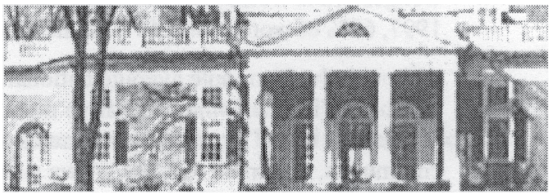

The Thomas Jefferson Institute for Public Policy

A Virginia Educational Improvement Tax Credit:

Better Education for Children
More Money for Public Schools
Better Bang for the Taxpayer's Buck

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January 2005

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Thomas Jefferson Institute for Public Policy

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A Virginia Educational Improvement Tax Credit

Forword

School choice already exists in America – unless you are poor.

Affluent families have choice because they can move to different neighborhoods or communities, send their children to private schools or supplement education with tutors and enrichment programs. Lower-income and working-class families, meanwhile, are typically trapped with one option by virtue of their zip code – and most often that is a school in need of improvement.

This paper by Chris Braunlich of the Thomas Jefferson Institute for Public Policy outlines one cost-effective solution to the challenge of increasing educational opportunity for all Virginians. It proposes setting up an educational tax credit that could then be used by sponsoring non-profit groups to provide scholarships to students without alternatives.

Most importantly, the paper demonstrates why such a tax credit would actually improve the state's treasury … and not be a drain on local school districts. It would, in fact, leave more money available for education throughout Virginia while still providing school choice for parents who currently do not have it.

This is not a radical idea.

Parents in a growing number of cities and states have access to privately financed programs supporting school choice. An estimated 60,000 students in more than 80 cities used private scholarship programs in the 2000-01 school year, and the number is growing.

Demand for such scholarships far outstrips supply: In April 1999, parents submitted more than 1.25 million applications for the 40,000 scholarships awarded by the Children's Scholarship Fund.

Parents are demanding better for their children – not because they are "anti-public schools," but because they want quality schools, both public and private, for their children. They understand that our children are our most precious resource, and it is our responsibility to love them, nurture them, protect them, and ensure that they are properly educated.

Without a good education, the next generation will have no real chance to engage in the practice of freedom: the process of transforming their (and our world). We owe it to them to provide the best we've got … and the Virginia Educational Improvement Act is one path to the best.

Robert Ashford
Chairman/President,
Richmond Black Alliance for Educational Options
January 2005

A Virginia Educational Improvement Tax Credit

Introduction

In the debate over parental choice in Virginia, many questions remain unanswered.

What would be the fiscal effects of a parental choice package, both at the state and local level? Where else in the United States has parental choice been used, and what forms has it taken? What would be the best path to choice in Virginia?

What are the unique obstacles to parental choice in Virginia, and what historical challenges have made choice an emotional issue among many black Virginians? What has been the academic impact of parental choice in other states – both for the students who choose to leave the public schools and for those who choose to remain in public schools?

This paper reviews these issues, offers answers to these questions and proposes a means by which parental choice might successfully help at-risk students in the Old Dominion.

In the section *The View From Other States*, we briefly review the differences between vouchers and tax credits explaining why a tax credit system is preferable in Virginia. We then explore the tax credit systems existing in four other states.

Historical Perspectives in the Old Dominion examines how tuition grants were used a half-century ago to block integration in Virginia. We also underscore the differences between the race-based choice of the '50s and '60s, and contrast it with the freedom-based choice used to assist at-risk, mostly minority, children around the country today.

In *Help for Students*, we explore the impact of more than a half-dozen parental choice programs, reviewing studies demonstrating positive effects on public and private schoolchildren.

Finally, in *A Virginia Educational Improvement Tax Credit Proposal* we suggest a prototype tax credit and outline – school division-by-school division – the impact such a proposal would have on a per-pupil basis. Because the composition of per-pupil funds varies so greatly in Virginia from school district to school district, we demonstrate the impact both on state funding and on local expenditures.

Our conclusions: An Educational Improvement Tax Credit program would work best in Virginia, avoiding legal obstacles inherent in a voucher system. A Virginia program must focus on high poverty students, not only because these are the students most in need of alternatives, but because such a focus would eliminate concerns about the "re-segregation of Virginia's schools." While the results are not uniform, where parental choice has been utilized it has had a positive effect on the academic performance of students who exercise choice as well as improving the education of children who remain in the public schools.

And finally, we conclude that an Educational Improvement Tax Credit as we outline would leave more money in the state education system to help students who choose to stay in public school. The effect on local school system finances is less uniform, but it would generally have a positive impact on available funds at the local level.

The Thomas Jefferson Institute for Public Policy is deeply appreciative of the support from Verizon Corporation in Virginia, which enabled us to research, publish and distribute this study.

The View from Other States

Forms of parental choice exist in seven states and two cities in the United States. These include voucher programs for high poverty students in cities like Milwaukee and Cleveland, long-time tuitioning programs in Vermont and Maine (where, for nearly 150 years, public money has been used to send students to private schools), and tuition tax credit plans offering tax credits for parents or companies to underwrite further options for students.

However, a voucher plan – whereby the state offers a direct voucher to parents for use in the school of their choice – is unlikely to be successful in Virginia because of the state's status as a "Blaine Amendment" state.

In 1875, Congressman James G. Blaine (R-ME) authored an amendment to the U.S. Constitution prohibiting the use of public money at "sectarian" schools. Although narrowly defeated in the U.S. Senate, individual states began passing similar amendments into their state constitutions as a direct result of the Nativist, anti-Catholic bigotry that ran strong through American politics in the late 1800s and early 1900s. Thirty-six states and the Commonwealth of Puerto Rico currently have such language.

The Virginia State Constitution contains such prohibitive language. Although the federal constitutionality of the "Blaine Amendment" is likely to be challenged, such a challenge will take time working its way through the federal court system.

In addition, Virginia's Constitution includes "compelled support" provisions dating back to the colonial era with the intention of preventing state government from compelling individuals to financially support or attend a church designated by the state.

The existence of the "Blaine Amendment" and "compelled support" language in the Virginia Constitution makes passage of a voucher plan less likely. Vouchers are also considered suspect by many parental choice supporters, fearing they will lead to increasing state and/or federal involvement and mandates in school curricula and instructional methodology.

As a consequence, the likely path to parental choice in Virginia is the use of tuition tax credits. A tax credit or deduction does not involve the use of funds already collected by the state, and instead offers a tax benefit directly to the individual or corporation offering educational funding. Five states – Arizona, Florida, Illinois, Minnesota and Pennsylvania – offer some form of tax deduction or credit. A brief description of those programs is important to provide background for any discussion regarding Virginia's options.

Arizona:

Under the Arizona plan, eligible students receive scholarships from approved Student Tuitioning Organizations (STOs). Begun in 1998, individual taxpayer donors to STOs may claim a dollar-for-dollar refund up to $500; married couples may claim up to $625. An additional $200 may be claimed for contributing to a public school foundation.

The individual STOs define which students are eligible (within certain non-discrimination guidelines), and also decide the amount of support to each student. The level of aid is typically between half and 80 percent of private school tuition. There is no income cap for recipients.

In school year 2002-2003, approximately 19,000 students received scholarships, and from 2002 to 2003, the number of scholarships awarded grew by 21 percent and taxpayer donations grew by more than 11 percent.

To increase accountability, Arizona recently passed a law requiring STOs to provide the state with data including the total number and amount of contributions received, number and names of children awarded scholarships and the dollar amount of those scholarships.

Florida:

Florida has the most robust number of parental choice options, including vouchers for children in failing schools (A+ program) and for Special Education students (McKay Scholarships).

The Florida Corporate Income Tax Credit Scholarship Program began operation in 2002. In return for donating to Scholarship Funding Organizations (SFOs), corporations may receive a dollar-for-dollar tax credit off their corporate income tax. SFOs provide scholarships of up to $4,500 for low-income students (those qualifying for federal free and reduced meals – or about $34,000 for a family of four) to attend the private or religious school of their choice. Additional funds (up to $500) may be granted for transportation for students to attend a different public school.

Corporations may donate up to 75 percent of the tax they owe. However, contributions are capped at $5 million to any single SFO. The cap on total corporate contributions is $50 million.

In school year 2002-2003, 11,552 children used these scholarships.

However, accountability has been a challenge in the Florida program. An audit report by Tom Gallagher, Florida's Chief Financial Officer, discovered that some voucher students were taking money from more than one program, and that some schools may have received funds for "ghost students" who never enrolled.

Recommendations to improve fiscal monitoring have been made for these credit programs and are being acted upon. The state Department of Education has created and is maintaining a student database. It now requires private schools to file online reporting of fiscal data and background checks of employees, and has instituted additional compliance requirements for both the SFOs and the private schools.

Illinois:

The Illinois tuition tax credit program provides an individual 25 percent tax credit for expenditures above $250, up to a maximum of $500 per family, for approved education expenses at any private or public school. These expenses may include tuition, books and lab fees.

The credit cannot reduce an individual's tax burden to less than zero. All students are eligible to benefit when their parents invest in eligible education expenses, provided that the taxpaying parent has proof of expenses. According to the Illinois Department of Revenue and Research, more than 185,000 taxpayers saved nearly $67 million by taking the credit in 2002.

Minnesota:

Minnesota offers both a tax credit (begun in 1997) and a tax deduction (in 1995), depending upon the income level of the taxpayer. All students are eligible to benefit, and the tax benefit may be taken when the taxpayer invests in approved education expenses for a child, including books, tutors licensed by the state, and academic after-school programs. Those eligible for the tax deduction may also deduct tuition fees at private schools.

Taxpayers earning less than $37,500 per year may claim a tax credit worth up to $1,000 per child, with a maximum of $2,000 per family. The taxpayer may claim a credit of 75 percent of his or her tax liability.

Taxpayers earning more than $37,500 may receive a 100 percent tax deduction of up to $1,625 per child in grades K-6 and $2,500 for a child in grades 7-12.

In tax year 2002, 56,436 families claimed an average tax credit of $323. That same year, 218,014 families claimed the tax deduction for a total of $249,522,461.

Pennsylvania:

The Pennsylvania Educational Improvement Tax Credit (EITC) program began operation in 2001. The program provides corporations a tax credit of 75 cents on the dollar for contributions to Scholarship Organizations (SOs) offering scholarships for eligible children to attend public, private or religious schools; or for contributions to Educational Improvement Organizations that support innovative programs in public schools.

The tax credit is capped at 75 percent of a corporate tax obligation, up to $200,000 (or 90 percent if they make a two-year contribution commitment). In total, the program is capped at $27 million for scholarships each year and $13 million for educational improvements. Credits are offered on a first-come, first-served basis, as determined by the state, until the annual cap is met.

Eligible students are defined as those in families with an income of less than $50,000 per family. Allowances are made for each additional child, and household income excludes non-salary income such as disability, workers or unemployment compensation, public assistance, retirement benefits, etc.

As of May 2004, nearly 35,000 scholarships have been awarded – 20,000 in the past year alone – and more than 1900 companies have pledged in excess of $61 million: $40 million for SOs and $20 million for EIOs. Fifty-seven percent of participating companies have given less than $10,000.

A recent study indicated that, in 2003, the Philadelphia School District saved approximately $136,000 in expenses as a result of 47 students who used a scholarship offered by Futuro Educactional to choose a private school.[1]

Historical Perspectives in the Old Dominion

Virginia, like other southern states that resisted court-ordered desegregation efforts, faces particular challenges inherent in any choice-based education proposal.

These challenges stem from memories of race-based tuition grants enacted by the General Assembly and used by white Virginia officials to deny black students a K-12 education. The story of those actions is instructive in understanding the emotional opposition of many black Virginia leaders to school choice, and also important in underscoring the differences between the 1950/60's-era choice programs and those advocated in the 21st century.

Opposition to *Brown v. Board of Education* was led by Virginia's elected leaders, most notably U.S. Senator Harry Byrd (D-VA). Byrd persuaded 101 of 128 southern congressmen to sign the "Southern Manifesto," arguing that the Supreme Court's decision in *Brown* was contrary to established principles of federal law. [2]

Virginia was also among the first to enact a state version of the "Southern Manifesto" and in 1956 approved a tuition grant statute designed to circumvent the Court's decision in *Brown*.[3] Tuition grants were originally restricted to private schools and used by white parents to send their children to all-white private academies after local officials attempted to close the public schools, rather than desegregate. Following court decisions prohibiting such public school closures, the General Assembly made the tuition grants available for use at public schools in neighboring school divisions, as well.[4]

While most local school systems complied with court decisions, Prince Edward County did not. Instead, the county closed all public schools to both white and black students from 1959 to 1964. The tuition grant was then utilized at white-only private academies opened during those five years.[5]

The only other alternative for formal education was to send children to another county. While a handful of white children did not enroll in the academies, more than two-thirds of black children were denied any formal education during this time. Those that received formal education usually did so only by sneaking over county borders to other school systems or by being sent out of the county to live with relatives.

The U.S. Supreme Court intervened in 1964 in *Griffin v. County School Board of Prince Edward County*, ruling that closing public schools and providing public funds for the all-white academies violated the equal protection clause of the U.S. Constitution.[6] The tuition grant law by itself was left unscathed. Not until 1969 did a federal district court in *Griffin v. State Board of Education* rule that Virginia's tuition grant law violated the equal protection clause because of its racist use to circumvent *Brown.*[7]

This 13-year battle for the education of their children is seared into the souls of black Virginians who understandably oppose any hint of reviving a mechanism that sounds suspiciously similar. During the 1950/60s private schools became, indeed, an all-white alternative for those seeking to circumvent integration, and the voucher programs of that period constituted state financing of racial discrimination.

But there are clear differences between the race-based choice movement of the ‘50s and ‘60s and the freedom-based school choice movement of the 21st century, and these differences need to be understood.

Primary among these differences is intent: During the 13-year history of tuition grants in Virginia, federal courts repeatedly determined that they violated the federal equal protection clause. Over the 14 years that the Milwaukee voucher program has been in place, for example, such a determination has never once been made.[8]

Race-based school choice plans were developed specifically to prevent integration and maintain segregation. Indeed, eligibility for the ‘50’s/’60s era tuition grant was triggered only by a school closing and only students who had been in a public school were eligible. Virginia Code *required* closing any public school that became integrated either through court order or voluntary action. In fact, the Governor was authorized to assign a student to another public school when “mixing of White and Colored children constitutes a clear and present danger.”[9]

Current freedom-based school choice plans are not predicated upon the closing of a public school and race has no criteria in determining eligibility. In states where school choice has been provided, parents of all colors and backgrounds are able to enroll their children into any school they wish.

More importantly, the old ‘50s-era grant program was enacted before the Civil Rights Act of 1964. Race-based criteria would specifically be prohibited today. Every current school choice program prohibits private schools from discrimination contrary to the guidelines of the Civil Rights Act of 1964.

The programs put in place throughout the country – whether voucher programs in Cleveland, Milwaukee and Florida or tuition tax credits in Arizona, Pennsylvania and Florida – contain strong anti-discrimination language. While the concerns of black Virginians are understandable, knowing the history in the Old Dominion, those concerns will not become reality because of federal law and the vigilance and motivations of those fostering school choice in the 21st century.

Help for Students

The bottom line in any education debate should be the effect on students. Often lost in the debate over school choice are answers to three simple questions: Does it help students? Does it provide positive opportunities for students who leave the public school system? And what is the impact on those students who choose to remain within the public school system?

Here's what the research shows –

In ***Cleveland, Ohio,*** families with incomes below 200% of the federal poverty level are given priority for vouchers valued at up to the lower of $2,700 or the cost of private school tuition (families with higher incomes are eligible only if state funds are available). Between the fall of 1996 and the spring of 1998, a Harvard University study found that children using vouchers to attend the two "Hope Schools" experienced a seven percentile point increase in reading and a 15 percentile point increase in math.[10] The most recent report conducted by the Indiana University Center for Evaluation found "there is some evidence of a pattern of slightly greater annual achievement growth among students who have used a scholarship continuously since kindergarten."[11]

In ***Florida,*** the A+ Opportunity Scholarship Program of $4,537 for students in grades K-3 and $3,370 for children in grades 4-8 [12]is available to any student attending a public school that is given an "F" grade for two years in any four-year period. In existence since 1999, a 2001 state-sponsored study found that schools most at risk of being "voucherized" (in other words, about to have vouchers offered to their students) "achieved test scores more than twice as large as those achieved by other schools." A 2003 study demonstrated that low-performing schools "already facing competition from vouchers showed the greatest improvements … improving by 9.3 scale score points on the FCAT (Florida Comprehensive Assessment Test) math test, 10.1 points on the FCAT reading test, and 5.1 percentile points on the SAT-9 math test."[13] The threat of having vouchers offered to their students helped spur at-risk schools and school districts to take effective action ensuring greater educational achievement for students in the public schools.

A study by Washington reporter Carol Innerst found that the threat of vouchers drove Florida's lowest-performing schools to enact innovative programs, such as an extended school year, increased reading specialists, one-on-one tutoring programs and greater use of phonics.[14]

Also in ***Florida,*** the McKay Scholarship program offers vouchers to students with disabilities whose parents are unhappy with their assigned public school. The voucher is equal to the lesser of either the amount of funding a student would have generated at the public school or the cost of the private school's tuition and fees. Now serving more than 12,000 students, a 2003 Manhattan Institute study found that class size dropped dramatically for these students, from an average of 25.1 students per class in public schools to 12.8 students per class in "McKay Schools."[15]

In addition, McKay schools outperformed public schools on measures of accountability for services provided. Almost three times the number of participants (86 percent) in McKay schools report receiving all the services required under federal law vs. those in public schools (30.2 percent).[16]

In ***Maine,*** where vouchers have been in existence since 1873 and are used by more than 11,000 students, a study by Dr. Christopher Hammons, of Houston Baptist University in Houston, Texas found that – even when taking into account per-pupil spending, poverty and other factors – standardized test scores increase as competition among high schools for tuition dollars increase. To purchase the same gain in test scores achieved by competition, by increasing per-pupil spending, would cost an additional $909 per pupil. These same conclusions were also drawn by Dr. Hammons in his study on ***Vermont*** schools, which have had a voucher program since 1869.[17]

In ***Milwaukee, Wisconsin,*** students whose family income does not exceed 175 percent of the federal poverty level are eligible to receive a voucher worth up to $5,783 or the cost of the private school – whichever is lower. There have been seven state-sponsored evaluations of the program, and three additional studies conducted by researchers from Harvard and Princeton. State studies sponsored by University of Wisconsin Professor John Witte did not find test score gains but noted, "Choice can be a useful tool to aid families and educators in inner city and poor communities."[17] Harvard researchers found that students in the program for four years achieve a gain of 11 percentile points in math and six percentile points in reading.[18] Princeton researchers found that students in the program for four years achieve a gain of eight percentile on the math portion of the Iowa Test of Basic Skills.[19] Harvard professor Caroline Hoxby concluded that performance improved faster at public schools where many students could receive vouchers, noting that "public schools most exposed to competition increased math scores 7.1 percentile points between 1999 and 2002."[20]

The Milwaukee choice program has also driven other improvements. Between 1990 and 2001, the drop-out rate in public schools declined by 37 percent, real spending per-pupil increased by nearly 35 percent, and test scores increased in 12 of 15 categories. Part of these improvements resulted from reforms instigated by school choice: Teaching vacancies filled without regard to seniority; education dollars "strapped to the backs" of students, following them to the schools they chose; and individual schools controlling 95 percent of their operating budget.[21]

Privately-sponsored scholarships are in existence throughout the United States, and are more heavily concentrated where a tax *credit* (as opposed to tax *deduction*) exists. Where they are heavily concentrated, their results have been similar. In New York City, a Harvard University study found that, after three years, black students with privately funded vouchers scored 9.2 National Percentile Rank (NPR) points higher than their public school peers on Iowa Test of Basic Skills composite tests.[22] In Dayton, Ohio, researchers found that after two years black students had a gain of 6.5 percentile points on standardized tests.[23] In Charlotte, North Carolina, students receiving a privately-funded voucher achieved a 5.9 percentile point gain in math and a 6.5 percentile point gain in reading after one year.[24]

In Edgewood, Texas, where schoolchildren were offered a scholarship to the school of their choice, the privately funded voucher program helped the high-poverty district outperform 85 percent of Texas school districts in achievement gains.[25]

While parental choice remains a sufficiently limited option to prevent any uniform conclusions, it is clear that where choice has been offered, both students who exercise the option to choose another school and those who choose to remain in their traditional public schools have benefited.

A Virginia Educational Improvement Credit Proposal

Opponents of school choice have consistently argued that giving poor students the right to choose a better school would "use public money for private schools" and would "hurt public schools by cutting their funding."

Any successful school choice proposal must necessarily rebut these concerns and must also address the fears of those who believe such a choice proposal would "re-segregate Virginia's schools." Over the last several years, numerous choice proposals have been introduced in the General Assembly but none have made the kind of significant progress necessary to advance better options for children.

The structure proposed in this paper seeks to "move the ball forward" on the school choice issue while simultaneously rebutting the frightening and false claims made by choice opponents. This proposal consolidates a number of proposals and is largely based on the successful corporate tax credit used in Pennsylvania. A successful Virginia school choice plan should have several components –

- It should offer a tax credit to companies for donations to a Scholarship Organization providing scholarships for eligible children to attend the school of their choice. The scholarships must be large enough to make a difference in a family's ability to choose a school. The tax credit should be large enough to offer encouragement to the donor to take action while not so large as to damage the state treasury. Given Virginia's low relatively low tax rate, a tax *deduction* provides only minimal tax benefits, so a larger tax *credit* is needed to maximize the incentive for participation. For the purposes of this proposal, we echo the legislation offered by Delegate Chris Saxman in 2004: A scholarship of up to $5,000 for the student and a 25 percent tax credit.

  A tax credit also avoids such obstacles as Virginia's Blaine Amendment, as well as conservative opposition to private school acceptance of state funds and the likely mandates and requirements that could accompany such funds.

- It should target its resources towards those most in need, and those least able to exercise school choice. For the purpose of this proposal, we suggest defining eligible students as those who are currently enrolled in a public school and are eligible for "Free or Reduced Meals" in public schools. This means a student from a family at or below 185% of poverty level (or about $35,000 for a family of four) could receive such scholarships. In school year 2003-2004, about 375,000 Virginia students – or 32.63 percent of all students – would have been eligible to receive scholarships.[26]

  While such a limitation will be offensive to some school choice purists, it ensures that a Virginia choice proposal will not lead to the "re-segregation of Virginia schools." Furthermore, by targeting high poverty students, the proposal also targets the population educators say is among the hardest to educate, eliminating the argument that school choice will "cream" the best student away from public schools.

- The total state-wide tax credits should be capped, at least in the early years. Both Florida and Pennsylvania did so, although Pennsylvania recently raised its cap to accommodate demand. A reasonable cap might be similar to that offered in the Saxman legislation: A total tax credit of $6 million for student scholarships. At a 25 percent tax credit rate this leverages $24 million in private funding for student scholarships, at a cost of only $6 million "lost" from the state treasury. However, as we shall see, the state treasury usually "gains" from a tax credit of this nature, because the expense of state education aid would decrease faster than the decrease in state tax revenue.

Most choice proposals are capped in the early years in order to manage both demand and capacity. Although, as we shall see, an Educational Improvement Tax Credit does not "drain the treasury" and, in fact, will allow even more funds to be directed towards education, placing a cap on the total amount of the tax credit will lance the inevitable "cost" argument until fiscal experience makes the point moot.

- An Educational Improvement Tax Credit proposal must ensure that both the funding organizations and the non-public schools are legitimate. In the case of the funding organizations, they must be a charitable 501(c)(3) organization authorized to provide scholarships, may retain no more than 10 percent of their receipts for overhead expenses, and should submit an annual audit to the appropriate state agencies. In the case of receiving schools, they must comply with federal anti-discrimination provisions (including race and national origin) and meet all state and local health and safety regulations.

- Finally, any legislation should ensure that the schools are doing the job. Receiving schools should either be accredited by a private accreditation organization or be required to administer an annual national norm-referenced achievement assessment in both reading and math for each grade available.

  In the alternative, the State Department of Education, with the concurrence of the State Board of Education, could develop a longitudinal analysis similar to that which is planned for the Washington, DC choice program. Such an analysis could evaluate academic performance, retention rates, dropout rates, graduation and college admission rates of students in the program compared with a similar cohort not in the program.

Educational Improvement Tax Credits: More State Money for Public Schools

What will an Educational Improvement Tax Credit "cost" state taxpayers?

Opponents of school choice argue that a tax credit will decrease revenues to the State Treasury, thereby reducing the funds available for public schools. Supporters of school choice make the point that if a child leaves the public schools the costs associated with that child also leave – and that the "cost" of the tax credit is less than the "cost" of educating a child, resulting in a net gain to the State Treasury.

Education spending in Virginia is divided between state, local, and federal contributions, as well as a revenue stream coming directly from the state sales tax. As a result, determining how much money is saved or spent is different in each school division.

In our prototype Educational Improvement Tax Credit, each $5,000 scholarship given to a student would cost the state $1,442. This is calculated by adding the cost to the state of a 25 percent tax credit on a $5,000 scholarship ($1,250), the cost to the state of a 25 percent tax credit on the scholarship organization's administrative costs for each scholarship ($139), and the first year's administrative cost to the state for each scholarship ($53). It should be noted that the state Department of Taxation has estimated that the state's administrative cost would decline to less than $2.50 by the fourth year of operation, lowering the state's cost-per scholarship to $1,391.50.[27] For purposes of clarity, however, we use $1,442 as the state's cost-per-scholarship throughout this paper.

State aid per pupil ranges from as little as $982 in Fairfax City to as much as $4,587 in the city of Buena Vista. In our prototype, a student using a scholarship to leave Fairfax City Public Schools would truly "cost" the State Treasury $460 ($982 in state savings minus $1442 in scholarship costs). On the other hand, for every student in Buena Vista who leaves the public schools, the State Treasury will actually have $3,145 left in the system to use for education purposes ($4,582 in state savings vs. $1442 in scholarship costs).

Whether the tuition scholarship "costs" or "saves" the State Treasury depends upon where the student lives. A school division-by-school division analysis demonstrates that the state is a "winner" nearly everywhere. In only eight of 132 school divisions – representing only 10 percent of the eligible student population -- does the net cost of a student leaving the schools exceeds the gain. In other words, nine out of 10 students leaving their local school system would produce a net gain to the State Treasury.

As another indicator, these eight school divisions have only 21 schools (two of which are largely adult education facilities) that are not fully accredited by the state (out of the more than 400 such schools state-wide). Students in successful schools are not likely to leave … and neither are the students in these school divisions.

However, since the poorest performing schools are also likely to have the highest poverty and most expensive to educate students, it further substantiates the argument that departing students from other divisions will have a *positive* effect on the state treasury, not a negative one.

An Educational Improvement Tax Credit will not just help the students who choose a non-public school – it will leave more money in the State Treasury that lawmakers could use to increase funding to public schools for the students who remain in them.

Educational Improvement Tax Credits:
Generally Positive Results for Local School Systems

Determining savings or losses at the local level is more complex. Local per-pupil school expenditures include both fixed costs (such as transportation or building operating costs, debt service, certain administrative costs, etc.) that remain if only a limited number of students leave a school system, and variable costs (such as teacher salaries and supplies that rise or fall based on the number of students in a classroom). Whether a school division is financially helped or hurt by departing students depends upon the relationship between those fixed costs that remain and the variable costs that disappear.

Even variable costs can fluctuate wildly. Because of class size limitations, a single fourth grade student leaving a school with two 20-student classes will have a limited impact. However, because the state "caps" 4th grade classrooms at 35 children, a fourth grade student leaving a school with two 18-student classes would potentially save the school division the cost of a second teacher or possibly even the need to rent a trailer for additional classroom space.

Because no formula exists in Virginia for determining the proportion of fixed vs. variable costs, we considered a surrogate devised in 1995 by University of Texas at Austin professor Dr. Chrys Dougherty and researcher Stephen L. Becker (MBA, University of Texas) that used data supplied by the Texas Education Agency (TEA). The pair examined the average incremental increase in total cost at each individual school when enrollment increased by one student, calculating from that the fixed and variable costs for elementary schools, middle schools and high schools. The variable cost ranged from 82 percent of per pupil cost in an elementary school located in a small school division to 94 percent in a middle school located in a large school division.[28]

We also examined the recent experience of several Virginia school divisions that had seen student membership rise or fall and the budget effects the division imputed to those membership changes. The variable costs ranged from the mid-seventies to, most recently, 91 percent of the per-pupil costs in Fairfax County when the school division there adjusted its projected enrollment downward.[29]

These figures struck us as overly optimistic, however. In a small school division or a small school – as are most Virginia schools – the variable costs were likely to be much lower.

To get a more accurate picture, we consulted the Virginia Department of Education Superintendents Annual Report. Table 13 of that report offers a breakdown of disbursements by school division and by category. Some categories (Adult Education, Facilities, Debt Service, Pupil Transportation, Administration) are composed nearly totally of fixed costs. Others (School Food Services, Attendance and Health Services, Technology teachers, Summer School) have a small component of variable costs. The category of Instruction (representing expenditures for classroom instruction, guidance services, social work, books, instructional improvements, etc.) has a high percentage of variable costs.

Additionally, given the fact that students choosing a private school under an Educational Improvement Tax Credit program will be high poverty and also likely be over-represented with students requiring English language and special education services, we felt secure in using the self-reported "Instructional Costs" as a surrogate for variable costs in each school division.

These are, in fact, the per-pupil costs most likely to disappear when a high-poverty, at-risk student leaves a public school system.

In computing the fiscal effects of an Educational Improvement Tax Credit on each school division, we considered the current local contribution per pupil, the fixed costs that would remain in a school division, and the revenue from state retail sales and use tax.

Sales tax distribution is computed by school-age population within a school division: Revenue continues to flow for each school-age child, whether that child is in public, private, religious schools or home-schooled. Thus, a school division continues to receive that revenue stream, even if a current student transfers to private school.

In short, for each child who would leave the school system, the local school division would lose the state and federal dollars that child would normally bring. The local contribution and the sales tax remains in the school division, as do the fixed costs of education. The result was a formula for each school division that read –

(Local)		(Sales and)		(Fixed Costs)		(Money)
(Contribution)	+	(Use Tax)	-	(within total per)	=	(Remaining)
(Per Pupil)		(Per Pupil)		(Pupil Expenditure)		(Per Pupil)

As an example, the attached chart shows for Accomack County a Total Per Pupil Expenditure of $8,355, a local contribution of $2,905, a fixed percentage of student costs of 30.1%, and retail sales and use tax revenue per pupil of $786. Thus, the formula indicates –

$$\$2{,}905 + \$786 – (.301 \times \$8{,}355) = \$1{,}176$$

In this case, the Accomack County School system, after paying for the fixed costs, would have $1,176 from state sales and local funding for each student who transferred to private sector schools – funds that would then be available to meet help other students in the public schools.

The fiscal effect of an Educational Improvement Tax Credit on local school divisions is less uniform than the effect on state funding. Of 132 school divisions, 91 would derive a net gain of more than $1,000 for each student who choose to transfer (some as high as $8600), 20 would have between $500 and $999 available for redirection to other uses, and 21 would have less than $500. Of this latter category, under our computation, only three school divisions would actually *lose* money through an Educational Improvement Tax Credit.

No claim is made that this is a perfect measure. Indeed, the amount of money left in a local school division if only one or two students choose to leave could be substantially more (if it eliminated the need for a teaching position) or even show a small loss in available local funds (if it made no staffing change). However, since the high-poverty students who can make use of such tuition scholarships are also among the most expensive to educate, their departure from the school system is more likely to have a positive impact on a school system's finances than the departure of an "average" student.

What is interesting to note is that, for each of the school divisions losing money with a scholarship student, the state gains more than $4,000. Indeed, the greater the negative effect on local budgets, the more funds that are left in the state treasury. Policy-makers might wish to develop a "hold harmless" mechanism to ameliorate any local budget losses by transferring a part of the state savings.

It is clear, however, that a tuition scholarship will generally not have a negative effect on local school finances and is, indeed, more likely to have a positive effect. In the overwhelming majority of school divisions, funds will remain in the local division – even after paying for the fixed costs of a student's education – available to redistribute for the education of other students.

Fiscal Effects of a Virginia Educational Improvement Tax Credit

A	B	C	D	E	F	G	H
School Division	**Total Per Pupil Expenditure**	**Local Contribution Per Pupil**	**Percentage of Budget that is Fixed Costs**	**State Retail Sales and Use Tax Per Pupil**	**Local Funds Remaining Per Pupil**	**State Aid Per Pupil**	**State "Savings" Per Pupil After Deducting State Cost of Scholarship**
Accomack	$8,355	$2,905	30.1	$786	$1,176	$3,721	$2,279
Albemarle	9,258	6,292	34.1	682	3,817	1,888	446
Alleghany	8,000	3,253	30.6	618	1.423	3,629	2,327
Amelia	7,774	2,487	33.0	748	670	3,769	2,327
Amherst	6,882	2,154	27.4	689	957	3,487	2,045
Appomattox	6,645	1,711	32.3	646	211	3,732	2,290
Arlington	14,717	12,198	29.2	688	8,593	1,178	-264
Augusta	6,869	2,477	23.9	682	1,517	3,092	1,650
Bath	10,619	7,598	35.4	635	4,474	1,490	48
Bedford*	7,197	3,151	24.8	648	2,014	2,970	1,528
Bland	7,288	1,904	31.4	652	268	4,165	2,723
Botetourt	7,354	3,484	23.9	697	2,423	2,872	1,430
Brunswick	8,499	1,735	33.2	744	- 343	4,371	2,929
Buchanan	8,124	1,954	31.6	629	16	4,310	2,868
Buckingham	7,768	1,484	31.5	684	-279	4,457	3,015
Campbell	6,777	2,238	28.2	658	1,175	3,358	1,916
Caroline	7,393	2,346	28.2	680	941	3,604	2,162
Carroll	7,492	2,220	33.4	681	399	3,637	2,195
Charles City	10,204	5,626	29.5	788	3,404	3,116	1,674
Charlotte	7,130	1,718	35.0	624	-105	4,014	2,572
Chesterfield	6,991	3,328	29.7	631	1,883	2,721	1,279
Clarke	7,722	4,320	25.9	661	2,981	2,330	888
Craig	7,988	3,128	31.0	821	1,473	3,391	1,949
Culpeper	6,969	3,147	22.8	660	2,218	2,833	1,391
Cumberland	7,838	2,167	36.5	840	146	3,787	2,345
Dickenson	8,106	2,467	37.1	651	111	4,036	2,594
Dinwiddie	6,959	2,372	31.1	575	783	3,561	2,119
Essex	7,643	3,003	30.2	695	1,390	3,146	1,704

School Division	Total Per Pupil Expenditure	Local Contribution Per Pupil	Percentage of Budget that is Fixed Costs	State Retail Sales and Use Tax Per Pupil	Local Funds Remaining Per Pupil	State Aid Per Pupil	State “Savings” Per Pupil After Deducting State Cost of Scholarship
Fairfax	10,153	7,849	31.8	686	5,306	1,203	-239
Fauquier	8,386	5,396	26.5	657	3,831	2,016	574
Floyd	7,405	2,711	30.5	612	1,064	3,520	2,078
Fluvanna	7,125	3,086	25.2	581	1.871	3,078	1,636
Franklin	7,127	2,841	28.5	657	1,467	3,061	1,619
Frederick	7,677	3,793	24.8	624	2,513	2,900	1,458
Giles	7,169	2,666	35.5	691	812	3,336	1,894
Gloucester	7,069	2,590	29.0	684	1,224	3,306	1,864
Goochland	8,550	6,419	28.9	695	4,643	1,011	-431
Grayson	7,778	2,426	26.7	663	1,012	3,769	2,327
Greene	7,876	2,886	21.9	638	1,799	3,800	2,358
Greensville**	7,747	1,943	27.2	640	476	4,346	2,904
Halifax	7,850	2,279	29.4	698	669	4,175	2,733
Hanover	6,455	3,270	24.0	609	2,330	2,322	880
Henrico	7,083	3,970	28.0	669	2,651	2,139	697
Henry	7,339	2,287	27.0	721	1,026	3,650	2,208
Highland	8,352	4,266	28.4	757	2,651	2,702	1,260
Isle of Wight	7,067	2,941	26.9	710	1,739	2,943	1,501
King George	7,107	3,028	26.0	633	1,813	2,045	1,603
King & Queen	9,766	3,979	33.7	681	1,369	4,149	2,707
King William	7,293	2,875	23.5	621	1,782	3,438	1,996
Lancaster	8,036	4,545	28.2	702	2.981	1,951	509
Lee	7,364	1,210	23.3	671	165	4,489	3,047
Loudoun	10,159	7,921	29.7	606	5,510	1,432	-10
Louisa	7,573	4,521	32.8	708	2,745	1,886	444
Lunenberg	7,913	2,205	30.8	745	513	4,071	2,629
Madison	7,893	3,434	30.6	710	1,729	3,219	1,777
Mathews	6,989	2,951	29.5	644	1,533	2,830	1,388

School Division	Total Per Pupil Expenditure	Local Contribution Per Pupil	Percentage of Budget that is Fixed Costs	State Retail Sales and Use Tax Per Pupil	Local Funds Remaining Per Pupil	State Aid Per Pupil	State "Savings" Per Pupil After Deducting State Cost of Scholarship
Mecklenburg	7,106	2,165	30.1	622	648	3,616	2,174
Middlesex	7,886	3,767	34.5	766	1,812	2,606	1,164
Montgomery	7,673	3,423	26.5	761	2,151	3,423	1,981
Nelson	9,012	4,945	41.5	731	2,492	2,738	1,341
New Kent	6,764	2,877	30.0	670	1,518	2,891	1,449
Northampton	8,096	2,480	26.1	760	1,127	3,811	2,369
Northumberland	7,630	4,149	25.8	673	2,853	2,031	589
Nottoway	7,040	1,663	33.0	699	39	3,736	2,294
Orange	7,424	3,078	23.6	672	1,998	2,923	1,481
Page	6,353	1,798	27.3	640	704	3,416	1,974
Patrick	6,971	2,010	31.1	630	472	3,766	2,324
Pittsylvania	6,526	1,693	25.8	706	715	3,590	2,148
Powhatan	7,413	2,808	30.8	648	1,173	2,694	1,252
Prince Edward	7,300	2,081	30.0	726	617	3,646	2,204
Prince George	6,996	1,925	32.4	616	274	3,585	2,143
Prince William	7,862	3,927	28.8	614	2,377	3,016	1,574
Pulaski	7,302	2,523	30.2	723	1,041	3,343	1,901
Rappahanock	8,228	5,331	27.5	795	3,847	1,633	191
Richmond	7,099	2,754	28.4	635	1,373	3,173	1,673
Roanoke	7,699	3,916	25.8	687	2,617	2,777	1,335
Rockbridge	7,694	3,682	26.2	646	2,312	2,767	1,325
Rockingham	7,339	3,172	24.3	726	2,115	2,985	1,543
Russell	6,586	1,406	28.9	767	270	3,618	2,176
Scott	6,741	1,412	28.3	660	164	3,913	2,471
Shenandoah	6,910	2,927	23.2	649	1,973	2,923	1,481
Smyth	6,696	1,588	21.5	689	837	3,676	2,234
Southampton	7,866	2,459	32.4	817	727	3,887	2,445
Spotsylvania	7,056	3,237	25.3	609	2,061	2,899	1,457

School Division	Total Per Pupil Expenditure	Local Contribution Per Pupil	Percentage of Budget that is Fixed Costs	State Retail Sales and Use Tax Per Pupil	Local Funds Remaining Per Pupil	State Aid Per Pupil	State “Savings” Per Pupil After Deducting State Cost of Scholarship
Stafford	6,937	3,051	27.8	608	1,731	2,989	1,547
Surry	11,060	8,563	31.0	613	5,747	1,158	-284
Sussex	10,674	5,229	33.6	653	2,295	3,907	2,465
Tazewell	6,778	1,692	27.4	633	468	3,809	2,467
Warren	6,573	2,503	26.6	667	1,422	2,958	1,516
Washington	6,871	2,431	27.8	663	1,184	3,160	1,718
Westmoreland	6,895	2,242	32.4	718	726	3,182	1,740
Wise	7,494	1,613	28.7	656	118	3,967	2,525
Wythe	6,957	2,255	27.8	670	991	3,404	1,962
York	6,846	2,588	31.5	591	1,022	2,799	1,357
City Of:							
Alexandria	13,208	10,728	30.7	682	7,355	1,104	-334
Bristol	7,790	2,755	24.6	636	1,475	3,539	2,097
Buena Vista	9,100	3,089	31.0	735	1,003	4,582	3,140
Charlottesville	11,391	7,395	26.4	881	5,268	2,275	833
Colonial Heights	8,901	5,473	24.3	658	3,968	2,432	990
Covington	9,478	4,665	26.0	606	2,806	3,459	2,017
Danville	7,774	2,327	25.2	773	1,148	3,301	1,859
Falls Church	13,107	11,105	31.2	619	7,635	1,047	-395
Fredericksburg	9,103	6,119	29.0	711	4,190	1,576	134
Galax	6,927	2,774	30.2	487	1,169	2,976	1,534
Hampton	7.324	2.302	28.2	749	985	3,626	2,184
Harrisonburg	8,741	5,120	26.5	621	3,424	2,343	901
Hopewell	8,079	2,688	26.3	663	1,226	3,934	2,492
Lynchburg	7,882	2,937	25.9	801	1,696	3,207	1,765
Martinsville	8,287	2,924	31.1	745	1,091	3,351	1,909
Newport News	7,587	2,620	28.3	767	809	3,351	1,909
Norfolk	7,952	2,404	25.6	741	1,109	3,718	2,276

School Division	Total Per Pupil Expenditure	Local Contribution Per Pupil	Percentage of Budget that is Fixed Costs	State Retail Sales and Use Tax Per Pupil	Local Funds Remaining Per Pupil	State Aid Per Pupil	State “Savings” Per Pupil After Deducting State Cost of Scholarship
Norton	7,389	1,865	25.0	721	739	3,858	2,416
Petersburg	7,804	1,948	29.4	620	274	4,272	2,830
Portsmouth	7,819	1,946	31.9	687	139	4,218	2,776
Radford	7,396	3,154	28.4	578	1,631	3,328	1,886
Richmond	9,955	4,886	30.6	787	2,627	3,040	1,598
Roanoke	8,241	3,365	24.7	672	2,001	3,365	1,912
Staunton	9,610	4,309	22.7	905	3,033	3,560	2,118
Suffolk	7,021	2,372	28.9	710	1,053	3,418	1,976
Virginia Beach	7,414	3,192	28.1	681	1,790	2,821	1,379
Waynesboro	7,417	3,156	27.0	657	1,810	2,967	1,525
Williamsburg***	8,711	5,998	31.0	700	3,997	1,653	211
Winchester	9,331	5,661	24.6	645	4,010	2,285	843
Fairfax	10,167	8,489	31.7	693	5,959	982	-460
Franklin	8,394	2,596	28.9	654	824	4,036	2,594
Chesapeake	7,510	3,200	25.8	690	1,952	3,143	1,701
Lexington	6,918	3,320	20.8	524	2,405	2,589	1,147
Salem	7,744	4,108	26.2	643	2,722	2,600	1,158
Poquoson	6,468	2,662	26.0	590	1,570	2,978	1,536
Manassas	8,744	4,777	25.8	658	3,179	2,990	1,548
Manassas Park	8,315	3,589	30.4	589	1,650	3,671	2,229
Town of:							
Colonial Beach	7,863	2,220	26.8	578	690	3,833	2,391
West Point	8,681	3,977	23.4	474	2,420	2,714	1,272

* -- Bedford County data includes Bedford City.
** -- Greensville County data includes Emporia City.
*** -- Williamsburg City data includes James City County.
Source: Tables 13 and 15 of the Superintendents Annual Report for Virginia, Fiscal Year 2003

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John Ryan: Senior Counsel and Director of Government Affairs for Bristol Myers Squibb.

Robert W. Shinn: President of Public Affairs, Capitol Results

Todd A. Stottlemyer: CEO, ITS Services, Inc..

Dr. Robert F. Turner: Law professor at the University of Virginia at Charlottesville.

Robert W. Woltz, Jr: President and CEO of Verizon-Virginia.

"… a wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government, and this is necessary to close the circle of our felicities."

Thomas Jefferson

1801

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