savings to the state would therefore be much lower.

VII. USEFULNESS OF THE REPORT FOR GUIDANCE OF POLICY AND PRACTICE

This report—in combination with its earlier, more detailed prequel—is a useful guide to the financing of the MPCP. It makes clear how the funding systems in Milwaukee and Wisconsin operate and how they interact to yield a net resource transfer from the city to the state. It identifies the most important components of each formula and how changes to these components affect the size of the resource transfers. It also corrects a misinterpretation (or ambiguity) arising from an analysis performed by the Wisconsin Legislative Fiscal Bureau.

In addition, the report describes two policy options. One is to eliminate the choice levy so that Milwaukee taxpayers are not subject to an excessive fiscal burden. Unfortunately, and as explained in the report, this would create a negative incentive whereby MPS would financially benefit if students enroll in the voucher program. The second policy option is to fund all voucher expenses out of general funds. This would centralize the funding of the program and require a change in the rules regarding the balance of state/local sources of funding.

The most fruitful policy contribution of the report is its raising of very important issues in relation to two areas: devising funding formulas for voucher programs, and debating the merits of voucher programs as public policy.

At a basic level, the report illustrates how important any voucher funding formula is

and how it cannot be understood in a vacuum separate from the array of education funding mechanisms at the local, state, and federal level. Funding formulae vary from state to state, but each voucher program should be subject to similar, periodic investigations, such as these being conducted for MPCP. Although the absolute dollar amounts may be smaller for other voucher programs with fewer enrollments, the per-student consequences may still be significant. Moreover, other states may be cautious about introducing reforms with such complex and uncertain resource implications, because there are costs associated with uncertainty. These may include costs for families enrolling in the MPCP, growing as the value of the voucher lags behind public school spending. There may also be costs for families remaining in the MPS, as the “funding flaw” grows. Policymakers may be concerned that this uncertainty will make the program unpopular.

In addition, the report illustrates how the value of a voucher may be very misleading in public policy evaluations of voucher programs. This is the case either for evaluations that examine the efficiency or the equity of voucher programs.

The value is likely to be a poor guide to the efficiency of the voucher program. Advocates of vouchers have argued that such programs are vastly superior to the public school system. Their reasoning is as follows: even if voucher students only do as well as public school students, the voucher value is much less than the cost of a public school education. So, voucher programs—advocates argue—are more efficient: they cost less to produce (at least) the same amount of learning.

For several reasons, this argument is incomplete and therefore possibly wrong. One reason, which the new report makes clear, is

that the funding of the voucher program significantly changes the resources available within the local public schools. Two other reasons, which the report does not address, are whether voucher students nonetheless draw on public school (or other public) resources for particular services; and whether voucher students are relatively low cost compared to the public school students who stay behind. As discussed above, these are important omissions.

Moreover, an additional efficiency consideration relates to costs of administering the MPCP. These costs may not be trivial. A new voucher funding formula must be devised, interpreted, and evaluated in relation to the public school funding formula (and checked periodically). As the new report and the report last year show, these are far from straightforward tasks. They absorb considerable academic, policy-researcher, and policy-maker time. It is a reasonable question for policy-makers to ask whether it is worth setting up a parallel funding formula, with its own complexity plus the complexity of its relation to the existing (already complex) public school funding formula.¹³ The com-

plexity grows when the solution to funding imbalances is the creation of an additional funding levy (in this case “poverty aid”).

Equally importantly, the value of the voucher is likely to be a poor guide to the equity of a voucher program. Advocates of vouchers argue that low-income families should be allowed to exercise the same educational choices that high-income families do. But this argument loses considerable power if voucher programs are found to deprive the remaining public schools—and residents of those communities—of sufficient educational resources.¹⁴ And from the other perspective, voucher families may perceive the program is unfair if, in order to resolve funding imbalances, the value of the voucher does not keep up with public school spending.

It is to the credit of this report that it makes clear the importance of analyzing the funding formula for vouchers in Milwaukee. However, it does not consider many of the possible policy ramifications for efficient and equitable implementation of voucher programs.

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Notes and References

- ¹ See Zimmer, R. & Bettinger, E.P..(2008). Beyond the rhetoric: Surveying the evidence on vouchers and tax credits. In H.F. Ladd and E.B. Fiske (Eds.) *Handbook of Research in Education and Finance Policy* (Routledge, New York).
- ² For a book-length treatment, see Witte, J. (1999). *Market Forces in Education*. Princeton, NJ: Princeton University Press.
- ³ Costrell, R.M. 2009. *The Fiscal Impact of the Milwaukee Parental Choice Program, 2009 Update*. University of Arkansas, Department for Education Reform. Retrieved April 27, 2009, from http://www.uaedreform.org/SCDP/Milwaukee_Eval/Report_7.pdf
- ⁴ For a thorough, impartial review of the academic evidence on vouchers, see Rouse, C. & Barrow, L. (2009). School vouchers and student achievement: Recent evidence, remaining questions. *Annual Review of Economics*, Forthcoming.
- ⁵ See Costrell, R.M. (2008). *The fiscal impact of the Milwaukee Parental Choice Program in Milwaukee and Wisconsin, 1993-2008*. University of Arkansas, Department for Education Reform. Retrieved April 27, 2009, from http://www.uark.edu/ua/der/SCDP/Milwaukee_Eval/Report_2.pdf.
- ⁶ Dollar values are presented in nominal terms. Million dollar amounts are rounded to the nearest one million.
- ⁷ See van der Klaauw, W. (2008). Breaking the link between poverty and low student achievement: An evaluation of Title I. *Journal of Econometrics*, **142**, 731-756.
- ⁸ These reasons are documented in detail in a paper by Levin, H.M. (1998). Educational vouchers: Effectiveness, choice, and costs. *Journal of Policy Analysis and Management*, **17**, 373-392. These reasons are noted in the Appendix to the earlier Costrell Report, see footnote 4, but are not incorporated in the analysis.
- ⁹ Chambers, J et al., (2004). *Educating Students with Disabilities: Comparing Methods for Explaining Expenditure Variation*. Washington, DC: American Institutes for Research, Center for Special Education Finance.
- ¹⁰ For Milwaukee, see Witte, J. (1999). *Market Forces in Education*. Princeton University Press: Princeton, NJ. For Cleveland, see Belfield, C.R. (2007). *The Evidence on Education Vouchers: An Application to the Cleveland Scholarship and Tutoring Program*. Working paper, Education Commission of the States. It is also possible that enrollment in MPCP is lower for students with limited English proficiency: this too would mean that higher-cost students remain behind in the public school system.
- ¹¹ This effect depends on how resources are allocated across grades. If an elementary school student is allocated fewer public resources than a high school student, then the MPS will gain if more of the voucher students are from elementary schools.
- ¹² To my knowledge, no proper cost accounting in this form has been performed for any of the voucher programs. Yet, economic evaluations for all programs are sensitive to this issue.
- ¹³ See Levin, H.M. and Driver, C. (1997). Costs of an educational voucher system. *Education Economics*, **5**, 303-311.
- ¹⁴ The alternative, a choice levy is imposed on local residents, has similar implications for the equity of the MPCP program.

The Think Tank Review Project is made possible by funding from the Great Lakes Center for Education Research and Practice.