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Voucher Initiative on Public
Expenditures for Education*

Executive Summary

*Michael A. Shires, Cathy S. Krop,
C. Peter Rydell, Stephen J. Carroll*

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Institute on Education and Training

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Preface

This report summarizes the probable effects of California's upcoming school-voucher initiative on public spending for K–12 education in the state. These findings are based on a complex simulation analysis of enrollment, tax revenues, and other trends over the next decade. This analysis is fully described in RAND document DRU-481-IET, *The Effects of the California Voucher Initiative on Public Expenditures for Education*. To obtain a copy of the full report, call RAND's Institute on Education and Training, 310-393-0411, extension 7345.

Much of the debate over this initiative focuses on how vouchers might affect the quality of education. Although this issue is crucial, the initiative's fiscal effects are also important, for two reasons:

- Changes in spending may affect the quality of education.
- Spending on education has a strong effect on the state's budget.

Voucher advocates argue that only such a plan can avert California's looming fiscal crisis; opponents contend that by cutting funds for the public school system, vouchers may destroy this vital institution.

We do not take a position in this debate. Rather, we attempt to provide an analytic framework for evaluating such claims. Specifically, we examine the likely effects of Proposition 174 on:

- Total state spending for K–12 education.
- Spending per pupil in the public schools.

The research reported here was supported by a grant from the Lilly Endowment Inc. to RAND's Institute on Education and Training. The work is intended to inform voters (who will decide the issue in November), legislative and executive branch policymakers (who will be involved in implementing the initiative should it be approved), and policymakers in other states (who may seek to understand the fiscal implications of vouchers).

The Effects of the California Voucher Initiative on Public Expenditures for Education: Executive Summary

On November 2, 1993, Californians will vote on Proposition 174—the Parental Choice in Education Initiative. The proposition would establish a system of annual vouchers, funded by public tax dollars, that elementary and secondary students could use to pay tuition at private schools. The legislature would determine the value of the voucher, but it would equal at least one-half the prior year's total state spending per public-school K–12 pupil, i.e., roughly \$2,600.

Although much of the current public debate over Proposition 174 focuses on how it might affect the quality of education, its potential fiscal effects are also critical. Changes in spending can influence the quality of education, and total spending on education is a major component of California's overall budget.

To help illuminate these issues, we developed a simulation model of California school finance, along with forecasts of California's K–12 population and funding sources through academic year 2002–2003. Using the model and forecasts, we have attempted to predict the fiscal impact of Proposition 174. In particular, we addressed the following questions:

- Would public schools have more or less money per pupil?
- Would the state's overall cost for K–12 education be higher or lower?

The fundamental answer to both questions is simple: No one knows. In one sense, this is true in any debate on the fiscal effects of public policy; there is always some uncertainty. But the uncertainty in this case is of a completely different order. In the typical debate, analysts may argue about whether a new policy will cause a small fiscal effect or a large one, or perhaps whether it will have any fiscal effect at all. But in the case of vouchers, empirical analysis cannot tell us whether the fiscal effect will be strongly positive or strongly negative. Analysts cannot reliably predict whether vouchers will save money for California or will exacerbate the state's fiscal crisis. Similarly, it is not possible to predict whether spending per pupil in the public schools will go down or up. There are plausible arguments on both sides, but little definitive evidence.

In fiscal terms, then, Proposition 174 poses large risks, no matter how the electorate votes. Voting *for* the proposition may help avoid a fiscal crisis. But if relatively few students shift to private schools, or if certain provisions of the initiative are interpreted in certain ways, the proposition could actually worsen California's fiscal situation and, at the same time, could reduce the resources available to each public-school pupil. Voting *against* Proposition 174, however, may court the serious risk that there is no better option for heading off the state's looming fiscal crisis.

The Baseline: California's Impending Fiscal Crisis

California will face a fiscal crisis over the next decade. In 1992–1993, the state devoted 32 percent of its general fund revenues to K–12 education. If current trends continue, that fraction will rise to 43 percent by 2002–2003. Since a large portion of California's general fund is consumed by nondiscretionary expenses, the projected increase in K–12 spending can come only at the expense of other discretionary programs, such as corrections and higher education. Yet most of these programs have already suffered significant budget reductions. *Without some change in school finance, it is difficult to see where the state will find the resources to meet the growing demands for K–12 spending.*

Unknown Decisions, Unknown Effects

Advocates of Proposition 174 argue that the voucher system can help avert this fiscal crisis by reducing state spending on K–12 education. Opponents claim that spending will actually increase. This disagreement results, in part, from three fundamental unknowns:

1. How many students will shift from public to private schools?
2. What spending policy will the state pursue if vouchers are implemented?
3. How will certain provisions of Proposition 174 (the possible "double hit") be implemented?

We have reviewed the experiences of other voucher programs and have found none that can reliably answer these questions. Therefore, we have used our model to assess the likely fiscal outcomes of Proposition 174 for a variety of scenarios and alternatives. *In general, we find that the fiscal effects of Proposition 174 are highly uncertain. If it passes, California's total spending on K–12 education could rise—or fall. Likewise, total per-pupil public-school spending could rise—or fall.*

If Few Use Vouchers, Costs Rise

In general, the more students who leave the public system, the better the fiscal effects on the state budget. But we have found no reliable evidence that would help us predict how many students would use vouchers. Proponents assert that if Proposition 174 passes, 34 percent of the state's future public K–12 students will eventually turn to the private sector. At the other end of the spectrum, a study of private schools found that those schools would not expand dramatically under vouchers, thus effectively limiting the number of public-school students who can shift. That study estimates that around 4 percent of the state's prospective public-school K–12 population would shift to private schools. (Even such a small shift would require nearly a doubling of private school capacity.) We use these estimates to bound our analysis.

In Figure 1 we present our prediction of the proposition's *average* fiscal impact over the next ten years, assuming the low-shift (4 percent) scenario. The point marked "Baseline" indicates what the state will be required to spend, on average, over the next decade if the voucher initiative does not pass: The average annual cost to the state would be \$25.4 billion current dollars, with an average of \$5,242 per pupil available to public schools.

The point labeled "Low Shift" indicates the fiscal effect of the voucher initiative if only 4 percent of California's public-school students leave the public system. Per-pupil spending in the public schools would remain the same as without

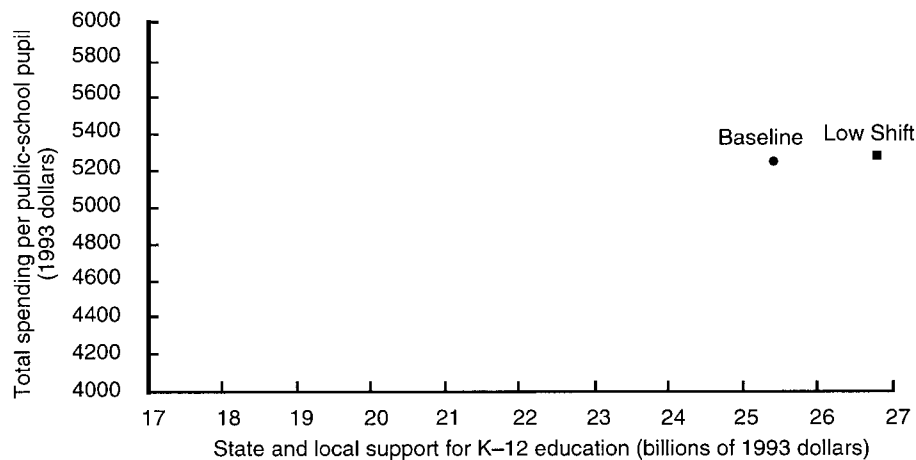


Figure 1—If Few Students Shift, Total Cost Would Increase Without Increasing Per-Pupil Spending

vouchers, but the state's cost would increase by an average of \$1.2 billion a year. *Thus, if few students use vouchers, the state would spend more on K-12 education, but not on public-school pupils.*

If Many Use Vouchers, Costs Fall

If many students leave the public system, the fiscal effects of Proposition 174 would be much more positive. Figure 2 shows the effects of a high-shift scenario (along with the baseline and low-shift results already discussed), again averaged over a ten-year period. The line labeled "High Shift" represents the variety of policy choices the state would have if 34 percent of the public-school students left the public sector. The lower endpoint represents the minimum that the state would have to spend on K-12 education (as mandated by Propositions 98 and 111) and the associated level of resources available to public schools. The higher endpoint represents the maximum level of spending for the range of state spending policies we evaluated in this study. The line between the two points represents the range of options available to the state: from an average saving of \$3.1 billion a year (if state policymakers chose to spend the minimum required on K-12 education, thus reducing per-pupil spending by 3 percent) to spending the same total amount on K-12 education (thus increasing the total resources available to public-school pupils by about 7 percent per pupil).

If many students use vouchers, all the options are fiscally preferable to the current baseline. Many tradeoffs are available between reducing state spending and increasing per-pupil resources—some presumably better than others—but the

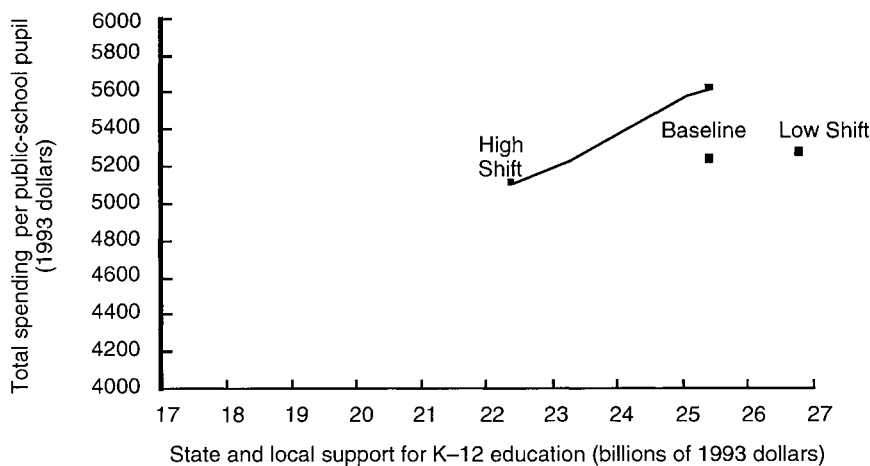


Figure 2—If Many Students Shift, Fiscal Options Would Improve

entire set of choices is clearly attractive. *Unfortunately, there is no way to predict whether those choices will in fact be available, or whether the low-shift scenario (with its higher total cost but no gain in per-pupil spending) would result.*

The “Double Hit” Increases Uncertainty

This uncertainty is compounded by the interpretation of how vouchers and scholarship-redeeming students will be accounted for under Proposition 98. Voucher opponents allege that under certain circumstances, public-school students changing to private schools would cause public schools to lose twice (the “double hit”)—first by their removal from the base used to calculate the schools’ guaranteed minimum budget and then again by the cost of their scholarships and the savings realized by the public schools being counted in that budget. Proponents respond that the authors of Proposition 174 clearly did not intend this outcome and that an “appropriate” implementation would not produce this effect. This dispute would have to be resolved by the legislature and possibly the courts. The final decision will have a profound effect on California school finance under Proposition 174.

Figure 3 shows the fiscal effect of Proposition 174 for a range of legislative options for both high-shift and low-shift scenarios if a double hit does occur. If there is a large shift of students, the level of support to public schools could fall by as much as 18 percent, yielding a savings to the state of 29 percent. (Or per-pupil spending could be increased with no increase in total state costs.) On the other hand, if only a few students shift to private schools, state spending per

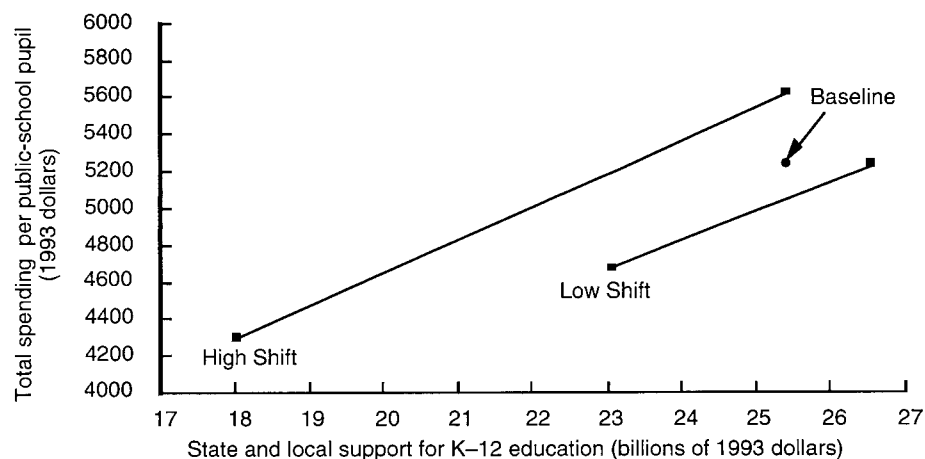


Figure 3—The “Double Hit” Would Create More Choices

public pupil could fall by 11 percent, while total state spending would drop by only 10 percent. (Or per-pupil spending could be held at current levels, but only by increasing total spending by 4 percent.) *If the “double hit” does take place, even more options are open. Again, the range of choices may be more attractive than the baseline or less attractive.*

The Bottom Line: Choosing Among Risks

The decision on the double hit issue will have a tremendous influence on the effects of the voucher initiative on state K–12 finance. *But with or without the double hit, the fiscal effects of Proposition 174 are clearly quite uncertain. They may be positive or they may be bleak.* A shift of many students from public to private schools could present the state with choices among positive outcomes. In that situation, the choice for state policymakers would generally be between increasing the resources to the public schools (on a per-student basis), reducing overall spending on K–12 education (and mitigating the state’s financial crisis), or some of both. On the other hand, if few students shift, the state will be faced with the less pleasant choices of reducing overall resources at public schools, increasing public spending on K–12 education, or both—difficult choices in light of the crisis presented above. Unfortunately, there are no definitive data to indicate which of these scenarios is more likely.

How the Fiscal Effects of the Initiative Will Unfold

In assessing these results, it is helpful to compare Proposition 174 to a game: Four players, in turn, will determine the initiative’s fiscal effects on both the state’s finances and K–12 education. The *voters* will play, deciding whether the initiative will happen at all. If they vote against it, the game is over. If they vote for it, the *courts* will have to decide the interpretation of the initiative with respect to the “double hit” debate. The results of that decision will decide which of the two worlds depicted in Figures 2 and 3 will result. The *parents* will play their turn by either shifting their children to private schools or leaving them in public schools. The aggregate level of these parents’ decisions will define the range of subsequent policy choices available to the state; parents will decide which line is operational in each of the figures—the high-shift line, which offers attractive choices, or the low-shift line, which forces more difficult tradeoffs than California would face without vouchers. Finally, the *state* will take its turn by deciding how much it wishes to spend. The final result will either be savings to the state budget or additional costs; either more resources for each public-school pupil or

fewer resources. Until *all* four players have had their turn, there is no way of knowing.

In sum, these findings represent a word of caution to both sides of the voucher debate. To those who believe that Proposition 174 is a good idea: The effects of the initiative could damage both state and public-school finances. To those who believe that the voucher initiative is a bad idea: A crisis is approaching in California's public finance system, and the voucher initiative could help avoid even greater risks to come.

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