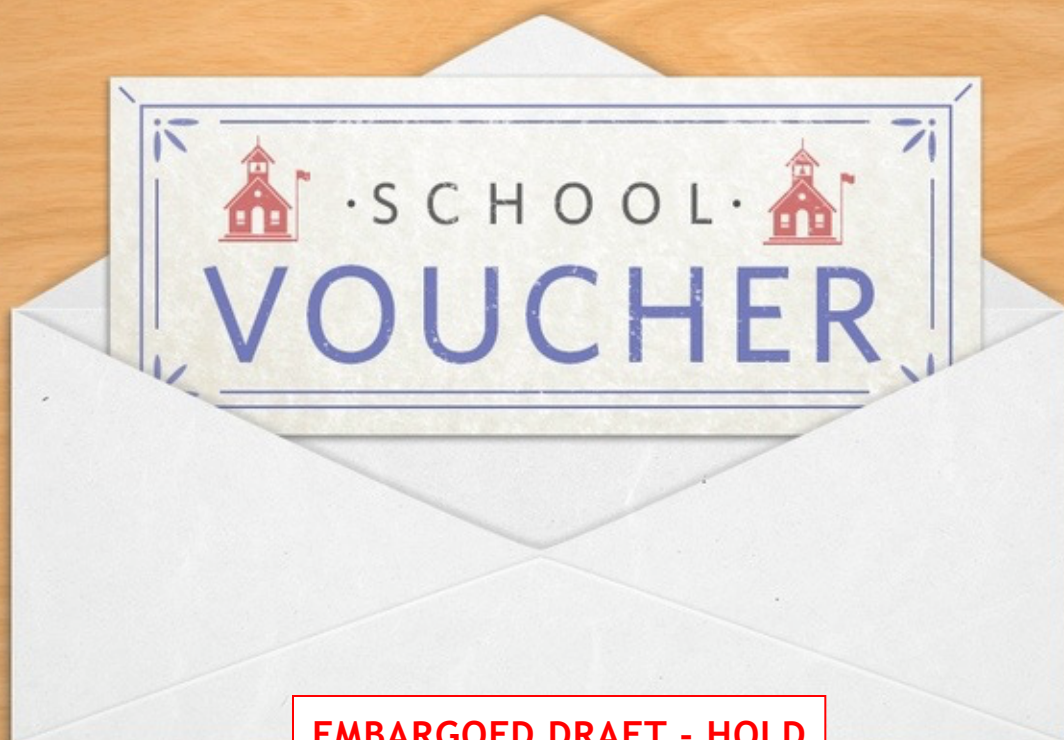


# ASSESSING THE FISCAL IMPACT OF WISCONSIN'S STATEWIDE VOUCHER PROGRAM PROGRAM



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FOR RELEASE 12:01AM -  
OCTOBER 5, 2017**

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October 2017

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**Funding:** This memo is made possible in part by funding from the [Great Lakes Center for Education Research and Practice](#).

**Suggested Citation:** Bruecker, E. (2017). *Assessing the Fiscal Impact of Wisconsin's Statewide Voucher Program*. Boulder, CO: National Education Policy Center. Retrieved [date] from <http://nepc.colorado.edu/publication/funding>.

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## Executive Summary

In 1989, Wisconsin created the Milwaukee Parental Choice Program (MPCP), the nation's first publicly funded private school voucher program. Over the next two decades, the Milwaukee program was steadily expanded, but remained the sole voucher program in the state. In 2011, Wisconsin added a voucher program in Racine (RPCP), and in 2013 it created the statewide Wisconsin Parental Choice Program (WPCP). Initially the statewide program was limited to 500 students and 25 schools in its first year and 1,000 students and 50 schools in its second. In 2015, the state legislature lifted the cap on participating schools and students, but limited student participation to a percentage of district enrollment—currently 2% for the 2017-18 school year. The cap will gradually increase by 1% each year until it is eliminated in 2026.

Wisconsin Act 55 (2015) additionally amended the funding of the WPCP. Previously funding had been provided by a state general purpose revenue allocation; Act 55 generates voucher funding for incoming students by deducting the cost of a student's voucher from the state aid allocated to the school district in which a student resides. As a result, the program now shifts millions of dollars from public school districts to private schools. The fiscal impact of the statewide voucher program, however, is not evenly distributed across Wisconsin's public schools. This policy memo describes how the statewide Wisconsin Parental Choice Program alters the relative share of public education spending borne by the state and by local districts and estimates the differential fiscal impact of the program on Wisconsin school districts. The analysis finds that school districts could lose a substantial portion of their state aid as participation in the voucher program grows, and that small districts would be the most negatively affected. Currently, participation rates in the statewide program are low and students in some districts lack access to voucher schools. Nevertheless, this analysis finds that the majority of students currently eligible to participate in the program live within range of a voucher school and that, even given low participation rates, the program will have a significant effect on the fiscal support the state provides to local school districts. As more states enact or expand their voucher programs, the case of Wisconsin demonstrates that one-size-fits-all statewide programs have the potential to exacerbate funding disparities in the public system.

## Introduction

In 1989, Wisconsin enacted the Milwaukee Parental Choice Program (MPCP), the nation's first publicly funded private school voucher program. In its first year the MPCP enrolled 300 students in 7 private schools.<sup>1</sup> By 2017 approximately 178,400 students across the country<sup>2</sup> were enrolled in 25 state-funded private schools voucher programs in 13 states and Washington, D.C.<sup>3</sup> These 25 programs vary widely in structure and student eligibility. They may be administered at the district and/or state level, and eligibility may be determined by income or disability status.<sup>4</sup> Wisconsin currently has district-level income-based programs in Milwaukee and Racine, a statewide income-based program, and a program for students with disabilities.<sup>5</sup> The 33,775 students currently participating in Wisconsin's four voucher programs represent more than 27% of the state's total private school enrollment.<sup>6</sup>

Over the years the preponderance of evaluations have consistently found that voucher programs have little if any positive impact on student achievement. Early assessments of the Milwaukee Parental Choice Program, for example, were unable to find consequential academic advantages for students using vouchers.<sup>7</sup> Similarly, early analyses of the Cleveland Scholarship and Tutoring Program and Florida's A-Plus program concluded that the impact of vouchers was essentially neutral and had not improved student achievement for either voucher school students or public school students.<sup>8</sup> In the years since the implementation of the first voucher program in Milwaukee, evaluations of voucher programs across the country have repeatedly found that they have virtually no effect on the test scores of students who use them. Most recently, studies of the Indiana, Ohio, and Louisiana state voucher programs all found that voucher students have lower academic achievement than their public school peers.<sup>9</sup>

Despite their failure to produce increases in student achievement, taxpayer investment in private school voucher programs continues to grow. Surprisingly, while the academic impact of vouchers has been well studied over the last two decades, there has been little research on the fiscal impact of voucher programs on traditional public schools. The Wisconsin program is just one example of a state voucher program that has been expanded despite demonstrating little if any academic benefit, and whose expansion now poses a significant fiscal threat to public schools.

When the Milwaukee Parental Choice Program was first implemented in 1990, funding for vouchers was deducted from the state aid allocated to the Milwaukee Public Schools.<sup>10</sup> By 1998, the total cost of vouchers in Milwaukee exceeded \$25 million, or about 5% of the Milwaukee Public Schools' state equalization aid allocation.<sup>11</sup> In 1999, Wisconsin Act 9 expanded the Milwaukee program to include religious schools and altered the funding mechanism by reducing the percentage of the cost of vouchers deducted from Milwaukee's state equalization aid to 50%, with the remaining half to be paid through a 0.6% deduction from the state equalization aid to all other districts in the state.<sup>12</sup> This funding mechanism remained in place for just two school years. Since 2001, the funding of the Milwaukee program has been shared by the state general fund and state equalization aid for Milwaukee Public Schools, with the proportion of costs borne by the state general fund increasing incrementally so that the program will be fully state-funded by 2024.<sup>13</sup>



In 2011, the state enacted a voucher program in the Racine Unified School District. The statewide Wisconsin Parental Choice Program (WPCP) was created in 2013 to offer voucher access to students in all of the state's school districts. The state also has an Open Enrollment program, which since 1998 has allowed students in all districts the choice to attend public schools outside their resident district.<sup>14</sup> Initially, participation in the WPCP was limited, and the state general fund covered the full cost of vouchers for the 500 (2013-14) and 1,000 (2014-15) students allowed to participate in its first two years.<sup>15</sup> In the two-year 2015-2017 budget, the Wisconsin legislature expanded the statewide voucher program, removing the participation caps and altering the source of voucher funding.<sup>16</sup> Under the new structure, the state continues to pay for students already participating in the Wisconsin Parental Choice Program, but the full cost of vouchers for new participants is now deducted from districts' state aid allocations.<sup>17</sup> The Racine program will eventually be absorbed into the statewide program. Additionally, schools in the Milwaukee voucher program are now permitted to enroll students participating in the statewide program.<sup>18</sup> Since the law's implementation in 2015, participation in the statewide program has grown to more than 3,000 students and the number of participating schools has nearly doubled from 82 schools in 2015-16 to 163 schools registered for 2017-18.<sup>19</sup> Not surprisingly, the cost of the statewide voucher program increased from \$18.4 million in 2015-16 to \$22.6 million in 2016-17.<sup>20</sup>

Despite a significant investment of resources in school vouchers in Wisconsin, scholarly evaluations of the Milwaukee Parental Choice Program and other voucher programs across the country have consistently failed to demonstrate that vouchers are effective in empowering low-income families, improving public schools, increasing student achievement, or saving taxpayers money.

## **Policy Arguments**

### **Do vouchers empower low-income families?**

One of the central rationales of school voucher programs as a policy intervention is that they offer low-income parents the power to make decisions about their children's education. Voucher proponents argue that vouchers empower families who would otherwise lack the financial means to pay for private school tuition or to relocate to a better school district, leaving them few if any real educational choices.<sup>21</sup> Others have argued that families who use school vouchers are further empowered to become civically active in other antipoverty efforts.<sup>22</sup> These are attractive arguments; however, in Wisconsin the reality is that voucher programs have not enabled low-income families to choose schools that they could not otherwise attend. In Wisconsin's statewide Wisconsin Parental Choice Program (WPCP), more than 86% of the students who received vouchers in the 2016-17 school year were already attending a private school prior to receiving a voucher.<sup>23</sup> What's more, families are only required to certify income eligibility during the year in which they apply for vouchers;<sup>24</sup> therefore it's difficult to say whether the WPCP is serving the families it was

intended to. Data from Indiana's statewide voucher program shows a similar pattern of prior private school attendance and a significant portion of participants who are not low-income. A third of students using vouchers have family incomes that make them ineligible for free or reduced-price lunch.<sup>25</sup> It is reasonable to assume that the income demographics of participants in Wisconsin's program will follow similar trends.

### **Does competition from voucher schools improve public schools?**

Proponents of school vouchers often contend that these programs serve not only the students who use vouchers, but also provide the competition necessary to motivate schools in the public system to improve. The strength of these "competitive effects" has been debated in the literature, and there remains no clear evidence to prove—or refute—the claim that competition from vouchers improves public schools. Most of this literature has focused on two of the nation's first programs, the Milwaukee Parental Choice Program and the Florida Opportunity Scholarship Program. An early evaluation by Caroline Hoxby found considerable improvement in student performance in Milwaukee schools with more voucher-eligible students.<sup>26</sup> Likewise, early studies of vouchers in Florida conducted by Greene and Winters found that students in schools under threat of voucher out-migration made larger academic gains than other public schools.<sup>27</sup>

However, Hoxby's analysis failed to consider the contemporaneous change in public school student demographics,<sup>28</sup> and the evaluations by Greene & Winters have been critiqued for sample selection and aggregation problems.<sup>29</sup> Later studies of the same program found positive effects for public schools as well, but their authors encourage cautious interpretation of the results due to the difficulty of separating the effect of vouchers from the effect of the Florida A-Plus grading system.<sup>30</sup> Figlio and Hart also express concern that prior research may have endogeneity problems.<sup>31</sup> Specifically, for studies that make use of private school supply as an identification strategy, academic achievement among public school students is very likely related to the supply of private schools.<sup>32</sup> That is, in areas served by high-quality public schools that produce high academic achievement, there would be little market demand for private school options. Thus, studies that identify competitive effects in this way are at risk of producing biased results, and their findings cannot be interpreted as convincing evidence of positive effects from competition.

### **Does participating in a voucher program increase students' academic achievement?**

Since as early as the 1980s, research has demonstrated that the supposed advantage of a private school education is not supported by the evidence. A 1983 analysis of the "High School and Beyond" study found that private school students do not outperform public school students of similar socioeconomic status and background.<sup>33</sup> Further research has continued to produce similar results. Goldhaber's 1996 study of NELS88 data found that public and private school students achieve at comparable levels,<sup>34</sup> and a recent comprehensive study

by Lubienski and Lubienski found that public school students actually outperform private school students.<sup>35</sup> Thus, the available evidence does not support the idea that private schools offer a superior education to that of public schools. Do private voucher schools, then, offer something different?

Over nearly 25 years of study, numerous evaluations of the effectiveness of school vouchers have failed to produce convincing evidence of a positive impact on student achievement. Until quite recently, the body of work on school vouchers and academic outcomes pointed to either modest positive effects or statistically neutral impacts. Early analyses of voucher programs in Charlotte and Milwaukee reported positive gains in reading and math,<sup>36</sup> but these studies suffered from problems, respectively, with sample size and attrition.<sup>37</sup> Later studies in Washington, D.C. and Milwaukee found that academic growth appears after students consistently attend private schools for three or four years.<sup>38</sup> Still other studies of privately funded experimental voucher program in New York City have found no significant difference in the academic achievement of voucher-eligible public school students and students who attend private schools using vouchers.<sup>39</sup> There are, to be sure, varied findings in the research on citywide school voucher programs. The conclusions of these disparate studies may not be generalizable to other cities or to voucher programs administered at the state level.

Given that the focus here is on Wisconsin's statewide voucher program, the most recent literature is perhaps most relevant. Few studies have evaluated statewide voucher programs, and only one such study documented positive effects for participating students. Figlio's quasi-experimental analysis of the Florida tax-credit scholarship program found significant positive growth in reading in grades 3 through 10.<sup>40</sup> Most recently, four studies of statewide voucher programs became the first to report negative effects for students using vouchers to attend private schools. A study of the Indiana Choice Scholarship found negative effects for students in their first year, but seemingly decreasing in subsequent years.<sup>41</sup> In contrast, in Ohio Figlio and Karbownik found significant negative effects in both reading and math for students who attended a voucher school for more than three years.<sup>42</sup> Finally, two analyses of the Louisiana Scholarship Program revealed that the program had negative effects for participants. A 2015 study of the program's first year found decreased student achievement in all four core subjects (reading, math, science, and social studies).<sup>43</sup> Incorporating a second year of data, Mills and Wolf's 2017 study confirms negative effects in reading and math in years one and two, though the negative impact appears to lessen in the second year.<sup>44</sup>

### **Do vouchers save taxpayers money?**

Even if the accepted understanding were that school vouchers have neutral effects on student achievement, supporters argue that the policy is cost-effective, as private voucher schools produce the same student outcomes at a lower cost than the public system.<sup>45</sup> Early work by Henry Levin, however, demonstrates that this is a misleading view of the issue.<sup>46</sup> Although it is true that taxpayers invest fewer dollars per voucher-using student for students attending a public school, Levin cautions that this is primarily a result of the difference in expenditures required for the different groups of students. Many private schools accepting vouchers do not provide the special education services that public schools are required to provide

at significant cost.<sup>47</sup> Similarly, vocational education offered in public schools may drive up expenditures compared to private schools that do not provide these courses.<sup>48</sup> Finally, Levin contends that to compare per-pupil expenditures in public schools only with the cost of the tuition voucher is misleading, since that leaves out costs not covered by the voucher such as transportation, food services, and extra activities, which are provided by public schools and are included in the per-pupil figure used for comparison.<sup>49</sup>

Keeping these issues in mind, Wolf and McShane's cost-benefit analysis of the DC Opportunity Scholarship Program (OSP) reduced the public per-pupil comparison figure to more accurately reflect the tuition costs represented by the voucher amount.<sup>50</sup> The authors aim only to assess the cost-benefit ratio for taxpayers, however, so they do not account for any subsidy provided by the private school in educating voucher-using students.<sup>51</sup> Wolf and McShane find a participant benefit—in increased lifetime earnings and health or quality of life—of \$0.53 per \$1.00 spent, and a public benefit—in the reduction of crime and increase in tax revenue—of \$2.09 per \$1.00 spent.<sup>52</sup> The authors note that the benefit could be higher if not for the funding structure of the program: the D.C. Public Schools are held harmless in the program and do not lose financial resources. Wolf and McShane argue that taxpayer benefits would increase if funding followed the student, as it does in Wisconsin.<sup>53</sup> However, the au-

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thors acknowledge that their analysis required them to make some "serious assumptions" in order to "monetize the value of a high school diploma."<sup>54</sup> In addition, the low take-up of the OSP benefit in the first two years resulted in a small sample size for the treatment group in Wolf and McShane's study. Again, the authors caution that students in the first two cohorts—those "eager to switch from a public to a private school"—may generate bias on unobservable characteristics.<sup>55</sup>

More recently, Lueken used tax-credit scholarships as an example of the cost-effectiveness of school choice programs.<sup>56</sup> Lueken calculates taxpayers savings using estimates of students who switched from public to private schools and estimates of educational costs, finding that tax-credit scholarships across the country have saved between \$1.7 billion and \$3.4 billion over 17 years.<sup>57</sup> However, a review of the Lueken study by Huerta and Koutsavlis contends that the methodology used in Lueken's report is unreliable.<sup>58</sup> Lueken's estimation of "switcher students"—those who move from public to private schools because of the tax-credit scholarship—is largely based on speculation because tax-credit programs are not required to collect data on scholarship users.<sup>59</sup> Further, Huerta and Koutsavlis point to the lack of transparency in the report's calculation of educational expenditures, which they argue fails to take into account variation in costs across districts and groups of students.<sup>60</sup> Similar methodology was used by EdChoice—and was subsequently challenged—to estimate taxpayer savings from vouchers.<sup>61</sup>

Robert Costrell's 2010 evaluation of the financial impact of vouchers in Milwaukee also emphasizes savings to taxpayers. The report highlights \$46.7 million saved in the 2010 fiscal year—an increase of nearly \$10 million over the previous year due to a decrease in the value of a voucher and an increase in per-pupil spending in Milwaukee Public Schools.<sup>62</sup> Costrell



makes a crucial distinction as to where those benefits fall. Under the funding scheme for school choice in Milwaukee in 2010, local taxpayers in other districts benefitted from a savings of more than \$55 million and state taxpayers saved more than \$32 million,<sup>63</sup> but Milwaukee's local taxpayers were adversely affected, to the tune of nearly \$41 million in fiscal year 2010.<sup>64</sup> Costrell's work demonstrates that while it is possible that the Milwaukee school voucher program as it was funded in 2010 may save money, it does not do so for everyone; there are clear winners and losers determined by the financing mechanism. As Wisconsin's new statewide program expands vouchers to every school district in the state, it is important to investigate the fiscal impact of the program on disparate districts.

## **The Fiscal Impact of Recent Changes in Wisconsin's Statewide Voucher Law**

The Wisconsin 2015-2017 Biennial Budget included an expansion of the state's school voucher programs, along with significant adjustments to the manner in which these programs are funded.<sup>65</sup> Signed into law on July 12, 2015, WI Act 55 eliminated the 1,000-student statewide cap and placed a sunset clause on the district-specific participation cap.<sup>66</sup> The participation limit for students within a given district will increase by 1% each year beginning with the 2017-18 school year, and will be eliminated entirely as of the 2026-27 school year.<sup>67</sup> The restriction on the number of participating private schools was also eliminated.<sup>68</sup>

In addition, Act 55 altered the source of funding for the WPCP vouchers. In prior school years, funds for WPCP vouchers came from the General Purpose Revenue account. The 2015-2017 budget bill shifted these costs to voucher students' resident public school districts. Under the new funding mechanism, voucher students are included in the enrollment counts for their school districts for the purposes of state aid and local tax levy. The bulk of state aid allocated to public school districts in Wisconsin is derived from a guaranteed tax base formula (equalization aid), which produces higher aid for districts with low property wealth and lower aid for districts with higher property wealth. To fund the WPCP, this allocation of state equalization aid is reduced by the total cost of the vouchers for participating students in the district. The bill also specifies that if a district's voucher costs exceed the total allocation of equalization aid, the remaining payment would be deducted from other state aid—categorical aids, which are allocated for specific purposes such as transportation costs, special education, or high poverty assistance.

We can observe the impact of the statewide voucher program by using data from the 2016-17 school year.<sup>69</sup> In the first three years since its enactment, participation in the WPCP doubled each school year, from 509 students in 2013-14, to 1,012 students in 2014-15, to 2,528 in 2015-16.<sup>70</sup> In the 2016-17 school year, 3,061 students from 183 school districts participated in the statewide voucher program, and nearly \$23 million was transferred from state equalization aid to school districts to private schools.<sup>71</sup> For this school year, participation was limited to 1% of a district's enrollment, and the value of vouchers was increased from \$7,214 to \$7,323 for grades K-8 students and from \$7,860 to \$7,969 for grades 9-12 students. Table 5 presents descriptive information on these school districts and the fiscal impact of voucher participation. Appendix A highlights three districts affected by the WPCP in the 2016-17 school year.

**Table 1: 2016-17 WPCP Participation Descriptive Information**

	Mean	Median	Max	Min
District enrollment	3010	1582	27,942	201
Percent students WPCP-eligible	33.50%	33.63%	72.06%	7.12%
Number of students participating	29	5	2464 <sup>1</sup>	1
Per pupil equalization aid	\$4846	\$5389	\$8650	\$0
Total voucher deduction	\$135,099	\$31,553	\$8.78M <sup>2</sup>	\$0
Voucher deduction, as percentage of equalization aid	0.81%	0.47%	9.77%	0.00%
Voucher deduction, as percentage of total state aid	0.58%	0.41%	5.45%	0.00%

<sup>1</sup> Racine is not currently subject to the gradually increasing participation cap. Of the districts which are subject to this cap, Green Bay Area Public Schools had the highest number of students participating at 223

<sup>2</sup> Again, Racine has the highest deduction due to its exemption from the participation cap. Green Bay Area Public Schools had the next highest deduction at \$1.16M

As the table shows, reductions in equalization aid ranged from less than a half-percent to nearly 10%. Six school districts saw their equalization aid reduced by 5% or more. Five of these districts are small and rural, serving between 200 and 650 students. Additionally, students from two school districts that receive no equalization aid participated in the WPCP, and thus those districts saw a reduction in their categorical state aid. Compared to districts that did not have students participating in the WPCP, these 183 school districts had, on average, higher local tax rates, lower proportions of low-income students, and higher per-pupil spending. Table 2 shows descriptive information for schools with and without WPCP participation in 2016-17.<sup>72</sup>

**Table 2: Descriptive Information Comparing Districts with and without WPCP Participation**

	<i>Districts with WPCP Participation</i>	<i>Districts without WPCP Participation</i>
District enrollment	3010	881
Percent students economically disadvantaged	33.5%	39.7%
Per pupil equalization aid	\$4846	\$4298
Per pupil spending (state + local)	\$12,636	\$11,625
Local tax rate (in mills)	10.03	9.60

These data suggest that the WPCP is not necessarily serving the most economically disadvantaged districts but may instead be placing a greater burden on local taxpayers, particularly those who are already facing higher local tax rates that generate lower per-pupil spending than that in districts not negatively affected by the WPCP.

The preceding data and examples demonstrate that even when limited in scope, the state-wide voucher program has significant negative impacts on public school districts. However, the program is set to gradually expand over the next decade. It is important to consider the possible ramifications of that expansion. The following section details the potential costs to school districts under the newly enacted WPCP funding mechanism, using demographic and finance data from the 2015-16 school year.<sup>73</sup> This analysis excludes Milwaukee and Racine, both of which have school voucher programs that are governed by different eligibility requirements and participation limitations.

Based on free and reduced-price lunch eligibility, nearly 37% of students in the state are eligible to participate in the WPCP. Of the 422 school districts in this analysis, 93 districts served 50% or more WPCP-eligible students, 6 of which received no equalization aid from the state government. It is important to note that under the Act 55 amendments to the program, income verification is not required after the first year of participation,<sup>74</sup> and the free and reduced-price lunch population may in fact be a conservative estimate of the students eligible to access vouchers.

Only 11 districts receive a per-pupil equalization aid allocation greater than the per-pupil cost of a voucher. On average, school districts received \$4,545 per pupil, compared to the K-8 voucher amount of \$7,214. Districts thus stand to lose a significant amount of state funding. Table 3 shows the median and average for districts' projected losses in equalization aid as a percentage of total equalization aid funding. These figures exclude the 19 school districts that receive no equalization aid and will face losses of state categorical aid funds.

**Table 3: Projected Loss of Equalization Aid as a Percentage of Total Equalization Aid**

	<i>Average</i>	<i>Median</i>
1% of district enrollment participating	3.98%	1.33%
2.5% of district enrollment participating	8.70%	3.29%
5% of district enrollment participating	15.38%	6.57%
10% of district enrollment participating	23.41%	13.14%

The stark contrast between the average and the median projected losses should be noted here and in Table 4 below. This indicates that some districts face losses far above the median, increasing the average calculation accordingly. With only 1% of eligible students participating, three school districts would lose all of their equalization aid. Another 15 school districts stand to lose 50% or more of their equalization aid at a 2.5% participation rate, and at a 5% student participation rate 39 districts stand to lose 50% or more of their equalization aid. The average and median per district losses in equalization aid are shown in real dollars in Table 2.

**Table 4: Projected Loss of Equalization Aid in Dollars**

	<i>Average</i>	<i>Median</i>
1% of district enrollment participating	\$137,388	\$72,140
2.5% of district enrollment participating	\$343,193	\$173,136
5% of district enrollment participating	\$685,509	\$346,272
10% of district enrollment participating	\$1,365,361	\$692,544

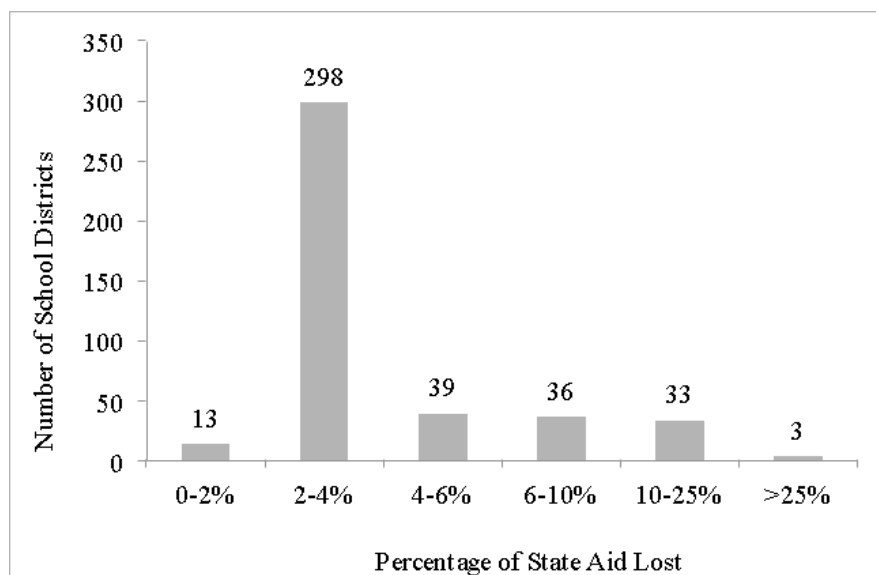
The amended funding mechanism requires that vouchers be paid from categorical aid allocations after equalization aid has been exhausted. In contrast to equalization aid, categorical aid is allocated to districts for specific purposes such as high-cost transportation, special education, or services for students living in poverty. Losing any portion of these categorical aids would leave districts with a funding deficit to provide the same level of services. Table 5 shows the number of districts whose categorical aid would be reduced at each participation rate, now including the 19 school districts that do not receive equalization aid but do receive categorical aid. Even at the 1% participation rate, these losses range from 1.9% to 13.4% of total categorical aid. Many of these districts receive very little equalization aid, so even small categorical aid reductions represent a significant portion of their total state funding.

**Table 5: Districts with Categorical Aid Reductions**

	<i># of Districts</i>	<i>% of Districts</i>
1% of district enrollment participating	21	4.99%
2.5% of district enrollment participating	23	5.46%
5% of district enrollment participating	33	7.82%
10% of district enrollment participating	57	13.54%

The way WPCP is funded effectively cuts state funding for school districts. Even at the lowest participation rate of 1%, 21 districts would lose 5% or more of total state aid. At a high participation rate such as 10%, most Wisconsin school districts would lose more than 10% of total state aid, and three school districts would lose all state funding. However, a 10% participation rate is unlikely to occur. Figure 1 shows the number of school districts with different levels of projected losses at a more probable participation rate of 2.5%.





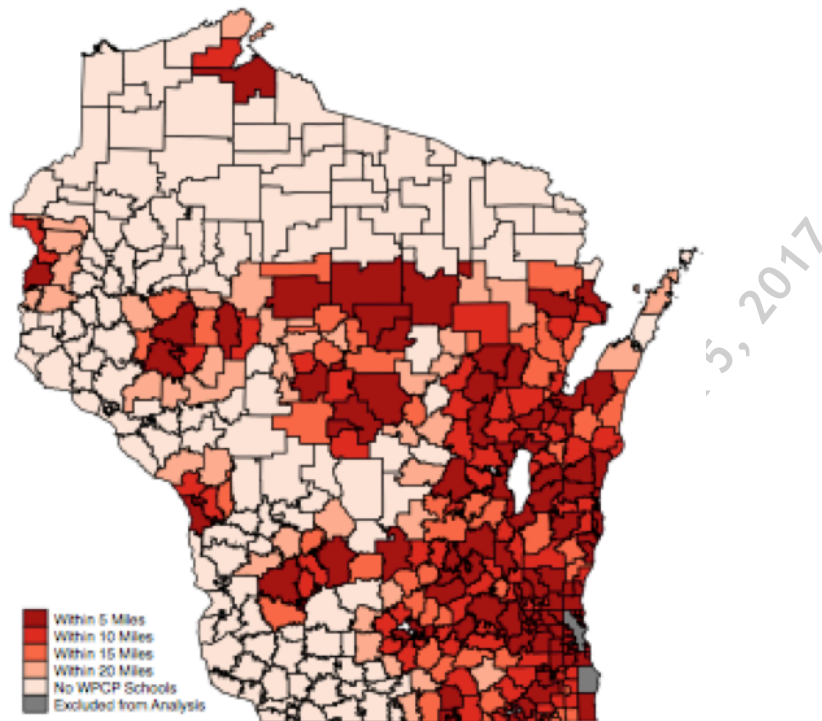
**Figure 1: Projected Loss of Total State Aid, 2.5% Participation**

It is important to note that access to voucher schools may not be universal. Districts in remote areas without nearby voucher schools are unlikely to see even the low participation rates used in this projection. Table 6 shows the proportion of school districts within 20 miles of one or more of the 240 voucher schools participating in the 2017-18 school year.

**Table 6: Minimum Distance from Resident School District to Current Voucher Schools**

	# of School Districts	% of School Districts
Within 5 miles	41	9.72%
Within 10 miles	93	22.04%
Within 15 miles	173	40.99%
Within 20 miles	289	68.48%

Figure 2 shows the distribution of these districts across the state of Wisconsin. 32% of Wisconsin's school districts do not have a voucher school within 20 miles and may thus be at a lower risk for voucher participation to negatively impact their budgets.



**Figure 2: Access to Current Voucher Schools, by District**

Despite their lack of access to participating voucher schools, there are more than 600 non-voucher private schools in the state, nearly all public school districts are within 20 miles of at least one private school, and the number of participating schools has increased significantly during each year of the program. It seems probable that at least some of these existing schools will join the program in the coming years.

Taking only currently participating voucher schools into account, a large majority of eligible students in the state could potentially access a voucher school. Fully 80% of the eligible student population—more than 224,000 students—lives within 20 miles of a participating school. Further, it is well established that existing private school students enroll in the WPCP as well. Nearly three out of every four students who participated in the WPCP in the 2016-17 school year were already private school students prior to enrolling in the program.<sup>75</sup> While the budget reductions would occur alongside a corresponding reduction in the number of students a district must educate, many of the WPCP participants would be prior private school students or students beginning their education. In that case, the state would effectively take financial responsibility for educating additional students without providing a proportionate increase in the financial support it provides for those students. Incoming WPCP students are counted in district membership for the purposes of state aid and the local tax levy. Because the per-pupil equalization aid does not cover the full cost of the voucher in nearly all districts, this funding mechanism decreases the state's per-pupil investment, forcing local taxpayers to support a private school tuition program that they did not vote for nor that they control through their elected school boards.

Additionally, as of August 2017 Wisconsin Senate Republicans are considering increasing the income eligibility limit for the Wisconsin Parental Choice Program from 185% of the federal poverty level to 220% of the federal poverty level. The Wisconsin Legislative Fiscal Bureau estimates that if this change becomes law, it would reduce state aid to local school districts by an additional \$16 million in the first school year in which it takes effect as more students participate in the program.<sup>76</sup> Accordingly, if this policy change is passed, the projections presented here become a far more conservative estimate, as school districts serve a significant number of students with incomes between 185% and 220% of the federal poverty level (\$44,955 and \$53,460 for a family of four, respectively). Recent research on the statewide voucher programs in Indiana, Ohio, and Florida, as well as the possible harmful fiscal impacts in Wisconsin demonstrate the need for caution in expanding school voucher programs.

## Recommendations

This policy memo describes the actual and potential negative fiscal effects of the Wisconsin Parental Choice Program (WPCP), as expanded and amended in 2015 by Wisconsin Act 55. The data suggest that over time the expanded WPCP will present an increasing but widely varying financial challenge to public school districts. The program as currently structured appears likely to exacerbate existing inequities in state school financing. Taxpayers in many communities will be burdened with higher tax costs without seeing that burden translate into more spending on students attending local public schools. Moreover, the relative amount of money the state allocates to each public school student it supports is likely to decline. As more states enact or expand voucher programs, the case of Wisconsin offers a cautionary tale. Statewide voucher programs have the potential to seriously exacerbate funding disparities in the public system. To promote high-quality education and funding equity, it is therefore recommended that policymakers:

- Maintain the income threshold for participation in the voucher program at 185% of the federal poverty level. Given the income segregation of Wisconsin's school districts, raising the income threshold would likely result in increased local taxes on districts already levying at high rates while at the same time decreasing per-pupil state aid to districts intended to receive more based on the state's equalization formula.
- Protect funding for local public school students by setting the district-level student participation limit for the voucher program permanently at 1% of enrollment, with participation determined by a lottery.
- Fund the Wisconsin Parental Choice Program through general purpose revenue, paying for statewide school vouchers through state taxes and revenue to limit the geographical variability of the program's financial impact.

In conclusion, the available evidence suggests that policymakers across the country should think carefully before emulating Wisconsin's statewide voucher program in their own states.

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Voucher participation in Wisconsin, by program

	Milwaukee	Racine	Statewide	Special needs
# of students	27,982	2,531	3,057	235
# of schools	121	19	121	26

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## Appendix A

To illustrate the variable impacts of the Wisconsin Parental Choice Program (WPCP) in the near term, it is helpful to examine its potential impact on different Wisconsin school districts. This appendix examines the most recent data, as well as key factors that will influence WPCP participation rates in order to assess the fiscal impact of the program going forward. Given the statutorily mandated gradual rise of district participation caps and expected changes to student eligibility, it is possible to construct plausible scenarios for how the statewide voucher program will affect the revenues of public school districts in the near term.

For the 2017-18 school year, participation in the Wisconsin Parental Choice Program is limited to 2% of student membership within districts, twice the limit for the 2016-17 school year.<sup>1</sup> Two hundred and twenty-two schools have indicated that they will accept vouchers.<sup>2</sup> The voucher amount for 2017-18 is currently set at \$7,323 for K-8 students and \$7,969 for 9-12 students,<sup>3</sup> though it is likely that these amounts will be increased in the final 2017-19 Wisconsin biennial budget. This section details the current fiscal impact of the WPCP on three districts and it projects the likely impact on the Waukesha, Green Bay Area, and Reedsville school districts. Table 1 presents relevant 2015-16 demographic and financial figures for these districts, as well as state averages for comparison.<sup>4</sup>

**Table 1: Demographic and Financial Data**

	State Average	Waukesha	Green Bay	Reedsville
Student membership	1839	12,977	22,338	663
Percentage of students WPCP-eligible	36.90%	36.23%	61.71%	25.09%
District per-pupil revenue	\$13,137	\$11,864	\$12,433	\$13,987
Per-pupil equalization aid	\$4,545	\$3,860	\$6,399	\$5,562
Total per-pupil state aid	\$5,525	\$4,667	\$7,263	\$6,417
Percentage of total district spending from state revenues	45.47%	39.39%	58.62%	46.14%
Percentage of total district per-pupil spending from local revenues	43.17%	52.28%	29.85%	46.03%
Local tax rate (in mills)	9.80	9.09	10.16	13.11
Average teacher salary	\$51,231	\$61,731	\$53,018	\$51,725

### Waukesha Public School District

The Waukesha Public School District is a small-city district in south central Wisconsin serving approximately 13,000 students. Currently six private schools within the city accept vouchers. In 2016-17 109 students, representing 0.84% of district students, participated in the WPCP at a cost of \$826,631, 1.3% of the district's 2016-17 total state aid.<sup>5</sup> All 109 students enrolled in the WPCP for the first time in the 2016-17 school year,<sup>6</sup> and there were no students on the waiting list.<sup>7</sup> This suggests that these students might represent the bulk of the families in the district who would choose to attend private school using vouchers. If

so, Waukesha may see little if any further negative budgetary impact. However, should the legislature enact the proposed income eligibility limit of 220% of the federal poverty level (\$53,460 for a family of four), participation rates in Waukesha may increase, given that the median family income for Waukesha is \$62,867.<sup>8</sup> If the participation rate increases to 2.5% in the 2018-19 school year Waukesha stands to lose nearly 5% of its state equalization aid, approximately \$2.3 million.<sup>9</sup> Given current trends in Waukesha, a 2-3% participation rate seems plausible within five years.

### **Green Bay Area Public School District**

The Green Bay Area Public School District is located in northeastern Wisconsin. In 2016-17 Green Bay had the second largest number of students (after Racine) participating in the Wisconsin Parental Choice Program.<sup>10</sup> One percent (223) of Green Bay's 22,338 students used vouchers to attend one of the 18 participating private schools in the area.<sup>11</sup> Ten of these schools are part of the Green Bay Area Catholic Education system.<sup>12</sup> Unlike the Waukesha school district, the Green Bay Area Public School District receives higher than average per-pupil state equalization aid. As a result, the district's share of the cost of the WPCP vouchers in 2016-17 (\$1,160,476) amounted to less than 1% of the district's total state aid.<sup>13</sup> However, since one-third of the Green Bay students who participated in the WPCP in the last school year were not new to the program,<sup>14</sup> the cost of their vouchers is covered by state General Program Revenue funds as dictated by the older funding formula in place when they initially enrolled in the program. As these students graduate, the school district will be responsible for a higher proportion of the cost of the voucher program because all new voucher student funding will come from the district's state equalization aid.

Green Bay's participation rate is also likely to grow. The district had 88 students on the waiting list for vouchers in 2016-17.<sup>15</sup> This is more than double the number of students on the next longest waiting list (Appleton).<sup>16</sup> Moreover, students entering the WPCP were previously required to have attended a public school or to be entering into kindergarten, first, or ninth grade. In 2017 Wisconsin Act 36 altered voucher eligibility to allow students from the prior year's waiting list to enroll in the voucher program.<sup>17</sup> Therefore, all 88 of the students on the 2016-17 waiting list are eligible to participate in 2017-18. If they enroll in the program, their vouchers will be paid for by a reduction in Green Bay's state equalization aid. The district also has a very high percentage of students eligible for vouchers. Almost 62% of Green Bay's public school students come from families whose income is below 185% of the federal poverty level (\$44,955 for a family of 4).<sup>18</sup> If as expected, the state legislature raises this limit to 220% of the federal poverty level (\$53,460 for a family of four), more students will be eligible. The median family income in Green Bay is \$46,385, well below the income eligibility limit (220% of the federal poverty level) expected in the 2017-19 biennial budget.<sup>19</sup> It seems reasonable to assume that within five years 5% of Green Bay's students could elect to participate in the WPCP. At that level of participation the district would lose more than \$8 million (5%) of its state equalization aid.<sup>20</sup>

## Reedsville School District

Reedsville School District is a rural district in eastern Wisconsin. It demonstrates the possible fiscal impact of the Wisconsin Parental Choice Program on some small rural districts if even a few students participate in the program. Though some might argue that rural districts are at a low risk for negative budgetary impacts from the WPCP because there are few private school options around, the case of Reedsville suggests otherwise. With five private voucher schools within 15 miles, Reedsville is representative of the type of rural public school district that is at perhaps the greatest fiscal risk from the WPCP.<sup>21</sup> With just eight incoming students participating in the WPCP in 2016-17, Reedsville lost more than \$62,000, 2% of its state equalization aid.<sup>22</sup> Since its median household income is \$54,545, the expected income eligibility increase in the 2017-19 biennial budget would permit nearly half of the district's families to access vouchers.<sup>23</sup> Given the relative scarcity of nearby private school options, Reedsville's WPCP participation is unlikely to rise significantly in the near future, despite the expected increase in student eligibility. However, the cost of losing eight students (representing 2% of state aid) still represents a serious fiscal challenge because losing just eight students is unlikely to reduce the district's fixed costs for teachers, facilities, transportation, etc. If participation were to increase to 17 students in the next five years, state aid to the district would be reduced by nearly \$125,000, more than 3% of Reedsville's state aid.<sup>24</sup>

## Notes and Resources

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