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# The Fiscal Impact of the Milwaukee Parental Choice Program: 2009 Update

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# The Fiscal Impact of the Milwaukee Parental Choice Program: 2009 Update

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SCDP Milwaukee Evaluation  
Report #7

March 2009



## The University of Arkansas

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The School Choice Demonstration Project (SCDP), based within the Department of Education Reform, is an education research center devoted to the non-partisan study of the effects of school choice policy and is staffed by leading school choice researchers and scholars. Led by Dr. Patrick J. Wolf, Professor of Education Reform and Endowed 21st Century Chair in School Choice, SCDP's national team of researchers, institutional research partners and staff are devoted to the rigorous evaluation of school choice programs and other school improvement efforts across the country. The SCDP is committed to raising and advancing the public's understanding of the strengths and limitations of school choice policies and programs by conducting comprehensive research on what happens to students, families, schools and communities when more parents are allowed to choose their child's school.

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Robert M. Costrell

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Report #7

March 2009



**SCHOOL CHOICE  
DEMONSTRATION PROJECT**

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## Introduction: Recap of 2008 Report and Issues for 2009 Update

In February 2008, the School Choice Demonstration Project (SCDP) issued its first report on the fiscal impact of the Milwaukee Parental Choice Program (MPCP) on taxpayers in Milwaukee and the state of Wisconsin.<sup>1</sup> The report covered the period 1993-2008, and addressed two distinct questions:

1. What is the net impact of the MPCP on state and local public funds?
2. How is the fiscal impact distributed among:
  - a. Milwaukee property taxpayers
  - b. property taxpayers outside of Milwaukee
  - c. Wisconsin state taxpayers
  - d. Milwaukee Public Schools

The methodology of the report centered on close examination of the MPCP funding formula and its interaction with the state's two intertwined funding formulas for district schools, with particular attention to how these have evolved over the program's history.

The two main findings were:

1. The net fiscal impact of the MPCP is somewhat sensitive to assumptions, but for most likely scenarios the net impact is positive taxpayer savings. Under one likely scenario, the estimated taxpayer savings from the voucher program was \$24.6 million in fiscal year 2007 (FY07) and \$31.9 million in FY08.
2. The distribution of the fiscal impact is highly uneven. Despite likely net benefits for taxpayers as a whole, Milwaukee property taxpayers have been adversely affected, due to the specific nature of the funding formula adopted for the MPCP. The estimate for FY07 was a \$47.0 million adverse impact on Milwaukee property taxpayers. At the same time, the estimated net benefits for property taxpayers outside of Milwaukee and for Wisconsin state taxpayers were \$42.3 million and \$29.3 million respectively.

Equally as important as the numerical findings is the explanation of how these disparate results came to pass. The main reason is that during the evolution of the MPCP funding formula over the life of the program, funds for state aid ceased flowing to Milwaukee for MPCP voucher students, but about half the voucher expenses continued to be deducted from Milwaukee's aid allotment (instead of the state's general fund). These features, taken alone, would reduce the per pupil allocation to Milwaukee Public Schools (MPS). However, Milwaukee is

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<sup>1</sup> Robert M. Costrell, "The Fiscal Impact of the Milwaukee Parental Choice Program in Milwaukee and Wisconsin, 1993-2008," [http://www.uark.edu/ua/der/SCDP/Milwaukee\\_Eval/Report\\_2.pdf](http://www.uark.edu/ua/der/SCDP/Milwaukee_Eval/Report_2.pdf). For a shorter version, see Robert M. Costrell, "Who Gains, Who Loses?" *Education Next*, Winter 2009, pp. 62-69, [http://media.hoover.org/documents/ednext\\_20091\\_62.pdf](http://media.hoover.org/documents/ednext_20091_62.pdf).

allowed to offset the voucher deduction from state aid by raising Milwaukee property taxes. Milwaukee almost always exercises this option, in order to maintain per pupil revenues. As a result of this chain of funding formula features, the MPCP program has had an adverse impact on Milwaukee property taxpayers, despite net benefits to the state's other taxpayers. This is the explanation of the "funding flaw" -- the adverse impact on Milwaukee property taxpayers -- that has been much discussed in Milwaukee and Wisconsin for a number of years.

There are two reasons to update the 2008 report. First, the figures will naturally change with the continuing growth of the voucher program, along with changes in per pupil revenue allocations to MPS and MPCP. So it is of interest to see how these developments play out on the net fiscal impact and its allocation among groups of taxpayers.

Second, there have been public estimates of a different measure of the "funding flaw" that have led some to wonder if the flaw has ceased to exist. Since there have also been some policy changes, intended to address the funding flaw, the question is whether those changes have "fixed" the problem.

To summarize the results of this update, we will find that:

1. The net fiscal benefits of the MPCP have continued to grow, due to rising voucher enrollments, and also because of the widening gap between per pupil allocations to MPS and MPCP. For FY09, we estimate the net fiscal benefit of the MPCP to be \$37.2 million.
2. The net fiscal benefits continue to be very unevenly distributed, with an adverse impact on Milwaukee property taxpayers. The "funding flaw" persists, despite a recent legislative effort to address it. For Milwaukee property taxpayers, the adverse impact is estimated at \$44.7 million for FY09, while other property taxpayers and state taxpayers benefit by \$52.0 million and \$30.0 million, respectively.
3. The alternative measure of the funding flaw that has led some to wonder if the flaw has ceased to exist is a misleading measure, due to a misunderstanding of how the funding formulas work. This report will try to explain the nature of that misunderstanding. It will also show that the recent policy change intended to address the flaw has only modestly mitigated the problem.

This report and its companion reports are the second in a series of annual reports on the Milwaukee Parental Choice Program (MPCP) that will be conducted by the School Choice Demonstration Project (SCDP). An initial draft of this report was improved based on comments from the SCDP Research Advisory Board and research team. All remaining errors are the responsibility of the author alone.

This ongoing research project is being funded by a diverse set of philanthropies including the Annie E. Casey, Joyce, Kern Family, Lynde and Harry Bradley, Robertson, and Walton Family Foundations. We thank them for their generous support and acknowledge that the actual content of this report is solely the responsibility of the author and does not necessarily reflect any official positions of the various funding organizations or the University of Arkansas.

## The Net Fiscal Impact on Public Funds

The net fiscal impact of the MPCP on state and local public funds is the difference between the voucher expenditures on MPCP students and the allocation of revenues to the public schools that voucher students would otherwise attend. This can be formally expressed as follows:

$$\text{Net Impact} = (\text{MPS revenue/pupil} \times \text{reduction in MPS enrollment}) - (\text{Voucher} \times \text{MPCP enrollment}).$$

This expression can be informatively rewritten as:

$$\begin{aligned} \text{Net Impact} = & (\text{MPS revenue/pupil} - \text{voucher}) \times p \times \text{MPCP enrollment} \\ & - \text{Voucher} \times (1 - p) \times \text{MPCP enrollment}, \end{aligned}$$

where  $p$  is the percentage of MPCP students who would otherwise have attended MPS. The first term in this expression is the per pupil savings of public funds for each student who attends an MPCP school instead of MPS; the second term is the public voucher expenditure for families who would have otherwise paid it themselves. The key variables that determine the net impact are: (i) the difference between the per pupil voucher amount and the per pupil revenue limit for MPS; (ii) MPCP enrollment; and (iii) the percentage of voucher students who would otherwise have attended public schools. We take these each in turn.

Figure 1 presents data from the Wisconsin Department of Public Instruction (DPI) on the per pupil revenue limit for MPS and the maximum MPCP voucher amount. The 2008 report presented these figures through FY08, and Figure 1 extends these to FY09, as indicated by the dotted lines. The revenue limit, set by Wisconsin statute, specifies the maximum district revenues from state formula aid and local property taxes (i.e. excluding Federal funds and state categorical aid). Since FY07 (the year examined in most detail in the 2008 report), the MPS revenue limit has grown by \$629 per pupil, from \$8,833 to \$9,462. At the same time, the maximum MPCP voucher





amount has grown by only \$106, from \$6,501 to \$6,607. Consequently, the gap between the two has widened by \$523, from \$2,332 to \$2,855. Each voucher student who enrolls in an MPCP school instead of MPS now provides a net savings of \$2,855 from state and local funds. The growth in this per pupil savings over the last two years increases the net fiscal benefit from the MPCP.

**Figure 1: MPS Revenue Limit and MPCP Maximum Voucher, FY91-09**

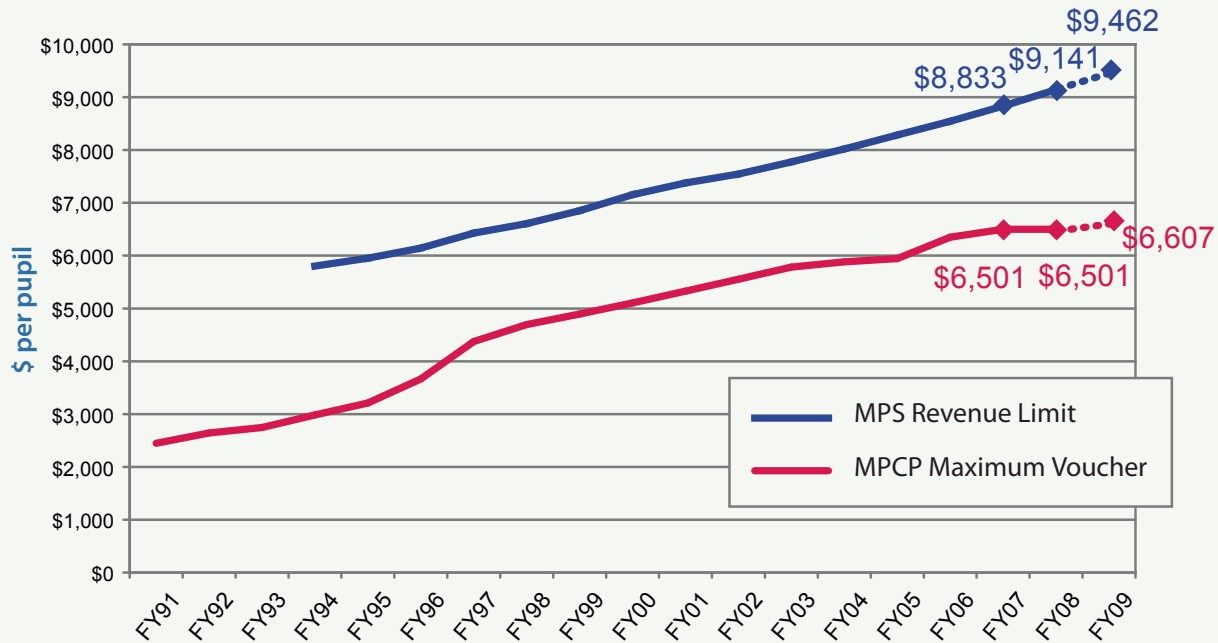
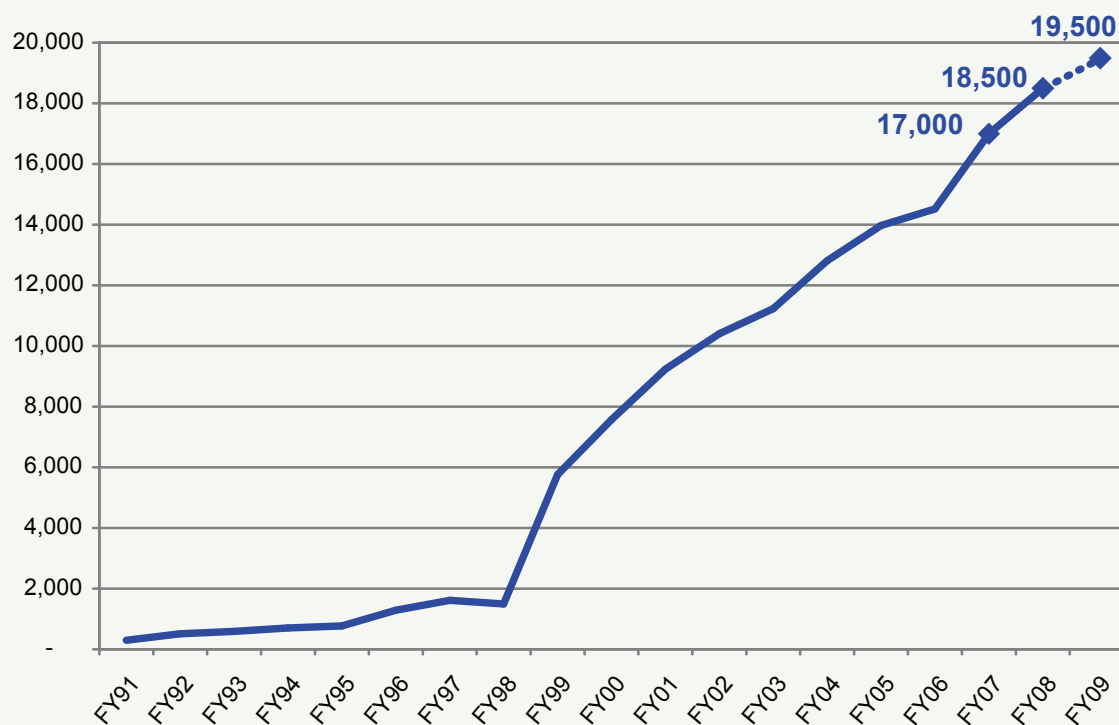


Figure 2 presents DPI data on MPCP enrollments. These data are full-time equivalents,<sup>2</sup> the units to which the per-pupil voucher amount applies. As can be seen, the program continues its relatively steady growth since FY99, with an increase of 1,500 students in FY08 and 1,000 students in FY09, to its current level of about 19,500 students.<sup>3</sup>

<sup>2</sup> Four-year-old kindergarteners and summer students count as less than one FTE.

<sup>3</sup> Final figures are not available until after the school year ends.

**Figure 2: MPCP Enrollment, FY91-09**  
(full-time equivalents)



The last statistic that is needed to calculate the program's net fiscal impact is the percentage of MPCP students who would otherwise have attended the public schools. Unlike the other data, this figure cannot be known for sure -- it can only be estimated from one source or another. The 2008 report discussed this issue in some detail, and no further information has become available to update this estimate. Specifically, the best estimate available was 90 percent, a figure derived from the choices of lottery winners and losers in other low-income voucher programs. This figure was also consistent with long-term downward trends in Milwaukee private school enrollments. That said, there is uncertainty regarding the estimate, so the calculations for net fiscal impact were presented for a range of assumed percentages of MPCP students who would otherwise have attended MPS. These percentages ranged from a low of 70 percent (representing the outside limit of what might conceivably be consistent with long-term private school enrollment trends) to a high of 100 percent.

Table 1 presents the net fiscal impact of MPCP on public funds for FY07, FY08, and FY09 under varying assumptions regarding the percentage of MPCP students who would have otherwise attended MPS. As indicated above, the figures have grown due to the growth in MPCP enrollments and the widening gap between

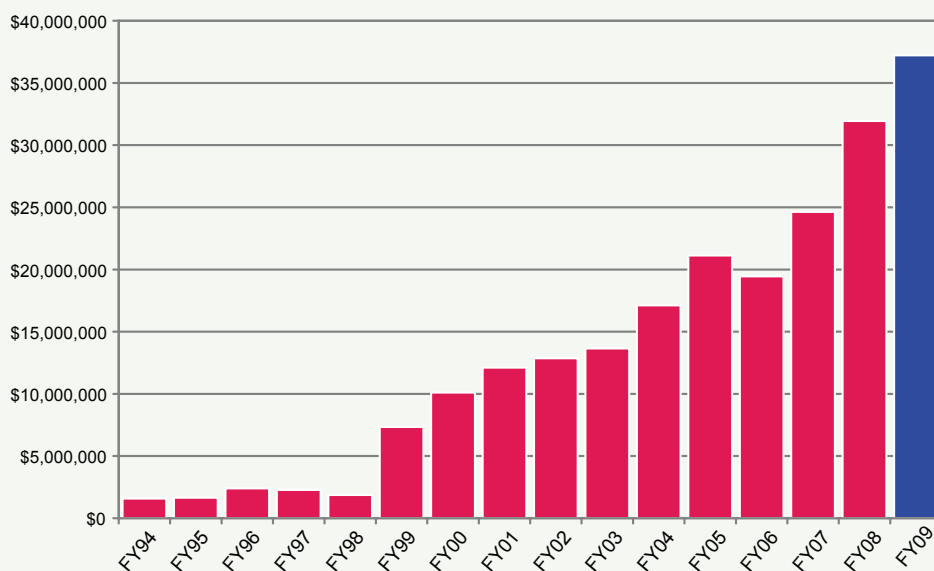
the voucher and the MPS revenue limit. In the previous two years, the net fiscal impact was positive for most reasonable assumptions regarding the percentage of MPCP students who would otherwise have attended MPS. Even under the 70 percent assumption, the net impact was barely negative in FY08. For FY09, the net impact is no longer negative, even under that extreme assumption, so it is safe to say that the net impact is positive under all reasonable scenarios.

**Table1: Net Impact of MPCP on Public Funds, FY07-FY09**

		(in millions)		
		FY07	FY08	FY09
<b>% of MPCP students that would have attended MPS</b>	<b>100%</b>	\$39.6	\$48.8	\$55.7
	<b>90%</b>	\$24.6	\$31.9	\$37.2
	<b>80%</b>	\$9.6	\$15.0	\$18.8
	<b>70%</b>	(\$5.4)	(\$1.9)	\$0.3

Figure 3 presents the growth in the net impact of MPCP on state and local public funds, from FY91 to FY09, under the 90 percent assumption rooted in the voucher lottery literature. The red bars were presented in the 2008 report, and the blue bar shows this figure has now risen from \$24.6 million in FY07 and \$31.9 in FY08 to \$37.2 million today.<sup>4</sup>

<sup>4</sup> Wisconsin's Legislative Fiscal Bureau (LFB) periodically receives legislative requests to determine the potential fiscal impact of eliminating the MPCP. As discussed in the SCDP's 2008 fiscal report, the LFB estimates imply a greater net fiscal benefit from the MPCP than the methodology employed here, primarily due to the LFB's use of a projection for future per pupil MPS revenues, rather than the current year revenue limit (see note 12 of the 2008 SCDP report). The higher estimates from LFB continue to hold for this update. The most recent LFB estimate, issued on September 10, 2008, includes, at the request of Representative Jeff Fitzgerald, an estimate assuming 90 percent of MPCP students would have attended MPS. This estimate, for FY08, implies a \$46.6 million net benefit, which exceeds the corresponding \$31.9 million estimate reported in Table 1.

**Figure 3: Net Fiscal Impact of MPCP on State and Local Funds, FY91-09**

Assumption: 90% of voucher students would otherwise have attended MPS

### The Distribution of Fiscal Impact Among Groups of Taxpayers

The net fiscal benefit from the MPCP is allocated among Wisconsin's state and property taxpayers through a set of three school funding formulas: (i) the revenue limit formula; (ii) the equalization aid formula; and (iii) the MPCP formula itself. The salient features of these formulas are these:<sup>5</sup>

- The revenue limit formula allocates to each school district a maximum amount of revenues (from state aid and local levy together) that is equal to a per-pupil revenue limit times enrollment. This means that for every student who attends an MPCP school instead of MPS, the total state and local revenues available for MPS decline by the per pupil revenue limit (\$9,462 in FY09), but the per-pupil revenues are unaffected.
- The equalization aid formula, in conjunction with the revenue limit formula, splits each district's total allowable revenues between state formula aid and allowable local levies. The overall statewide split

<sup>5</sup> This account is slightly simplified. For a complete discussion, including mathematical formalization, see the 2008 SCDP report, which also includes a detailed analysis of how these formulas evolved over time. Note also that this analysis omits a number of minor complications that always attend funding formulas, such as three-year averaging of enrollments, hold harmless provisions, and minor definitional differences between comparable concepts that enter the revenue limit and equalization aid formulas.

depends on the total state aid appropriated, discussed further below. Within the overall split, the formulas set each district's allowable local levy in a way that equalizes the levy rate across districts with equal per pupil revenues. The key point here is that this means the allowable local levy is independent of enrollments. Consequently, when MPS loses enrollment, the normal (i.e. non-MPCP) operation of these formulas would be to reduce state aid by the full amount of the per-pupil revenue limit, while leaving the allowable levy unaffected.

- The MPCP formula modifies the normal operation of these formulas. Forty-five percent of the voucher expense is deducted from MPS' aid allocation. Milwaukee is allowed (but not required) to recoup this deduction from local property taxes, by raising its local levy beyond the limit that would normally be calculated. This is called the "choice levy."

The main implication of this system for funding the MPCP is that Milwaukee does not share in the overall net fiscal benefit from the program. The reason is that almost half the voucher expenses are deducted from Milwaukee's state aid even though no funds are allocated to Milwaukee for the voucher students, because MPCP students are not counted toward Milwaukee's revenue limit or equalization aid. As a result, there will be an adverse impact either on MPS (through a reduction in per-pupil revenues) or on Milwaukee property taxpayers (through the choice levy).



In general (with an exception discussed below), Milwaukee has chosen to shift the adverse impact from MPS to the property taxpayers by utilizing the authority to offset the MPCP aid deduction with the choice levy. But the underlying basis for the "funding flaw" is the deduction of voucher expenditures from MPS aid, combined with the exclusion of MPCP student counts from the MPS revenue limit and equalization aid formulas. One or the other -- the aid deduction or the MPCP student count exclusions -- would let the "dollars follow the child" and spare Milwaukee the adverse impact. But the combination of the two imposes a fiscal burden on Milwaukee, while the program benefits the rest of the state.<sup>6</sup>

<sup>6</sup> The reasons behind the combination appear to be historical in nature. That is, the system retains vestiges of the formula from the program's earliest days, as discussed in the 2008 SCDP report and also in the Conclusion below.



That is the big picture. Now to a more detailed accounting of the distribution of the MPCP's fiscal impact, and how this update compares with the previous figures.

Table 2 presents the full picture for FY09. Line 1 presents the details for the MPCP impact on Milwaukee's taxpayers. The first cell represents the choice levy, calculated as  $45\% \times \$6,607 \times 19,500 = \$58.0$  million. This entry reflects the fact that in FY09 (as in almost all previous years), Milwaukee fully utilized its tax capacity, so the full choice levy was added to property taxes. The second cell (\$3.4 million) is the estimate of a small offset discussed below. The third cell represents a new element, "high poverty aid," introduced in FY08 with the intention of alleviating the adverse impact of MPCP on Milwaukee property taxes. For FY09, Milwaukee's share of high poverty aid reached \$9.9 million, providing a modest offset to the impact of the choice levy. The resulting net adverse impact is estimated at \$44.7 million.

**Table 2: Distribution of MPCP's Fiscal Impact, FY09**  
(in millions)

	voucher expense	share of revenue limit reduction	high poverty aid	NET IMPACT
Milwaukee property taxpayers	(\$58.0)	\$3.4	\$9.9	(\$44.7)
Other property taxpayers		\$52.0		\$52.0
State taxpayers	(\$70.9)	\$110.7	(\$9.9)	\$30.0
TOTAL	(\$128.8)	\$166.1	\$0.0	\$37.2

Data: 19,500 MPCP students, \$6,607 voucher, \$9,462 MPS revenue limit.

Assumptions: 90% of voucher students would otherwise have attended MPS; state share of public education held constant at 2/3.

Before turning to the second and third lines of Table 2, consider the second column. This represents the fiscal benefit from the reduction in the revenue limit, as voucher students attend MPCP schools instead of public schools. The reduction in the revenue limit is calculated as  $\$9,462 \times 90\% \times 19,500 = \$166.1$  million. This releases state and local funds. The split between the two depends on the legislature's appropriation decisions.

Prior to FY04, the split of statewide school revenues between state aid and local levies was set in law at 2/3 state funding and 1/3 local funding (the split, of course, varied by district, depending on property values). Since FY04, the 2/3 rule-of-thumb has largely persisted as a non-binding guide to policy, and the actual rate has ranged from 63.7 - 66.3 percent (65.1 percent for FY08, the most recent year for which the statistic has been published). In this analysis (as in the 2008 SCDP report), we assume the 2/3 split still holds, both for total school revenues, as well as the reduction in school revenues due to the MPCP. This implies that the \$166.1

million reduction in the revenue limit frees up \$110.7 million in state funds (line 3, column 2) and \$55.4 million in local property taxes (lines 1-2, column 2). The \$55.4 million in property tax relief is allocated by the equalization aid and revenue limit formulas across districts in general proportion to property values.<sup>7</sup> Milwaukee has a small share of the state's total property values, so it receives only a small benefit from the revenue limit reduction (estimated here at \$3.4 million). The vast majority of property tax relief (estimated here at \$52.0 million) accrues to property taxpayers outside Milwaukee, as shown in line 2.

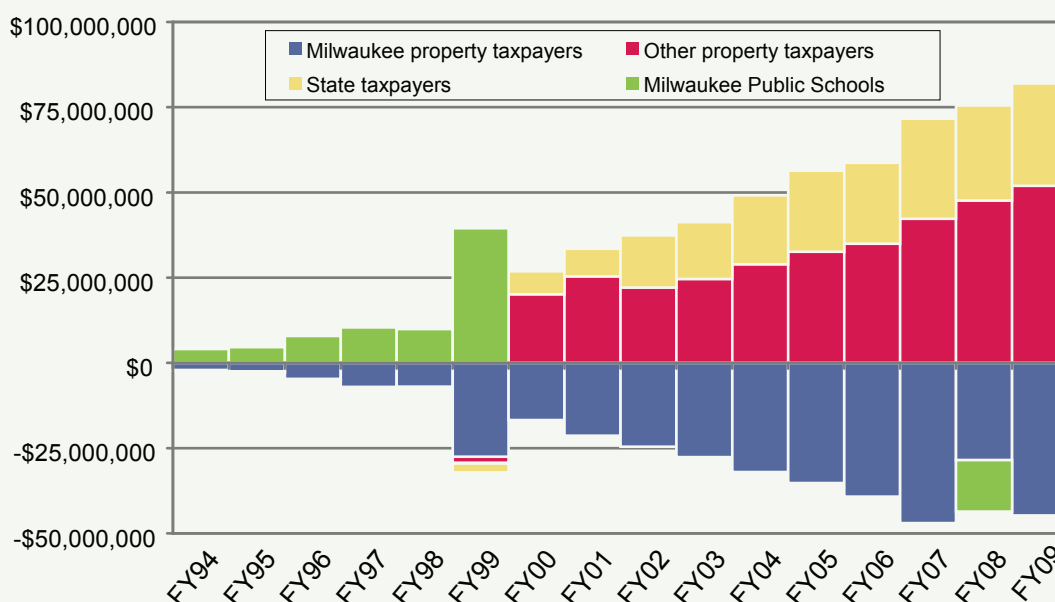


Finally, line 3 depicts the impact on state taxpayers. The general fund benefits from the revenue limit reduction (\$110.7 million), but this is offset by the state's share of voucher expenses ( $55\% \times \$6,607 \times 19,500 = \$70.9$  million), and also by the high poverty aid (\$9.9 million) used to help defray Milwaukee's choice levy. This leaves a net benefit for state taxpayers of \$30.0 million.

To complete this update, consider Figure 4, which places the FY09 allocation at the end of the time series since FY94. In this graphical presentation, the blue segment in the negative territory of the FY09 bar represents the adverse impact on Milwaukee property taxpayers, corresponding to the \$44.7 million given in Table 2. The maroon and yellow segments, in positive territory, represent the net benefits from MPCP for other property taxpayers and state taxpayers.

<sup>7</sup> The mechanism through which property taxes are adjusted to complement the state's aid appropriation in meeting the statewide revenue limit is through a specific parameter in the equalization aid formula. See pp. 21-22 of the 2008 SCDP fiscal impact report.

Figure 4: Distribution of MPCP's Fiscal Impact, FY94-09



Assumptions: 90% of voucher students would otherwise have attended MPS; state share of public education held constant at 2/3.

The 2008 SCDP report presented this diagram for FY94-08, but in this update we revise the allocation for FY08. In FY08, Milwaukee chose, for the first time in recent years, not to fully utilize its tax capacity. It taxed \$15.1 million less than the allowable limit. This means that the choice levy was only partially used, so only part of the adverse impact of MPCP was passed on from MPS to the taxpayers. The green segment at the bottom of the FY08 bar represents the adverse impact on MPS, specifically measured as the shortfall from what would have been required to maintain the per-pupil revenues at the level specified by the revenue limit formula.<sup>8</sup> No such segment appears for FY09, since Milwaukee resumed taxing up to the allowable limit.

The other feature of this update that one can see in Figure 4 is the impact of the high poverty aid, introduced in FY08. As discussed above, this aid was primarily intended to alleviate some of Milwaukee's choice levy, by \$7.4 million in FY08 and \$9.9 million in FY09. As Figure 4 shows, this resulted in a slight decline in the adverse fiscal impact on Milwaukee, as compared to FY07. Thus, although this aid prevented the adverse impact from continuing to grow, it only modestly mitigated the "funding flaw."

<sup>8</sup> In FY08, the per-pupil revenues raised were \$8,978 instead of the revenue limit of \$9,141. This was still a rise over the previous year, but not as much as the state law allowed.

## A Flawed Measure of the Funding Flaw

The Legislative Fiscal Bureau's periodic reports on the fiscal impact of the MPCP have generated broadly similar estimates of the adverse impact on Milwaukee as the methods employed in this report (and the 2008 SCDP report). At the same time, however, another measure of the "funding flaw" has gained some currency in Wisconsin public discourse in recent years. In June 2007, Milwaukee Mayor Tom Barrett presented figures showing that the choice levy per MPCP pupil was \$971 greater than the non-choice levy per MPS pupil in FY07. This was presented as an easily understandable representation of the funding flaw.<sup>9</sup> Then last fall Representative Jason Fields requested that the LFB calculate updated figures on the per-pupil levy amounts for MPS and MPCP. The LFB report, issued on November 8, found that the MPS per-pupil levy exceeded the MPCP per-pupil levy in FY09, reversing the relationship of previous years. Thus, by this measure, the funding flaw had ceased to exist. Rep. Fields attributed this reversal in part to the introduction of high poverty aid to mitigate the choice levy.

As we have seen, however, the high poverty aid has provided only a modest offset to the adverse impact of the MPCP on Milwaukee. The funding flaw persists.<sup>10</sup> Since there has been some confusion occasioned by the alternative measure of the funding flaw, it may be useful to explain why it is misleading.

The alternative measure of the funding flaw makes two calculations: (1) the choice levy (net of high poverty aid) divided by the number of MPCP students, calculated at \$2,467 for FY09; and (2) the non-choice levy divided by the number of MPS students, calculated at \$2,702 for FY09. These figures are accurate, but the interpretation associated with them, that the funding flaw has disappeared, is not accurate. That interpretation would seem to have two steps: (1) the MPCP students *raise* the Milwaukee levy by \$2,467 per pupil; but (2) these students' departure from MPS *reduce* the Milwaukee levy by a greater amount, \$2,702 per pupil. The problem is that although the first step is true, the second step is false.



9 <http://www.city.milwaukee.gov/FixingtheSchoolChoic22328.htm> . As the "E-newsletter" also points out, however, this was "just part of the problem," and the exclusion of MPCP students from the equalization aid formula is presented as even more costly to Milwaukee.

10 As the previous note indicates, Mayor Barrett's June 2007 statement anticipated that the flaw could continue even after the per pupil levies reverse magnitudes.





To see the first part, refer to the first row of Table 2. As this row shows, the MPCP students raise Milwaukee taxes by the \$58.0 million choice levy (45% of the voucher expenses), offset by the \$9.9 million of high poverty aid enacted because of the MPCP program. (We leave aside the minor \$3.4 million offset, which is tangential to this discussion.) This net impact on Milwaukee taxes does indeed amount to \$2,467 per MPCP pupil, as claimed.

However, there is no entry in Table 2 for a *reduction* in the Milwaukee levy due to the departure of MPCP students from MPS. That is because there *is* no such reduction. As discussed above, the departure of MPCP students from MPS does reduce the *revenue limit* for Milwaukee -- the combined state and local funds for MPS -- but *not* the local levy. The revenue limit and equalization aid formulas work in such a way that the reduction in revenues comes *entirely* from state aid. That is, the formulas generate allowable local levies that depend only on the total property values (and per pupil spending), but *not* on enrollments.<sup>11</sup> As a result, the impact of the MPCP on Milwaukee property taxes is asymmetric: the addition of MPCP students raises the choice levy, but the reduction in MPS students does not reduce the non-choice levy.<sup>12</sup>

## Conclusion

This update of the SCDP 2008 fiscal report finds that the main features of MPCP's impact still hold:

- The net fiscal impact is positive, and growing, due to growing MPCP enrollments and a widening gap between the per pupil public revenues allocated to the MPS and the MPCP.
- The distribution of benefits continues to be uneven, as Milwaukee property taxpayers remain adversely affected, despite a modest effort by the Legislature to address this.

11 To be strictly accurate, this ignores minor complications, indicated in note 5, including small definitional differences between per pupil revenue limits and the equalization aid formula's corresponding concept, per pupil shared costs. For a more formal demonstration of these properties, see the 2008 SCDP report, pp. 19-22.

12 To use economic terminology, the distinction is between average and marginal levy per pupil. The two are the same for the choice levy per pupil, but not for the non-choice levy, where the marginal effect is zero.



Should the Legislature wish to directly address the fundamental cause of the “funding flaw,” there are two general paths:

1. The Legislature *could* count MPCP students in MPS’ revenue limit and equalization aid calculations, and then deduct voucher expenditures from MPS’ aid. This was the system prior to FY00. However, that system also gave Milwaukee the option of raising property taxes by the amount of the voucher deduction, in order to preserve total revenues, even as enrollments declined with students leaving for MPCP. This “choice levy” might have been justifiable in the early days of the program when enrollments were small, but would not be justifiable today.

Without the choice levy, such a system would cease to adversely affect Milwaukee property taxpayers. One drawback of such a system, however, is that it would actually reward MPS for each student it loses to MPCP, since the aid it would receive for each MPCP student (which equals the revenue limit) would exceed the voucher deduction.

2. Alternatively, the Legislature could continue to exclude MPCP students from MPS’ revenue limit and aid calculations but cease deducting any voucher expenses from MPS’ aid. Instead, all the voucher expenses would come out of the general fund. In Table 2, the \$58.0 million in Milwaukee voucher expense would be moved down to the state row.

In this system, Milwaukee property taxpayers would no longer be adversely affected. There would be no choice levy, since there would be no aid deduction to offset (and the high poverty aid could be eliminated). The state’s general fund would cover all voucher expenses (\$128.8 million), an amount that is lower than the savings in revenue limits (\$166.1 million). However, the rule for allocating revenue limits among state and local sources would have to be modified if Wisconsin is to prevent an adverse impact on the state’s general fund. Wisconsin would have to drop the artificial distinction between revenue limits (for districts) and voucher expenses (for MPCP) as separate species of public funding for education, with the state/local sharing rule applying only to the former. The two combined avenues for public expenditures on education exhibit a net public savings from the MPCP, and those net gains can be split between state and local taxpayers (including Milwaukee) in any proportions chosen by the Legislature.

## The Fiscal Impact of the Milwaukee Parental Choice Program: 2009 Update

### About the Author



**Robert M. Costrell**, professor of education reform and economics, holds the Endowed Chair in Education Accountability at the University of Arkansas. He has written widely on school finance, teacher pensions, and the economic theory of educational standards. From 1999 to 2006, Dr. Costrell served in major policy roles for three governors of Massachusetts and led the reforms of the state's district and charter school funding formulas. Professor Costrell received his B.A. in economics from the University of Michigan in 1972 and his Ph.D. in economics from Harvard University in 1978.



School Choice Demonstration Project

Department of Education Reform

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