

Designing A Public School Choice Program That Can Pay For Itself

NPRI Issue Analysis

This study was originally adapted for Nevada from a study developed through Barry Goldwater Institute by Tara Ellman, Consulting Associate Research Fellow, NPRI and Judy Cresanta, President, NPRI. The source document was: Tara Ellman, "Choice on the Cheap." Barry Goldwater Institute's Arizona Issue Analysis, Phoenix, Arizona: Issue 125, November 1992.

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Designing A Public School Choice Program That Can Pay For Itself

The following is an executive summary regarding a study which outlines proposals for an educational choice program in the state of Nevada. The study was adapted for Nevada from a study developed through Barry Goldwater Institute by Tara Ellman, Consulting Associate Research Fellow, NPRI and Judy Cresanta, President, NPRI.

Low-Cost Educational Choice

- * *The purpose of this study is to help decision makers design an effective low cost (or no-cost) educational choice program.*

- * *Attributes of an "Optimum" Choice Program*
 1. *all students and all schools are eligible to participate;*
 2. *all scholarships are of equal size;*
 3. *scholarships are large enough to provide realistic choices to a wide range of students; including low income and handicapped students;*
 4. *regulations are minimal;*
 5. *the program is economically efficient; and,*
 6. *taxes do not increase.*

- * *The prospect for an "ideal" choice program in Nevada is good, but not certain. If further experience and research dims this optimism, it is still very likely that Nevada could achieve a no-cost or low cost choice program by compromising some of the "ideal" attributes mentioned under the section entitled "Attributes of an Optimum Choice Program".*

Executive Summary

- Proposals for an educational choice program that would allow parents to choose among public and private schools with the aid of a state scholarship have reached considerable support in Nevada among parents, businessmen and some teachers.

- One aim of an educational choice program is to improve education by bringing competition to both public and private schools. Another is to give educational choice to as many families as possible--most of whom are now limited to just one public school because of school district rules and the cost of private alternatives.

- Some critics argue that choice involving private schools would be prohibitively expensive, a conclusion they support by simply multiplying current private school enrollment by the presumed size of a state scholarship. If one, for example, multiples Nevada's average expenditure per student for FY 1992-93, by the number of private school students, the result is a daunting \$50 million. But this analysis is incomplete. A choice program in Nevada would not necessarily be expensive. In fact, it wouldn't necessarily cost anything. A program's fiscal consequences depend on its design.

- The model for thinking about educational choice used here is based on a distinction between two groups of potential private school students:
 - "Movers" who choose private schools if they have a state scholarship but would otherwise attend public school; and,
 - "the base group," who would attend private schools as a primary choice.
- An effective choice program should improve economic efficiency in two ways. First, private schools are often more cost efficient than public schools and yield a generally better academic result. Therefore, shifting more students to the private sector improves overall economic efficiency. Second, a choice program subjects public schools to some mild competition. Since dissatisfied customers are more likely to go elsewhere if they have a scholarship, public schools are under pressure to use their input to better satisfy their customers. Moreover, the possibility of a large number of "movers" is an important incentive for public schools to improve.
- A successful "optimum" choice program requires a combination of favorable circumstances. Fortunately, Nevada has an unusually small "base group" and a finance system that assures a savings to state government from movers. Assuming Nevada also has at least moderately price-sensitive demand for private education and an adequate supply of modestly priced private schools, a choice program with unrestricted eligibility and equal scholarships has good prospects for breaking even. This is especially true of a program for elementary school students.
- Since the cost of a choice program is overwhelmingly attributable to the "base group," a small "base group" offers a great advantage. In Nevada, only about five percent of students are now in private school or are home schooled; well below the national average of almost twelve percent and far less than several states that have more than 20 percent of their students in private schools. The small size of the "base group" means that a program can break even if a relatively small proportion of public school students switch. A switching rate of just 12 percent would cover the costs of 70 percent scholarships worth slightly over \$2250. Contrast this situation to that of a state with 20 percent of its students in the base group. A 50 percent scholarship program could not break even unless a quarter of public school students switch, and a 70 percent scholarship program would require that more of 58% of them switch. Clearly, the conditions for low cost choice are more favorable in Nevada than in many other states.
- For parents, a state scholarship is the equivalent of a decrease in the price of private education (provided, of course, that the scholarship does not cause tuitions to rise). For a program to break even, parents' demand for private education has to be fairly price sensitive, or in the language of economists, demand must be price-elastic. This is the case even in Nevada, although the required degree of price elasticity is less in Nevada than in many other states because of its small "base group."

Desirable Design Features for any Choice Program

- 1) Phase in the program.
- 2) Cap scholarships for low tuition schools.
- 3) Do research first.
- 4) Encourage new schools and school expansions.

DESIGNING A PUBLIC SCHOOL CHOICE PROGRAM THAT CAN PAY FOR ITSELF

Proposals for an educational choice program that would allow parents to choose among public and private schools with the aid of a state scholarship have received considerable support in Nevada among parents, businessmen and some teachers.

One aim of a scholarship program is to improve education by bringing competition to both public and private schools. Another is to give educational choice to as many families as possible—most of whom are now limited to just one public school because of school district rules and the cost of private alternatives.

Some critics argue that choice involving private schools would be prohibitively expensive, a conclusion they support by simply multiplying current private school enrollment by the presumed size of a state scholarship. If one, for example, multiplies Nevada's average expenditure per student for FY 1992-93,¹ by the number of private school students, the result is a daunting \$50 million. But this analysis is incomplete. A choice program in Nevada would not necessarily be expensive. In fact, it would not necessarily cost anything. A program's fiscal consequences depend on its design.

The purpose of this study is to help decision makers design an effective low cost (or no-cost) educational choice program. First, the report presents a way of thinking about choice programs that should be helpful. Second, it presents the evidence that Nevada has particularly good prospects for a successful low cost choice program. Third, it clarifies issues decision makers will confront in designing a program and discusses strategies for dealing with them.

ATTRIBUTES OF AN "OPTIMUM" CHOICE PROGRAM

One of the first problems for policy makers is to decide what characteristics a choice program ought to have. Here we simply assume that consensus among choice supporters points to a program which ought to have the following attributes:

- (1) all students and all schools are eligible to participate;
- (2) all scholarships are of equal size;
- (3) scholarships are large enough to provide realistic choices to a wide range of students: including low income and handicapped students;
- (4) regulations are minimal;
- (5) the program is economically efficient; and,
- (6) taxes do not increase.

By this definition, an "ideal" program has all these characteristics and a "compromise" program lacks one or more of them.

Nevada Taxpayers Association, Nevada Issues, Issue 1, November 1992, p4. The average total expenditures among counties per pupil is \$4525 per pupil. This figure multiplied by the number of students enrolled in private schools (approximately 11,143) equals \$50,450,049.

A WAY OF THINKING ABOUT EDUCATIONAL CHOICE

The model for thinking about educational choice used here is based on a distinction between two groups of potential private school students:

- "Movers" who choose private schools if they have a state scholarship but would otherwise attend public school; and.
- "The base group", who would attend private schools as a primary choice.²

Taxpayers save money on each "mover" as long as the scholarship that the state pays him or her is less than the amount of money the state avoids spending because it no longer has to educate the "mover". A great deal of economic efficiency and, therefore, public benefit comes from the "mover"—their choices, previously limited to public school, are expanded and their education is improved.

The term economic efficiency refers to the amount of output relative to input. Both public and private input are important, so that moving costs between sectors does not necessarily affect efficiency. Economic efficiency and the public's share of the cost of input are two separate issues. The focus of this paper is how to achieve the program's goals—wider choices and better economic efficiency in education—without increasing the public's economic input.

An effective choice program should improve economic efficiency in two ways. First, private schools are often more cost efficient than public schools and yield a generally better academic result. Therefore, shifting more students to the private sector improves overall economic efficiency.³ Second, a choice program subjects public schools to some mild competition. Since dissatisfied customers are more likely to go elsewhere if they have a scholarship, public schools are under pressure to use their input to better satisfy their customers.⁴ Moreover, the possibility of a large number of "movers" is an important incentive for public schools to improve.

From the taxpayers' viewpoint, the "base group" increases costs without much benefit since their choices and education are not changed by the scholarship program. The key to designing a low cost program is to use the net savings from "movers" to cover the costs of the scholarships for the "base" group. If the net savings from "movers" (after paying them scholarships) equals the payments to the "base" group, a choice program breaks even: costing taxpayers nothing overall. If savings from "movers" exceeds scholarships to "base" group students, taxpayers would be better off.

² The present percentage of private school students now stands at 4.6 percent. With home schoolers included Nevada students who are educated by private means is 5 percent.

³ A study in Chicago, for example, concluded that private school cost per student was between 45 percent and 77 percent of public school costs, after adjusting for differences in teacher's salaries, special education and other factors. *Wall Street Journal*, July 8, 1992.

⁴ The potential impact of competition is indicated by a major study of international productivity which concluded that American productivity in most service industries is superior to that of all competing countries. The authors attributed this to greater competition in the US service sector and specifically recommended increasing competition in education and other uncompetitive service industries. *New York Times*, October 13, 1992, p C1

WHAT IT TAKES TO BREAK EVEN

Breaking even, or having a net savings, is not an automatic outcome of a choice program. It requires favorable conditions and a sensible program design. In theory, an unrestricted program offering any size scholarship can break even, as long as it attracts enough "movers" to cover the cost of the scholarships for the "base group". However, the necessary number of "movers" increases dramatically as scholarships get larger as shown by the steeply rising curve presented as Figure 1.⁵

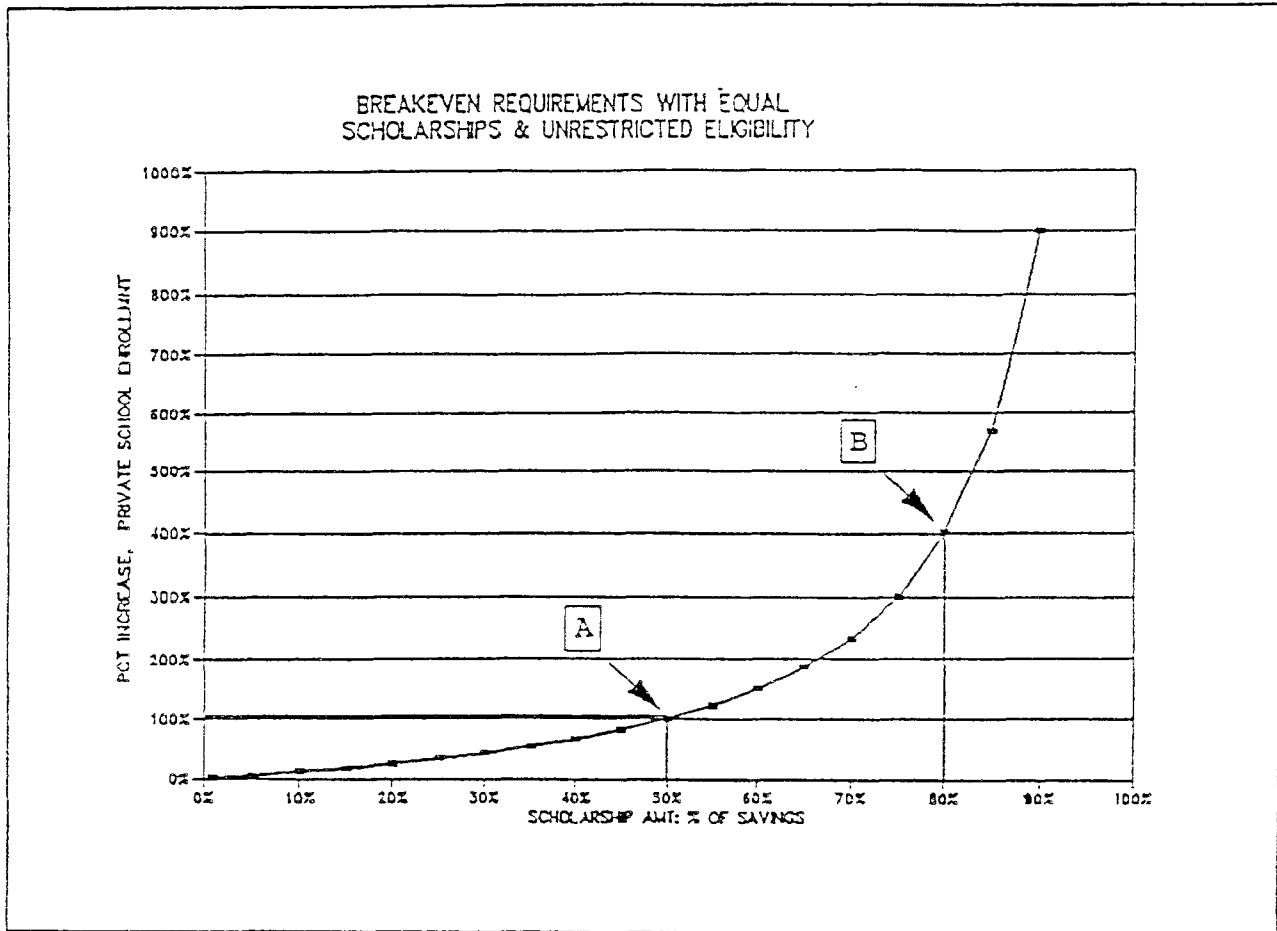


Figure 1

To clarify the implications of this curve, consider a hypothetical example. A state which saves \$3000 per mover before paying scholarships decides to offer \$1500 scholarships, equivalent to half the states savings, with no restrictions on eligibility. The net savings from each "mover" after paying his scholarship is \$1500, enough to pay for the scholarship of one "base group" student. Thus the scholarship program breaks even if the number of "movers"

⁵ Tara Ellman, "Choice on the Cheap", Barry Goldwater Institute, *Arizona Issue Analysis*, November, 1992. The curve in figure 1 includes points where the total cost of scholarships to base group students equals the net savings (after scholarships are paid to movers) attributable to movers. The formula is $p/(1-p)$, where p is the size of the scholarship expressed as a proportion of the gross amount saved (before any scholarships are paid) when a public school student moves to a private school. For instance, for a fifty percent scholarship the formula is $5/(1-.5)=5/.5=1.0$ or 100 percent. This approach is also explained in E.G. West, "The Real Cost of Tuition Tax Credits" *Public Choice*, 1985, pp. 61-70.

equals the number in the "base group" (A in fig.1). Suppose the state increases the scholarship to \$2,400 per student, or 80 percent of the state's savings for a "mover." With its net savings per "mover" reduced to \$600 and its cost for each "base group" student increased to \$2400, the state now needs four movers for each "base group" student if it is to break even (B in Fig 1). If this state decided to increase its scholarship more, the number of "movers" needed to break even would get much larger. Nevada correlates well with this illustrative example.

The size of the scholarship is a very important consideration in designing a choice program. But there is a dilemma here. Small scholarships compromise the principle that a wide range of students should benefit, since a program which does not significantly reduce parents' out-of-pocket costs for private education is of little benefit to low and moderate income families. On the other hand, it is obvious from the chart above that breaking even becomes more difficult as scholarships get larger and it may be impossible if scholarships are very generous.

In addition, the chart demonstrates that the likelihood of breaking even depends on the size of the scholarship as a percent of the state's gross savings per "mover", not on its dollar amount. A state which pays scholarships equal to half its gross savings per "mover" needs one "mover" for each "base group" student to break even, regardless of the dollar figures. This also implies that the appropriate definition of an "equal scholarship" is an equal percent of the state's gross savings, not equal dollars. Nevada, spends more to educate handicapped than healthy students. Therefore a scholarship of any given percent would provide a greater dollar amount to a handicapped student than to a non-handicapped student⁶ Giving the larger scholarship to the handicapped student does not make it less likely the scholarship program will break even.

WHY NEVADA HAS A GOOD PROSPECT FOR BREAKING EVEN

A successful "optimum" choice program requires a combination of favorable circumstances. Fortunately, Nevada has an unusually small "base group" and a finance system that assures a savings to state government from movers. Assuming Nevada also has at least moderately price-sensitive demand for private education and an adequate supply of modestly priced private schools, a choice program with unrestricted eligibility and equal scholarships has good prospects for breaking even. This is especially true of a program for elementary school students.⁷

(1) A Small Base Group

Since the cost of a choice program is overwhelmingly attributable to the "base group", a small "base group" offers a great advantage. In Nevada, only about five percent of students are now in private school or are home schooled; well below the national average of almost

⁶ "Special Education" designation has been added to the Nevada Plan. The number of units and the amount per unit are determined by each legislative session. A Unit includes a full time teacher as well as the number of students, limiting the students number in relation to the kind of handicap. The actual dollar amount for students with special needs FY1992-3 is not yet available from the Nevada State Department of Education. It would be helpful if the State Department of Education would devise a table which gives an estimated cost per handicapped pupil. This amount can then be added to the state scholarship. Not included in this program is the \$1.9 million expended by the State for the education of handicapped students out of state.

⁷ Nevada's spending allowances do not distinguish between the expense of financing elementary school children as opposed to high school children. Generally it is more expensive to educate high school students than elementary students.

twelve percent⁸ and far less than several states that have more than 20 percent of their students in private schools. The small size of the "base group" means that a program can break even if a relatively small proportion of public school students switch. A switching rate of just 12 percent would cover the costs of 70 percent scholarships worth slightly over \$2250.⁹ Contrast this situation to that of a state with 20 percent of its students in the base group. A 50 percent scholarship program could not break even unless a quarter of public school students switch, and a 70 percent scholarship program would require that more of 58% of them switch. Clearly, the conditions for low cost choice are more favorable in Nevada than in many other states.

(2) Assured Savings from "Movers"

Nevada's school financing system, which assures the state government a predictable minimum savings for each "mover" is an important advantage in implementing a choice program. By statute, the Nevada finance system provides "state financial aid to schools based upon an amount of 'guaranteed basic support' minus local available funds produced by mandatory taxes." The "guaranteed basic support" is determined by multiplying the weighted number of students by "the per pupil guaranteed amount". The latter, which is determined by a formula, differs for each district. Except for one unusual situation, the minimum is \$3,048 and the average is \$3212. (See the table on the following page.)¹⁰

When a student leaves a public school to enroll in private school, the district's "guaranteed basic support" decreases by the "per pupil guaranteed amount". The local available funds do not change at all, since they are determined by the tax base, not the number of students. Thus, the state government necessarily saves the full "per pupil guaranteed amount".

Since, with one exception, the state government saves at least \$3,048 on each "mover", it is reasonable to set scholarships in Nevada as a percentage of this minimum assured savings of \$3,048, plus an additional amount for handicapped students. That is, a 50 percent scholarship would be 50 percent of the minimum savings of \$3,048. An additional amount for handicapped students could be computed as a percentage of their approximate per student cost. Students of the same age and handicap condition would receive the same dollar amount of scholarship, regardless of their county of residence.¹¹

However, if all scholarships are based on the states' minimum savings of \$3048, in many cases the state government would save an amount greater than this minimum for each "mover". This extra savings could be retained by the state government, in which case a

⁸The figure for 1990-91, computed from figures compiled by USA National Center for Education Statistics and published in tables 214 and 215, US Statistical Abstract.

⁹ The average per pupil guaranteed amount in Nevada is \$3212, according to the State Dept of Education

¹⁰ The Nevada Plan is the basis for distribution of funds. Devised during the 1967 Legislative Session, the formula equalizes funding behind each student regardless of the education revenues of the county school district. The Nevada Plan is statutorily defined as a program to provide state financial aid to schools based upon an amount of Guaranteed basic support minus local available funds produced by mandatory taxes. "Basic support" is the amount of the dollars determined by multiplying the "weighted enrollment" by the per pupil "basic support guarantee" plus a legislatively determined amount for "special education".

¹¹ Eureka County fits this description since it has very few students and a very high revenue base. In reality, Eureka County does not qualify for state aid, therefore, it is assigned only a token amount of \$100 as a per pupil guarantee amount. If the formula were strictly applied to Eureka, it would lose local taxes to support other districts, therefore, the law provides that all districts will receive at least 10 percent of their basic support.

choice program with universal eligibility would break even more easily than indicated in Figure 1, or it could be paid to the districts.

The only district for which the state would not achieve a significant savings for a "mover" is Eureka County, which receives almost no state aid. To be strictly equitable, a district which receives no state aid should pay the state government an amount equal to the district's savings when the state pays scholarships to "movers" (but not to "base group" students) from the district. In this way, the district is no worse off since its spending is the same with or without a choice program and the state government has a savings as it has in other districts.¹²

County	Per Pupil Guaranteed Amount	Special Education Units	Special Education Money
Carson	\$3641	53	\$1,389,024
Churchill	\$3769	28	\$733,824
Clark	\$3225	837	\$21,936,096
Douglas	\$3462	40	\$1,048,320
Elko	\$3827	48	\$1,257,984
Esmeralda	\$6021	3	\$78,626
Eureka	\$100	4	\$104,832
Humboldt	\$3618	20	\$524,160
Lander	\$3625	11	\$288,288
Lincoln	\$5812	11	\$288,288
Lyon	\$4027	34	\$891,072
Mineral	\$4069	11	\$288,288
Nye	\$3799	26	\$681,408
Pershing	\$4251	8	\$209,664
Storey	\$5658	4	\$104,832
Washoe	\$3048	293	\$7,678,944
White Pine	\$4314	14	\$366,912

¹² According to the Nevada Taxpayer Association study, Washoe County has the smallest guaranteed per pupil amount of all 17 counties. Therefore, the minimum benefit afforded any county is \$3048.

(3) Price Sensitive Demand for Private Education

For parents, a state scholarship is the equivalent of a decrease in the price of private education (provided, of course, that the scholarship does not cause tuitions to rise). For a program to break even, parents' demand for private education has to be fairly price sensitive, or in the language of economists, demand must be price-elastic. This is the case even in Nevada, although the required degree of price elasticity is less in Nevada than in many other states because of its small "base group".

Academic research on the demand elasticity for private elementary and secondary education, though limited and inconclusive, suggests that it is quite plausible that demand is sufficiently elastic for a program to break even. With moderately elastic demand (and assuming an adequate supply of relatively inexpensive private schools), Nevada could easily break even or have a net savings with unrestricted scholarships of as much as 50 percent (worth about \$1500 for an average student) or more. On the other hand, it is also possible that demand is inelastic, in which case an unrestricted program in Nevada probably could not break even unless it offered tiny scholarships. Some limited research should be undertaken on this issue.¹³

(4) Adequate Supply of Low Cost Private Schools

A substantial increase in private school spaces is absolutely essential for the success of a choice program, both to achieve public benefits and to minimize costs. Potential "movers" cannot switch to private schools if there are no spaces for them. Moreover, it is probably necessary that the available spaces be quite inexpensive. This is because the state scholarship is a larger percentage price decrease for low tuition schools than for high tuition schools, and therefore a scholarship of a given size will induce more potential "movers" to switch if they have low tuition options than if they have high tuition options. Lower tuition has reasonable prospects for a no-cost program if tuitions are below about \$3000, but its prospects are much better if tuitions are half that.

The price range of existing private schools is another favorable condition for Nevada. A substantial proportion of existing schools charge in the range of \$1,500 to \$2,000. An adequate supply of spaces in this price range would satisfy one of the important conditions for no-cost choice, but this would require considerable expansion. Without further research, it is not clear how large an increase in inexpensive schools is realistic. A potential obstacle to expansion is that most low tuition schools are probably subsidized; and expanding them would require more private subsidies.

Private high schools are generally more expensive than elementary schools. Moreover, although Nevada's public school spending formula allows for more high school students, the difference seems to be less than the difference between private elementary and high school tuition. Consequently, state scholarships of any given size will typically cover a larger share of tuition for elementary students than for high school students. Due to these circumstances,

¹³ For a survey of research and debate on conclusions see: (1) F. Martinello and E.G. West, "The Optimal Size of the Tuition Tax Credit," *Public Finance Quarterly*, October 1988, pp. 425-438; (2) Donald E. Frey, "Optimal-Sized Tuition Tax Credits Reconsidered: Comment," *Public Finance Quarterly*, July 1991, pp. 347-354; (3) F. Martinello and E. G. West, "Education Budget Reductions Via Tax Credits: Some Further Considerations", *Public Education Quarterly*, July 1991, pp. 355-368; (4) Donald E. Frey, "Demand and Supply Elasticities For Private Education: A Rejoinder", *Public Finance Quarterly*, July 1991, pp. 369-376. The relatively high elasticity estimates tended to come from surveys in which parents were asked how they would respond to hypothetical tax credits or vouchers. Surveys suffer from the problem that more people say they will switch than actually do so. The other type of elasticity study is based on data from existing private schools. The difficulty with this line of research is that historical experience may not be applicable to a significantly changed education system.

the prospects for no-cost choice in Nevada is better for elementary than for high school students.

DESIGN CONSIDERATIONS FOR COMPROMISE PROGRAMS

The conclusion so far is that the prospect for an "ideal" choice program in Nevada are good, but not certain. In concluding this section, we must mention that if further experience and research dims this optimism, it is still very likely that Nevada could achieve a no-cost or low cost choice program by compromising some of the "ideal" attributes mentioned in the Attributes of an Optimum Choice Program on page 1.

There are two fundamental strategies for cutting costs. One is to reduce the size of the scholarship. The other is to reduce scholarship payments to "base group" students relative to "movers". There are a variety of eligibility restrictions and other approaches to effect these strategies. The best strategy depends on which "ideal" attributes one is most willing to compromise. The difficult part of designing a compromise program may be setting priorities among desirable attributes.

(1) Compromising Scholarship Size

Many choice proponents would give high priority to having equal scholarships and unrestricted eligibility for all students and schools. If these attributes are retained, reducing the size of the scholarship will usually reduce program costs. Whether this is a successful strategy depends on how close the small scholarships are to the "ideal". One with small scholarships is compromised because it does not benefit all income groups nor does it provide much incentive for expanding private school spaces. The program could fail for lack of available spaces for "movers." Very small scholarships would probably be absorbed as tuition increases, with no benefit accruing to anyone other than school administrators. The other potential problem with this strategy is that the largest scholarship on which the state could break even might be zero.

(2) Compromising Eligibility Restrictions

Since most of the cost of a choice program is attributable to the "base group" and most of the potential savings and the educational benefit is attributable to the "movers", excluding as much of the "base group" as possible while encouraging "movers" could significantly affect costs. A program that directs relatively large scholarships to "movers" in order to increase their numbers, could very well have lower costs than a program that provides modest scholarships to all private school students. A cost minimizing program might, therefore, be of more benefit to potential movers than a program with unrestricted eligibility. Obviously this strategy is disadvantageous for the "base group" students who would be excluded; a situation many might be perceived as unfair.

Excluding base group students outright is not feasible because once a program is in place it will be impossible to know what any individual would have done in the absence of the program. Therefore, it will be impossible to identify individual "base group" students. A technique for excluding them is to make eligibility rules for schools or students that tend to give scholarships to categories of students with high proportions of "movers" but not to categories with a high proportion of "base group" students. Some of those that are not likely to be effective, in terms of reducing costs, are the following : exclusion of religious schools; exclusion of all existing private schools; barring schools from accepting any supplementary

payments from families with state scholarships: including only certain types of schools likely to have a high proportion of "movers", such as charter schools or other institutions which resemble public schools; or excluding high income families.

(3) Compromising Equal Size Scholarships

Another approach, although with similar consequences, would be to offer different size scholarships—that is, scholarships which are a different percent of gross savings—to students in different circumstances so as to give "base group" students relatively small scholarships, on average, while granting larger scholarships, on average, to "movers". For example, a program could give larger scholarships to students in schools that would be likely to have more "movers", or give larger scholarships or extra grants to low income students.

(4) Compromising Cost Constraints Instead

Up to this point, we have assumed that breaking even, or coming close, is an essential feature of any choice program. Another point of view is that a program that does not compromise any other goals—that offers all students equal, moderately large scholarships—is worth additional cost. Even in a worst case situation, in which all "base group" students receive a 100 percent scholarships without any offsetting savings from movers, the total increase in state and local education expenditures would be well under five percent. (This is because the average scholarship based on the state's actual savings from "movers" would be less than the total average expenditure per student. Capping scholarships at historic tuition levels for students in low tuition schools would further reduce the possibility of worst case spending). Even in the worst scenario, cost absorbed over a few years is probably manageable, and almost certainly the costs would be less than the worst case situation.

DESIRABLE DESIGN FEATURES FOR ANY CHOICE PROGRAM

This section suggests provisions that should be helpful to any choice program, regardless of whether it is an "ideal" or a "compromise program."

(1) Phase in the program

Whatever program is used, it should be phased in. First, it makes sense to absorb the fiscal impacts gradually. Second, a carefully monitored phase-in program will provide badly needed information. Inevitably, the program's initial design will be based on incomplete information, and experience may indicate that changes are needed. Furthermore, a phase-in period allows both public and private schools time to respond. A successful choice program needs a significant increase in private school places, which could take years. Major changes in public schools will take considerable time also.

Phasing-in a grade or two a year, starting with the early grades, would help new schools "grow" from existing preschool, a grade at a time. An alternative phase-in process would be to start with groups with low proportions of "base group" students, thereby minimizing early costs, then gradually expanding eligibility. The program for example, might start with low income students, or with students residing in the attendance areas of the most unsuccessful schools. It might exclude religious schools, at first, or existing private schools, adding them at a later stage. It could start with "charter schools", "public scholarship schools" or other types of schools likely to have high proportions of "movers", before adding other private schools. These phase-in strategies have the advantage of keeping costs down during the current period of economic instability while eventually benefiting a large number of

families.

(2) Cap Scholarships for Low Tuition Schools

The dollar amount of scholarships should be capped at the historic tuition level for existing low-tuition schools when their tuition is less than the standard scholarship, perhaps with the cap increasing gradually relative to the standard scholarship. This reduces costs and avoids an unjustified windfall to certain schools.

(3) Do Research First

Without some research, program design could be seriously faulty. For example, the likely effects of scholarships of various sizes on the demand for and the supply of private school spaces are extremely important issues that need further research. It is very important for the success of a compromise program to have detailed information on the size and characteristics of the "base group" before the program is implemented, since afterwards it will be impossible to identify them. We have, for example, assumed that low income groups have a lower proportion of "base group" students than high income groups, but assumptions like this need to be verified before being relied upon in designing a program.

(4) Encourage New Schools and School Expansions

To understand how important the supply of private school space is, consider the extreme case in which all students are eligible for scholarships but no additional private school spaces are created. While in theory all public school students now enjoy access to private schools, in reality none does because all private school spaces are occupied by "base group" students who have always occupied them. Taxpayers' costs are maximized because all scholarships are paid to "base group" students without any offsetting savings to "movers". Since public schools know that their students cannot actually leave, they have no incentive to improve. Likewise private schools know that their students are unlikely to find space in a competing private school so they have little incentive to improve. Even worse, more money is chasing the same number of spaces. Each private school can raise its tuition by the full amount of the state scholarship, confident that its students will pay because their out of pocket expenses are the same as if they were paying before scholarships were available. The result is a high-cost program with a large income transfer from taxpayers to existing private schools and without any public benefit.

This extreme case is improbable, but it illustrates how a shortage of private school space will harm a choice program. It is essential that a choice program give every reasonable encouragement to the formation of new private schools and the expansion of existing ones. Minimizing regulations for private schools is important. Fairly large scholarships, large enough to support good quality schools without a large supplement from parents, would help increase the supply, although they would also increase the demand. Certainly, the program should not discourage new schools such as by limiting eligibility to existing schools or by requiring arbitrary ratios of scholarship students to private-tuition students, as is sometimes proposed. Any provisions which tend to suppress the number of private schools spaces will both increase costs and reduce benefits of a choice program.

Summary

- A school choice program can break even or save money because the cost of scholarships to students currently attending private schools can be offset by savings from students who would switch from public to private schools.
- The appropriate definition of "equal scholarship" is equal to the percent of the state's gross savings from "movers", not equal dollars.
- The size of the scholarship is a critical decision. Program designers confront a dilemma here: larger scholarships may be better from a policy standpoint but as scholarships get larger the prospects for breaking even deteriorate rapidly.
- Nevada has relatively good prospects for breaking even on a program that offsets equal scholarships and unrestricted eligibility.
- A promising program with unrestricted eligibility and equal scholarships for Nevada appears to be one that offers moderate size scholarships to elementary students.
- Even if an "ideal" program should prove unfeasible, Nevada could have a no-cost or low cost program by reducing the size of the scholarship or by adopting eligibility restrictions or unequal scholarships that tend to give a larger share of scholarships to "movers" and a smaller share to "base group" students.