

The Foundation for Educational Choice  
**NATIONAL RESEARCH**

**School Passports**

Making the Stimulus Pay Off for Students and State Budgets

January 2011

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PASSPORT



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All individuals have opinions, and many organizations (like our own) have specific missions or philosophical orientations. Scientific methods, if used correctly and followed closely in well-designed studies, should neutralize these opinions and orientations. Research rules and methods minimize bias. We believe rigorous procedural rules of science prevent a researcher's motives, and an organization's particular orientation, from pre-determining results.

If research adheres to proper scientific and methodological standards, its findings can be relied upon no matter who has conducted it. If rules and methods are neither specified nor followed, then the biases of the researcher or an organization may become relevant, because a lack of rigor opens the door for those biases to affect the results.

Our authors take full responsibility for research design, data collection, analysis, content and charts, and any unintentional errors or misrepresentations. They welcome any and all questions related to methods and findings.

# Table of Contents

<b>Executive Summary</b> .....	5
<b>Introduction</b> .....	6
<i>Report Organization</i> .....	8
<b>Education Funds in the Stimulus</b> .....	8
<i>Race to the Top</i> .....	9
<i>A Reform for Every State</i> .....	10
<i>Key Provisions of the School Passport Program</i> .....	10
<b>Data, Methods, and Limitations</b> .....	12
<b>State Allocations</b> .....	15
<b>Impact on Public School Enrollments</b> .....	17
<b>Impact on Private School Capacity</b> .....	20
<b>State Fiscal Impact</b> .....	24
<b>Program Design Tradeoffs</b> .....	29
<b>The Impact of High Dollar Value School Passports</b> .....	31
<b>Conclusion</b> .....	32
<b>Notes</b> .....	34
<b>About the Author</b> .....	35

# Figures

<b>FIGURE 1:</b> The school passport program will provide scholarships to 420,000-633,000 students, affecting 1.0% to 1.4% of public school students.....	<b>17</b>
<b>FIGURE 2:</b> The School Passport program will result in minimal declines in public school enrollment of less than 1.5%.	
<b>FIGURE 3:</b> The school passport program would require about a 12% or less expansion by private schools. ....	<b>19</b>
<b>FIGURE 4:</b> The school passport program will require only a modest increase in private school capacity in most states. ....	<b>20</b>
<b>FIGURE 5:</b> Scholarships may require private school capacity increases larger than practicable in some states. Spreading federal funding over five years can eliminate that constraint.....	<b>21</b>
<b>FIGURE 6:</b> After federal funding expires and states assume responsibility for the program, states save an estimated \$1.0 to \$1.6 billion annually.....	<b>24</b>
<b>FIGURE 7:</b> Every state realizes annual savings at scholarship values of \$2,250 or less, even after federal funding ends. ....	<b>26</b>
<b>FIGURE 8:</b> States with large populations and higher amounts of state education aid per student receive the largest fiscal benefits.....	<b>28</b>
<b>FIGURE 9:</b> At higher scholarship values, state government savings fall more rapidly than does the number of scholarships provided.....	<b>29</b>

# Tables

<b>TABLE 1:</b> School Passport State Allocations .....	<b>16</b>
<b>TABLE 2:</b> School Passport Scholarships and Impact on Public School Enrollment .....	<b>18</b>
<b>TABLE 3:</b> School Passport Scholarships and Impact on Private School Capacity.....	<b>22</b>
<b>TABLE 4:</b> Estimated Fiscal Impacts of School Passports When States Assume Financial Responsibility.....	<b>27</b>

## Executive Summary

The Obama Administration is currently using more than \$4 billion in federal stimulus funds in a controversial program called Race to The Top in an attempt to improve student achievement in public schools throughout the country. However, this study analyzes a different approach to spending stimulus funds from the American Recovery and Reinvestment Act -- creation of a \$4 billion tuition scholarship or education voucher program to enable public school students in 50 states to attend private schools of their choice. The purpose of this analysis is to generate, and then evaluate in comparison to other reforms, a competition-based education reform, while providing states with lasting fiscal benefits that continue beyond the life of stimulus funds. The study examines the impact the proposed tuition scholarship program would have on current public and private school enrollments in each state, and calculates the annual fiscal impact on states after stimulus funding is removed and states assume financial responsibility for the program. Finally, the discussion highlights some of the design features and key variables states could use to maximize fiscal benefits and achieve a variety of different educational and equity objectives.

### *Key findings:*

- Unlike some reforms funded by the Race to the Top program, the financial rewards for states inherent in the School Passport program provide an incentive for states to continue the program long after federal funds for the program cease.
- A \$4 billion School Passport tuition scholarship program, funded with remaining stimulus funds, would provide between 420,000 and 630,000 annual tuition scholarships and produce savings for states long after stimulus funding ends.
- In return for an initial, one-time federal investment of \$4 billion, a School Passport program with scholarship values of between \$2,000 and \$2,250 would generate annual savings for states of \$1 billion to \$1.6 billion once states assume financial responsibility for the program.
- The School Passport program will create a competition-based education reform program of a large enough scale to be evaluated against other reforms funded by the Race to the Top.
- If School Passport scholarship values are set at \$2,250 or below, every state in the nation will realize annual fiscal savings from the program once states assume financial responsibility for the program, but some states can set scholarship values significantly higher and still realize savings.
- A few key design features (e.g. the value of scholarships and the number of years over which federal funding for the program is spread) can be modified in each state to accommodate capacity constraints in private schools and to generate different levels of desired savings.

## Introduction

After more than a year of a dramatically weakening U.S. economy that threatened double-digit unemployment rates and prompted unprecedented state budget gaps across the country, the American Recovery and Reinvestment Act (ARRA), the federal government's \$797 billion stimulus legislation, was signed into law February 2009. ARRA, most often identified with public infrastructure projects like roads and bridges, also included nearly \$80 billion to preserve public sector education jobs and programs and to boost reforms of primary and secondary education.

The ARRA's education components were lauded by proponents of the stimulus for their potential to spur education reform efforts throughout the country. However, the incorporation of substantive education reform in the design of the stimulus education funding programs was limited.<sup>1</sup> Only about \$5 billion of the funding for K-12 education is allocated for education reform efforts, and a majority of states appear unlikely to receive any funding for reforms under the competition-based grants programs that allocate reform funds. The desire to distribute and spend stimulus funds as rapidly as possible, along with states' record budget shortfalls, resulted in stimulus funding for K-12 education that had less to do with reform than it did with maintaining K-12 education's prominence as the first or second largest expenditure item in state budgets. Although there is variation among states, total state spending on K-12 education and Medicaid each represent more than 20 percent of state government expenditures.<sup>2</sup> In all but a few rural states, Medicaid and K-12 education received the largest share of stimulus funding provided to states.<sup>3</sup>

The similarities between the state of education finance and health care policy run deeper than their importance to state budgets. Both health care and public education are increasingly seen as a category of super services. Many argue they are fundamental rights, access to which should not vary with income. Calls for equal educational access and quality have resulted in lawsuits challenging school funding systems in 45 states since the 1970s, prompting changes in education finance laws requiring large infusions of state aid to local school districts in at least 27 states.<sup>4</sup> In most states then, education reform has become synonymous with changing state education finance systems and increasing funding to reduce spending disparities. But when remedies for inequality of educational opportunity are not made directly available to affected parties (parents and children), we should not be surprised that the results of these "reforms" have been so disappointing. With the largest portion of stimulus education funding effectively functioning as a "bail out" of

state education finance systems and school districts, many who saw the stimulus as a historic opportunity to generate educational reforms are now expressing disappointment.<sup>5</sup> But even for those more interested in the state budget relief provided by the stimulus than in spurring education reforms must admit that the stimulus provides only temporary relief to states from the fiscal strains of education funding.

The \$5 billion of stimulus funding in the form of competitive grants for education reform initiatives (the Race to the Top and Investing in Innovation grant programs) may yet produce reforms in states that have competed successfully for the funds. But with so much stimulus money distributed for education, the vast majority of it directed at maintaining the status quo, and with ongoing efforts to extend additional fiscal relief to state governments, it is appropriate to ask whether real education reform and enduring fiscal relief for states could both be made a higher priority, more broadly available, and purchased at a much lower price than with the funding approach taken in the ARRA. As importantly, with more than \$10 billion, or about 30 percent, of ARRA's basic education aid to states "obligated" to be spent but yet to be distributed, there may yet be an opportunity to use existing ARRA funds to spur reform and create lasting fiscal benefits for states.<sup>6</sup>

This paper proposes an alternative plan for use of remaining stimulus funds—school choice. This proposal employs tuition scholarships, or vouchers, that can be used by parents to purchase educational services at private schools. The proposed School Passport program has similarities to existing tax-credit scholarship and voucher programs in many states. The popularity and documented success of these programs warrant an expansion of their size and scope as an educational reform strategy. The proposal outlined here would ensure that reforms are funded in all states while creating an opportunity to evaluate market-based educational reforms, in comparison to the more varied reform strategies currently proposed and funded by the Race to the Top and Investing in Innovation grant programs.

Despite efforts to use ARRA as an inducement for education reform, stimulus funding that maintains the status quo in education is by far the largest portion of funding allocated to states, and the only portion guaranteed to every state. The School Passport program differs from that approach by directly integrating the reform and fiscal relief objectives of the stimulus' education funds to all states.

## *Report Organization*

This report first provides a brief overview of the stimulus funding currently provided to states and outlines the School Passport initiative as an alternative use of stimulus funds for promoting educational reform in every state. In the next section, it describes the data and methods used to estimate the fiscal impacts of the School Passport program, and some limitations of the estimates. It then presents calculations of the size and impact of the School Passport program in each state and nationwide, and analyzes the program's effect on public and private school enrollments in each state. Finally, the report estimates the fiscal impact of the program for each state and discusses some of the key program design features that can be modified to help states achieve different educational objectives and ensure maximum fiscal benefits in every state.

## **Education Funds in the Stimulus**

By far the largest portion of ARRA funding for K-12 education is distributed through three programs: the newly created State Fiscal Stabilization Fund (SFSF), the existing Individuals with Disabilities Education Act (IDEA), and Title I programs.

At approximately \$48 billion, the SFSF represents the largest share of K-12 funding in the stimulus. Although allocated through the Department of Education, 18.2 percent of SFSF funding for states is designated as General Government Services Grants, which can be used for non-education related purposes, leaving only about \$39 billion of SFSF allocated to states for use in maintaining or enhancing existing levels of state education funding. Another \$26 billion of stimulus funding was allocated for support of IDEA, Title I, and a number of smaller initiatives.

Finally, ARRA provides \$4.35 billion in non-formula-driven, competitive Race to the Top (RtT) funds, \$650 million in Investing in Innovation (I3) grants to increase the scale of existing successful programs in individual states, and three smaller programs totaling \$550 million.<sup>7</sup>



## *Race to the Top*

The \$4.35 billion in RttT funds are being awarded through a competitive process instead of formula, and are not explicitly designed to fill budget holes or protect jobs. States that successfully apply for the grants must demonstrate their commitment to advancing education reforms in the use of the State Fiscal Stabilization Funds, and outline viable reform strategies in key areas such as teacher quality, data, standards, and assessments. In addition, they must document significant support from school districts and teachers unions in implementing the reforms outlined in their grant applications. Finally, the 12 states that will receive grants are expected to use the funds to transform school performance, a significant criterion for school reform initiatives that most often influence at the margins of school performance if at all.

Proponents argued that the stimulus primary purpose was to stabilize and stimulate the economy, provide fiscal relief to state governments, and save or create jobs. Thus ARRA's primary education funding objective of maintaining public education jobs appears to be largely inconsistent with the use of ARRA funding for education reform. Saving education jobs required funds to be allocated quickly to counter the impact of an economy in recession. This meant funneling the majority of the stimulus K–12 funding through existing, formula-driven programs to avoid the lengthy process of drafting new programs, guidelines, and regulations. But because of the magnitude of K-12 education spending, the inability or unwillingness of most state and local governments to slow escalating education expenditures, and the severity of the recent recession, stimulus funds have not completely filled existing education budget gaps. The temporary nature of ARRA's fiscal assistance provided an opportunity to reconsider and alter long-standing policies and practices that have contributed to stagnant performance, rising expenditures, and a growing national awareness of the need for education reform.

Whatever reform intentions ARRA supporters may have had in mind, it is hard to see how holding states and local districts harmless for past practices does not ultimately make future reforms more difficult. As Chester E. Finn Jr. and Frederick M. Hess have noted, budget shortfalls should have forced difficult decisions about programs, policies, and staffing patterns.<sup>8</sup>

## *A Reform for Every State*

With RttT reform grants, a small number of states receive a small portion of stimulus money for a limited amount of time, making the prospects for widespread and lasting reforms with ARRA funds limited. The outlook worsens because RttT reform initiatives require states to increase education appropriations after RttT funds expire. A better approach is to fund a demonstrably valuable reform in every state that provides a built-in fiscal incentive to continue operating the program after ARRA funds expire.

Proponents of school choice via universal vouchers and tax-credit scholarships argue that these policies are an effective school reform strategy. High-quality empirical research on voucher programs has consistently found positive results both for program participants and for school districts affected by competition.<sup>9</sup> Increasingly, proponents also have made the case that school choice is a viable strategy for reducing the fiscal strain that education places on state and local governments. For example, in 2008, an analysis by the Office of Program Policy Analysis & Government Accountability of the Florida State Legislature documented the fiscal benefits of that state's tax-credit scholarship program.<sup>10</sup>

School choice programs are proving a popular policy for state governments to increase educational choices and opportunities for a broader segment of students. ARRA's provisions preclude the use of K-12 education funds for private education, but a new Congress can change that. As a policy that has demonstrably positive impacts on the performance of public schools as well as on state government finances, school choice programs can achieve the stimulus goal of education reform while providing lasting fiscal relief to states more effectively than existing ARRA programs.

### *Key Provisions of the School Passport Program*

The purpose of this report is to provide a basic structure for a School Passport policy and to demonstrate its viability from a fiscal and operational perspective, not to issue detailed program guidelines. As analyzed in this report, key features of the School Passport program include:

- Allocation of \$4 billion (approximately equal to RttT funds) from remaining stimulus state fiscal stabilization funds for implementation of voucher and tax-credit scholarship programs or expansion of such existing programs in every state.

- School Passport funds would be allocated to states in the same proportion as ARRA’s state fiscal stabilization fund.
- Five percent of each state’s School Passport funds would be reserved for implementation and evaluation of its School Passport program.
- The remaining 95 percent of School Passport funds would be used for scholarships, with funds spread over a period of three to five years at each state’s discretion. This allows the time period for federal funding of the program in each state to exceed any lags in enrollment changes, ensuring that states receive one or more years of fiscal savings from reductions in state education aid payments for each student receiving a School Passport scholarship before assuming financial responsibility for the program.
- As federal funding of each state’s School Passport program ends, each state will have one or more years of state education aid savings for every student receiving a School Passport scholarship. These savings, accrued while federal funds paid for state School Passport scholarships, would be used to capitalize each state’s School Passport fund, which would then fund scholarships during the first year after states assume fiscal responsibility for the program. In subsequent years, states that wish to guarantee savings can do so by setting scholarship values so that the cost of each scholarship is less than the amount of state education aid saved when students use a scholarship to leave public schools.
- Any funds not used to award School Passport scholarships would be returned and not available for spending on any other state government expenditure.

The School Passport program is consistent with the major goals of ARRA’s education funding programs. It directly funds a demonstrably viable reform strategy in all 50 states. But unlike temporary infusions of ARRA funds, the School Passport program will produce enduring fiscal benefits for states that extend beyond the time frame of stimulus funding.

Finally, although the School Passport program may ultimately lead to a decline in employment in the public schools (although employment in public schools appears to be relatively inelastic with respect to changes in enrollment), employment in the private sector will increase as the demand for private schooling leads to increased hiring in that sector. To the extent that new private sector jobs represent a shift of jobs

away from the public sector, the result would confer additional long-term fiscal benefits to state and local governments as they would lessen the exploding burden of public sector benefit and pension costs.

Regardless of whether the reform strategies funded by RttT or the competition-based strategy of the School Passport program prove more effective in improving educational performance, only the School Passport can guarantee lasting fiscal benefits while also increasing educational opportunities for hundreds of thousands of students across the country. A legitimate concern of the reforms funded by RttT funds is whether they will continue after temporary stimulus funding is removed. In contrast, by creating a source of self-funding that can guarantee fiscal benefits to states, the School Passport program provides a strong incentive for states to continue the program after federal funding is removed.

The School Passport scholarship program would affect only about 1 percent of public school students in any state. However, in most states, the program would be large enough to allow for evaluation of competition-based reforms on educational performance across a broad spectrum of geographies, with varied socioeconomic and demographic characteristics. The restrictive size of existing school choice programs, which limits differences in demographic and socioeconomic characteristics, can hinder the ability to generalize the positive research findings of competition-based school reforms. Creating a comparison between competition-based reforms and the reforms advocated and advanced by public educators and schools will motivate both camps to maximize the benefits of their reform strategies. Thus the School Passport program may indirectly strengthen the reform efforts in RttT applications and awards.

## **Data, Methods, and Limitations**

This analysis of the proposed School Passport program uses data on public school revenues, expenditures, and enrollments for each state from the Common Core of Data of the U.S. Department of Education’s National Center for Education Statistics, as well as stimulus funding data from the U.S. Department of Education and estimates of private school enrollment for each state from the U.S. Census Bureau’s American Community Survey.

We determine the number of scholarships that can be awarded in each state based on the 95 percent of School Passport funding allocations being used for scholarships. We estimate fiscal impacts of the program

in each state for a range of scholarship values ranging from \$1,500 to \$4,000. To account for the fact that states often have a lag between changes in enrollment and resulting adjustments in state education aid (the potential amount states would save in state education aid for each public school student who receives a scholarship), or have hold harmless provisions that protect districts for one or more years after enrollment declines, we allocate scholarship funds over both three-year and four-year periods. This allocation accomplishes two important objectives:

- It ensures that once states assume responsibility for the program, they will no longer be paying state education aid for students who receive scholarships.<sup>11</sup>
- It allows for a modest expansion of private school enrollments that can be readily accommodated in most states. States can opt for a longer or shorter period for distribution of School Passport funds depending on the ability of private education providers to increase capacity. A shorter period, such as three years, will increase the number of scholarships provided in each year, resulting in a larger increase in demand for private schooling than if funding (and scholarships) were allocated over a four-year, or longer, period.

The number of annual scholarships awarded to public school students is divided by public school enrollments in grades 1-12 to estimate the impact of the School Passport program on public school enrollment in each state.

The number of annual scholarship awards is divided by estimates of the population of private school students in grades 1-12 obtained from the American Community Survey to calculate the percentage expansion in private school enrollments necessary to accommodate School Passport scholarship students in each state.

Our estimate of the fiscal impact of the program on each state is the difference between 70 percent of the cost of state education aid per student and the per student cost of School Passport scholarships times the number of students receiving scholarships. Explanation for the 70 percent threshold is explained later in this report (see page 14).

Calculating the fiscal impacts of the School Passport program in all 50 states precludes accommodation of the unique aspects of every state's school finance system. Accordingly, we adopt some

simplifying assumptions in our analysis that introduce a measure of error into the estimates of individual state fiscal impacts. Allowing some discretion by states in the design of a few key program elements such as scholarship value, time period for allocation of federal funding, and others that are generalized to all states for purposes of this analysis, can ensure that potential program benefits are maximized in each state.

Readers should judge for themselves, but care was taken to avoid simplifying assumptions that would overstate the benefits or minimize the costs related to the School Passport program. For example, in estimating annual savings to each state associated with the School Passport program, it is necessary to calculate how much state education expenditure will be avoided for every student who receives a scholarship and leaves public schools. The most recent annual financial data available from the National Center for Education Statistics is for the 2007-2008 school year. To obtain the per student state aid values needed for the 2015 school year (the first year federal School Passport funds would cease and most states would assume responsibility for the program), we inflated 2007-2008 school year state aid values by 12 percent, or less than 2 percent annually.

In addition, using the total state aid per student for each state would overstate savings because not all of state education aid is directly affected by changes in enrollment. *Our analysis assumes that 70 percent of state aid is determined by enrollment.* Every state is different, but in our examination of 10 state finance systems, the lowest percentage of state aid determined by enrollment was 72.6 percent, and the highest was 90.3. In combination, these two assumptions (2 percent annual increases in state education aid per student, and 70 percent of per student aid determined on the basis of enrollment) produce conservative estimates of the state education savings that states would realize for every student participating in the School Passport program.

One additional caveat. Because the latest Common Core of Data finance data available are from the 2007-2008 school year, any major changes in state school finance policies that have occurred since then will not be captured in our analysis. Every assumption used in this analysis introduces some error into the calculations of individual state impacts, and unique aspects of each state's education finance laws may produce estimates different from the ones produced here. Our purpose is to demonstrate the viability of the School Passport program and to provide reasonable projections of state impacts, not to make a precise calculation for each state. Each state is encouraged to conduct

its own analysis to guide program implementation and maximize benefits.

## State Allocations

We analyze a School Passport program that allocates \$4 billion to states in the same proportions as the awards for the State Fiscal Stabilization funds. A \$4 billion amount was chosen because it approximates the size of the current Race to the Top funding and because in most states this amount results in a program scale that will produce enough competitive effects to allow for meaningful assessment and evaluation of program impacts. In addition, \$4 billion across all 50 states results in a manageable expansion of private school capacity (if spread over a three- or four-year period); at the same time it produces modest overall declines in public school enrollment in the range of 1 percent to 1.4 percent.

Table 1 presents individual state allocations for a \$4 billion School Passport program that allocates 95 percent of funds for tuition scholarships and 5 percent for program administration and evaluation. Each state would be allowed to choose the allocation period for federal funds, spreading scholarship funds over a period of three to five years. Depending on how long it takes for changes in enrollment to be reflected in state aid calculations, states would need to choose a period for allocating federal funds that guarantees savings to the state for each student receiving a School Passport scholarship. In addition, private schools would have differing capacity for expansion in each state. A state choosing a shorter period for allocating federal funds would increase the number of scholarships awarded in each year, requiring greater expansion of private school capacity and potentially realizing greater state education aid savings. Spreading allocations over more years reduces the number of annual scholarships but requires more modest expansion of private school capacity.

In the sections that follow we document School Passport impacts on public and private school enrollments and on state finances.



# School Passport State Allocations

Table  
1

State	% of Stimulus Allocations	School Passport Allocation	Amount for Scholarships	Amount for Admin. & Eval.
Alabama	1.53%	\$61,173,517	\$58,114,841	\$3,058,676
Alaska	0.24%	\$9,544,263	\$9,067,050	\$477,213
Arizona	2.13%	\$85,332,223	\$81,065,612	\$4,266,611
Arkansas	0.93%	\$37,241,572	\$35,379,493	\$1,862,079
California	12.50%	\$500,123,196	\$475,117,036	\$25,006,160
Colorado	1.59%	\$63,791,589	\$60,602,009	\$3,189,579
Connecticut	1.14%	\$45,468,278	\$43,194,864	\$2,273,414
D.C.	0.19%	\$7,499,587	\$7,124,608	\$374,979
Delaware	0.28%	\$11,316,509	\$10,750,683	\$565,825
Florida	5.66%	\$226,580,253	\$215,251,240	\$11,329,013
Georgia	3.23%	\$129,331,358	\$122,864,790	\$6,466,568
Hawaii	0.40%	\$16,125,578	\$15,319,299	\$806,279
Idaho	0.52%	\$20,690,127	\$19,655,621	\$1,034,506
Illinois	4.31%	\$172,448,501	\$163,826,076	\$8,622,425
Indiana	2.11%	\$84,490,245	\$80,265,733	\$4,224,512
Iowa	0.99%	\$39,633,786	\$37,652,096	\$1,981,689
Kansas	0.94%	\$37,689,822	\$35,805,331	\$1,884,491
Kentucky	1.37%	\$54,653,779	\$51,921,090	\$2,732,689
Louisiana	1.49%	\$59,453,947	\$56,481,250	\$2,972,697
Maine	0.41%	\$16,233,141	\$15,421,484	\$811,657
Maryland	1.85%	\$73,823,658	\$70,132,475	\$3,691,183
Massachusetts	2.09%	\$83,427,732	\$79,256,345	\$4,171,387
Michigan	3.34%	\$133,595,551	\$126,915,773	\$6,679,778
Minnesota	1.71%	\$68,511,217	\$65,085,656	\$3,425,561
Mississippi	1.01%	\$40,217,890	\$38,206,996	\$2,010,895
Missouri	1.93%	\$77,259,574	\$73,396,595	\$3,862,979
Montana	0.31%	\$12,476,490	\$11,852,665	\$623,824
Nebraska	0.60%	\$23,998,937	\$22,798,990	\$1,199,947
Nevada	0.83%	\$33,277,073	\$31,613,220	\$1,663,854
New Hampshire	0.42%	\$16,847,961	\$16,005,563	\$842,398
New Jersey	2.79%	\$111,640,263	\$106,058,250	\$5,582,013
New Mexico	0.67%	\$26,715,274	\$25,379,510	\$1,335,764
New York	6.33%	\$253,221,890	\$240,560,796	\$12,661,095
North Carolina	2.98%	\$119,189,637	\$113,230,155	\$5,959,482
North Dakota	0.22%	\$8,785,300	\$8,346,035	\$439,265
Ohio	3.75%	\$150,145,727	\$142,638,441	\$7,507,286
Oklahoma	1.21%	\$48,501,419	\$46,076,348	\$2,425,071
Oregon	1.20%	\$47,849,101	\$45,456,646	\$2,392,455
Pennsylvania	4.00%	\$159,899,745	\$151,904,758	\$7,994,987
Rhode Island	0.35%	\$13,839,136	\$13,147,179	\$691,957
South Carolina	1.46%	\$58,238,266	\$55,326,353	\$2,911,913
South Dakota	0.27%	\$10,698,227	\$10,163,316	\$534,911
Tennessee	1.99%	\$79,512,483	\$75,536,859	\$3,975,624
Texas	8.34%	\$333,409,271	\$316,738,808	\$16,670,464
Utah	1.01%	\$40,270,603	\$38,257,073	\$2,013,530
Vermont	0.20%	\$7,913,968	\$7,518,269	\$395,698
Virginia	2.52%	\$100,923,861	\$95,877,668	\$5,046,193
Washington	2.10%	\$84,109,228	\$79,903,767	\$4,205,461
West Virginia	0.56%	\$22,359,218	\$21,241,257	\$1,117,961
Wisconsin	1.84%	\$73,583,625	\$69,904,444	\$3,679,181
Wyoming	0.17%	\$6,936,404	\$6,589,584	\$346,820

Source: Author's calculations using data from the U.S. Department of Education and [www.recovery.gov](http://www.recovery.gov)



## Impact on Public School Enrollments

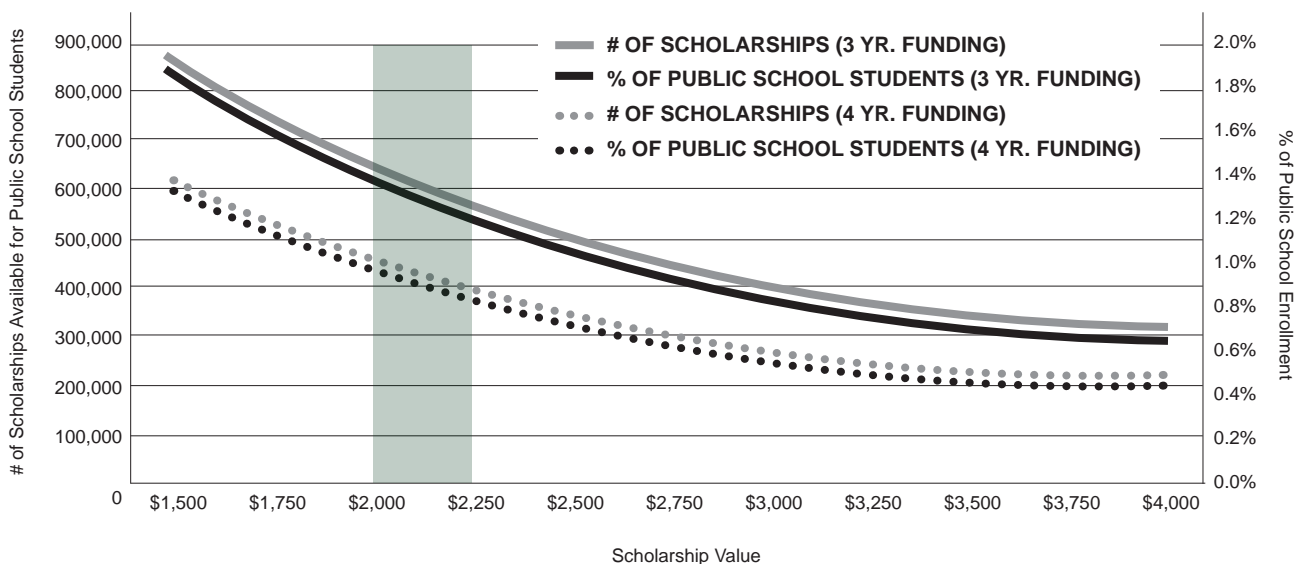
To calculate the impact of the School Passport program on public school enrollments we divide available scholarship funds by scholarship values of between \$1,500 and \$4,000, determining the total number of scholarships that could be awarded in each state. We then divide the number of scholarships by the number of years over which federal School Passport funds will be allocated to arrive at an annual number of scholarship awards. Finally, we divided the number of annual scholarships by total public school enrollment in grades 1-12 to determine the percentage change in public school enrollment that would result.

Figure 1 highlights the number of scholarships that would be awarded across the nation for scholarships of values between \$1,500 and \$4,000, depending on whether federal funding for the program was spread over three or four years. Table 2 presents program effects of public school enrollments in each state for scholarship values of \$2,000 and \$2,250.

**The school passport program will provide scholarships to 420,000-633,000 students, affecting 1.0% to 1.4% of public school students.**

Figure 1

# of Scholarships and % of Public School Enrollment by Scholarship Value



Source: U.S. Department of Education, National Center for Education Statistics "Common Core of Data", Author's Calculations.

# School Passport Scholarships and Impact on Public School Enrollment

Table 2

State	FEDERAL FUNDS OVER 3 YEARS				FEDERAL FUNDS OVER 4 YEARS			
	\$2,000 Scholarships		\$2,250 Scholarships		\$2,000 Scholarships		\$2,250 Scholarships	
	# of Scholarships	% Chng. in Enroll.	# of Scholarships	% Chng. in Enroll.	# of Scholarships	% Chng. in Enroll.	# of Scholarships	% Chng. in Enroll.
Alabama	9,686	-1.4%	8,610	-1.3%	7,264	-1.1%	6,457	-0.9%
Alaska	1,511	-1.3%	1,343	-1.1%	1,133	-1.0%	1,007	-0.8%
Arizona	13,511	-1.4%	12,010	-1.2%	10,133	-1.0%	9,007	-0.9%
Arkansas	5,897	-1.4%	5,241	-1.2%	4,422	-1.0%	3,931	-0.9%
California	79,186	-1.4%	70,388	-1.2%	59,390	-1.0%	52,791	-0.9%
Colorado	10,100	-1.4%	8,978	-1.2%	7,575	-1.0%	6,734	-0.9%
Connecticut	7,199	-1.4%	6,399	-1.3%	5,399	-1.1%	4,799	-0.9%
D.C.	1,187	-2.1%	1,055	-1.9%	891	-1.6%	792	-1.4%
Delaware	1,792	-1.6%	1,593	-1.4%	1,344	-1.2%	1,195	-1.0%
Florida	35,875	-1.5%	31,889	-1.3%	26,906	-1.1%	23,917	-1.0%
Georgia	20,477	-1.4%	18,202	-1.2%	15,358	-1.0%	13,652	-0.9%
Hawaii	2,553	-1.6%	2,270	-1.4%	1,915	-1.2%	1,702	-1.0%
Idaho	3,276	-1.3%	2,912	-1.2%	2,457	-1.0%	2,184	-0.9%
Illinois	27,304	-1.5%	24,271	-1.3%	20,478	-1.1%	18,203	-1.0%
Indiana	13,378	-1.4%	11,891	-1.2%	10,033	-1.0%	8,918	-0.9%
Iowa	6,275	-1.5%	5,578	-1.3%	4,707	-1.1%	4,184	-1.0%
Kansas	5,968	-1.4%	5,304	-1.3%	4,476	-1.1%	3,978	-0.9%
Kentucky	8,654	-1.4%	7,692	-1.3%	6,490	-1.1%	5,769	-1.0%
Louisiana	9,414	-1.6%	8,368	-1.4%	7,060	-1.2%	6,276	-1.0%
Maine	2,570	-1.5%	2,285	-1.3%	1,928	-1.1%	1,713	-1.0%
Maryland	11,689	-1.5%	10,390	-1.4%	8,767	-1.2%	7,792	-1.0%
Massachusetts	13,209	-1.5%	11,742	-1.4%	9,907	-1.1%	8,806	-1.0%
Michigan	21,153	-1.4%	18,802	-1.2%	15,864	-1.1%	14,102	-0.9%
Minnesota	10,848	-1.4%	9,642	-1.3%	8,136	-1.1%	7,232	-1.0%
Mississippi	6,368	-1.4%	5,660	-1.3%	4,776	-1.1%	4,245	-0.9%
Missouri	12,233	-1.5%	10,874	-1.3%	9,175	-1.1%	8,155	-1.0%
Montana	1,975	-1.5%	1,756	-1.3%	1,482	-1.1%	1,317	-1.0%
Nebraska	3,800	-1.5%	3,378	-1.3%	2,850	-1.1%	2,533	-1.0%
Nevada	5,269	-1.3%	4,683	-1.2%	3,952	-1.0%	3,513	-0.9%
New Hampshire	2,668	-1.4%	2,371	-1.3%	2,001	-1.1%	1,778	-1.0%
New Jersey	17,676	-1.4%	15,712	-1.2%	13,257	-1.1%	11,784	-0.9%
New Mexico	4,230	-1.4%	3,760	-1.3%	3,172	-1.1%	2,820	-0.9%
New York	40,093	-1.6%	35,639	-1.4%	30,070	-1.2%	26,729	-1.1%
North Carolina	18,872	-1.4%	16,775	-1.2%	14,154	-1.1%	12,581	-0.9%
North Dakota	1,391	-1.6%	1,236	-1.4%	1,043	-1.2%	927	-1.1%
Ohio	23,773	-1.4%	21,132	-1.3%	17,830	-1.1%	15,849	-1.0%
Oklahoma	7,679	-1.4%	6,826	-1.2%	5,760	-1.0%	5,120	-0.9%
Oregon	7,576	-1.4%	6,734	-1.3%	5,682	-1.1%	5,051	-1.0%
Pennsylvania	25,317	-1.5%	22,504	-1.4%	18,988	-1.2%	16,878	-1.0%
Rhode Island	2,191	-1.6%	1,948	-1.5%	1,643	-1.2%	1,461	-1.1%
South Carolina	9,221	-1.4%	8,196	-1.3%	6,916	-1.1%	6,147	-1.0%
South Dakota	1,694	-1.5%	1,506	-1.3%	1,270	-1.1%	1,129	-1.0%
Tennessee	12,589	-1.4%	11,191	-1.3%	9,442	-1.1%	8,393	-1.0%
Texas	52,790	-1.3%	46,924	-1.1%	39,592	-1.0%	35,193	-0.8%
Utah	6,376	-1.3%	5,668	-1.1%	4,782	-1.0%	4,251	-0.8%
Vermont	1,253	-1.5%	1,114	-1.4%	940	-1.2%	835	-1.0%
Virginia	15,980	-1.4%	14,204	-1.3%	11,985	-1.1%	10,653	-1.0%
Washington	13,317	-1.4%	11,838	-1.2%	9,988	-1.0%	8,878	-0.9%
West Virginia	3,540	-1.4%	3,147	-1.3%	2,655	-1.1%	2,360	-0.9%
Wisconsin	11,651	-1.5%	10,356	-1.3%	8,738	-1.1%	7,767	-1.0%
Wyoming	1,098	-1.4%	976	-1.2%	824	-1.0%	732	-0.9%

Source: U.S. Department of Education, National Center for Education Statistics, "Common Core of Data." Author's calculations.

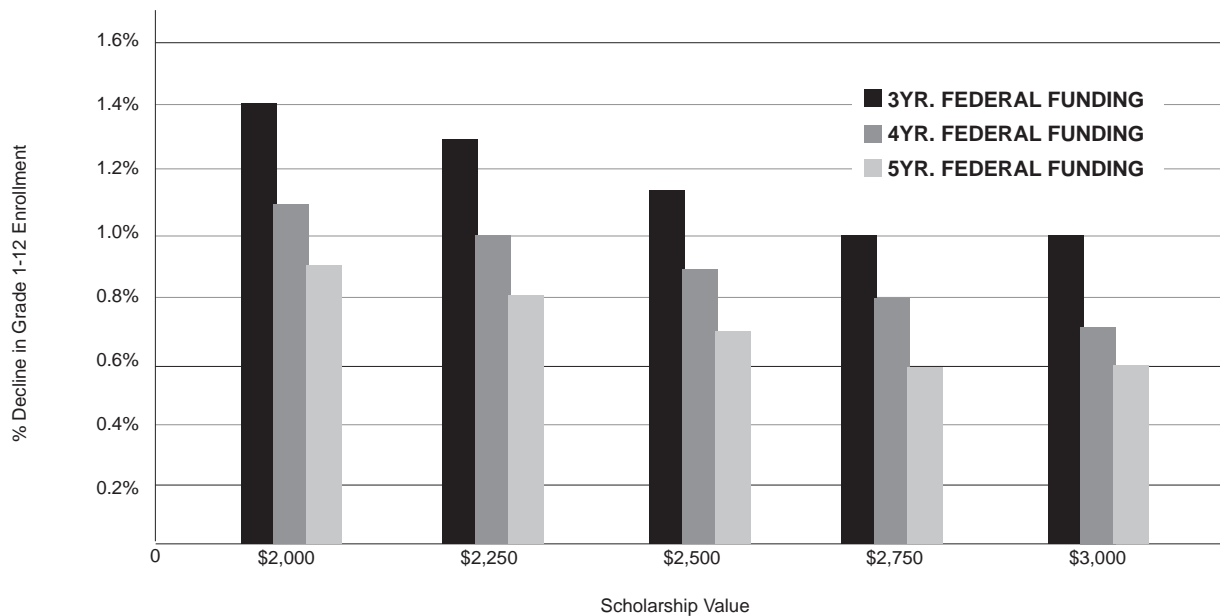
As Figure 1 shows, depending on the value of scholarships offered and whether federal funding is spread over three or four years, the School Passport program would provide between 238,000 and 844,000 scholarships and reduce public school enrollments by between 0.5 percent and 1.9 percent. At scholarship values of \$2,000 to \$2,250, between 422,000 and 633,000 scholarships would be awarded resulting in enrollment declines of between 0.95 percent and 1.4 percent.

The percentage decline in enrollment differs slightly in each state for any set of program variables (scholarship values, etc). States would be allowed to set scholarship values to maximize benefits or accommodate other objectives, so variations would occur, and it is unlikely all states would choose the same scholarship values and time period for their allocation. Thus there likely would be greater variation in enrollment changes in response to the School Passport program than is estimated here.

Figure 2 shows the median state percentage decline in public school enrollment for scholarship values between \$2,000 and \$3,000 and for federal fund allocations spread over a three- to five-year period.

**The School Passport program will result in minimal declines in public school enrollment of less than 1.5%.** Figure 2

% Change Enrollment by Federal Funding Timeframe and Scholarship Value



Source: U.S. Department of Education, National Center for Education Statistics "Common Core of Data." Author's Calculations.

Although the total impact on state enrollments is minimal, it must be noted that the impact on some individual school districts could be substantially greater. This is both necessary and desirable to ensure the program introduces true competitive forces in some districts.

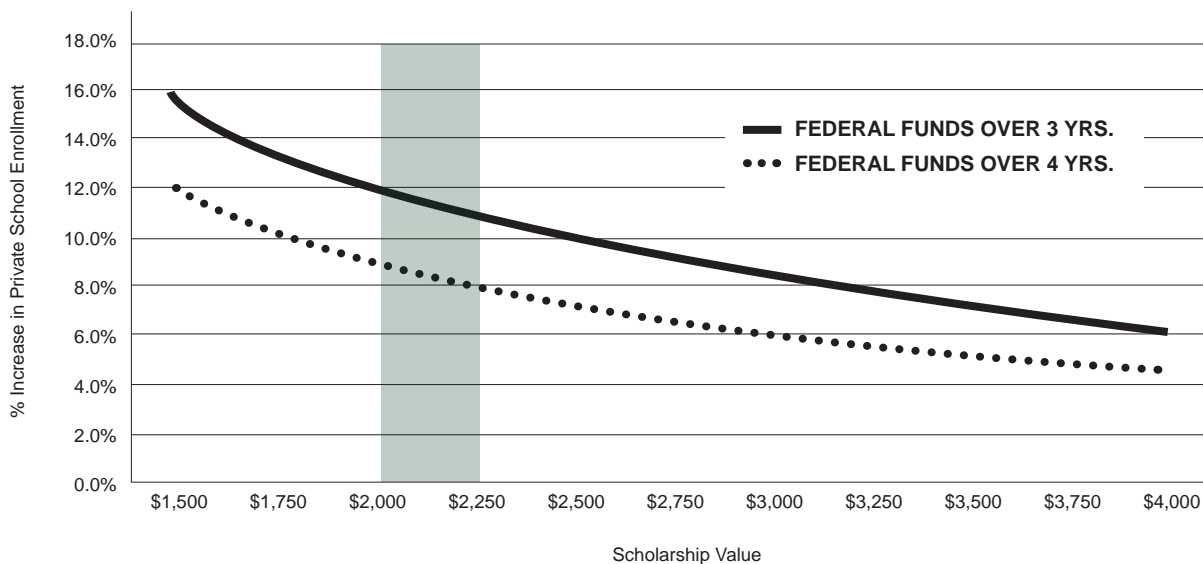
## Impact on Private School Capacity

The impact of the proposed School Passport program on public school enrollments would be minimal as a percentage of the total public school population, but impacts on some individual districts would be more substantial. One frequent criticism introduced in state debates over school choice proposals is that even if such programs were desirable, private school capacity would be insufficient to accommodate participating students. Like many arguments offered in opposition to school choice initiatives, this one lacks a fundamental understanding of supply responses to increases in demand among organizations outside of government, and the constraints and incentives facing schools in the private and not-for-profit sectors. Regardless of the legitimacy of the concerns over the ability of private schools to accommodate increases in demand and capacity, for most states the School Passport program would require only modest increases in the capacity of private school providers. Figure 3 shows the percentage increase in private school capacity (for grades 1-12) required to accommodate School Passport students at scholarship values between \$1,500 and \$4,000.

**The school passport program would require about a 12% or less expansion by private schools.**

Figure 3

% Change Private School Enrollment by Fed. Funding Timeframe and Scholarship Value

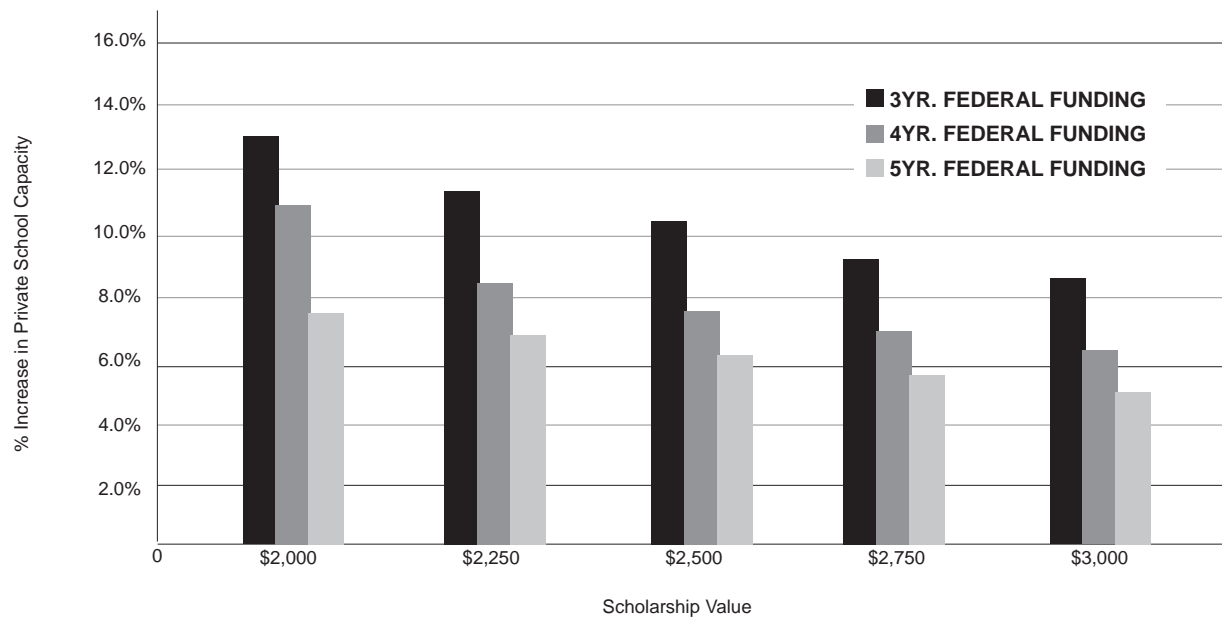


Source: U.S. Census Bureau, "American Community Survey." Author's Calculations.

As Figure 3 indicates, a School Passport program that provided scholarships between \$2,000 and \$2,250 dollars would require an expansion of private school capacity of between 8 percent and 12 percent, depending on the number of years over which federal funds for scholarships are spread. Again, individual states will vary, and some may be challenged by the required expansion. Figure 4 shows that the median required expansion in individual states is slightly higher than the national aggregated expansion requirement. With scholarship values of \$2,000 allocated over a three-year federal funding period, the median required expansion is 12.7 percent rather than the 12.1 percent aggregate figure, and at scholarship values of \$2,250 allocated over a four-year period, the median required expansion in private school capacity is 8.5 percent rather than the aggregate requirement of 8.0 percent.

**The school passport program will require only a modest increase in private school capacity in most states.** Figure 4

Median % Increase in Required Private School Capacity



Source: U.S. Census Bureau, "American Community Survey." Author's Calculations.

# School Passport Scholarships and Impact on Private School Capacity

Table  
3

State	Gr. 1-12 Private Enroll.	FEDERAL FUNDS OVER 3 YEARS		FEDERAL FUNDS OVER 4 YEARS	
		Req. Capacity Increase \$2,000 Scholarships	Req. Capacity Increase \$2,250 Scholarships	Req. Capacity Increase \$2,000 Scholarships	Req. Capacity Increase \$2,250 Scholarships
Alabama	82,848	11.7%	10.4%	8.8%	7.8%
Alaska	9,115	16.6%	14.7%	12.4%	11.1%
Arizona	70,158	19.3%	17.1%	14.4%	12.8%
Arkansas	34,955	16.9%	15.0%	12.7%	11.2%
California	570,052	13.9%	12.3%	10.4%	9.3%
Colorado	65,622	15.4%	13.7%	11.5%	10.3%
Connecticut	59,390	12.1%	10.8%	9.1%	8.1%
D.C.	15,077	7.9%	7.0%	5.9%	5.3%
Delaware	23,356	7.7%	6.8%	5.8%	5.1%
Florida	319,896	11.2%	10.0%	8.4%	7.5%
Georgia	159,902	12.8%	11.4%	9.6%	8.5%
Hawaii	35,370	7.2%	6.4%	5.4%	4.8%
Idaho	19,982	16.4%	14.6%	12.3%	10.9%
Illinois	251,421	10.9%	9.7%	8.1%	7.2%
Indiana	119,220	11.2%	10.0%	8.4%	7.5%
Iowa	42,770	14.7%	13.0%	11.0%	9.8%
Kansas	48,209	12.4%	11.0%	9.3%	8.3%
Kentucky	77,337	11.2%	9.9%	8.4%	7.5%
Louisiana	127,068	7.4%	6.6%	5.6%	4.9%
Maine	17,167	15.0%	13.3%	11.2%	10.0%
Maryland	148,907	7.8%	7.0%	5.9%	5.2%
Massachusetts	117,400	11.3%	10.0%	8.4%	7.5%
Michigan	166,454	12.7%	11.3%	9.5%	8.5%
Minnesota	93,720	11.6%	10.3%	8.7%	7.7%
Mississippi	53,231	12.0%	10.6%	9.0%	8.0%
Missouri	129,674	9.4%	8.4%	7.1%	6.3%
Montana	12,185	16.2%	14.4%	12.2%	10.8%
Nebraska	38,404	9.9%	8.8%	7.4%	6.6%
Nevada	20,244	26.0%	23.1%	19.5%	17.4%
New Hampshire	20,250	13.2%	11.7%	9.9%	8.8%
New Jersey	171,407	10.3%	9.2%	7.7%	6.9%
New Mexico	27,925	15.1%	13.5%	11.4%	10.1%
New York	452,132	8.9%	7.9%	6.7%	5.9%
North Carolina	129,364	14.6%	13.0%	10.9%	9.7%
North Dakota	7,284	19.1%	17.0%	14.3%	12.7%
Ohio	241,719	9.8%	8.7%	7.4%	6.6%
Oklahoma	43,417	17.7%	15.7%	13.3%	11.8%
Oregon	52,963	14.3%	12.7%	10.7%	9.5%
Pennsylvania	279,021	9.1%	8.1%	6.8%	6.0%
Rhode Island	20,487	10.7%	9.5%	8.0%	7.1%
South Carolina	73,461	12.6%	11.2%	9.4%	8.4%
South Dakota	11,203	15.1%	13.4%	11.3%	10.1%
Tennessee	112,913	11.1%	9.9%	8.4%	7.4%
Texas	286,069	18.5%	16.4%	13.8%	12.3%
Utah	23,702	26.9%	23.9%	20.2%	17.9%
Vermont	9,015	13.9%	12.4%	10.4%	9.3%
Virginia	121,684	13.1%	11.7%	9.8%	8.8%
Washington	93,168	14.3%	12.7%	10.7%	9.5%
West Virginia	17,937	19.7%	17.5%	14.8%	13.2%
Wisconsin	117,301	9.9%	8.8%	7.4%	6.6%
Wyoming	4,835	22.7%	20.2%	17.0%	15.1%

Source: U.S. Census Bureau, "American Community Survey" 3 year Average 2006-2008, Authors calculations

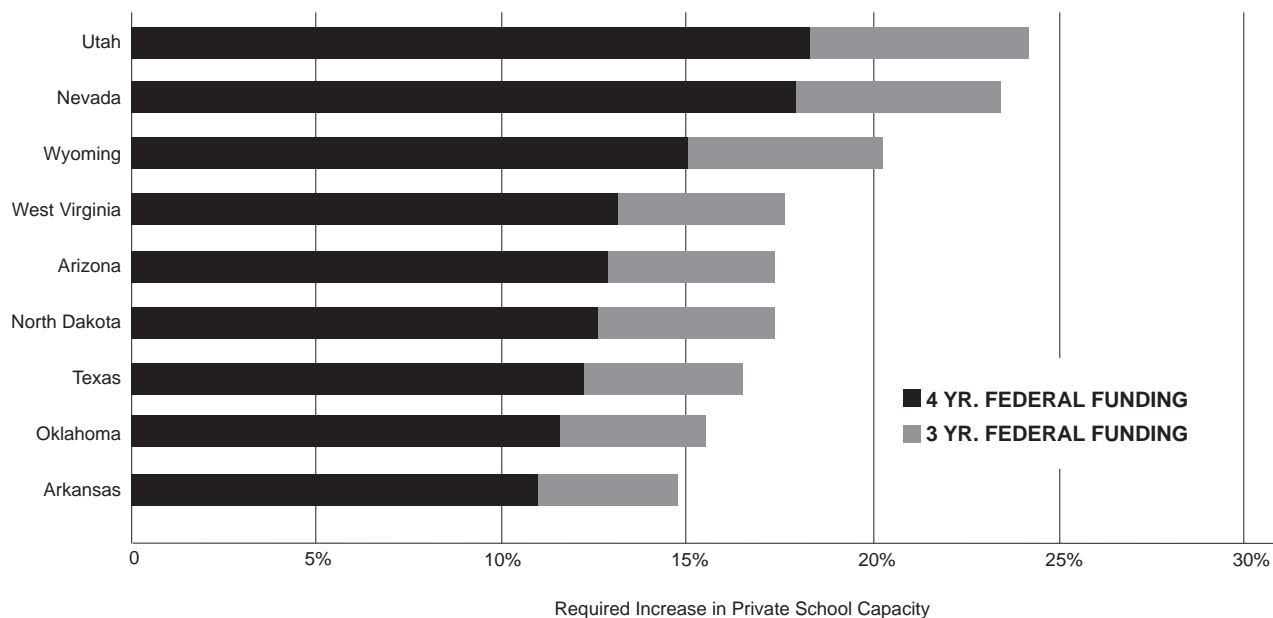
Still, some states and some districts will require larger and perhaps less realistic expansions of private school capacity to accommodate School Passport scholarships. Table 3 presents state-by-state estimates of private school enrollments in grades 1-12 and calculates the expansion in private school capacity that would be required at scholarship values of \$2,000 and \$2,250 by the number of years over which scholarships are allocated. The table highlights 12 states where School Passports valued at \$2,000 and spread over three years would require increases in private school capacity of at least 16 percent. It also shows how extending the number of years to four and increasing the value of School Passports by just \$250, to \$2,250, significantly reduces the required private school capacity increases in these states.

Figure 5 highlights several states where capacity constraints may be an issue for states at scholarship values of \$2,250 or below, especially for scholarship funds allocated over a three-year period. The states highlighted in Figure 5 currently have among the lowest percentage of students enrolled in private schools. For these states, higher scholarship values or allocating School Passport scholarships funds over a longer period (say, five years) would make fewer scholarships available annually and would reduce the expansion in private school capacity required to accommodate the School Passport program. Higher scholarship values might increase participation of lower-income students, but the tradeoff could be reduced state savings.

States opting for a five-year allocation would realize savings from lower state education aid payments for a longer period. These savings are large and equal to 70 percent of the amount of per student state aid associated with each student receiving a scholarship (once enrollment change lags no longer require state aid payments for students who have left the public schools) and for as long as federal funds pay for scholarships. If all states had a two-year enrollment lag in their education aid formulas, and federal funding for scholarships valued at \$2,000 each were allocated over four years in every state, states would save \$2.15 billion in education aid payments per year in both years three and four of federal funding. In year five, the first year states would assume responsibility for funding, the expense of providing scholarships would be subtracted from the savings in state education aid payments, yielding a smaller but still significant savings of \$1.2 billion for states.

**Scholarships may require private school capacity increases larger than practicable in some states. Spreading federal funding over five years can eliminate that constraint.** Figure 5

Required Increase in Private School Capacity (\$2,250 Scholarships)



Source: U.S. Census Bureau, "American Community Survey." Author's Calculations.

The salient point of our analysis of required increases in private school capacity, as with other variables such as the number of years over which federal funds for School Passport scholarships are awarded, is that with a modicum of flexibility, individual states can implement the program to achieve desired enrollment and fiscal objectives.

### State Fiscal Impact

Federal funds for School Passport scholarships would be allocated over a number of years, during which states would incur no costs for the program. While delays in state education aid payments in response to enrollment changes might initially result in no state savings from reduced state education aid payments for students receiving scholarships, neither would they increase state education aid payments.



States would continue to provide state education aid for students no longer in the public schools, but would use federal funds to pay for School Passport scholarships.

Each state would assume fiscal responsibility for the School Passport program after a number of years. If each state allocated the initial federal funds for School Passport scholarships over a period equal to one year plus the number of years its per student state education aid payments lag changes in enrollment, then the final year of federal funding would produce savings equal to 70 percent of the amount of state education aid associated with each student receiving a School Passport times the number of scholarships awarded. At scholarship values of \$2,000, the savings realized from extending School Passport allocations one year longer than the school funding lags would be approximately \$2.15 billion, enough to pay the \$950 million cost for states to fund scholarships in the first year they assume financial responsibility for the program and still deliver \$1.2 billion in fiscal benefits to states (Table 4).

In each subsequent year, as long as the value of each Passport scholarship is less than 70 percent of per student state education aid payments, then the savings from the difference between the cost of providing School Passport scholarships and per student state aid payments would provide the funds needed to pay for the program.

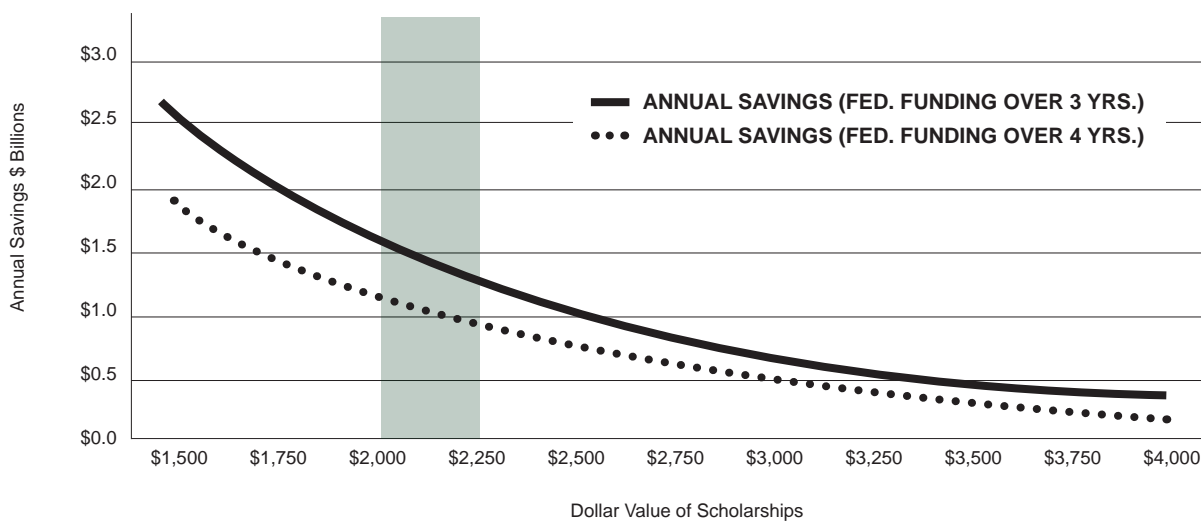
Each state could set scholarship values at levels required to generate enough savings in state education aid to maintain the original size of the School Passport program and still produce savings for the state budget. At scholarship values of between \$2,000 and \$2,250, states would realize savings of between \$1 billion and \$1.6 billion every year as a result of the initial one-time \$4 billion federal investment in the School Passport program (Figure 6). Lower scholarship values not only would make more annual scholarships available at any given level of funding, but also produce larger differences between per student state education aid payments and scholarship costs, increasing state savings once states assume financial responsibility for the program.

Once again, however, this aggregation masks differences across individual states. The scholarship values required to generate enough savings to fund the School Passport program varies. States that provided higher amounts of per student aid would realize larger savings at the same scholarship values as states that provided lower levels of per student state education aid. Table 4 presents estimates of the fiscal impact in each state of a School Passport program scenario where scholarships are valued at \$2,000

and federal funds for the program are allocated over a four-year period (resulting in fewer annual scholarships, lower annual savings, and smaller increases in private school capacity than when funds are allocated over three years).

**After federal funding expires and states assume responsibility for the program, states save an estimated \$1.0 to \$1.6 billion annually.** Figure 6

Estimated Annual State Savings by Scholarship Value



Source: Author's Calculations

Notes: Estimated saving is the difference between state aid per student (times .70) for each student receiving a passport scholarship in each state and the cost of the passport.

Conservatively inflating 2007-2008 per student state education aid payments by 12 percent to estimate 2015 school year per student state aid payments, taking 70 percent of that figure as the avoided payment amount, and calculating the difference between each state's required School Passport scholarship payments and its avoided state education aid payments, we find that every state in the nation could assume funding responsibility for annual School Passport scholarships at the initial program levels funded by the federal government. In addition, each state would generate savings over what it would have spent in state education aid for the students receiving scholarships. Figure 7 shows the number of states that would realize savings at different scholarship values after states assume responsibility for School Passport program funding.

## Estimated Fiscal Impacts of School Passports When States Assume Financial Responsibility

Table  
4

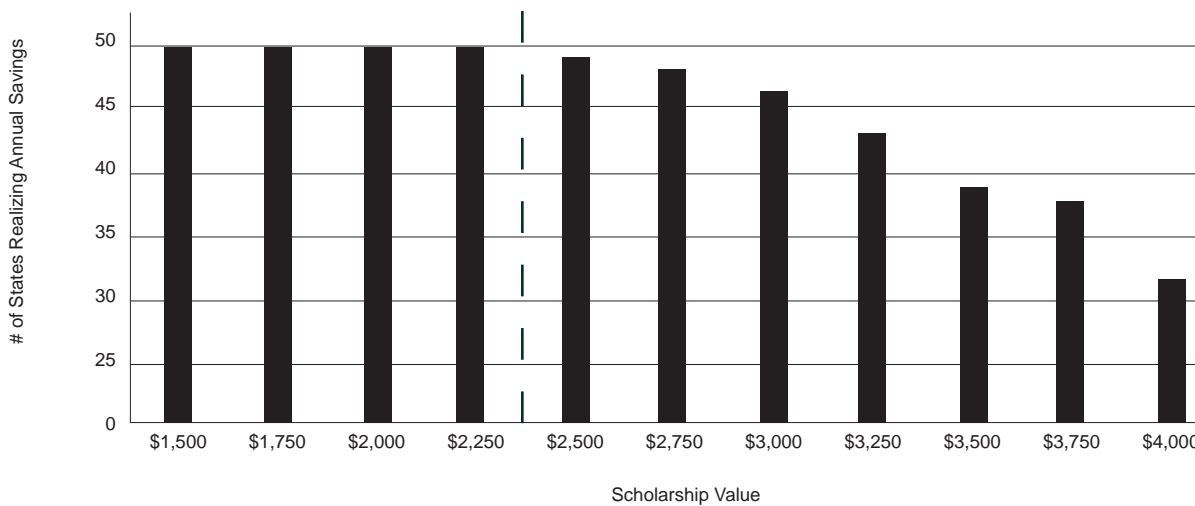
(Assumes Federal Funds Spread Over 4 years and \$2,000 Scholarships)

State	State Aid per Student 2007-08	Avoided State Aid Exp. per Student (@ 70%)	Estimated Avoided State Aid Exp. per Student by 2015	State Cost to Maintain Original Program Funding	Avoided State Aid Expenditures	Annual Savings
Alabama	\$6,271	\$4,390	\$4,916	\$14,528,710	\$35,714,940	\$21,186,230
Alaska	\$11,580	\$8,106	\$9,079	\$2,266,763	\$10,289,651	\$8,022,889
Arizona	\$4,891	\$3,424	\$3,835	\$20,266,403	\$38,856,207	\$18,589,804
Arkansas	\$5,531	\$3,872	\$4,336	\$8,844,873	\$19,177,030	\$10,332,156
California	\$6,883	\$4,818	\$5,396	\$118,779,259	\$320,482,595	\$201,703,336
Colorado	\$4,269	\$2,988	\$3,347	\$15,150,502	\$25,353,578	\$10,203,075
Connecticut	\$6,560	\$4,592	\$5,143	\$10,798,716	\$27,769,114	\$16,970,398
Delaware	\$8,556	\$5,989	\$6,708	\$2,687,671	\$9,014,319	\$6,326,648
Florida	\$4,271	\$2,990	\$3,348	\$53,812,810	\$90,095,129	\$36,282,319
Georgia	\$5,139	\$3,597	\$4,029	\$30,716,197	\$61,877,411	\$31,161,214
Hawaii	\$11,975	\$8,383	\$9,388	\$3,829,825	\$17,977,964	\$14,148,139
Idaho	\$5,344	\$3,741	\$4,190	\$4,913,905	\$10,293,885	\$5,379,979
Illinois	\$3,753	\$2,627	\$2,942	\$40,956,519	\$60,254,248	\$19,297,729
Indiana	\$6,285	\$4,400	\$4,927	\$20,066,433	\$49,438,073	\$29,371,640
Iowa	\$5,216	\$3,651	\$4,089	\$9,413,024	\$19,246,547	\$9,833,523
Kansas	\$6,783	\$4,748	\$5,318	\$8,951,333	\$23,801,021	\$14,849,688
Kentucky	\$5,643	\$3,950	\$4,424	\$12,980,272	\$28,713,090	\$15,732,817
Louisiana	\$5,174	\$3,622	\$4,056	\$14,120,312	\$28,638,931	\$14,518,618
Maine	\$5,957	\$4,170	\$4,670	\$3,855,371	\$9,002,847	\$5,147,476
Maryland	\$6,502	\$4,551	\$5,098	\$17,533,119	\$44,688,133	\$27,155,014
Massachusetts	\$6,363	\$4,454	\$4,989	\$19,814,086	\$49,422,196	\$29,608,110
Michigan	\$6,668	\$4,668	\$5,228	\$31,728,943	\$82,934,889	\$51,205,946
Minnesota	\$8,098	\$5,669	\$6,349	\$16,271,414	\$51,652,237	\$35,380,823
Mississippi	\$4,836	\$3,385	\$3,791	\$9,551,749	\$18,107,365	\$8,555,616
Missouri	\$3,681	\$2,577	\$2,886	\$18,349,149	\$26,476,941	\$8,127,792
Montana	\$5,445	\$3,812	\$4,269	\$2,963,166	\$6,324,701	\$3,361,534
Nebraska	\$3,873	\$2,711	\$3,036	\$5,699,747	\$8,653,448	\$2,953,700
Nevada	\$3,130	\$2,191	\$2,454	\$7,903,305	\$9,697,039	\$1,793,734
New Hampshire	\$5,027	\$3,519	\$3,941	\$4,001,391	\$7,885,076	\$3,883,686
New Jersey	\$7,576	\$5,303	\$5,940	\$26,514,563	\$78,742,736	\$52,228,173
New Mexico	\$7,864	\$5,505	\$6,165	\$6,344,878	\$19,559,278	\$13,214,400
New York	\$8,549	\$5,984	\$6,702	\$60,140,199	\$201,542,316	\$141,402,117
North Carolina	\$5,540	\$3,878	\$4,343	\$28,307,539	\$61,474,916	\$33,167,377
North Dakota	\$4,032	\$2,822	\$3,161	\$2,086,509	\$3,297,819	\$1,211,310
Ohio	\$5,688	\$3,982	\$4,459	\$35,659,610	\$79,510,090	\$43,850,480
Oklahoma	\$4,632	\$3,242	\$3,631	\$11,519,087	\$20,915,713	\$9,396,626
Oregon	\$5,658	\$3,961	\$4,436	\$11,364,162	\$25,204,983	\$13,840,821
Pennsylvania	\$5,063	\$3,544	\$3,969	\$37,976,189	\$75,371,191	\$37,395,002
Rhode Island	\$6,013	\$4,209	\$4,714	\$3,286,795	\$7,747,291	\$4,460,496
South Carolina	\$5,545	\$3,882	\$4,347	\$13,831,588	\$30,064,893	\$16,233,305
South Dakota	\$3,369	\$2,358	\$2,641	\$2,540,829	\$3,355,541	\$814,712
Tennessee	\$3,892	\$2,724	\$3,051	\$18,884,215	\$28,810,967	\$9,926,752
Texas	\$4,364	\$3,055	\$3,421	\$79,184,702	\$135,460,319	\$56,275,617
Utah	\$4,323	\$3,026	\$3,389	\$9,564,268	\$16,207,762	\$6,643,494
Vermont	\$13,736	\$9,615	\$10,769	\$1,879,567	\$10,120,553	\$8,240,986
Virginia	\$4,835	\$3,385	\$3,791	\$23,969,417	\$45,429,716	\$21,460,298
Washington	\$6,737	\$4,716	\$5,282	\$19,975,942	\$52,754,544	\$32,778,603
West Virginia	\$6,629	\$4,640	\$5,197	\$5,310,314	\$13,799,213	\$8,488,898
Wisconsin	\$6,043	\$4,230	\$4,738	\$17,476,111	\$41,398,390	\$23,922,279
Wyoming	\$9,837	\$6,886	\$7,712	\$1,647,396	\$6,352,530	\$4,705,134
<b>Total</b>				<b>\$948,218,848</b>	<b>\$2,148,959,362</b>	<b>\$1,200,740,514</b>

Source: U.S. Department of Education, National Center for Education Statistics, "Common Core of Data", Author's calculations

**Every state realizes annual savings at scholarship values of \$2,250 or less, even after federal funding ends.** Figure 7

# of States With Annual Savings From School Passport Program by Scholarship Value



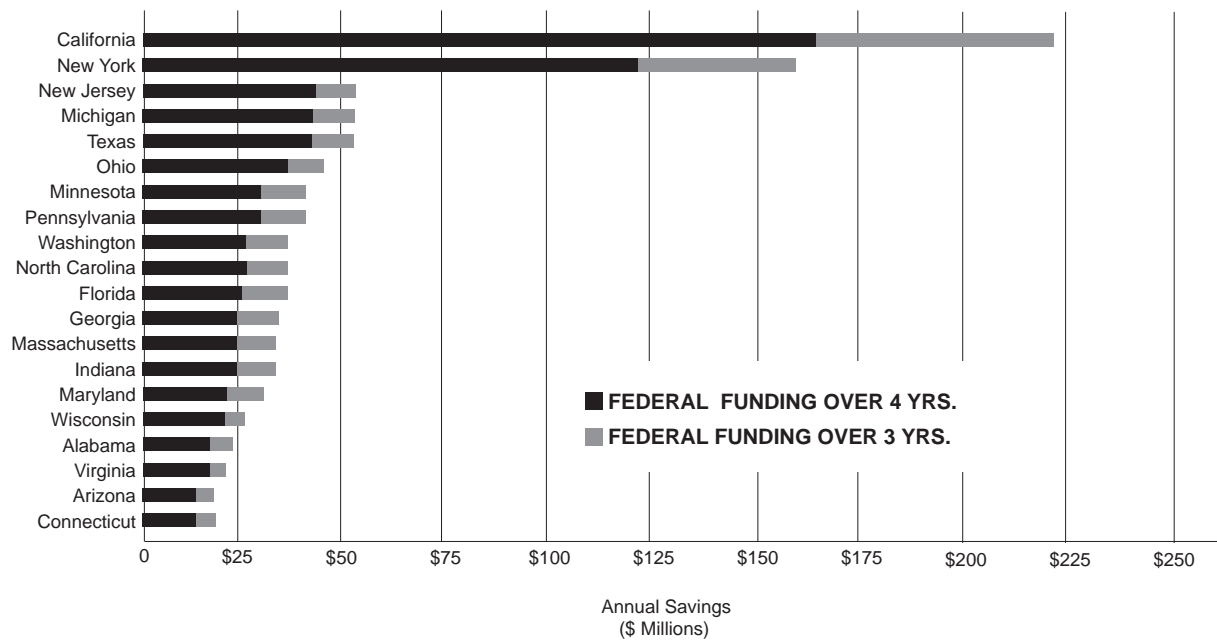
Source: Author's Calculations

Finally, the amount of savings each state realizes is dependent upon a number of factors; most important is the difference between per student state education aid payments and the value of School Passport scholarships. As long as scholarship values are less than 70 percent of per student state education aid payments, then all states realize a fiscal benefit for each student that receives a School Passport scholarship. The more public school students who receive them, the larger will be the overall fiscal benefits to the state.<sup>12</sup> Figure 8 highlights states that would realize the largest annual savings after assuming financial responsibility for the School Passport program with scholarship values of \$2,250.

States that receive the largest School Passport allocations can offer the most annual scholarships. If the difference between per student state aid payments and scholarship values is large, these states can generate significant annual savings from the School Passport program.

**States with large populations and higher amounts of state education aid per student receive the largest fiscal benefits.** Figure 8

States With the Largest Savings From School Passport Program



Source: Author's Calculations

### Program Design Tradeoffs

A School Passport scholarship program could be tailored at the state level to accommodate different fiscal, educational, equity, and social objectives in each state. A high dollar value scholarship does the most to attract low-income participants and also makes it easier for educational entrepreneurs to start new schools, but would reduce the number of scholarships available, possibly limiting the program. Conversely, lower value Passport scholarships would make more scholarships available and increase state education aid savings for each student who receives a scholarship, but may reduce program participation among the lower-income families who need educational options the most. Means testing a program and limiting participation to the lowest-income public school students would greatly reduce overall demand for scholarships while targeting the program to lower-income children. It also may limit the ability to generalize the results of program evaluation to the overall population of students and school districts. It would also reduce the size of the competitive pressure on public schools to improve, because higher-income families are the

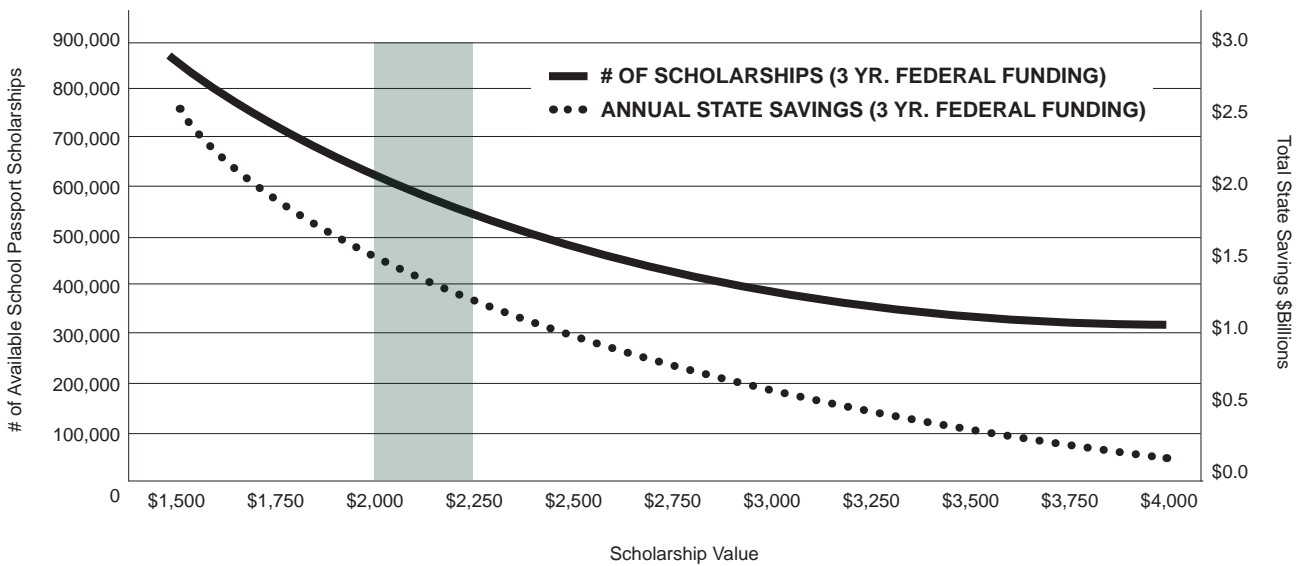
most likely to switch schools.

In addition, lower dollar value scholarships would make more scholarships available at any level of funding and increase total state fiscal benefits when state education aid payments per student are higher. Figure 9 illustrates this point, and also shows that as scholarship values increase, the fiscal benefits to states of the School Passport program decline more rapidly than the number of available scholarships. At the same time, lower scholarship values and allocating federal funding over a shorter period of time would increase the number of available scholarships along with the demands on private schools to increase capacity.

**At higher scholarship values, state government savings fall more rapidly than does the number of scholarships provided.**

Figure 9

# of Scholarships and Aggregate State Fiscal Benefits by Scholarship Value



Source: Author's Calculations

These types of tradeoffs are inherent in all public policies. The analyses and tools in this study are designed to clarify the impact of key program design variables and to highlight some of the tradeoffs that they effects pacts that cannot account for all the differences in education finance laws or the characteristics and capacity for expansion of private schooling in each state. Accordingly, each state is encouraged to refine the analyses provided and perform a more thorough and detailed set of calculations that allows it to test the sensitivity of program effects to key assumptions and unique characteristics of its school finance laws.

## **The Impact of High Dollar Value School Passports**

A School Passport program with high dollar value scholarships (of at least \$7,000) would offer a number of advantages. First, high value scholarships would create the most overall demand for the program and the most demand among lower-income families. High-value school passports would confer the greatest benefits on those students most constrained in their educational options and most in need of increased school choice. However, as noted, high dollar value passports in a program with a fixed level of funding will result in fewer students receiving passports. It is unclear whether strong demand alone, if it includes a high level of unmet demand, introduces the same level of competitive forces to local education markets as would a program with smaller overall demand but which provides passports to a great number of students. Thus the benefit of expanded choice for lower-income students under high-value passports may come at the expense of weaker forces for broad systemic educational reform.

High-value school passports will also increase the breadth of private school options for students who receive them. By making a greater number and variety of schools affordable to families they will also increase the demand for private non-sectarian schools relative to private sectarian schools, as generally higher-priced non-sectarian schools become more affordable to a larger number of families.

High value school passports may also have a greater impact on the supply of private school options than do lower value passports. New and existing private schools will have a greater incentive to enter or expand in local education markets where there is a sufficient increase in demand from high-value school passport students less in need of subsidies from the private schools.

Finally, from a fiscal perspective, high-value school passports decrease or eliminate the difference in state government education expenses between the amount states pay in per student state aid and the expense of school passports for each student. For some states, the benefits and educational objectives of high value passports will outweigh the fiscal costs (or reduction in fiscal benefits) from the School Passport program. Other states, constrained by fiscal concerns, or more interested in maximizing the number of school passport students, will choose to offer only lower dollar value passports. States should be allowed to determine the dollar value of their school passports, or set different passport values in different local education markets. States may choose to offer higher value passports in markets most in need of educational improvement while offering lower value passports in others.

The list below provides some perspective on how the impacts of high-value school passports may differ from the analyses of school passports ranging from \$1,500 to \$4,000 presented earlier in this report. A school passport program with funding for each state spread over four years that offers passports valued at \$7,000 would:

- Provide school passports to about 136,000 students across the country.
- Reduce public school enrollment by 0.31 percent.
- Require a private school capacity increase of 2.6 percent nationwide.
- Increase state education expenditures by about \$336 million once states assume financial responsibility for the program.
- Produce net fiscal savings in four of the 50 states.

## Conclusion

The stimulus bill passed by Congress contained \$80 billion in funding for states to help pay for public education. Of that amount, all but \$5 billion is awarded to maintain existing programs and practices in public education. With so much of the stimulus funding supporting the status quo in education, the education reform potential of the stimulus has been severely limited. This report analyzes a proposal to use remaining stimulus funds to support a \$4 billion program that provides tuition scholarships in each state for public school students to attend private schools.

In this report we present one example of how such a program could generate significant and lasting fiscal benefits to each state. We show that the proposed program likely would affect no more than 1.5 percent of public school students across the country and would require only a modest expansion (of between 8 percent and 12 percent) of private school capacity in a majority of states.

We show how states can implement the School Passport program to guarantee enough savings to allow them to assume program funding responsibility once stimulus funding ends. The enduring fiscal benefits provided to states can help ensure this reform would continue after stimulus funding ends, while produc-



ing annual savings for state treasuries of \$1 billion to \$1.6 billion in return for a one-time initial program investment by the federal government of \$4 billion.

## Notes

<sup>1</sup> Andrew Smarick, “Education Stimulus Watch, Special Report 1,” American Enterprise Institute, June 2010.

<sup>2</sup> National Association of State Budget Officers, “State Expenditure Report,” various years.

<sup>3</sup> NASBO, Transportation infrastructure funds exceed either or both funds for education and Medicaid in Montana, North Dakota, South Dakota and Wyoming.

<sup>4</sup> National Access Network, Teachers College, Columbia University, “Litigation” accessed online at: <http://www.schoolfunding.info/litigation/litigation.php3>. Christopher Berry, “School Finance Judgments and Spending on Education: A Review of the Evidence,” University of Chicago, 2004.

<sup>5</sup> The disappointment is not limited to one end of the political or ideological spectrum; see for example “Obama’s Shallow Plan to Spend \$23 Billion on Education,” *Washington Post*, May 28, 2010. For a more complete review of the reactions to ARRA’s education provisions see Andy Smarick’s quarterly “Education Stimulus Watch” reports for the American Enterprise Institute, available at <http://www.aei.org/paperstudies>.

<sup>6</sup> This is the amount that is obligated but remains undistributed in the State Fiscal Stabilization Fund (SFSF), and more specifically, the “educational services grant”, or the 81.8 percent portion of the SFSF that is directed to each state for distribution to local districts to maintain existing funding levels. Author’s calculations of obligated and undistributed funds are based on data contained in U.S. Department of Education ARRA September 17, 2010 state spending report, accessed here: <http://www2.ed.gov/policy/gen/leg/recovery/reports.html>

<sup>7</sup> These include funds for Statewide Data Systems, the Teacher Incentive Fund, and Teacher Quality Enhancement.

<sup>8</sup> Chester E. Finn Jr., and Frederick M. Hess, “Silver Cloud, Dark Lining,” *National Review Online*, January 8, 2009.

<sup>9</sup> Greg Forster, “A Win-Win Solution: The Empirical Evidence on How Vouchers Affect Public Schools.” Friedman Foundation for Educational Choice, February, 2009. David N. Figlio, and Cassandra M. D. Hart, “Competitive Effects of Means-Tested School Vouchers.” *National Bureau of Economic Research*, Working Paper # 16056, June 2010.

<sup>10</sup> “The Corporate Income Tax Credit Scholarship Program Saves State Dollars,” Office of Program Policy Analysis & Government Accountability, Florida State Legislature, December 2008.

<sup>11</sup> We did not do a comprehensive review of all state education finance laws for this report. In general, there is a lag between enrollment changes and state aid changes. In the 10 states we reviewed these lags were not longer than two years.

<sup>12</sup> The 70% figure is a conservative estimate designed to set a higher criterion for generating savings than exists in most states. In most state education finance systems, a higher percentage of state education aid than 70% is awarded on the basis of enrollment numbers.

## About the Author

Brian J. Gottlob (bgottlob@poleconresearch.com) is the Principal of PolEcon Research. For 17 years Gottlob has analyzed economic, demographic, labor market industry and public policy trends for private sector, government and nonprofit organizations. He has extensive experience in developing econometric models and has completed studies on a range of economic, tax policy, energy, education, and health care issues in the states of New Hampshire, Virginia, Ohio, New Mexico, New York, Texas, Oregon, Michigan, Georgia, Mississippi, West Virginia and Illinois. Gottlob is a Senior Fellow at The Foundation for Educational Choice. He has an undergraduate degree in economics from the State University of New York and a graduate degree in public policy analysis from the University of New Hampshire.

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