

# Private School Choice: Options for Texas Children

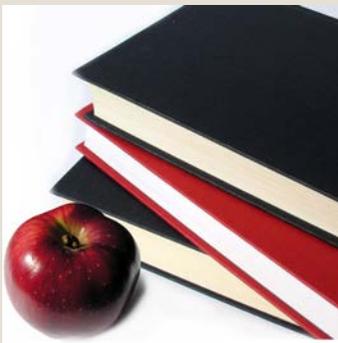
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by John Merrifield, Lewis Warne, Lloyd Bentsen IV,  
Courtney O'Sullivan and Joe Barnett

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*The fundamental problem with Texas public schools, and nationwide, is that children are not engaged in useful learning. Far too many children are confused, overwhelmed or bored. As a result, they learn little, become discipline problems, and drop out at high rates. Though the worst problems are in the urban schools attended by the poor, the issue cannot be solely attributed to low income or an urban environment.*

## Executive Summary



Dallas Headquarters:  
12770 Coit Road, Suite 800  
Dallas, TX 75251  
972.386.6272

[www.ncpa.org](http://www.ncpa.org)

Washington Office:  
601 Pennsylvania Avenue NW,  
Suite 900, South Building  
Washington, DC 20004  
202.220.3082

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The fundamental problem with Texas public schools, and nationwide, is that not enough children are engaged in useful learning. Numerous surveys have found that 40 percent to 60 percent of suburban, urban and rural students are not engaged with public school content. Individual students require different kinds of schools and curricula because of their particular learning styles, interests and abilities. The public school system, however, has created schools that strive for uniformity and comprehensiveness — grouping students by age, rather than by specific subject interest and ability.

Increasing the number and variety of schools competing for students and teachers would give public schools an incentive to improve. Specialized schools that compete for students would help teachers and students find curricula that best meet their needs, and both public and private schools would have incentives to become more efficient. Widespread improvement requires opportunities for families to choose from different instructional approaches that harness educators' talents and passions to address the differences in school-age children.

School choice for Texas children could be implemented through universal tuition vouchers, as well as corporate and individual tuition tax credits. However, the most important reforms would give Texas students the option to choose to attend private schools. A voucher program open to all Texas K-12 students — enrolled in public or private schools — could be structured in a way that does not reduce the current funding per public school student, and adds no new cost to taxpayers. Indeed, the program would increase the funding available per public school student and there would be substantial long-term

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savings to public schools in reduced capital costs.

Consider:

- If public school students had a voucher worth 75 percent of average spending in 2013-2014 (\$6,667), about 450,000 students would use them, saving taxpayers \$1.87 billion over two years.
- If, in addition, current private school students had a voucher phased in over three years and 60 percent used the voucher, net total savings to taxpayers after two years would be about \$580 million.
- Additionally, over 10 years, reduced debt service and capital outlays could save local school districts roughly \$24,000 per voucher, or \$10.8 billion.

There are no legal barriers to a school choice voucher system. The U.S. Supreme Court ruled that vouchers are constitutional if parents choose the schools and the program favors no particular religion. At the state level, in 1995 the Texas Supreme Court held that the state legislature could establish a system of school choice.

A feasible voucher program could significantly lower discipline issues and dropout rates, allow for greater school choice and competition, and would not reduce the funding per public school student. Additional benefits of school choice include higher teacher pay due to the increased demand for high-quality teachers, increased private spending on schooling, and higher public school performance and standards due to increased competition for students and specialization of schools.

### About the Authors

**John Merrifield** is a senior fellow with the National Center for Policy Analysis and a professor of economics at the University of Texas at San Antonio. He is the editor of the *Journal of School Choice*, and the author of *The School Choice Wars*. He received his Doctor of Philosophy degree in economics from the University of Wyoming at Laramie.

**Lewis Warne** is a research associate with the National Center for Policy Analysis. He is a student at the University of Texas at Dallas.

**Lloyd Bentsen IV** is a research fellow with the National Center for Policy Analysis. He received his Bachelor of Arts degree in political science from Southern Methodist University and Master of Business Administration degree from the University of Houston.

**Courtney O'Sullivan** is an editor and senior manager of publications at the National Center for Policy Analysis. She received her Bachelor of Arts degree in history and philosophy from Loyola University, Chicago.

**Joe Barnett** is director of policy research at the National Center for Policy Analysis. He received his Bachelor of Arts degree in English from the University of Texas at Arlington.

## Introduction<sup>1</sup>

The fundamental problem with Texas public schools, as with public education generally in the United States, is that children are not engaged in useful learning. Far too many children are confused, overwhelmed or bored. As a result, they learn little, become discipline problems, and drop out at high rates. The worst problems are in the urban schools attended by the poor, but they cannot be solely attributed to low income or an urban environment. Poor performance and falling productivity are system-wide issues.<sup>2</sup> In scattered exceptions, one or more individual leaders succeed against incredible odds, but they are typically unable to sustain, spread and replicate high performing schools or school systems.<sup>3</sup>

Widespread improvement requires opportunities for families to choose from different instructional approaches that harness educators' talents and passions to address the differences in school-age children. But this can only be accomplished when families are provided a diverse menu of public and private schooling options, including for-profit schools, independent schools and parochial schools.

School choice for Texas children could be implemented through universal tuition vouchers, as well as corporate and individual tuition tax credits. As part of a more encompassing transformation, the first steps within public school systems might include open enrollment, additional magnet schools and widespread charters. However, the most important reforms would give Texas students the option to choose to attend private schools.

## Texas Public Schools

Currently, about 4.9 million children are enrolled in the Texas public school system. Enrollment is

increasing at a rate of about 2 percent per year, mainly due to population increases. The average per-pupil maintenance and operating (M&O) expenditure is about \$8,714 per student, an increase of 12 percent since 2005.<sup>4</sup> For comparison, the national average annual per-pupil spending is \$10,770, according to the National Education Association.<sup>5</sup> In Texas, general instruction expenditures average about \$5,150 per student, whereas spending on instruction for special education students averages about \$8,700 per student.<sup>6</sup> The reported dropout rate for Texas public schools was 14.1 percent during the 2006-2007 school year; by the 2011-2012 school year, that rate had declined to 8.4 percent.<sup>7</sup>

In 2011, 86 percent of students tested met the standard for mathematics on the Texas Assessment of Knowledge and Skill (TAKS).<sup>8</sup> However, for comparison with other states, the National Assessment of Education Performance (NAEP) is a good measure. The NAEP is the nation's largest continuing test of academic performance, and its tests are uniform nationwide.<sup>9</sup> On the NAEP test, in 2011, less than half (49 percent) of Texas public school 8th grade students scored as proficient or advanced in mathematics, only one-third (34 percent) were proficient or advanced in science, and less than one-third (29 percent) scored proficient or advanced in reading.<sup>10</sup> Notably however, Texas students received better scores in mathematics than other states with roughly similar per-pupil expenditures.<sup>11</sup>

## Student Disengagement in Texas Public Schools

Students are engaged in the learning process when they "take pride not simply in earning the formal indicators of success (grades), but in understanding the material and

incorporating or internalizing it in their lives."<sup>12</sup> A key to engagement in school is being motivated to learn.<sup>13</sup> The importance of engagement to student outcomes has been extensively documented.<sup>14</sup> Keeping students interested helps them learn material more quickly, allows them to retain information longer, keeps them out of trouble and reduces dropout rates.<sup>15</sup> Unfortunately, many public school students are not engaged in their schoolwork. Indeed, numerous surveys have found that 40 percent to 60 percent of suburban, urban and rural students are not engaged with the material they are being taught in school.<sup>16</sup>

Obstacles to engagement include lack of specialized schools and curricula, and a lack of incentives for schools to innovate.

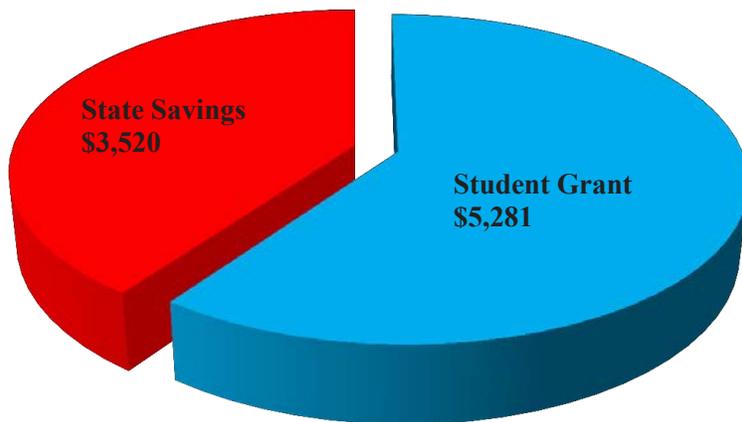
**The Diversity of Students versus the One-Size-Fits-All Approach of Public Schools.** Individual students require different kinds of schools and curricula because of their particular learning styles, interests and abilities. Public education, however, has created schools that strive for uniformity and comprehensiveness — teaching the same things, in the same way, to all students.

*One Teacher Can't Meet the Needs of All Students in a Typical Classroom.* Public school classrooms usually contain students with a wide spectrum of subject interests and diversity of learning styles. Even students from families with similar incomes and ethnic backgrounds have very different goals, subject interests<sup>17</sup> and learning styles.<sup>18</sup> No single curriculum or teacher can accommodate all the students in a typical classroom.

Because public schools do not tailor their services to meet the unique needs of their students, they often adopt ineffective, shallow, one-size-fits-all teaching methods and curricula.

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**Figure I**  
**Average Texas Public School per Pupil**  
**Spending versus Student Grant**  
(total average per pupil spending \$8,801)



Source: Joseph L. Bast, "Corrections to Fiscal Note for Taxpayers' Savings Grants Program," Heartland Institute, June 8, 2011. Available at <http://heartland.org/policy-documents/corrections-fiscal-note-taxpayers-savings-grants-program>.

*School Uniformity and Size.* Large, comprehensive "shopping mall high schools" are an attempt to address the challenges of student diversity.<sup>19</sup> Whereas student engagement in learning requires creating a sense of community, distinct purpose and identity,<sup>20</sup> megaschools lack a coherent mission.<sup>21</sup> Furthermore, they are hard to manage,<sup>22</sup> and are vulnerable to fraud with respect to accountability tests and measures.<sup>23</sup>

*Public Schools Group Students by Address.* Public school attendance zones assign children to schools according to home address. Thus, attendance zones force each school to address every major educational preference its official neighborhood might contain, or at least appear to do so, in effect mandating an unspecialized school in every neighborhood.<sup>24</sup>

Furthermore, because most students live in areas where families have similar income levels, and students attend schools based upon where they live, the U.S. public

school system is highly segregated by socioeconomic status, and therefore by race and ethnicity. Today, about 67 percent of African Americans and 75 percent of Hispanics attend public schools with roughly 90 percent of the same ethnic group.<sup>25</sup>

*Public Schools Group Students by Age.* Students typically have natural tendencies to perform better on certain subjects than others. Thus, grouping students by age, rather than specific subject interest and ability, reduces student engagement and academic achievement.<sup>26</sup> It is another reason that students at higher achievement levels are prone to lose interest,<sup>27</sup> while students at lower achievement levels may feel overwhelmed.<sup>28</sup> It is well known that age is not a key determinant of the proper level and pace of instruction.<sup>29</sup>

Large disparities in student intellect within individual classrooms cause many teachers to lower their standards so that the majority of their students can "succeed," but then many underachieve (or worse,

disrupt and eventually drop out) because of boredom.<sup>30</sup> The effects of classroom composition are magnified after the 5th grade, when students rather than teachers set the pace for their academic achievement.<sup>31</sup>

Furthermore, due to the diverse needs of students, teachers often have difficulty motivating and communicating with individual students.<sup>32</sup> Teachers and school officials often come into conflict with parents and each other, especially in large urban district schools where students are especially diverse.<sup>33</sup>

Harvard University education researcher Paul E. Peterson has written, "The general consensus is that it doesn't work having all these kids together. For classroom teachers, the challenges can be enormous."<sup>34</sup> There are no "best practices" for highly diverse groups of students. "Watering down" practices appear to be especially debilitating in inner-city schools,<sup>35</sup> where most students perform below grade level on essential subjects.<sup>36</sup>

**Lack of Incentives to Innovate.** In school districts across the country, regulation and control by state and local officials have drastically limited the autonomy of teachers in preparing their own lessons. In many cases, teachers must follow a timetable and strict guidelines on what, when and, in some cases, how they should teach their students.<sup>37</sup> Such drastic measures allow for little discretion to adapt unique teaching abilities to their particular mix of students. As a result, students are forced to learn material in ways that are not conducive to their teachers' talents or the personal learning characteristics of the students themselves.

**Incentives of Public School Teachers.** Furthermore, neither a teacher's years of experience nor her level of education have been found to be strong indicators of student performance, yet there are no other

**Table I**  
**Voucher Amount and Associated Increase in Private School Enrollment**

Percentage of M&O cost	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
<b>Voucher Dollar Amount</b>	\$0	\$889	\$1,778	\$2,667	\$3,556	\$4,445	\$5,333	\$6,222	\$7,111	\$8,000	\$8,889
<b>Increase in Enrollment</b>	0.0%	1.1%	2.2%	3.3%	4.3%	5.4%	6.5%	7.6%	8.7%	9.8%	10.9%

Source: Authors' calculations.

factors that impact public school teachers' base salary.<sup>38</sup> Uniform pay schedules are less likely to create an overall shortage of teachers and more likely to reduce incentives, quality and equity.<sup>39</sup>

Public school systems provide few monetary incentives for outstanding teachers to remain in the classroom; their pay is usually identical to less effective teachers, which undermines efforts to attract and retain high quality teachers.<sup>40</sup> Consider:

- Scores on the ACT (formerly known as the American College Test), an exam used to assess student readiness for college, are a good determinate of future teacher success, but teachers with higher ACT scores have higher turnover rates than teachers with lower than average ACT scores.<sup>41</sup>
- Furthermore, only low ability teachers feel they could achieve successful career progression with a single salary schedule.<sup>42</sup>
- In addition, because improved performance does not lead to a higher salary or benefits, a uniform pay schedule provides no monetary incentive for mediocre teachers to improve.<sup>43</sup>

Another result of uniform salary schedules, of particular relevance to

student disengagement, is that there are often large shortages of qualified teachers in key fields such as math and science.<sup>44</sup> In these specialties, private-sector companies offer quite lucrative salaries. Indeed:

- Only 61 percent of math and 71 percent of science teachers, nationally, majored in their field of teaching.<sup>45</sup>
- About 31 percent of all secondary schools had serious problems hiring mathematics, life sciences or physical sciences teachers.<sup>46</sup>

More experienced teachers are much more likely to be found in suburban school districts, where base salary rates are higher and job stress is lower. Inner-city schools that have the most urgent need for engaging teachers have higher than average teacher turnover rates, resulting in less experienced teachers for students most in need of quality teachers.<sup>47</sup>

**The Lack of Accountability in Public Schools.** There are two main sources of accountability in K-12 education: government officials and families.<sup>48</sup> Since public schools do not receive funding directly from their customers, consumer accountability is minimal. Without parental scrutiny, schools have little

incentive to remove ineffective educators, improve services or reduce costs.

Government demands for improvement and the ultimate threat of closure have failed to produce the type of continuous improvement necessary to turn around failing schools.<sup>49</sup> Under the current system, even schools deemed successful often become complacent and end difficult efforts to make further improvements.<sup>50</sup> Accountability to parents and students, in contrast, can produce continuous improvement in all aspects of school services.<sup>51</sup>

The 2002 federal No Child Left Behind (NCLB) law and much new state legislation implore schools to meet certain standards — that is, have a certain percentage of students achieve proficiency or above on state assessments, achieve high graduation and attendance rates and so forth. However, school system personnel face few if any major repercussions when they fail to meet their objectives. Thus, low performing schools continue to operate year after year.<sup>52</sup>

The public school focus on specific standards set by national, state and local governments has led to an emphasis on the specifics of the official accountability measures.

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**Table II**  
**Participating Students at Various Voucher Levels**

Percentage of M&O cost	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
<b>Total Participating Students</b>	0	59,982	119,965	179,947	239,929	299,912	359,894	419,876	479,859	539,841	599,823

Source: Authors' calculations.

The resulting practice of “teaching to tests” that are the basis of school assessments has greatly narrowed curricula to tested items and to lessons aimed at standardized test preparation.<sup>53</sup> For example, there is greater emphasis on math and reading test questions, and much less coverage of untested subjects like history and social studies.<sup>54</sup>

### The Role of Competition and Prices in Education<sup>55</sup>

Increasing the number and variety of schools competing for students and teachers would give public schools an incentive to improve. Specialized schools that compete for students would help teachers and students find curricula that best meet their needs, and both public and private schools would have incentives to become more efficient. Indeed, different schools serve different students best. For example, an NCPA analysis of standardized test scores for a number of Dallas-area public schools found that some schools had better results teaching some groups of students but not others.<sup>56</sup> Furthermore, parents look for various characteristics, aside from cost, that are important in their child’s education. Some parents, for instance, value a school with a structured curriculum and strict discipline; others may prefer a looser approach to learning.

Like health care, however, education also needs price competition — without price competition, there is no quality competition. The classic symptoms of price control — misallocation of resources and declining quality — are abundant in K-12 education. Traditional and chartered public schools are forbidden, by law, to charge tuition, and many voucher programs operate like the one in Milwaukee, where schools that enroll voucher users must accept the voucher as full payment.<sup>57</sup> All of the prominent federal- and state-level school system reform efforts have implicitly assumed that price control is acceptable for the education industry. But the disappointing outcomes of school system reform efforts so far say otherwise. The gains in educational achievement of students enrolled in choice programs have been modest. Milton Friedman termed these “charity vouchers.”<sup>58</sup> The education voucher program proposed below is much broader.

The amount of the publicly funded voucher need not equal the cost of education in every private school. Ideally, it should be adequate to pay tuition at a school that charges the average or median amount. Private school tuition at parochial schools, for example, tends to be lower than the average private school.

It is important that education consumers and their parents have

incentives to shop for schools based on price and other qualities. These incentives include paying part of the cost from their own funds and/or contributing their own time and skills to the school. By contrast, free schooling eliminates the incentive of parents to shop for schools that are efficient. Additional tuition levies have the most impact on low-income families. But third parties can address the affordability/access issues. Tuition levies can be publicly or privately financed on a case-by-case basis or according to academic talent (scholarship) or financial need. Mandating free-only schooling options would eliminate school choices that low-income families have found the money to buy and that often could not exist otherwise. Moreover, mandating free, subsidized schooling short-circuits the product development process that transforms initially costly services into widely affordable options.

**Effect of Vouchers on Private School Enrollment.** What effect would voucher programs have on private school enrollment? This can be estimated based on calculations made for a proposed “Texas Taxpayer Savings Grants” program.

An estimated 235,241 students attended private schools in Texas during the 2007-2008 school year.<sup>59</sup> Assuming vouchers equal to 60 percent of Texas’ average per-

pupil maintenance and operations expenditure in 2011 were available to all current public school students and incoming kindergarten students (but not to private school students), it was estimated:<sup>60</sup>

- Some 314,245 to 383,501 public school students would transfer to private schools [see the side bar “Texas Taxpayer Savings Grants Program”].
- As a result, private total enrollment in private schools would rise to about 583,000.
- With per pupil expenditure in Texas schools for maintenance and operations averaging about \$8,801 per student, a 60 percent voucher would be nearly \$5,281 per year, and public schools would gain more than \$3,520 for each student who transferred to a private school.

Public schools spend more for special education students. Though the majority of private schools, including Catholic ones, accept about 90 percent of the students who apply, a greater number of available vouchers would assure more choices for special education students.<sup>61</sup>

Furthermore, each time a private school student transfers to a public school costs to taxpayers increase. According to the National Catholic Educational Association, nationwide Catholic school enrollment declined 20 percent — by more than one-half million students — from 2000 to 2010.<sup>62</sup> As Catholic schools have closed and consolidated, the transfer of these students to public schools has raised public school costs by billions of dollars. Thus, reversing the decline in parochial school enrollment would save public schools the additional expense of educating transferring students.<sup>63</sup>

Depending on the voucher program available, more or fewer

students would be attracted to private schools. However, parochial and independent schools would have to raise their own funds for capital expenditures. Furthermore, the program would likely be phased in over a number of years, allowing private school enrollment to gradually increase. Thus, a voucher program could be structured so that public schools do not experience a net decrease in funding.

### A Feasible Education Voucher Program for Texas K-12 Students

A voucher program open to all Texas K-12 students — enrolled in public or private schools — could be structured in a way that does not reduce current funding per public school student and adds no new cost to taxpayers.

In 2011, John Merrifield and Joseph L. Bast estimated the impact of providing vouchers to Texas public school students worth 60 percent of the average maintenance and operations expenditure.<sup>68</sup> This analysis applies a similar methodology to updated data and varies the amount of the voucher.<sup>69</sup>

**Impact on Enrollment.** Barry R. Chiswick and Stella Koutroumanis (C&K) calculated that a \$1 reduction in private school tuition in 1990 increased the probability of choosing a private school by 0.0021 percent.<sup>70</sup> After adjusting for inflation, the marginal impact

**Table III  
Two-Year Savings**

Percentage of M&O cost	Combined Two-year Savings from Public School Students Switching
0%	\$0
10%	\$895,922,829
20%	\$1,592,751,696
30%	\$2,090,486,600
40%	\$2,389,127,543
50%	\$2,488,674,524
60%	\$2,389,127,543
70%	\$2,090,486,600
80%	\$1,592,751,696
90%	\$895,922,829
100%	\$0

Source: Authors' calculations.

of a \$1 voucher in 2011 is 0.00122 percent. For example, a hypothetical \$4,500 voucher would increase the enrollment rate by five-and-one-half percent ( $0.0549 = \$4,500 \times 0.0000122$ ).

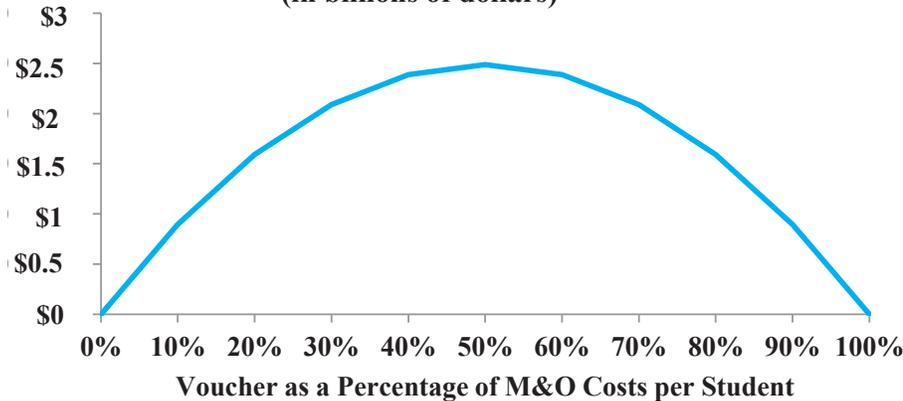
Voucher programs implemented in San Antonio, Texas and Milwaukee, Wisconsin, had participation rates differing from those predicted by the C&K coefficient. By the second year of those programs, 6.8 percent of San Antonio’s Edgewood ISD public school population and 7.26 percent of Milwaukee public school students had received a voucher. The savings associated with these participation rates could be higher than the calculations in this study.

Applying the C&K coefficient calculation to various levels of vouchers yields a range of private school enrollment rate increases. [See Table I.]

This analysis assumes that if legislation authorizing vouchers were passed in the 2013 regular session of the Texas State Legislature, it

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**Figure II**  
**Combined Two-Year Savings from Public School Students Switching**  
 (in billions of dollars)



Source: Authors' calculations.

would be effective for the 2013-2014 school year. The total population of K-12 students in Texas during the 2013-2014 school year is expected to be 5,526,782 (5,203,927 in public schools and 322,855 in private schools). Thus, with a \$4,500 voucher, 303,625 (.0549 x 5,526,782) students would be expected to shift

from public to private schools. Again, various voucher amounts produce varying expected shifts.<sup>71</sup> [See Table II.]

**Budgetary Impact.** Previous experience with a privately funded voucher program in Edgewood, Texas, demonstrates that not all

students will shift in the first year, but almost all expected participants will accept the vouchers and shift by the second year. Merrifield and Bast estimate that 86.7 percent of enrollment shift will occur in the first year, and 100 percent will occur by the second year.<sup>72</sup> Assuming that every participating student receives a maximum \$4,500 voucher, the annual savings per student is \$4,389 (\$8,889 - \$4,500). If vouchers are not made available to current private school students, cumulative savings from all student shifting over the first two years would be about \$2.5 billion [see Table III]:

Savings in Year One:  
 \$1,155,516,935 (303,625 x \$4,389 x .0867)

Savings in Year Two:  
 \$1,332,776,164 (303,625 x \$4,389)

Combined Two-Year Savings:  
 \$2,488,293,099 (\$1,155,516,935 + \$1,332,776,164)

Because annual per student savings fall and total participating students rise as voucher amounts increase, maximum savings occur when the voucher amount is half of M&O costs. [See Figure II.]

**Table IV**  
**Two-Year Costs of Vouchers for Current Private School Students**

Percentage of M&O Cost (voucher to current public school student)	Total Two-Year Voucher to Current Private School Students	Two-Year Cost of Vouchers for Current Private School Students (100% uptake)	Two-Year Cost of Vouchers for Current Private School Students (85% uptake)	Two-Year Cost of Vouchers for Current Private School Students (60% uptake)	Two-Year Cost of Vouchers for Current Private School Students (40% uptake)
0%	\$0	\$0	\$0	\$0	\$0
10%	\$889	\$284,120,897	\$241,502,763	\$170,472,538	\$113,648,359
20%	\$1,778	\$568,241,795	\$483,005,525	\$340,945,077	\$227,296,718
30%	\$2,667	\$852,362,692	\$724,508,288	\$511,417,615	\$340,945,077
40%	\$3,556	\$1,136,483,589	\$966,011,051	\$681,890,154	\$454,593,436
50%	\$4,445	\$1,420,604,487	\$1,207,513,814	\$852,362,692	\$568,241,795
60%	\$5,333	\$1,704,725,384	\$1,449,016,576	\$1,022,835,230	\$681,890,154
70%	\$6,222	\$1,988,846,281	\$1,690,519,339	\$1,193,307,769	\$795,538,513
80%	\$7,111	\$2,272,967,179	\$1,932,022,102	\$1,363,780,307	\$909,186,872
90%	\$8,000	\$2,557,088,076	\$2,173,524,865	\$1,534,252,846	\$1,022,835,230
100%	\$8,889	\$2,841,208,973	\$2,415,027,627	\$1,704,725,384	\$1,136,483,589

Source: Authors' calculations.

## Vouchers for Current Private School Students.

While the Texas Taxpayer Savings Grants program would offer vouchers to current and new kindergarten public school students who switch to private school, current private school students would be ineligible. Instead, the NCPA analysis assumes that current private school students are eligible for a similar tuition grant, phased in over three years.

Assume that the state awards current private school students 33 percent of the voucher given to current

public school students in the first year, 66 percent in the second year and 100 percent in the third year. The cumulative award over two years to each private school student would be 50 percent of the cumulative award to a current public school student. [See Table IV.] This phase-in schedule would eliminate incentives for students to “game the system” by shifting to a public school for a year in order to qualify for the voucher. The voucher could also be phased in by grade.

If a \$4,500 voucher is given to current public school students, a voucher worth 33 percent and then 66 percent would be given to the private school student, adding up to \$4,500 over two years. If 85 percent of current private school students

accept, the two-year cost would be \$2,469,621,888 ( $\$4,500 \times 322,855 \times .85$ ). Table IV shows that costs rise as the voucher amount rises.

When costs of vouchers for current private school students are subtracted from savings generated by shifting students to private schools there is a revenue neutral break-even point. [See Figure III.] The program will break even when the combined two-year savings equal the two-year cost of additional vouchers. These break-even points occur around 71 percent, 75 percent, 83 percent and 88 percent of average per pupil state cost. [See Table V.]

Each point maximizes the number of students that receive a voucher without costing more than the current system.

**Voucher Use by Additional Students.** The two-year figures in this proposal calculate the cost of a voucher for current private school students while the program is phasing in. Equal vouchers will be awarded to all students in the third year and will increase yearly costs.

There are additional savings not considered in the preceding analysis. Programs providing private school vouchers to public school students have been implemented in Milwaukee, Wisconsin, and the Edgewood School District in San Antonio, Texas; participation in each program grew continuously beyond the first two years. Additional participation in this program by current public school students will increase savings to

## Texas Taxpayer Savings Grants Program<sup>64</sup>

Legislation has been proposed to establish the Texas Taxpayer Savings Grants program. This program would address the state’s biannual budget deficit by reducing enrollment and associated costs in the state’s public K-12 schools. By reimbursing parents and legal guardians, the state would save money every time a child is moved from a public to a private school.

**How the Program Would Work.** Any parent or legal guardian of a school-age child who resides in Texas and is entering kindergarten, or who attended a public school for all of the academic year prior to their participation could receive reimbursement from the state for tuition paid to enroll in a private school — up to the amount of actual tuition or 60 percent of the state average expenditure per pupil for maintenance and operations, whichever is less.

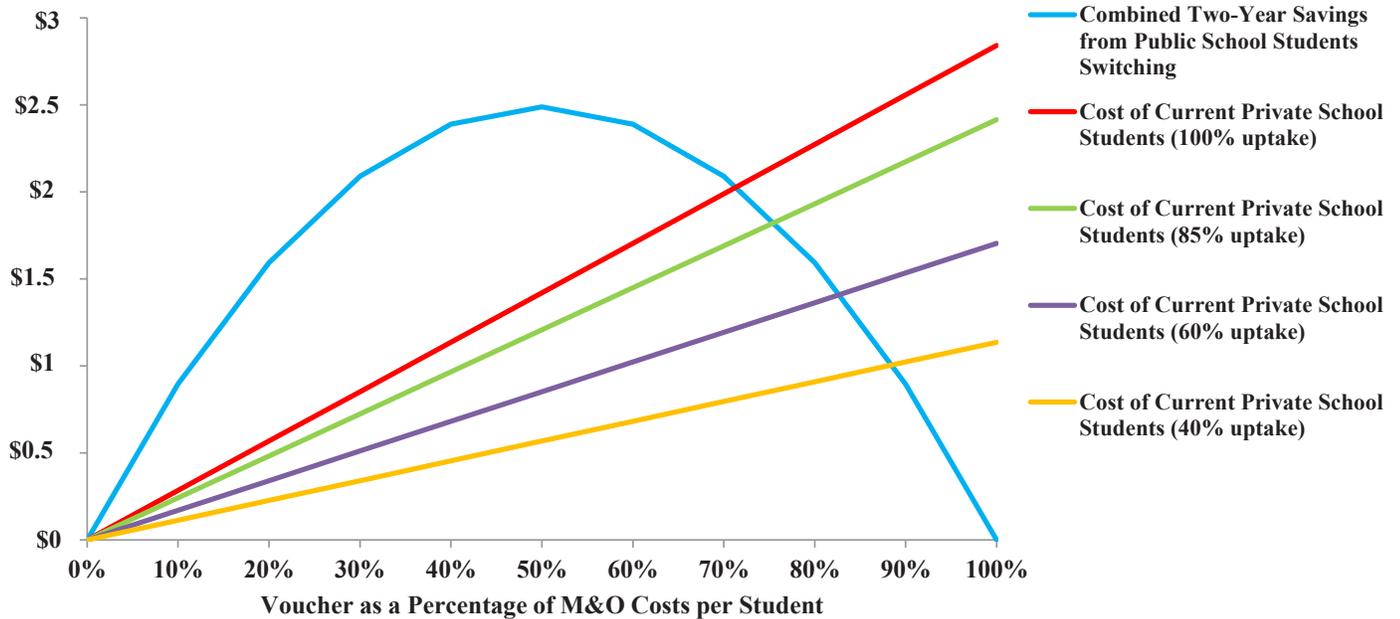
The grant program would help address the state’s two-year budget deficit, projected to be up to \$27 billion during the 2012-2013 biennium, by reimbursing parents who move a student from a public to a private school.<sup>65</sup> In 2011, Texas’ average per-pupil maintenance and operations (M&O) expenditures were \$8,801.<sup>66</sup> Reimbursed at 60 percent of the M&O amount, the grant would be worth \$5,281 — more than \$3,520 less than what the state currently spends. [See Figure I.]

It is important to note that children already enrolled in private schools would not be eligible for tuition assistance under the Texas Taxpayer Savings Grants program. However, the proposal does not rule out allowing parents to add their own money to the savings grant in cases when tuition exceeds the amount of the grant.

**Savings under the Grant Program.** Using the economic model developed for Taxpayer Savings Grants, an estimated 314,245 to 382,501 students would use the program to enroll in private schools during the second year of the program.<sup>67</sup> This represents a 133 percent to 163 percent increase in private school enrollment in Texas. This transfer of 6.3 percent to 7.6 percent of students now in public schools would generate a net savings to the state of approximately \$2.28 billion in the first two years — with savings rising in future years.

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**Figure III**  
**Two-Year Savings and Cost for Current Private School Students**  
 (phase in for private schools, in billions)



Source: Author's calculations.

Texas. These savings could cover the increased costs of a fully implemented program.

**Projected Costs and Student Enrollment.** Texas public school enrollment is projected to be 5.2 million for the 2013-2014 school year. The average cost per public school student for instruction and other maintenance and operating

expenses is expected to be \$8,889. Additionally, about 322,855 students are forecasted to attend private schools during the 2013-2014 school year. Privately educating those students will save taxpayers over \$2.8 billion.<sup>73</sup>

A voucher worth 75 percent of projected management and operations spending in 2013-2014

equals \$6,667 per year. Because the state would otherwise be paying at least \$8,889 per public school student, shifting the student with a \$6,667 voucher would save \$2,222 per student. The voucher system is expected to allow around 450,000 current public school students to switch to private schools, saving a total of \$1.87 billion over two years.

**Table V**  
**Break Even Points, by Private School Uptake**

Percentage Uptake	Percentage of M&O Cost (voucher to current public school student)	Total Two-Year Voucher to Shifting Public School Students	Total Two-Year Voucher to Current Private School Students	Total Students Shifting from Public to Private Schools	Private School Students Receiving Tuition Reimbursement
100%	71%	\$12,623	\$6,311	425,875	322,855
85%	75%	\$13,334	\$6,667	449,868	274,427
60%	83%	\$14,756	\$7,378	497,854	193,713
40%	88%	\$15,645	\$7,822	527,845	129,142

Source: Authors' calculations.

A similar, phased-in voucher for current private school students would cost \$1.81 billion over two years, if 85 percent of private students accept it. A 60 percent uptake by private students would lower the two-year cost to \$1.29 billion. Thus, net savings after two years would be approximately:

- \$60 million, with a 85 percent uptake by private students; or
- \$580 million, with a 60 percent uptake by private students.

*Savings for Local School Districts and/or Property Taxpayers.* Local school property taxes fund most debt service & capital outlays, at a yearly cost per student of \$2,313 (2010-2011 school year). Payments on existing debt accounts for 47% of the total, whereas capital outlays are 53 percent of total capital costs, or \$1,225 (2010-2011 school year) per student per year. Thus, over 10 years, at the very least, local school districts would save nearly \$12,000 per voucher student on capital expenses alone. As existing debt is retired due to the reduction in demand for new classroom space and facilities, there would be additional capital saving. Depending on the debt structure of an individual school district, the savings could double to \$24,000 per public school student who switches to a private school.

*Vouchers for Special Needs Students.* The amount of the voucher should be adjusted to account for the higher costs of special needs students, to be funded from the greater savings to taxpayers when a special needs student switches to a private school.

Texas offers additional funding to schools that provide special education and bilingual or English as a Second Language (ESL) programs. Though the estimates in this study are based on average spending per pupil, under a voucher system this arrangement could be used to

prevent “creaming,” where private schools accept only students that require less of a financial investment. Current formulas used by the state adjust a base funding amount by a multiplier for each type of program; the multiplier ranges from 1.1 for ESL students, to 1.7 for nonpublic special education contracts, to 5 for homebound and speech therapy students.<sup>74</sup> Classification for special education and bilingual students could be done by a third party or the state. The adjustment for most students would be small, but some students could receive a voucher worth five times the base amount to cover their expenses.

For example, for the 2010-2011 school year:

- Spending on basic services and general instruction for regular students averaged about \$4,217, whereas all spending on special education students averaged about \$11,565.
- There were 442,971 students enrolled in special education programs that cost about \$5.1 billion per year.
- Thus, at 60 percent of maintenance and operating costs, vouchers could be varied from \$5,000 to \$22,700 after adjusting for special classifications.

#### **Constitutionality of Vouchers.**

According to an analysis by Allan E. Parker of the Justice Foundation, the U.S. Supreme Court’s *Zelman v. Simmons-Harris* (2002) decision eliminated the establishment clause of the first amendment of the U.S. Constitution as a possible barrier to school choice programs.<sup>75</sup> The Court ruled that the Cleveland, Ohio, voucher program was constitutional because:

- It was religiously neutral. The voucher program aided a broad array of recipients, and neither promoted nor restricted voucher use at parochial schools.

- The voucher program did not influence a parent’s selection in any way to choose either religious or nonreligious schools.
- The voucher went directly to the parent to use at a school of their choice.

At the state level, in *Edgewood IV*, the Texas Supreme Court (1995) held that the Legislature could establish a system of school choice.

### **Using Tax Credits to Fund a Scholarship Program**

A tax credit program could be considered as either a supplement or alternative to government financing of private school tuition. The most extensive tax credit program is in Arizona, which implemented Private School Tuition Tax Credits in 1998. State income tax filers can receive a nonrefundable tax credit of up to \$500 for an individual filer and \$1,000 for joint filers against their state income tax liability for donations to nonprofit school tuition organizations. The state-approved tuition organizations then independently award scholarships to students to attend private schools. School tuition organizations are diverse and vary in size and goals but must give out 90 percent of revenues in scholarship awards. Donors cannot specify who receives their money, but some organizations allow donors to recommend scholarship recipients.

Donations through the Arizona program have expanded significantly, from \$2 million in 1998 to \$26 million in 2002 and \$50 million in 2009. There is no cap on the total amount of donations eligible for the credit. In 2009, 27,657 scholarships were awarded through the various school tuition organizations. The average scholarship is over \$1,600 per year, but there is a large variation in the size of the scholarships awarded by tuition groups. Despite other differences, 90 percent of



funding per student available to local public schools and/or plug the state's budget deficit. For example, calculations made for the Texas Taxpayer Savings Grants program show that if the projected number of students switch from public to private schools using a voucher equal to 60 percent of the state's average spending on management and operations, the funds available to the state or local public schools would increase by approximately \$473 per student, annually.<sup>81</sup>

**Benefits to Public School Students.** A voucher program would benefit public school students through improved school and teacher performance. The present public education system fails to provide teachers with the tools and freedom they need to do their jobs well.<sup>82</sup> Indeed, teachers in private schools report having much more authority over how and what they teach, and more support to do their job well.<sup>83</sup> Moreover, school choice would allow parents to choose schools that fit their requirements of quality of curriculum, religious values, quality of instruction, moral values, school climate and class size.<sup>84</sup>

School choice increases competition, which makes schools and students more productive. Greater productivity yields higher achievement, such as more students passing the Texas Assessment of Academic Skills and Texas Assessment of Knowledge and Skills standardized tests, and more students graduating and attending post-secondary education.<sup>85</sup>

Allowing greater choice in schools will also help ease the pressure for new public school buildings and personnel, therefore allowing students in public schools to benefit by having more resources allocated per student.<sup>86</sup> In addition, parents' freedom to choose among diverse offerings will free schools and teachers to specialize in what they do best.<sup>87</sup>

**Benefits to Public Schools.** Not only will public school students benefit from tuition vouchers, the schools themselves will prosper as well. When a student chooses to attend a private school, the expense to taxpayers of educating them will also drop, causing the funds per-pupil for public education to rise. Schools in a competitive environment cannot afford to waste money on bureaucracy and other elements that do not manifest in the classroom. Administrators will have a strong incentive to cut spending on bureaucracy and consultants in order to compete for students and the best teachers. According to education analyst Andrew Coulson, "Arizona public schools would have to hire roughly 25,000 more teachers and dismiss 21,210 non-teaching employees" to rival the private sector.<sup>88</sup> Assuming that any savings (net of the cost of vouchers for private school students) are allocated to the local public schools the former students would otherwise attend, local school districts will benefit.<sup>89</sup>

Moreover, specialization by school, rather than costly specialization within large schools, will make schools much more manageable, which can help reduce overall costs. Specialization can also save money by eliminating duplication of services.<sup>90</sup>

**Benefits to Public School Teachers.** Public school teachers will benefit by having more manageable classrooms and increased pay. Increased demand for teachers would raise public school teachers' pay by an average of \$2,173 to \$2,843, according to calculations based on the Texas Taxpayer Savings Grant program. In highly competitive areas, such as Houston, teacher pay could increase by as much as \$12,000 annually.<sup>91</sup> Since the resulting competition would yield higher incomes for master teachers, rivalry for successful and bright teachers would also cause teaching to become

a more desirable profession.<sup>92</sup>

Classroom achievements that please parents would increase enrollments and budgets, thereby raising teacher market value. Evidence that competition and choice improve working conditions for teachers comes from the experience of teachers in private schools.<sup>93</sup> With broad-based school choice expansion, more teachers would apply directly to the campuses where they want to work, thereby increasing teacher mobility and location choice and reducing teacher vulnerability to arbitrary or personal administrative decisions. By enabling teachers to find the students and parents who share their educational philosophy and need their special skills, school choice could make teaching a pleasure instead of a chore for many teachers.<sup>94</sup>

**Benefits to Taxpayers.** Net savings to the state from public school student switching could be approximately \$2 billion in the first two years of the program.<sup>95</sup> In fact, a Johns Hopkins University study found that seven of the 11 most prominent choice programs in existence between 1990 and 2004 helped save their states at least \$1 million. Those that did not save money — Utah's Carson Smith voucher program and the two-century-old "town tuitioning" programs in Maine and Vermont — were neutral in their financial impacts. The study also found that these same voucher programs helped save state governments \$22 million and local school districts \$422 million since their enactment.<sup>96</sup>

Indeed, there is no evidence that any of the various voucher and tax credit programs throughout the United States have caused additional costs to state and local governments. States and public school districts could in fact save money every time a public school student transfers to a private school. In Texas, for example:

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- Texas spent an average of \$8,714 per public school student during the 2010-2011 school year.<sup>97</sup>
- Reimbursing parents 60 percent of the public school expense for educating that child would leave 40 percent of the amount available to the state.

**Benefits to Cities and Counties.** School choice would lead to increased private economic development. For example, the Edgewood voucher program in San Antonio increased the desirability of living and investing in the area. An evaluation of the program's economic impact found it attracted significant migration into the district and additional business development; so much, in fact, that in several years of rapid growth in voucher use, public school district enrollment grew as well.<sup>98</sup> During the 10 years the Edgewood voucher program was operational, San Antonio saw a sharp rise in economic activity, with a boom in commercial real estate and a significant increase in commercial and industrial property values.<sup>99</sup>

Empowering parents to choose a schooling provider through increased choice will allow more efficient and effective producers to gain market share.<sup>100</sup> Since choice schools will also pay for the expense of building new schools that will house their students, local school districts will benefit from not having to necessarily pay for all of the new construction costs.

Parents' ability to supplement the voucher funding will further reduce overall costs for state and local governments, as the revenue gained by school entrepreneurs will help fund their expansion, and will enable them to be less dependent on voucher funds.<sup>101</sup>

**Benefit to Homeowners.** Higher property values would result from school choice. Better performing

schools raise the value of residential property relative to other parts of the city. Consider that although most homes in the exclusive Dallas enclave of Highland Park are inside the Highland Park Independent School District, part of Highland Park is in the Dallas Independent School District — a large, inner-urban school system. An informal study by Dallas attorney Martin Gibson compared Highland Park home prices in the Highland Park Independent School District to Highland Park home prices in the Dallas Independent School District and found that, all else equal, homes on the Highland Park Independent School District side of the street sold for 24 percent more than those on the Dallas Independent School District side. This implies that many Highland Park homeowners paid about \$72,000 just for the right to send their children to Highland Park schools.<sup>102</sup> The price of a single-family home in the Edgewood ISD increased \$6,500, on average, and the school district netted an additional \$15 million in property taxes and per-pupil payments from the state during the 10 years of the voucher program.<sup>103</sup>

**Benefits to the Community.** Genuine opportunity for parental choice from a diverse menu of schooling options will create some rivalry, and perhaps, eventually, even the full-blown competition that is a proven agent of efficiency and relentless improvement. If public schools must vie for a share of the education market, each school has to attain a choice worthiness level, probably by specializing in something that exploits its strengths, while also addressing the most critical schooling needs of their surrounding communities.<sup>104</sup>

**Benefits to Private School Students, Parents and Schools.** Smaller, more specialized schools will enhance the community feel of schools by enabling teachers,

school administrators and parents to play a greater, more personal role in the education of students.<sup>105</sup> Specialization and school choice can also enhance educationally beneficial, and legally mandated, ethnic and racial diversity.<sup>106</sup> In addition, parents will benefit from lower educational costs.

Transferring students will also increase the enrollment in private schools and generate more money for those schools.

## Conclusion

Over the years, providing families with a diverse menu of public and private school options will significantly reduce system-wide problems such as falling productivity, discipline issues and high drop-out rates. A broad school choice program in Texas will provide families with greater opportunities and better alternatives. An education voucher program for all Texas K-12 students will not reduce current funding per public school student and there will be no added net cost to taxpayers. The NCPA study projects that a voucher worth \$6,667 would initiate a 450,000 public school student shift to private schools, creating over \$1.87 billion in savings over two years. A 60 percent uptake by private school students would yield approximately \$580 million in savings in two years. Some of the benefits from the implementation of the program include increased teacher pay, higher public school performance and standards, more savings for schools and taxpayers, greater school choice for families and increased competition will give public schools an incentive to improve. A properly implemented school voucher program gives families more control over their educational spending, and enables them to spend that money on the tuition of a school that is the best for their children.

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*The NCPA is a nonprofit, nonpartisan organization established in 1983. Its aim is to examine public policies in areas that have a significant impact on the lives of all Americans — retirement, health care, education, taxes, the economy, the environment — and to propose innovative, market-driven solutions. The NCPA seeks to unleash the power of ideas for positive change by identifying, encouraging and aggressively marketing the best scholarly research.*

### Health Care Policy.

The NCPA is probably best known for developing the concept of Health Savings Accounts (HSAs), previously known as Medical Savings Accounts (MSAs). NCPA President John C. Goodman is widely acknowledged (*Wall Street Journal*, WebMD and the *National Journal*) as the “Father of HSAs.” NCPA research, public education and briefings for members of Congress and the White House staff helped lead Congress to approve a pilot MSA program for small businesses and the self-employed in 1996 and to vote in 1997 to allow Medicare beneficiaries to have MSAs. In 2003, as part of Medicare reform, Congress and the President made HSAs available to all nonseniors, potentially revolutionizing the entire health care industry. HSAs now are potentially available to 250 million nonelderly Americans.

The NCPA outlined the concept of using federal tax credits to encourage private health insurance and helped formulate bipartisan proposals in both the Senate and the House. The NCPA and BlueCross BlueShield of Texas developed a plan to use money that federal, state and local governments now spend on indigent health care to help the poor purchase health insurance. The SPN Medicaid Exchange, an initiative of the NCPA for the State Policy Network, is identifying and sharing the best ideas for health care reform with researchers and policymakers in every state.

**NCPA President  
John C. Goodman is called  
the “Father of HSAs” by  
*The Wall Street Journal*, WebMD  
and the *National Journal*.**

### Taxes & Economic Growth.

The NCPA helped shape the pro-growth approach to tax policy during the 1990s. A package of tax cuts designed by the NCPA and the U.S. Chamber of Commerce in 1991 became the core of the Contract with America in 1994. Three of the five proposals (capital gains tax cut, Roth IRA and eliminating the Social Security earnings penalty) became law. A fourth proposal — rolling back the tax on Social Security benefits — passed the House of Representatives in summer 2002. The NCPA’s proposal for an across-the-board tax cut became the centerpiece of President Bush’s tax cut proposals.

NCPA research demonstrates the benefits of shifting the tax burden on work and productive investment to consumption. An NCPA study by Boston University economist Laurence Kotlikoff analyzed three versions of a consumption tax: a flat tax, a value-added tax and a national sales tax. Based on this work, Dr. Goodman wrote a full-page editorial for *Forbes* (“A Kinder, Gentler Flat Tax”) advocating a version of the flat tax that is both progressive and fair.

A major NCPA study, “Wealth, Inheritance and the Estate Tax,” completely undermines the claim by proponents of the estate tax that it prevents the concentration of wealth in the hands of financial dynasties. Senate Majority Leader Bill Frist (R-TN) and Senator Jon Kyl (R-AZ) distributed a letter to their colleagues about the study. The NCPA recently won the Templeton Freedom Award for its study and report on Free Market Solutions. The report outlines an approach called Enterprise Programs that creates job opportunities for those who face the greatest challenges to employment.

### Retirement Reform.

With a grant from the NCPA, economists at Texas A&M University developed a model to evaluate the future of Social Security and Medicare, working under the direction of Thomas R. Saving, who for years was one of two private-sector trustees of Social Security and Medicare.

The NCPA study, “Ten Steps to Baby Boomer Retirement,” shows that as 77 million baby boomers begin to retire, the nation’s institutions are totally unprepared. Promises made under Social Security, Medicare and Medicaid are inadequately funded. State and local institutions are not doing better — millions of government workers are discovering that their pensions are under-funded and local governments are retrenching on post-retirement health care promises.

### Pension Reform.

Pension reforms signed into law include ideas to improve 401(k)s developed and proposed by the NCPA and the Brookings Institution. Among the NCPA/Brookings 401(k) reforms are automatic enrollment of employees into companies’ 401(k) plans, automatic contribution rate increases so that workers’ contributions grow with their wages, and better default investment options for workers who do not make an investment choice.

The NCPA's online Social Security calculator allows visitors to discover their expected taxes and benefits and how much they would have accumulated had their taxes been invested privately.

### Environment & Energy.

The NCPA's E-Team is one of the largest collections of energy and environmental policy experts and scientists who believe that sound science, economic prosperity and protecting the environment are compatible. The team seeks to correct misinformation and promote sensible solutions to energy and environment problems. A pathbreaking 2001 NCPA study showed that the costs of the Kyoto agreement to reduce carbon emissions in developed countries would far exceed any benefits.

### Educating the next generation.

The NCPA's Debate Central is the most comprehensive online site for free information for 400,000 U.S. high school debaters. In 2006, the site drew more than one million hits per month. Debate Central received the prestigious Templeton Freedom Prize for Student Outreach.

### Promoting Ideas.

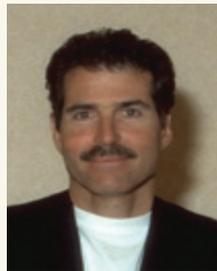
NCPA studies, ideas and experts are quoted frequently in news stories nationwide. Columns written by NCPA scholars appear regularly in national publications such as the *Wall Street Journal*, the *Washington Times*, *USA Today* and many other major-market daily newspapers, as well as on radio talk shows, on television public affairs programs, and in public policy newsletters. According to media figures from *BurrellesLuce*, more than 900,000 people daily read or hear about NCPA ideas and activities somewhere in the United States.

## What Others Say About the NCPA



*"The NCPA generates more analysis per dollar than any think tank in the country. It does an amazingly good job of going out and finding the right things and talking about them in intelligent ways."*

**Newt Gingrich**, former Speaker of the U.S. House of Representatives



*"We know what works. It's what the NCPA talks about: limited government, economic freedom; things like Health Savings Accounts. These things work, allowing people choices. We've seen how this created America."*

**John Stossel**,  
host of "Stossel," Fox Business Network



*"I don't know of any organization in America that produces better ideas with less money than the NCPA."*

**Phil Gramm**,  
former U.S. Senator



*"Thank you . . . for advocating such radical causes as balanced budgets, limited government and tax reform, and to be able to try and bring power back to the people."*

**Tommy Thompson**,  
former Secretary of Health and Human Services