OUR CHALLENGE TO YOU

Our research adheres to the highest standards of scientific rigor. We know that one reason the school choice movement has achieved such great success is because the empirical evidence really does show that school choice works. More and more people are dropping their opposition to school choice as they become familiar with the large body of high-quality scientific studies that supports it. Having racked up a steady record of success through good science, why would we sabotage our credibility with junk science?

This is our answer to those who say we can't produce credible research because we aren't neutral about school choice. Some people think that good science can only be produced by researchers who have no opinions about the things they study. Like robots, these neutral researchers are supposed to carry out their analyses without actually thinking or caring about the subjects they study.

But what's the point of doing science in the first place if we're never allowed to come to any conclusions? Why would we want to stay neutral when some policies are solidly proven to work, and others are proven to fail?

That's why it's foolish to dismiss all the studies showing that school choice works on grounds that they were conducted by researchers who think that school choice works. If we take that approach, we would have to dismiss all the studies showing that smoking causes cancer, because all of them were conducted by researchers who think that smoking causes cancer. We would end up rejecting all science across the board.

The sensible approach is to accept studies that follow sound scientific methods, and reject those that don't. Science produces reliable empirical information, not because scientists are devoid of opinions and motives, but because the rigorous procedural rules of science prevent the researchers' opinions and motives from determining their results. If research adheres to scientific standards, its results can be relied upon no matter who conducted it. If not, then the biases of the researcher do become relevant, because lack of scientific rigor opens the door for those biases to affect the results.

So if you're skeptical about our research on school choice, this is our challenge to you: prove us wrong. Judge our work by scientific standards and see how it measures up. If you can find anything in our work that doesn't follow sound empirical methods, by all means say so. We welcome any and all scientific critique of our work. But if you can't find anything scientifically wrong with it, don't complain that our findings can't be true just because we're not neutral. That may make a good sound bite, but what lurks behind it is a flat rejection of science.

Utah Public Education Funding: The Fiscal Impact of School Choice

Prepared By:
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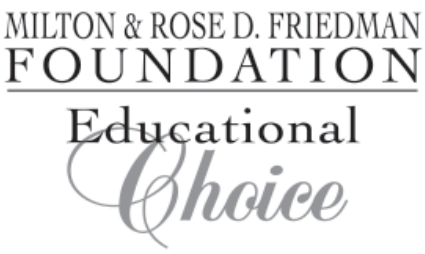

About the Author

Dr. Susan Aud is a Senior Fellow with the Milton and Rose D. Friedman Foundation. She also teaches Quantitative Methods in Political Science Research at the Paul H. Nitze School for Advanced International Studies at Johns Hopkins University, and Statistical Methods in Policy Analysis at George Mason University. While her research initially targeted the economic impact of changes to the market structure of public education, in recent years Dr. Aud has focused her research on the specifics of public education finance formulas at both the state and federal level.

About the Milton and Rose D. Friedman Foundation

The Milton and Rose D. Friedman Foundation, dubbed "the nation's leading voucher advocates" by the Wall Street Journal, is a non-profit organization established in 1996. The origins of the foundation lie in the Friedmans' long-standing concern about the serious deficiencies in America's elementary and secondary public schools. The best way to improve the quality of education, they believe, is to enable all parents with the freedom to choose the schools that their children attend. The Friedman Foundation builds upon this vision, clarifies its meaning to the public and amplifies the national call for true education reform through school choice.

About the Parents for Choice in Education Foundation

The Parents for Choice in Education (PCE) Foundation is dedicated to the improvement of education in Utah through meaningful parental choice. We believe that publicly supported education is vital to the strength of our state and that real options should be made accessible and available to everyone regardless of income or geography. We believe in parents and their ability to make the best education choices for their children whether through public, charter, or private schools. We envision and work to achieve a vibrant education system, offered through diverse, competitive providers focusing on the child, not the system.

About the Utah Taxpayers Association

The Utah Taxpayers Association advocates for lower taxes, sound tax policy, efficient use of tax dollars, and economic growth. Founded in 1922, the association promotes the interests of Utah's taxpayers through research and analysis and by working with policy makers to formulate sound public policy.

Acknowledgements

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Executive Summary

This study examines Utah's funding system for public education and provides an analysis of the fiscal impact of allowing parents to use a portion of their child's state education funding to attend a school of their choice, public or private. Like many states, Utah is facing pressure to improve its system of public education funding. The state's rapidly growing number of students and changing demographics have created the need for more teachers and schools. A school choice program would permit Utah to accommodate the growth of its educational needs while generating fiscal savings to both the state and local school districts.

The proposed voucher program analyzed here results in a fiscal savings to the state, because it would cost less to give students vouchers than to educate them in the public school system. A voucher program would also result in a large revenue windfall to local districts, which would retain much of the revenue associated with voucher students even though the students themselves will have left the public system.

Key findings include:

- Utah public schools receive $6,325 in revenue per student, including $3,508 from the state, $2,220 from local sources, and $597 from federal sources.
- A universal voucher program that allowed Utah parents to use a portion of their state education funding to attend schools of their choice, public or private, would reduce the need for more teachers and classroom space in the public school system, or, alternatively, help the state reduce teacher-student ratios.
- If 2 percent of public school parents participated in the voucher program — a participation rate well below the 5 percent rate achieved by Ohio's new voucher program in its first year of operation in 2006 — it would remove about 9,662 students from the public school system in the first year.
- Such a universal voucher program would result in a net fiscal savings of about $700,000 in the first year, and the savings would grow as the program grew.
- Because not all school revenue varies with enrollment levels, local school districts would retain about $2,674 in revenue for each student who left with a voucher — a financial windfall that would total about $26 million per year.

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Introduction

Utah faces a daunting challenge as its education funding system enters the 21st century. The state's student population is growing at a very high rate — even higher than had recently been expected. Utah needs to find a way to hire more teachers, build more schools and accommodate a much larger student population. However, the state's school funding formulas, in place for decades and last revised in 1989, were not designed to meet 21st century needs, a situation that has created pressure for reform.

This study details the system of public education funding in Utah, known as the Minimum School Program, giving particular attention to how district funding is affected by student enrollments. It also briefly discusses total and per-student funding levels for public schools in Utah.

It also considers the impact of a potential change to Utah's Minimum School Program, allowing parents to spend a portion their child's public education dollars at a school of their choice, public or private. This portability of funding would create more transparency and accountability as well as allow parents to determine the optimum learning environment for their child. This study evaluates the fiscal impact of this proposed change both in terms of its effect on the state's total obligation for funding education and its effect on local districts.

How Public Education Funding Works in Utah

Demographically, Utah is the youngest state in the nation, with the highest percent of population under the age of 18 of any state (32.2 percent in 2000).[1] As a result, each Utah adult has to support the public education of eight more school children than the national average.[2]

Utah faces a serious challenge regarding its funding of public education: its student population is growing much faster than anticipated. Utah's student population had been expected to grow by about 10,000 students a year between 2008 and 2016, but growth in 2006 was already higher than that at 14,700.[3] This rapidly expanding growth means a constant need to build new school facilities and hire more teachers. Now Utah must find a way to deal with the growing cost of educating more students each year while providing parents with the best educational options available.

The Utah Minimum School Program

Utah's state funding system for public schools, now known as the Minimum School Program, dates to the 1920s, just after the state consolidated its 224 districts into 40.[4] The plan was not formalized, however, until 1948, when the Uniform School Fund, comprised of earmarked state income tax revenues, was established, as was a system of weighted distribution units and uniform tax rates, including the local tax known as the "voted leeway." An equalization effort in 1973 led to the creation of the Weighted Pupil Unit (WPU) that is still in place today. Budgetary and formula changes, including changes to funding for capital costs, were last implemented in 1989. Thus, the current system has been in place for nearly two decades.

The WPU, the basis for much of the formula portion of the Minimum School Program, is intended to ensure that every student receives a minimum level of state support. A district gets 0.55 WPU per student for kindergarten students, and 1 WPU per student for all other students. Other programs, such as special education or applied technology (vocational education), generate additional WPUs for a district.

Each legislative year the dollar value to be provided to school districts for each WPU is set, as well as the Basic Tax Rate that must be applied to a district's assessed property valuation. For the 2005-06 school year, each WPU was valued at $2,280 and the Basic Tax Rate was 0.001720. The Basic Tax Rate is applied to the assessed property valuation in each district to raise funds for schools. The state then makes up the difference between what is required by the Minimum School Program and what the district can raise through the Basic Tax Rate. In addition to these funds, school districts may choose to levy up to 12 additional property taxes to raise extra money.

The Minimum School Program contains formulas for directing additional funds to districts that are very rural and have what are called Necessarily Existent Small Schools. These areas have low population densities, and districts must therefore maintain some schools that are much smaller than normal. Such schools have higher transportation costs and are unable to create economies of scale, so these districts receive additional funding. Another component of the Minimum School Program compensates school districts for increases in teacher salaries that occur when teachers acquire additional credentials that entitle them to extra pay, and still another compensates districts for administrative costs. Funding under both these formulas varies with the number of WPUs in the district.

The Minimum School Program also contains Restricted Basic School Programs, which are mostly for special education and vocational education (known as "applied technology"). Most students who qualify for special education generate one additional WPU for their districts (that is, the student is counted as 2 WPUs rather than 1 WPU).

Funding for students with more severe disabilities, who require more than 180 minutes of special education per day or who require year-round care, is provided through separate formulas (called the "self contained" and "extended year" formulas). Special needs preschool children are counted as 1.46 WPUs.

A final Restricted Basic Program, for class-size reduction, is funded on a per-WPU basis for students in kindergarten through eighth grade, although the funds are predominantly targeted at reducing teacher-student ratios in kindergarten through third grade.

Finally, there are several categorical funding components, known as Related-to-Basic programs, in the Minimum School Program. Each has its own funding formula or mechanism. They are:

Social Security and retirement for teachers
Pupil transportation
Quality Teaching Block Grant
Local Discretionary Block Grant
Interventions for Student Success Block Grant
Highly Impacted Schools
At-Risk: Regular Programs
At-Risk: Homeless and Minority
At-Risk: MESA
At-Risk: Gang Prevention
At-Risk: Youth in Custody
Adult Education
Accelerated Learning – Gifted and Talented
Accelerated Learning – AP
Accelerated Learning – Concurrent Enrollment
Electronic High School
School Land Trust
Charter School Local Replacement
Reading Achievement
Job Enhancement Math-Science

Over time, the Minimum School Program has evolved away from being a foundation program, in which funding was based predominantly on the number of students. More than half of all Utah school spending does not vary with the number of students in a district. While this is mainly due to the large role played by local property tax revenues, the growth of the categorical spending components has also played a role. Not only does this make the funding system more complex and difficult to understand, but it makes it less flexible as student enrollment changes and less student-centered.

Utah Public Education Revenue

The 40 Utah school districts received just over $3 billion in revenue to support public education in the 2005 fiscal year (FY05). Of this amount, the state provided about $1.7 billion, the federal government provided $300 million and local districts provided $1 billion.[5] As Utah's public school enrollment that year was 483,605 students, this translates to a statewide revenue figure of $6,325 per student.

As Table 1 indicates, nearly 80 percent of revenue, or $2.4 billion, went to the Utah school system's General Fund financial category, which is used for the basic operation and maintenance of the schools. Of the remaining $650 million, $200 million covered interest and principal payments on outstanding bonds, $300 million was allocated to build new schools and $150 million went into the Food Service Fund.

Table 1

UTAH PUBLIC EDUCATION REVENUE - FISCAL YEAR 2005

BUDGET CATEGORY	GENERAL FUND	DEBT SERVICE	CAPITAL PROJECTS	BUILDING RESERVE	FOOD SERVICE	TOTAL
REVENUE FROM LOCAL SOURCES	**$549,170,504**	**$206,014,999**	**$261,782,820**	**$1,149,566**	**$55,341,810**	**$1,073,459,699**
STATE SOURCES						
BASIC SCHOOL PROGRAM						
Regular School Program K-12	$868,208,043					$868,208,043
Necessary Existent Small Schools	$16,437,612					$16,437,612
Professional Staff	$92,452,408					$92,452,408
Administrative Costs	$3,521,719					$3,521,719
Special Education — Add-On	$114,414,308					$114,414,308
Special Education — Self-Contained	$28,033,649					$28,033,649
Extended Year Program - Severely Disabled	$756,076					$756,076
Special Education — State Programs	$4,082,180					$4,082,180
Applied Technology — Add-On	$49,026,512					$49,026,512
Applied Technology — Set-Aside	$1,848,725					$1,848,725
Class Size Reduction (State Funds)	$65,983,843					$65,983,843
BASIC SCHOOL PROGRAM TOTAL	**$1,244,765,075**					**$1,244,765,075**
CATEGORICAL PROGRAMS						
Gifted and Talented	$1,786,056					$1,786,056
Advanced Placement	$1,391,150					$1,391,150
Concurrent Enrollment	$5,057,066					$5,057,066
At-Risk — Regular Program	$5,573,414					$5,573,414
At-Risk — Homeless and Minority	$1,271,264					$1,271,264
At-Risk — MESA	$420,948					$420,948
At-Risk — Gang Prevention	$1,295,899					$1,295,899
At-Risk — Youth-in-Custody	$16,508,046					$16,508,046
Quality Teaching Block Grant	$57,826,780					$57,826,780
Local Discretionary Block Grant	$21,544,164					$21,544,164
Interventions for Student Success Block Grant	$15,556,018					$15,556,018
Social Security and Retirement	$257,265,574					$257,265,574
Pupil Transportation	$55,185,079					$55,185,079
Out-of-State Tuition	$122,282					$122,282
Highly Impacted Schools	$4,797,938					$4,797,938
Guarantee on Transportation Levy	$500,000					$500,000
School Land Trust Program	$8,980,504					$8,980,504
Electronic High School	$0					$0
Voted Leeway	$44,110,171					$44,110,171
Board Leeway	$7,682,675					$7,682,675
K-3 Reading Program	$9,894,125					$9,894,125
Job Enhancement	$13,095					$13,095
Charter School Local Replacement	$0					$0
CATEGORICAL PROGRAMS TOTAL	**$516,782,218**					**$516,782,218**
TOTAL MINIMUM SCHOOL PROGRAM REVENUE	**$1,761,547,293**					**$1,761,547,293**
Less Basic Local Levy[6]	$-151,856,045					$-151,856,045
STATE SUPPORT AMOUNT	**$1,609,691,248**					**$1,609,691,248**
Capital Outlay Foundation			$27,018,977			$27,018,977
Other State Revenues			$2,400,889			$2,400,889
Other Revenues From State Sources (Non-MSP)	$7,188,623					$7,188,623
Driver Education (Behind-the-Wheel)	$3,887,968					$3,887,968
Miscellaneous State Revenues					$698,872	$698,872
School Lunch					$16,878,008	$16,878,008
Charter School Startup	$624,458					$624,458
Supplementals / Other Bills	$24,251,287					$24,251,287
Revenues From Other State Agencies	$6,411,093					$6,411,093
TOTAL REVENUE FROM STATE SOURCES	**$1,652,054,677**	**$269,923**	**$29,419,866**		**$17,576,880**	**$1,699,321,346**
REVENUE FROM FEDERAL SOURCES	**$212,382,840**		**$2,362,395**		**$73,949,626**	**$288,694,861**
TOTAL REVENUE	**$2,413,608,021**	**$206,284,922**	**$293,565,081**	**$1,149,566**	**$146,868,316**	**$3,061,475,906**

NOTE: In all tables throughout this study, figures may not sum due to rounding.

Of the $1.76 billion in revenue generated by the Minimum School Program formulas, the state provided $1.6 billion, with local districts making up the balance through the Basic Tax Rate. Those $150 million in local contributions are less than a third of the total local financing for the General Fund; the rest is generated by other property taxes.[7]

"Regular School Funding" for K-12 accounts for slightly more than half of the Minimum School Program, or $868 million. The rest is in categorical programs, the funding of which is determined by formulas that each involve WPUs in some way. However, the appropriation is determined by the legislature; only the relative distribution of funds across 40 districts is affected by WPUs. Presumably, the legislature accounts for changes in total enrollment when determining the amount to allocate to each program.

In FY05, local revenue for the school system's General Fund category was $549 million, an amount generated through various property tax levies. Property taxes have long been a source of funding for education, as they are believed to be relatively stable sources of revenue that are not subject to swings in the economy in the way that income or sales taxes are. However, this also means that, short of changing the tax rates regularly, it is difficult to adjust funding levels to changes in enrollment. Thus, when enrollment grows or declines, the local revenue will likely remain unchanged.

Local districts also generate financing for school buildings and debt, generally by issuing bonds, which must be approved by voters, and by levying sufficient property taxes to retire them. The state, however, contributed about 10 percent of funding for capital in FY05.

Finally, Utah also receives federal revenue for public education – $289 million in FY05. About 25 percent of that, or $74 million, went toward the federal school lunch program. The federal government also provides funds for special needs students through the Individuals with Disabilities in Education Act, and for low-income students through Title I, Part A, of the No Child Left Behind Act. Ideally, the Title I funds, $65 million in FY05, are associated with enrollment levels of low-income students and follow the students as they move between schools. In reality, however, the federal funding formulas for the four grants are complex and various provisions, such as "hold harmless," render their association with the number of low-income students in a given district tenuous at best. As a result, the federal revenue for Utah public education, like the local revenue, is unlikely to be affected by changes in enrollment.

Table 2

UTAH REVENUE SOURCES — FISCAL YEAR 2005

	REVENUE PER STUDENT
REVENUE FROM LOCAL SOURCES	$2,220
REVENUE FROM STATE SOURCES	$3,508
REVENUE FROM FEDERAL SOURCES	$597
TOTAL REVENUE	**$6,325**

Of the $6,325 in revenue generated for each student, 56 percent, on average, comes from the state, 35 percent form local sources and 9 percent from federal sources. This distribution of revenue sources is roughly in line with those of most states.

Most School Revenue Varies with Enrollment in the Short Term

An analysis of revenue per student shows that some revenues are sensitive to enrollment changes in the short term, while others are not. These differences are highlighted in Table 3.

Local revenue is determined by property values and tax rates, and thus in the short term it does not change with enrollment. Similarly, the only portions of federal funding that vary with enrollment in the short term are the ones for the reimbursement of lunch, breakfast and milk programs. In the long term, changes in enrollment could affect these spending areas – for example, the need for local spending on capital and debt funding could be raised or lowered in the long term by changes in enrollment. In the short term, however, these spending areas are not sensitive to enrollment changes.

Table 3

EFFECTS OF ENROLLMENT CHANGES ON PER STUDENT REVENUE

BUDGET CATEGORY	REVENUE PER STUDENT	VARIES WITH ENROLLMENT (IN SHORT TERM)	DOES NOT VARY WITH ENROLLMENT (IN SHORT TERM)
REVENUE FROM LOCAL SOURCES	$1,906		$1,906
REVENUE FROM STATE SOURCES			
BASIC SCHOOL PROGRAM			
Regular School Program K-12	$1,795	$1,795	
Necessary Existent Small Schools	$34		$34
Professional Staff	$191	$191	
Administrative Costs	$7	$7	
Special Education — Add-On	$237	$237	
Special Education — Self-Contained	$58	$58	
Extended Year Program - Severely Disabled	$2		$2
Special Education — State Programs	$8		$8
Applied Technology — Add-On	$101	$101	
Applied Technology — Set-Aside	$4	$4	
Class Size Reduction (State Funds)	$136	$136	
BASIC SCHOOL PROGRAM TOTAL	$2,579	$2,530	$49
CATEGORICAL PROGRAMS			
Gifted and Talented	$4	$4	
Advanced Placement	$3	$3	
Concurrent Enrollment	$10	$10	
At-Risk — Regular Program	$12		$12
At-Risk — Homeless and Minority	$3		$3
At-Risk — MESA	$1		$1
At-Risk — Gang Prevention	$3		$3
At-Risk — Youth-in-Custody	$34		$34
Quality Teaching Block Grant	$120	$120	
Local Discretionary Block Grant	$45	$45	
Interventions for Student Success Block Grant	$32	$32	
Social Security and Retirement	$532	$532	
Pupil Transportation	$114	$114	
Out-of-State Tuition	$0		$0
Highly Impacted Schools	$10		$10
Guarantee on Transportation Levy	$1	$1	
School Land Trust Program	$19		$19
Electronic High School	$0		$0
Voted Leeway	$91		$91
Board Leeway	$16		$16
K-3 Reading Program	$20	$20	
Job Enhancement	$0		$0
Charter School Local Replacement	$0		$0
CATEGORICAL PROGRAMS TOTAL	$1,070	$881	$189
TOTAL MINIMUM SCHOOL PROGRAM REVENUE	$3,647	$3,411	$237
Other State Revenues	$5		$5
Other Revenue from State Sources (non-MSP)	$175	$180	$66
TOTAL REVENUE FROM STATE SOURCES	$3,822	$3,519	$303
REVENUE FROM FEDERAL SOURCES	$597	$132	$465
TOTAL REVENUE	$6,325	$3,651	$2,674

In terms of state revenue, some components of the Minimum School Program are based on WPUs and some are not. Table 3 draws some distinctions between these categories. It is assumed that the characteristics of future students will be similar to the current student population. For example, special education funding and vocational education funding are classified as variable, as they are based on student counts in these categories, which have historically varied from year to year. The number of more severe special needs students, however, is assumed to be much less subject to change, as has been the case in past years. Similarly, the funding for Necessarily Existent Small Schools is not assumed to change with enrollment. While long-term changes in enrollment may affect the amount of spending needed in these categories, such changes will not cause much variation in the short term. The remainder of the categories that are not expected to change with enrollment, such as the at-risk block grants, are categories where funding is not based on WPUs.

Table 3 indicates that when a student enters a district, total district revenue will go up $3,651 on average. Conversely, when a student leaves a district, the total per-student funding of $6,325 is reduced by only $3,651, while the district retains the other $2,674. Again, it should be noted that these are only the short-term changes in revenue caused by changes in enrollment. In the long run, all revenue is at least potentially variable with enrollment.

The Fiscal Impact of Offering Utah Parents a Choice

In a state with growing enrollment, such as Utah, it can be difficult to accommodate the additional students who register each year. Ultimately, more students mean that teachers must be hired and buildings must be built. One alternative to such expansion would be to allow parents the choice as to where their child will attend school and where education dollars earmarked for their child are spent. This would result in the private school system absorbing some of the enrollment growth while offering parents more control over their child's educational needs.

People are often worried that school choice will take funding out of the public education system. However, most school choice programs do not redirect all of the funding associated with each student who uses the program. Instead, when a student uses a voucher, typically only some of the public school funding associated with that student is used to fund the voucher, while the remainder stays in the public school system. While the public schools do lose part of the money associated with the student, they also lose the whole student, so on a per-student basis school choice actually leaves the public school system with a better, not worse, fiscal situation. In Milwaukee's well-known voucher program, for example, only the state portion of student funding goes to the voucher. (There are a few school choice programs that redirect all, or substantially all, of the funding associated with each student.)

Utah could give parents a choice by allowing them to use school vouchers to take the portion of their child's public education spending that varies with enrollment in the short term ($3,651) and use it at the public or private school that is best for their child. The child's school district would retain the share of funding ($2,674) that does not vary with enrollment in the short term. Under such a plan, the fiscal effect on the school district from each child exercising school choice would be identical to the fiscal effect of children who leave the district for any other reason, such as a family move. Districts handle changes arising from student mobility all the time, so there is no reason they shouldn't be able to handle the exact same changes arising from a school choice program.

Such a program would be fiscally beneficial for both the state and local school districts. As long as the average voucher amount was less than $3,651, every child using a voucher would cost the state less money than if he were in the school system. At the same time, districts would continue to receive the remaining $2,674 that does not vary with enrollment in the short term. These retained revenues would then be spread over fewer children, putting districts in a better financial position. There should be little concern over districts' need to adjust their expenses when students leave, since districts currently adjust their expenses as enrollments change from year to year for other reasons.

However, if such concerns are expressed and there is a need to alleviate them, the state could return its savings from vouchers to public school districts as a compensation measure.

All children equally deserve the best education they can get at a school of their parents' choice. However, for various reasons, it is likely that a voucher system would have to be means-tested, giving parents a decreasing amount of money as the parents' income increases. Therefore, we will consider the impact of a program in which the lowest-income parents – those whose children qualify for free or reduced-price lunch, meaning that their incomes are below 185 percent of the federal poverty level – would receive a voucher of $3,500 a year for each child (for a family of four, income could not exceed $34,873 for FY05). Adopting the same system the state uses to fund kindergartners in public schools, we will consider a program in which kindergartners would receive 55 percent of $3,500, or $1,925. The voucher amounts would then decline in increments of $250 for parents with incomes between 185 percent and 275 percent of the federal poverty level ($34,873 to $95,901 for a family of four). Above this level, parents would qualify for a voucher of only $500 per child per year.

Another political limitation we can expect to be imposed on a voucher program is the exclusion of some students who already attend private schools. We will consider a program in which these students qualify for vouchers only if their incomes are below 185 percent of the federal poverty level.

The first step to determining the fiscal impact of such a program is to assess the cost for students who qualify for the program and already attend private school. As these students are not covered by the Minimum School Program, they would represent a net cost to the state. It is difficult to determine how many such students would qualify because we need data on the family incomes of private school students. These data are less readily available because federal rules make it much harder for private schools to participate in Title I poverty programs than public schools. However, the 2000 Census and the 2004 American Community Survey, which is conducted as an interim follow-up to the decennial census, asked respondents both their income level and whether their children attend public or private schools. The decennial census indicates that 19 percent of Utah respondents with children in private schools were living at or below 185 percent of the poverty level; the community survey put the number at 21 percent. The similarity of these two databases makes it reasonable to assume that about 20 percent of Utah private school students would qualify for the voucher program.

In FY06, 12,170 Utah students in grades 1-12 attended private schools. We therefore estimate that 2,434 of these would qualify for vouchers worth $3,500, for a total cost of about $8.5 million if all eligible students choose to participate and use the full voucher amount. In addition, about 300 of Utah's 1,500 private school kindergartners would qualify for vouchers of $1,925, for a total cost of $578,655. Thus, current private school students would cost Utah just over $9 million if they all participated and used the maximum voucher amount.

The second step in determining the fiscal impact of this proposed voucher program is to calculate the impact of students who choose to switch from a public school to a private school when a voucher becomes available to them. We begin by estimating how many students might make such a choice. Existing capacity in the private school system has been estimated to be about 5,600 seats.[8] However, experience with other school choice policies (such as existing voucher programs, as well as the provision of the No Child Left Behind Act that allows students in failing schools to receive private tutoring at public expense) indicates that where choice is made available, supply rapidly grows to meet demand. Voucher programs in particular have proven their ability to prompt expanded school capacity much faster than charter schools and other public school choice programs.

The most recent voucher program to begin operations is the Educational Choice program in Ohio. In 2006, the program's first year, about 5 percent of eligible students applied to participate.[9] However, to keep our analysis conservative,

we assume that only about 2 percent of current public school enrollment, or 9,662 students, would take advantage of a new voucher program in Utah during its first year.

The next issue is to determine how these students would be distributed among the income categories. Since we have no empirical basis to assume that voucher users would be concentrated in any one income group, we assume that they would be distributed in the same percentages as all households of Utah. We use data from the 2000 U.S. Census to determine the distribution of Utah families across income categories. Column 2 of Table 4 contains these distribution percentages. Applying these percentages to the total number of students expected to use the voucher program results in an estimated number of students per income category.We distributed students evenly across the four highest income categories because Census data do not provide disaggregated figures for families in those categories. If these estimates are on target, the average voucher amount for FY06, including previous private school students as well as transferring public school students, would be $2,731.

Under this scenario, Utah would need to pay parents a total of about $26 million for vouchers. However, these students would reduce public school spending costs by the variable portion of their Minimum School Program funding, $3,651 per student. Thus these students would also save a total of over $35 million.

The net fiscal impact of public school students using vouchers would thus be a savings of about $9.8 million per year. Also, school districts will keep $2,674 in revenue for every voucher student. So if 9,662 public school students participate in the voucher program, districts will have additional revenue of almost $26 million each year that they can spend on their remaining students.

Table 4

FISCAL IMPACT OF THE PROPOSED UTAH VOUCHER PROGRAM

Income As Percent Of Federal Poverty Level	Percent Of Participating Households	Estimated Number Of Voucher Students	Voucher Amount	Total Voucher Cost	Variable Revenue Per Student	Savings To The State	Net Fiscal Impact To The State	Fixed Revenue Per Student	Total Revenue Remaining In The School Districts
2% - 185%	26.2%	2,534	$3,500	$8,869,316	$3,651	$9,251,963	$382,648	$2,674	$6,776,157
185% - 249%	17.1%	1,654	$3,250	$5,375,270	$3,651	$6,038,495	$663,226	$2,674	$4,422,606
250% - 299%	11.5%	1,112	$3,000	$3,336,875	$3,651	$4,060,976	$724,102	$2,674	$2,974,267
300% - 349%	10.0%	967	$2,750	$2,659,828	$3,651	$3,531,284	$871,456	$2,674	$2,586,320
350% - 399%	7.9%	764	$2,500	$1,910,240	$3,651	$2,789,714	$879,474	$2,674	$2,043,192
400% - 449%	6.8%	658	$2,250	$1,479,831	$3,651	$2,401,273	$921,442	$2,674	$1,758,697
450% - 499%	6.8%	658	$1,500	$986,554	$3,651	$2,401,273	$1,414,719	$2,674	$1,758,697
500% - 549%	6.8%	658	$750	$493,277	$3,651	$2,401,273	$1,907,996	$2,674	$1,758,697
More than 550%	6.8%	658	$500	$328,851	$3,651	$2,401,273	$2,072,422	$2,674	$1,758,697
TOTAL		**9,662**		**$25,440,041**		**$35,277,524**	**$9,837,483**		**$25,837,332**

The total fiscal impact of the program, including all eligible students, would be a net savings of about $700,000 in the first year, with a windfall to school districts of $26 million. These benefits represent the removal of 9,662 students from the public school system, reducing the need for more teachers and classroom space, or, alternatively, lowering teacher-student ratios. As the program grew in subsequent years, these fiscal benefits would only increase, potentially saving many millions of dollars.

Conclusion

The positive fiscal impact of school choice should be fairly obvious. Participating parents receive only a portion of total student funding, and the public school system benefits by retaining a portion of student funding even though it no longer bears the expense of educating the child. Further, private schools can be a viable solution for absorbing growing enrollment when the public school system does not have the capacity. A school voucher program such as the one outlined in this study would allow Utah to educate some of its growing student population at an average cost of $2,731 per student, rather than the $6,325 it currently spends per student in public schools.

Endnotes

[1] The median age of Utah residents was 27 in the 2000 U.S. Census, as compared to a U.S. median of 35. See http://www.census.gov/population/www/projections/projectionsagesex.html.

[2] "Utah Needs Teachers," Education Dean's Colloquium, The David O. McKay School of Education, Brigham Young University, 2006.

[3] "Utah Needs Teachers."

[4] Patrick F. Galvin and Hal B. Robbins, "Utah," University of Utah, p. 2.

[5] Utah State Office of Education, "Annual Financial Report FY2005: Revenues."

[6] We report all budgetary figures as they are reported in the state's Annual Financial Report. Some of these figures are reported differently by the Legislative Fiscal Analyst due to different accounting conventions.

[7] We report all budgetary figures as they are reported in the state's Annual Financial Report. Some of these figures are reported differently by the Legislative Fiscal Analyst due to different accounting conventions.

[8] Estimated by Parents for Choice in Education.

[9] Greg Forster and Matthew Carr, "Lessons for Improving Ohio's EdChoice Voucher Program," Buckeye Institute, July 13, 2006, p. 5.

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SCHOOL CHOICE

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IN THE STATE

Utah Public Education Funding: The Fiscal Impact of School Choice

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Milton and Rose D. Friedman Foundation

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School Choice for Utah:
Many agree with the concept. Some disagree. And some simply want more information. As the public debate continues to grow louder about how best to provide a quality education to all Utah children, it is critical to know the facts about school choice, and to have an understanding of how school choice programs have had an impact on communities, parents and students around the country. All of this analysis is done with one goal in mind: The best possible education for all of Utah's children.

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