

Revenues, Expenditures and Taxpayer Subsidies In Milwaukee's Voucher Schools

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Abstract

With the inclusion of religious schools in 1998-99, the number of voucher-funded students in the Milwaukee Parental Choice Program (MPCP) quadrupled to 6,050. In earlier years, Milwaukee taxpayers paid for the voucher program. When expansion to religious schools quadrupled costs, however, the Wisconsin Legislature charged taxpayers from every school district outside of Milwaukee for \$14 million of the \$28 million price tag. Milwaukee's voucher program became an issue for every Wisconsin taxpayer. The voucher equaled the school's total per-pupil expenditure up to a maximum of \$4,894. Private schools must submit audited financial data to qualify for funding--the data base for this study. This information for private and religious schools offers a rare opportunity to study the funding of private schools, how they expend resources, and over time, how they respond to a significant influx of taxpayer financial support.

In addition to 20 non-religious schools (with average operating costs of \$5,030 per pupil), the religious schools were divided into two groups: 26 low-cost religious schools had audited operating costs under \$3,200 per pupil (averaging \$2,759 per pupil); and the remaining 34 are labeled as high-cost religious schools (with average operating costs of \$4,689 per pupil). Just one year into the voucher program, voucher students made up 33 percent of enrollment in low-cost religious schools and 53 percent of enrollment in high-cost religious schools.

Vouchers averaged \$4,256 per pupil in low-cost religious schools, \$4,773 in high-cost schools and \$4,761 in non-religious schools. The average voucher exceeded published tuition rates by about \$2,250 (99 percent of published tuition). Published tuition rates exceeded audited tuition revenue by nearly \$1,200 in high-cost religious schools, amounting to a "tuition discount" of 40 percent. In the very first year of taxpayer subsidies for religious schools, vouchers accounted for 45 percent of all revenue in religious schools. Tuition made up only 25 percent of revenue. In low-cost religious schools, voucher students generated revenue nearly four times greater than the actual tuition (\$1,126 per student) paid by other families for the same education. In high-cost religious schools, voucher students generated revenue almost three times greater than the actual tuition (\$1,726 per student) paid by other families for the same education.

After adding facilities, equipment and debt service to operating costs, *total* costs ranged from an average of \$4,097 per pupil in low-cost religious schools to an average of \$5,564 in high-cost religious schools. Non-religious schools spent an average of \$6,330 per pupil. Private schools were allowed to depreciate pre-existing facilities at 100 percent upon entering the voucher program, resulting in annual windfall voucher payments of \$1,300 per pupil in low-cost religious schools and \$325 per pupil in high-cost religious schools. The average private school in Milwaukee spent about the same as the Milwaukee Public Schools after excluding expenditures for special education, vocational education, adult education, other expenditures financed by restricted funding, and transportation. Private schools showed a clear preference for spending money on buildings and equipment rather than on personnel.

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I. Introduction

Private school financing and resource utilization remains a mystery, especially for religious schools. Several myths shroud private schools, primarily based on the most public face of private school finance--published tuition rates. As a result, some researchers and policy analysts have reached erroneous conclusions about the cost-effectiveness of private schools. New data from the Milwaukee Parental Choice Program (MPCP) offer a promising opportunity to squarely address the private school cost issue.

With the inclusion of religious schools in 1998-99, the number of voucher-funded students in the Milwaukee Parental Choice Program (MPCP) quadrupled to 6,050. In earlier years, Milwaukee taxpayers paid for the voucher program. When expansion to religious schools quadrupled costs, however, the Wisconsin Legislature charged taxpayers from every school district outside of Milwaukee for \$14 million of the \$28 million price tag. The voucher equaled the private school's total per-pupil expenditure up to a maximum of \$4,894. Private schools are required to submit audited financial data in a uniform reporting format in order to determine the per-pupil voucher--the data on which our study is based. The audited financial information presented in a uniform format by more than 80 private schools participating in MPCP constitutes an unusual opportunity to unlock the mysteries of private school finance.

Unfortunately, all of the schools studied already receive public subsidies because all participate in the voucher program, so the financing of truly private schools cannot be fully explored.¹ The MPCP revenue and spending data partly describe the first-year response of religious schools to an extensive infusion of public funding. Over time, however, the MPCP financial data will help settle many questions surrounding the response of private schools to taxpayer funding.

The Milwaukee Parental Choice Program is the nation's longest-running and largest publicly funded private and religious school voucher program. Passed by the Legislature in 1990, MPCP in 1998-99 enrolled 6,050 students and cost \$28.4 million. Under the legislation, the state pays each voucher school an amount for each voucher student that is either the school's per-pupil expenditure or a state-computed figure approximating state aid per pupil for the Milwaukee Public Schools, whichever is less. In 1998-99, the voucher maximum was \$4,894; in 1999-2000, it was \$5,106.

Unlike the nation's only other publicly funded school voucher programs in Cleveland, Ohio and Florida, and the ballot initiatives for vouchers rejected by voters in California and Michigan, Milwaukee's voucher funding formula does not consider the actual tuition charged by the private schools for non-voucher students. For example, a parent may pay \$2,000 in tuition while the actual cost to the school to educate that student may be \$5,000 per pupil. In the absence

¹ Of 60 participating religious schools, voucher students constituted less than 15 percent of enrollment in nine. While these schools are least likely to have been affected by public funding, they are also not representative of all participating schools.

of a voucher program, private schools make up this tuition deficit through contributions, fundraising and church support. Wisconsin taxpayers, however, pick up the tuition shortfall for what had been a private school financing gap based on what schools chose to charge for tuition. In effect, taxpayer funding replaces religious contributions. This problem is clearly illustrated by the fact that fully 89 percent of the religious schools participating in the voucher program received a voucher payment that exceeded their school tuition.

With the inclusion of religious schools in 1998-99, the MPCP program expanded, the number of participating schools more than quadrupled and the number of voucher-funded students rose four-fold. Schools participating for the first time--including all of the religious schools--were allowed to depreciate the costs of their pre-existing assets (buildings and equipment). Depreciation is an accounting concept designed to measure the use of equipment and facilities--literally the wear and tear. In order to "charge" voucher students for the use of facilities, the new schools were given the choice of electing either a one-time only depreciation of 100 percent of fair market value, or a standard 16-year depreciation of 6.25 percent. For books, equipment and educational media, the choice was between 100 percent and five-year 20 percent depreciation. Whichever option was elected, the depreciated amount was included in the school's audited costs used for the purpose of calculating the voucher amount. In effect, private schools "electing" 100 percent depreciation are allowed to inflate their per-pupil expenditure--and therefore the voucher amount for schools not already qualifying for the maximum voucher. Once expended, this windfall becomes a recurring source of voucher revenue.

The first published analysis based, in part, on the audited private school financial data yielded startling information: Approximately 40 percent of the money paid by Wisconsin taxpayers to private voucher schools in 1998-99, was in excess of the amount charged to private citizens purchasing the same services (Egen, Holmes and Minberg, 2000). This disparity resulted from not basing voucher payments on tuition that is charged to self-paying or privately funded students, but rather on the significantly higher per-pupil expenditure. The "dual-fee" system produced what amounted to a 40 percent surcharge to taxpayers to fund vouchers. In a program that cost a total of \$28.4 million,² Wisconsin taxpayers overpaid for private and religious school vouchers by more than \$11 million.

Both the numbers of schools receiving taxpayer support and the average dollar amount of that subsidy were high. Eighty-nine percent of the religious schools participating in the voucher program received a voucher payment that exceeded their school tuition. The average overpayment *per student* to these religious schools--state taxpayer expenditures over and above what the school would collect in the form of tuition--was \$2,437.³ This figure represents the difference between the average tuition charged by these religious schools in 1998-99 of \$1,887, and the average voucher payment received by these schools of \$4,324.

² MPSCP Facts and Figures for 1998-99, Wisconsin Department of Public Instruction, available at: <http://www.dpi.state.wi.us/dpi/dfm/sms/mpscfnf.html> as of June 2000.

³ According to Appendix I in the Wisconsin Legislative Audit Bureau's school profiles, 16 religious schools have dual tuition rates, with 15 of the 16 offering lower rates to parish members. Since parishioner/non-parishioner enrollment information is not available, the average of these two tuition rates was used. Utilizing this average may understate the size of the taxpayer overpayment if the majority of voucher students in parish schools are parish members. See Appendix A at the end of our report for a complete explanation of the use of this average.

Table 1**Total State Overpayment Above School Tuition
In 62 Schools Receiving Overpayments⁴**

	Religious Schools	Non-Religious Schools	Totals
Voucher student enrollment	3,705	884	4,589
Voucher payment	\$16,019,500	\$4,059,100	\$20,078,600
Voucher payment <i>if limited to level of tuition</i>	\$6,989,400	\$1,565,500	\$8,554,900
Tuition overpayment	\$9,030,100	\$2,493,600	\$11,523,700

Source: (Egen, Holmes and Mincberg, 2000).

Our study continues the analysis of important issues regarding revenue, tuition, expenditures and facilities financing of Milwaukee's private schools participating in the voucher program: Objectives of this analysis include the following:

- Determine differences between low- and high-cost religious schools regarding tuition, dependence on vouchers, facilities financing and how resources are expended.
- Report on the audited revenue collections from vouchers, tuition, contributions and other sources.
- Determine the discrepancies between reported tuition rates and actual audited tuition collection.
- Describe how pre-existing assets, debt service and capital outlay are charged to the voucher program and why the procedures result in a continuing revenue windfall for religious schools.
- Compare spending differences among low-cost religious, high-cost religious and non-religious schools.
- Compare private school spending with the Milwaukee Public School System.

II. Methodology and Data

The analysis relies on sample descriptive statistics. The 80 schools studied constitute a population rather than a sample. Schools are generally the unit of analysis, although some aggregate calculations effectively weight schools by their enrollment. Revenues and expenditures are generally expressed as per-pupil values where the number of pupils represents both voucher and tuition-paying students. The analyses are conducted for three types of schools. In addition to non-religious schools, the religious schools were divided into two groups: 26 low-

⁴ This table reflects all schools that received a taxpayer subsidy in excess of school tuition, in all, 62 of the 82 schools analyzed in the Egen, Holmes and Mincberg (2000) report. Of those 62 schools, 54 are religious, eight are non-religious. Within the religious school category, 16 offer dual tuition rates and 38 do not.

cost religious schools had audited general operating costs under \$3,200 per pupil; and the remaining 34 are labeled as high-cost religious schools.

This report is based primarily on data from two sources: (1) *An Evaluation: Milwaukee Parental Choice Program, Report 00-2*, February 2000, the state audit conducted by the Wisconsin Legislative Audit Bureau (WLAB) in accordance with the legislation authorizing the Milwaukee voucher program, and (2) The Financial Information Reports for 1998-99, made available in spreadsheet files by the Wisconsin Department of Public Instruction (DPI). All private school enrollment and expenditure data are taken from DPI, while information on private school tuition comes from the WLAB audit's individual school profiles. Appendix A contains a more detailed description of the data. Milwaukee Public School expenditure data came from the Annual Financial Report filed with the Wisconsin Department of Public Instruction.

III. Basic Financial and Enrollment Data

Private schools participating in MPCP differed in size, cost and probably motivation for participation. Our analysis was conducted for three types of schools: non-religious, high-cost religious and low-cost religious schools. Generally very dependent on voucher revenue, non-religious private schools typically either leased facilities or took on debt for facilities. Their high per-pupil costs generally qualified students for the maximum voucher. Almost all high-cost religious schools also qualified for the maximum voucher. Dominated by Catholic parish elementary schools, low-cost religious schools usually owned their own facilities. Operating costs fell far short of the maximum voucher.

The 26 low-cost religious schools had audited general operating costs under \$3,200 per pupil (see Table 2). The remaining 34 religious schools are labeled as the high-cost schools. Only two schools reported operating costs between \$3,077 per pupil and \$3,438, so the separation between the two groups is a conveniently clear one. Operating costs include wages, benefits, supplies, professional services and property services. Operating costs for food service are not included. The figure also excludes non-operating costs for educational media, equipment, buildings and sites, leasehold improvements and program-related debt costs.

Table 2
Cost Characteristics of Schools

	Religious Low Cost	Religious High Cost	Non- Religious	Total
Average operating cost ¹	\$ 2,759	\$ 4,689	\$ 5,030	\$ 4,147
Average total cost ²	4,632	5,597	6,160	5,424
Percent voucher students	33%	53%	73%	51%
Average voucher ³	4.256	4.773	4.761	4.602
Average enrollment	190	237	145	198
Number of schools	34	26	20	80

Note: Low-cost schools have operating costs of less than \$3,200.

¹ Include wages, benefits, supplies, professional services and property services.

² Includes non-operating costs allowed by MPCP for educational media, equipment, buildings and sites, leasehold improvements, program-related debt costs and depreciation of pre-existing facilities.

³ Represents payment for each voucher student, not voucher revenue divided by the school's total enrollment (voucher and non-voucher students).

The average operating cost differed by about \$1,900 per pupil between the low-cost religious schools (\$2,759 per pupil) and high-cost religious schools (\$4,689 per pupil). Total costs, however, varied by only \$965. Even the low-cost religious schools averaged more than \$4,600 per-pupil in total costs. Total costs include non-operating expenditures for educational media, equipment, buildings and sites, leasehold improvements, program-related debt costs and the depreciation of pre-existing facilities. Schools were allowed to depreciate 100 percent of their pre-existing buildings, equipment and furnishings and charge the depreciation to the voucher program. This loophole primarily benefited religious schools because they tend to own their own buildings and have operating costs well under the maximum voucher amount. The 20 non-religious schools averaged general operating costs of about \$5,000 per pupil and over \$6,100 per-pupil in total spending.

The Milwaukee voucher program incorporated religious schools for the first time in fall 1998. In the first year of participation, voucher students made up 33 percent of enrollment in the typical low-cost religious schools and 53 percent of enrollment in the typical high-cost religious schools. The greater enrollment of voucher students in high-cost schools is surprising given that vouchers are conditioned on low family income. High-cost private schools are generally thought to be more selective. Furthermore, vouchers did not cover average costs in most high-cost schools.

Despite low tuition (see Table 3) the low-cost religious schools did not necessarily cater to disadvantaged students. Low-cost schools were less likely to enroll voucher students--who must qualify for a voucher based on low family income--than high-cost schools. Furthermore, the per-pupil fair market value of assets owned by low-cost schools prior to participating in the voucher program was about the same as for high-cost schools. Low-cost religious schools may receive support in the form of church subsidies, the services of clergy working at below-market wages, and the use of donated land and buildings.

Some private schools experiencing financial problems may become high-cost schools due to the problems. Schools serving low-income families may have high cost structures due to such factors as unfilled seats caused by transient students. For these schools, vouchers offer financial salvation. On the other hand, the parents in high-cost religious schools may have simply adapted more quickly to government subsidies and took full advantage of vouchers.

Vouchers averaged \$4,256 per pupil in low-cost schools, \$4,773 in high-cost schools and \$4,761 in non-religious schools. The huge financial windfall for low-cost religious schools easily covered all of the operating costs for voucher students. The average voucher also exceeded average per-pupil operating costs by about \$84 per pupil in high-cost religious schools. In the very first year of participation in the voucher program, half of the total costs of the average high-cost religious school was paid with taxpayer dollars. The audited revenue data in the next section also show that vouchers made up about half of the revenue in both low-cost religious and non-religious schools.

IV. Revenue Sources for Private Schools Participating in MPCP

Several myths shroud private schools primarily based on the most public face of private school finance--published tuition rates. Many analysts argue that contributions by parents, religious personnel, religious institutions, and wealthy supporters need recognition as a revenue source. The audited financial information for private schools participating in the MPCP constitutes an unusual opportunity to unlock the relationships between tuition, contributions and in voucher-supported schools, taxpayer subsidies. The financial situation of private schools prior to receiving government support remains unknown. In most respects, however, the post-program financing behavior of private schools is the important information needed to formulate public policy for the taxpayer support of private schools and religious institutions. Table 3 contains an audited, comprehensive accounting of financial revenues per pupil (all students, not just voucher students).

The Wisconsin Department of Public Instruction requires the collection of audited revenues in order to calculate "offsetting revenue." A breakdown of the various costs that are eligible for voucher payments is presented in Table 3; not all costs are eligible. Food service costs, for example, are eligible for voucher support after subtracting meal charges. The voucher calculation also excludes book fees collected from students, as are fees for before- and after-school extended-care programs. Other government support, such as state textbook subsidies, are also subtracted from the maximum voucher calculation. Across all 76 schools in the revenue analysis, about \$330 per student is subtracted from cost calculation that determines the amount of the voucher for each school.⁵

⁵ Four schools are excluded from the revenue analysis. Sherman Park and Gray's Christian reported tuition revenue far in excess of the revenue that should have been collected for its non-voucher students. Keal Prep reported no tuition revenue despite the reported enrollment of tuition-paying students. Learning Enterprise collected more than \$5,000 per student in other government assistance from contracts with public schools.

Table 3
Revenue Characteristics of MPCP Schools

	Religious			Non-Religious	Total	Percent of Revenue			
	Low Cost	High Cost				LC	HC	NR	T
Average operating cost (audited)	\$ 2,759	\$ 4,689	\$ 5,030	\$ 4,147	83%	81%	80%	82%	
Average voucher	4,256	4,773	4,761	4,602					
Schools	26	32	18	76					
Total choice program revenue									
Tuition	\$ 768	\$ 1,155	\$ 1,391	\$ 1,078	23%	20%	22%	21%	
State choice program payment ¹	1,484	2,512	3,270	2,340	44%	43%	52%	46%	
Book & supply fees	42	54	2	38	1%	1%	0%	1%	
Other program fees	21	105	438	155	1%	2%	7%	3%	
Contributions	906	1,474	497	1,048	27%	25%	8%	21%	
Rentals, sales of assets	1	12	89	26	0%	0%	1%	1%	
Food service receipts	49	65	200	91	1%	1%	3%	2%	
Government assistance	20	28	214	69	1%	0%	3%	1%	
Investment income	7	78	23	41	0%	1%	0%	1%	
Long-term debt receipts	0	7	894	215	0%	0%	14%	4%	
Temporary borrowing & debt	0	128	452	161	0%	2%	7%	3%	
Other revenues & adjustments	45	315	179	190	1%	5%	3%	4%	
Total financing sources	3,343	5,934	7,648	5,453	100%	102%	121%	107%	
Revenue (net of debt receipts)	3,343	5,799	6,302	5,078	100%	100%	100%	100%	
Offsetting choice program revenue									
Book & supply fees	\$ 32	\$ 38	\$ 0	\$ 27	1%	1%	0%	1%	
Other program fees	24	80	284	109	1%	1%	5%	2%	
Rentals, sales of assets	1	6	87	23	0%	0%	1%	0%	
Food service receipts	43	44	144	68	1%	1%	2%	1%	
Government assistance	20	28	204	67	1%	0%	3%	1%	
Other revenues & adjustments	6	63	21	33	0%	1%	0%	1%	
Total financing sources	126	262	741	329	4%	5%	12%	6%	

Note: Low-cost schools have operating costs of less than \$3,200. Learning Enterprise, Gray's Christian, Sherman Park Lutheran and Keal Prep are excluded from table.

¹ Aggregate voucher income divided by the total number of students including those not receiving vouchers. See Table 2 for the average voucher obtained by qualifying students.

The revenue data that private schools report, in order for the state to calculate offsetting revenue, reveals startling information regarding the extent to which private schools rely on revenue *other than* tuition for operation. Tuition accounted for only 21 percent of revenues.⁶ Voucher revenue accounted for twice as much revenue, averaging about 44 percent of the total in the religious schools. Although many of the non-religious schools accept only voucher students, just 52 percent of revenue actually comes from vouchers. In the religious schools, tuition was actually the third largest source of revenue. More money flowed to religious schools through

⁶ Our findings contrast sharply with a study conducted 30 years ago by Bartell (1968), who found that non-tuition receipts accounted for around 40 percent of elementary Catholic school revenues in the 1960s, and around 20 percent of secondary revenues.

contributions than from tuition,⁷ Averaging 25 percent to 27 percent of total revenue, the level of private contributions is similar to the 28 percent of revenue found by Kealey's (1996) study of Catholic elementary schools. Contributions include church monetary support, financial contributions from parents, and wealthy individuals and foundation support. Contributions could include the fair market value of facilities and equipment given to schools by individuals or businesses.⁸

The heavy reliance of religious schools on vouchers is striking for reasons other than the quick adaptation to taxpayer support. First, voucher students made up only 33 percent of enrollment in the typical low-cost religious school, but vouchers constituted 43 percent of all revenues. In other words, taxpayer-funded vouchers constituted a proportionately larger share of school budgets than would be predicted by the percentage of voucher-funded students in the student body. In high-cost schools, the results are not as surprising. Voucher students make up 53 percent of enrollment in the average school, but only 44 percent of revenue. Second, per-pupil voucher payments in low-cost religious schools (\$4,256 per voucher) exceeded total revenue (\$3,343 per pupil) by nearly \$1,000 per pupil. As demonstrated below, allowing the 100 percent depreciation of initial capital assets (i.e., the entire fair market value of pre-existing buildings and equipment) as a program cost for determining the maximum voucher is responsible for the overly generous taxpayer subsidy to low-cost religious schools.

The burst of taxpayer support almost certainly led to an improvement of the financial position of participating private and religious schools. At \$3,343 per pupil, average revenue in low-cost religious schools exceeded operating costs by \$600 per pupil (22 percent of costs). Revenue of \$5,799 per pupil in high-cost religious schools exceeded operating costs by \$1,110 per pupil (23 percent of costs). Revenue of \$6,302 per pupil in non-religious schools exceeded operating costs by \$1,272 per pupil (25 percent of costs). After considering non-operating costs for buildings and equipment, the excess of revenue over costs declines.⁹

V. The Discrepancy between Reported Tuition and Actual Tuition

Wisconsin bases its maximum voucher on per-student cost. A one-time study conducted by the Wisconsin Legislative Audit Bureau contains information on tuition rates that private schools charged in 1998-99. The Wisconsin Department of Public Instruction has no need to collect data on the tuition rates at participating schools. The audited MPCP financial data,

⁷ For example, the Milwaukee-based Bradley Foundation authorized grants totaling \$1.2 million to Messmer High School—which participates in the Milwaukee voucher program—“to support general operations and a capital campaign.” The Bradley Foundation is a well-known right-wing foundation that has contributed over \$13 million in recent years to advance school voucher legislation. According to the Wisconsin Legislative Audit Bureau's audit, Messmer's published tuition for the 1998-99 school year was \$2,800. However, the school's actual audited tuition for the same year was less than half of that (see discussion below on the discrepancies between reported and actual tuition). Reliance on substantial outside funding sources makes such tuition reductions possible, and obscures the relationship between tuition and private school cost-efficiency in the public's understanding. (Bradley Foundation 1999 Annual Report Online, accessed March 14, 2001 at <http://www.bradleyfdn.org/99ar/99GrantsList.html>)

⁸ As explained in the capital finance loophole section of our study, the fair market value of donated facilities and equipment in the initial asset base of the school could be counted a cost in the calculation of the maximum voucher.

⁹ Under conventional depreciation rules, buildings and equipment added \$421 per pupil in non-operating cost for religious schools, \$451 per pupil in high-cost religious schools and \$126 per pupil in secular schools. See the following section on the capital depreciation loophole for details of these calculations.

however, contain both aggregate tuition and an audited count of tuition-paying students, which allows the calculation of the actual average per-student tuition collected by private schools. From a research perspective, this information is more useful than the tuition rates conveyed by private schools to the public. Our study finds that per-pupil tuition actually collected by the religious and private schools falls short of publicly reported tuition rates. This finding calls attention to the need for tuition-based voucher programs to audit actual tuition collections rather than basing vouchers on tuition rates advertised by schools.

Trends in tuition, over time, are a sign of financial pressure or financial health. In tuition-based voucher programs, one would expect tuition rates to rise rapidly, over time, in order to draw in more taxpayer support by maximizing vouchers. In a generously funded cost-based program like the one in Milwaukee, one would expect tuition growth to slow for tuition-paying families as voucher students generate taxpayer support for the school. The gap between reported and actual tuition may describe the operation of what is, in effect, an informal tax deduction. Families negotiate with schools to substitute tax-deductible church contributions for tuition, which is not tax deductible. The practice of tax-deductible tithing to the church, which in turn “contributes” to the religious school is well established in many parishes. The common practice of charging lower tuition for parish members confirms the “informal tax credit.” Even in secular schools, tuition typically pays only for operating costs, with building programs financed through tax-deductible fundraising.

DPI obtains audited aggregate tuition collections when it requires participating schools to submit audited revenue statements. The DPI audit also contains audited FTE counts of tuition-paying students because this count is an integral part of per-pupil cost calculation used to determine the maximum voucher. Dividing the aggregate tuition by the number of tuition-paying FTE students produces the audited actual tuition data. Reported “published” tuition rates for our study came from individual school profiles in *An Evaluation: Milwaukee Parental Choice Program, Report 00-2*, conducted by the Wisconsin Legislative Audit Bureau (WLAB, February 2000). According to the WLAB audit profiles, 16 religious schools offered two tuition rates, generally offering lower rates to students who are members of the parish. WLAB audit data did not break school enrollment into parishioner/non-parishioner figures. See Appendix A for a fuller discussion of data issues regarding tuition.

Of 80 voucher schools, our analysis includes only 59 (See Appendix B for details on excluded schools). Eight non-religious schools depended entirely on vouchers and enrolled no tuition-paying students. Four schools were excluded due to inadequate reported tuition data. Nine had audited actual tuition that was either unrealistically high or unrealistically low.

The excluded schools included only seven religious and only one low-cost school.¹⁰ Almost all excluded schools received the maximum voucher. The excluded schools averaged about half the enrollment of schools included in the following analysis.

Religious schools frequently charge one tuition rate for families that are church members and another for families that are not church members. Table 4 displays reported and audited actual tuition separately for dual-tuition (15 schools) and single-tuition (44 schools) situations. The gap between reported and audited tuition reached nearly \$1,200 per pupil at single tuition high-cost religious schools. In effect, the reported tuition of \$3,000 per pupil was “discounted” by \$1,200 (40 percent) to approximately \$1,800 per pupil. For low-cost religious schools with single tuition, the discrepancy averaged only about \$200. Audited tuition exceeded reported tuition for non-religious schools.¹¹ Among the nine dual-tuition, low-cost schools, actual audited tuition was \$200 less than church-member tuition and \$1,000 less than for non-church member tuition.

Table 4
Reported and Actual Tuition Per Pupil

	Religious Low Cost	Religious High Cost	Non- Religious	Total
Single-tuition schools				
Tuition reported	\$ 1,368	\$ 3,010	\$ 3,355	\$ 2,460
Actual audited tuition	1,161	1,821	3,600	1,823
Difference	207	1,190	(245)	637
Number of schools	16	22	6	44
Dual-tuition schools				
Tuition reported				
Church members	\$ 1,255	\$ 1,478	na	\$ 1,289
Non-church members	2,034	2,369	na	2,180
Actual audited tuition	1,061	1,380	na	1,189
Church difference	194	99	na	101
Non-church difference	973	989	na	992
Number of schools	9	6	na	15

Note: Low-cost schools have operating costs of less than \$3,200.

¹⁰ Cost characteristics of schools excluded from analysis:

	Religious Low Cost	Religious High Cost	Non- Religious	Total
Average operating cost (audited)	2,015	4,998	5,076	4,908
Average total cost	7,375	6,287	5,113	5,556
Percent voucher students	15%	65%	83%	74%
Average voucher	4,884	4,850	4,810	4,825
Enrollment	36	103	105	101
Number of schools	1	6	14	21

Note: Low-cost schools have operating costs of less than \$3,200.

¹¹ Auditors may have included extended-care fees at the three schools where audited tuition exceeded reported tuition (Family Montessori, Milwaukee Montessori and Woodlands). Audited tuition exceeded reported tuition at only two single-tuition religious schools (St. Martini and St. Rose).

Tuition reported in Table 5 blends church member and non-church member tuition by simply averaging the two tuition rates for the 15 dual-tuition schools. The difference between reported tuition and the audited actual tuition amounted to \$619 per student. The per-pupil tuition “discount” represented 37 percent of audited tuition (14 percent of the per-pupil voucher payment). Among the high-cost religious schools, however, the tuition “discount” amounted to \$1,051 per pupil, representing 61 percent of audited tuition (22 percent of the per-pupil voucher payment).

Table 5
Tuition Discount Per Pupil

	Religious Low Cost	Religious High Cost	Non- Religious	Total
Average voucher	\$ 4,231	\$ 4,756	\$ 4,868	\$ 4,545
Tuition reported (blended)	1,467	2,777	3,355	2,281
Audited average tuition	1,125	1,726	3,600	1,662
Difference (discount)	342	1,051	(245)	619
Percent of audited tuition	30%	61%	-7%	37%
Percent of average voucher	8%	22%	-5%	14%
Number of schools	25	28	6	59

Note: Low-cost schools have operating costs of less than \$3,200.

Under a voucher system in which payments are limited to tuition, the discrepancy between audited tuition and reported tuition (or the voucher, whichever is smaller) represents an unintended subsidy or taxpayer overpayment. The value of this hypothetical overpayment is shown in Table 6.¹² The aggregate overpayment totaled \$3.65 million in 1998-99; with high-cost religious schools securing about \$2.80 million (75 percent) of the overpayment. The tuition overpayment is 18 percent of the total voucher payments received by the 59 schools.¹³ Low-cost religious schools averaged tuition overpayments of only 8 percent. Non-religious schools had an average tuition overpayment of 10 percent.¹⁴

¹² The per-pupil tuition discrepancy in Table 5 is the simple difference between audited and actual tuition. If audited tuition exceeds the voucher payment, then no overpayment exists. If reported tuition exceeds the voucher payment, then the difference is not an overpayment. Table 6 incorporates these adjustments so that the overpayment is not exaggerated.

¹³ The per-pupil tuition discrepancy in Table 5 was only 14 percent of the average voucher amount. The aggregate tuition overpayment in Table 6 gives big schools more weight in proportion to their enrollment. Big schools had a larger tuition discrepancy.

¹⁴ Audited tuition exceeded reported tuition in the average secular schools as shown in Table 5. The overpayment calculations in Table 6 sets the overpayment to zero when audited tuition exceeded reported tuition.

Table 6
Aggregate Tuition Overpayment

	Religious Low Cost	Religious High Cost	Non- Religious	Total
Tuition overpayment	\$ 469,934	\$ 2,799,135	\$ 383,466	\$ 3,652,534
Voucher payments	\$ 5,953,169	\$ 10,625,888	\$ 4,003,226	\$ 20,582,283
Tuition overpayment-percent	8%	26%	10%	18%
Number of voucher students	1,414	2,215	819	4,447
Number of schools	25	28	6	59

Note: Low-cost schools have operating costs of less than \$3,200.

In the study *The 40 Percent Surcharge: How Taxpayers Overpay for Milwaukee's Private School Voucher Program*, Egen, Holmes and Minberg (2000) found that the difference between voucher payments of \$28.4 million and reported tuition amounted to \$11.5 million--effectively a 40 percent "surcharge." Because reported tuition itself exceeds audited per-pupil tuition collections, the taxpayer surcharge is even greater than the one calculated by Egen, Holmes and Minberg. Calculations for the 59 schools are shown in Table 7.¹⁵ The difference between \$11.5 million in the *40 Percent Surcharge* paper and the \$13.6 million in Table 7 represents the difference between actual tuition collections and the tuition that should have been collected if families actually paid tuition at published rates.

Table 7
Total State Overpayment Above School Tuition

	Religious Low Cost	Religious High Cost	Non-Religious	Total
Voucher payments	\$ 5,953,169	\$ 10,625,888	\$ 4,003,226	\$ 20,582,283
Voucher payments <i>if limited to audited tuition</i>	\$ 1,593,227	\$ 3,272,850	\$ 2,149,703	\$ 7,015,780
Total overpayment	\$ 4,359,942	\$ 7,353,038	\$ 1,853,524	\$ 13,566,503
Percent of voucher payments	73%	69%	46%	66%
Per-pupil overpayment	\$ 3,083	\$ 3,320	\$ 2,264	\$ 3,051
Number of voucher students	1,414	2,215	819	4,447
Number of schools	25	28	6	59

Note: Low-cost schools have operating costs of less than \$3,200.

The first row of Table 7 contains the aggregate voucher payments for the 59 schools. The second row is the aggregate audited tuition actually collected. The difference between row 1 and row 2 is the total overpayment supported by taxpayers. With approximately half of the total number of voucher students, the overpayment to high-cost religious schools was a little more than half of the \$13.6 million total overpayment. The overpayment comprised 73 percent of voucher revenues in low-cost religious schools, 69 percent in high-cost religious schools and 46

¹⁵ The Egen, Holmes and Minberg (2000) study used data from 62 schools, so aggregate voucher student enrollment and voucher payments are slightly smaller in Table 6 than in Egen et al.

percent in non-religious schools. The \$13.6 million overpayment from the 59 schools represents about 48 percent of the total \$28.4 million taxpayer cost of the voucher program for 80 schools. The \$13.6 million overpayment is the result of the \$11.5 million difference between voucher payments and tuition payments reported to the Wisconsin Legislative Audit Bureau, plus \$2.1 million that represents the difference between reported tuition rates and actual per-pupil tuition collection.

VI. The Capital Funding Loophole

Non-religious schools tend to finance capital expansion by acquiring debt. Classified in the “property services” category, facility leases and rentals are accounted for as an operating expenditure. Debt service, rental and lease costs clearly qualify as voucher program costs. In the 1998-99 school year, religious schools were included in the voucher program for the first time. Unlike their non-religious counterparts, a majority of the religious schools, especially Catholic schools, owned their own facilities free of debt. In order to “charge” voucher students for the use of pre-existing facilities, DPI developed regulations that allowed private and religious schools to depreciate the facility and count the depreciation as a “capital outlay allocation” in the calculation of the voucher. Charging for the annualized use of facilities and equipment seems fair, but by allowing a one-time 100 percent depreciation, DPI’s regulations became a capital funding loophole resulting in significant subsidization of several low-cost, primarily Catholic, schools.

As described above, upon entering the program, all schools are allowed to decide or “elect” how much of their pre-existing asset base (buildings, media, equipment and leasehold improvements) they would depreciate in the first year of participation. With regard to buildings and sites, schools had the option to choose either a one-time only depreciation of 100 percent or a standard 16-year depreciation of 6.25 percent. For lesser expenses such as books, equipment and educational media, the choice was between 100 percent and a five-year 20 percent depreciation.¹⁶ In order to depreciate buildings, sites and equipment, DPI required *all* schools to submit the fair market value of their capital assets. Table 8 describes the per-pupil fair market value of private and religious school facilities on July 1, 1998. Non-religious schools joining the MPCP in earlier years were allowed to report and depreciate capital on the same terms.

¹⁶ Department of Public Instruction, Parental Private School Choice Program Financial Information Report for Year Ended June 30, 1999, Instructions.

Table 8
Per-Pupil Fair Market Value of Buildings and Sites

	Religious Low Cost	Religious High Cost	Non- Religious	Total
Catholic schools				
Schools not owning facilities	4	4	na	8
Schools owning facilities	13	15	na	28
Per-pupil facility value ¹	\$ 5,367	\$ 4,393	na	\$ 4,846
Other religious schools				
Schools not owning facilities	12	1	na	13
Schools owning facilities	5	6	na	11
Per-pupil facility value ¹	\$ 9,171	\$ 3,934	na	\$ 6,314
Secular schools				
Schools not owning facilities	na	na	13	13
Schools owning facilities	na	na	7	7
Per-pupil facility value ¹	na	na	\$ 1,397	\$ 1,397

Note: Low-cost schools have operating costs of less than \$3,200.

¹ Average does not include schools that do not own their own facilities.

Of 36 Catholic schools, 28 owned facilities. The 13 low-cost Catholic schools with facilities averaged a per-pupil fair market value of \$5,367 per pupil. The 15 high-cost Catholic schools with facilities averaged a per-pupil fair market value of \$4,393. The higher valued facilities at low-cost Catholic schools supports the idea that low-cost schools are not necessarily impoverished schools catering to low-income families. Less than half of the other religious schools owned buildings. Of the seven high-cost schools, six owned facilities valued at an average of \$3,934 per pupil. Only five of the 12 low-cost “other” religious schools owned facilities; the value averaged \$9,171 per pupil. Facility underutilization may explain why the per-pupil cost of schools averaged higher for all types of religious schools. Approximately half of non-religious schools owned facilities, but at \$1,397 per pupil, the fair market value fell well below religious school values.

All private schools participating in MPCP during 1998-99, were able to depreciate both their pre-existing and newly purchased capital assets. The issues related to pre-existing assets are discussed initially, and Table 9 summarizes the private school response. A discussion of the treatment of newly purchased assets follows, and Table 10 summarizes the choices made by private schools. As discussed above, schools could elect to depreciate pre-existing assets at 100 percent or at 6.25 percent. In effect, schools could charge the voucher program for the entire fair market value of their assets in one year, or they could spread the charge out over 16 years. The depreciation decision is not an arbitrary one. Schools with high operating costs that already qualify for the maximum voucher have no incentive to depreciate the initial asset base in a single year. Schools that do not qualify for the maximum voucher, however, would be expected to consider the rapid depreciation of pre-existing assets as a means to qualify for higher voucher payments. The further below the maximum voucher amount a school’s actual operating costs are, the greater the opportunity to recoup the value of pre-existing assets in just one year by “electing” 100 percent depreciation.

Schools with operating costs near or exceeding the maximum voucher had no financial incentive to depreciate most or their entire initial (pre-existing) asset base. As shown in Table 9, low-cost religious schools added, by depreciating pre-owned assets, an average of \$1,284 per pupil to the maximum voucher calculation, compared to only \$516 per pupil in high-cost religious schools and \$291 per pupil in non-religious schools. These averages include a “zero” for all of the schools without any assets to depreciate. Low-cost religious schools benefited from the capital-funding loophole not just because these schools owned somewhat more valuable assets, but because DPI allowed schools to “elect” their own charge for pre-existing capital. Not unexpectedly, low-cost religious schools responded to the financial incentive to maximize the per-student voucher and depreciated media, equipment and buildings at a faster rate than high-cost religious and non-religious schools.

Table 9
Allowed Depreciation of Initial Assets

	Religious Low Cost	Religious High Cost	Non- Religious	Total	Number of Schools			
					LC	HC	NR	T
Average operating cost (audited)	2,759	4,689	5,030	4,147	26	34	20	80
Initial balance								
Educational media								
Choice program-related costs	\$ 239	\$ 151	\$ 52	\$ 155	26	34	20	80
Electing 100% depreciation ¹	73%	45%	27%	54%	19	20	7	46
Capital outlay charge	\$ 186	\$ 62	\$ 11	\$ 90	26	34	20	80
Equipment								
Choice program-related costs	\$ 333	356	144	295	26	34	20	80
Electing 100% depreciation ¹	80%	57%	43%	62%	21	26	12	59
Capital outlay charge	\$ 269	199	48	184	26	34	20	80
Buildings & sites								
Choice program-related costs	\$ 3,442	\$ 3,401	\$ 489	\$ 2,686	26	34	20	80
Electing 100% depreciation ¹	29%	0%	29%	17%	21	18	7	46
Capital outlay charge	\$ 828	\$ 213	\$ 219	\$ 414	26	34	20	80
Leasehold improvements								
Choice program-related costs	\$ -	\$ 50	\$ 18	\$ 26	26	34	20	80
Electing 100% depreciation ¹	na	54%	72%	61%	0	4	3	7
Capital outlay charge	\$ -	\$ 42	\$ 14	\$ 21	26	34	20	80
Total depreciation--initial assets	\$ 1,284	\$ 516	\$ 291	\$ 709	26	34	20	80

Note: Low-cost schools have operating costs of less than \$3,200.

¹ Percent of schools depreciating initial assets that chose 100 percent depreciation rather than 6.25 percent.

With no incentive to exploit the capital funding loophole, every high-cost school elected to depreciate its facility at 6.25 percent (standard 16-year depreciation). Seeking to qualify for the maximum voucher, however, 29 percent of low-cost religious schools elected to depreciate their facilities at 100 percent--the entire value of their facility in just one year. For example, the following four schools qualified for the maximum voucher of \$4,894 per pupil solely by electing to depreciate the entire value of their building in a single year:

- St. Anthony Catholic (88 percent voucher students) with \$2,311 per pupil in operating costs.

- St. Phillip Neri (61 percent voucher students) with \$2,591 per pupil in operating costs.
- North Milwaukee Christian (19 percent voucher students) with \$2,015 per pupil in operating costs.
- St. Augustine Catholic (15 percent voucher students) with \$3,049 per pupil in operating costs.

Schools that elected 100 percent depreciation received a large sum of money in 1998-99. St. Anthony's 175 voucher students generated approximately \$275,000 for a school serving 252 students. While pre-existing equipment and facilities can be depreciated only once, the initial windfall is more than a one-time infusion of taxpayer funding. As the initial windfall is incorporated into the budget for operating costs (e.g., improving teacher salaries, reducing class size, etc.) or put back into facilities. Where the newly-purchased assets can again be depreciated at 100 percent, the windfall continues to produce added voucher money in future years.

St. Philip Neri provides an excellent example of how this 100 percent depreciation loophole functions beyond the initial year. St. Philip Neri had operating costs of \$2,591 per pupil in 1998-99 but it qualified for the maximum voucher of \$4,894 (a \$2,300 difference) by depreciating all of its initial asset base. Since 62 percent of St. Philip Neri's students qualified for vouchers, bringing with them the \$2,300 per-pupil charge for pre-existing capital, the school will be able to raise spending schoolwide by about \$1,600 per student in 1999-2000, and in future years. For voucher students, taxpayers will support the \$1,600 spending increase for years to come.

Table 10
Depreciation of Current Capital Outlay

	Religious Low Cost	Religious High Cost	Non- Religious	Total	Number of Schools			
					LC	HC	NR	T
Average operating cost (audited)	\$ 2,759	\$ 4,689	\$ 5,030	\$ 4,147	26	34	20	80
Current expenditure								
Educational media								
Choice program-related amount	\$ 53	\$ 79	\$ 41	\$ 61	26	34	20	80
Electing 100% depreciation ¹	72%	45%	31%	50%	12	20	9	41
Capital outlay charge	\$ 40	\$ 47	\$ 15	\$ 37	26	34	20	80
Equipment								
Choice program-related amount	\$ 111	\$ 235	\$ 86	\$ 157	26	34	20	80
Electing 100% depreciation ¹	72%	50%	57%	59%	21	29	14	64
Capital outlay charge	\$ 78	\$ 119	\$ 53	\$ 89	26	34	20	80
Buildings and sites								
Choice program related amount	\$ 1,015	\$ 355	\$ 433	\$ 589	26	34	20	80
Electing 100% depreciation ¹	82%	25%	25%	45%	11	16	4	31
Capital outlay charge	\$ 313	\$ 44	\$ 31	\$ 128	26	34	20	80
Leasehold Improvements								
Choice program-related amount	\$ 30	\$ 29	\$ 7	\$ 24	26	34	20	80
Capital outlay charge	\$ 30	\$ 27	\$ 7	\$ 23	26	34	20	80
Total depreciation--current	\$ 461	\$ 237	\$ 106	\$ 277	26	34	20	80

Note: Low-cost schools have operating costs of less than \$3,200.

¹ Percent of schools depreciating current capital outlay that chose 100 percent depreciation rather than 20 percent.

Schools also “elected” the depreciation rate for capital assets purchased during the current school year. The system works almost the same as it does for depreciating pre-existing assets. Major capital improvements such as adding classrooms, a library or a gym could be charged to the voucher program all in one year instead of spreading the cost over several years. Even if the voucher program is shut down by court or legislative action, facilities erected with voucher money have already been paid for in full in just one year in the case of those schools able to take full advantage of the 100 percent cost-election rule. Current-year capital costs, however, require the generation of real revenue in addition to the voucher program support because MPCP only pays voucher students’ share of the expenditure. In effect, MPCP provides matching support where the matching rate increases as the percentage of voucher students increases. Depreciating the initial asset base is truly “free” taxpayer support because it does not require any new private capital due to the fact that the facilities and equipment had already been paid for in earlier years.

Similar to the choices made by schools in depreciating pre-existing assets, the incentive for 100 percent depreciation of current-year expenditures for buildings is greatest for low-cost schools with a high percentage of voucher students.¹⁷ Fully 82 percent of low-cost religious

¹⁷ The voucher program would pay for the entire cost of a \$1,000 per-pupil capital outlay expenditure in a school with 100 percent voucher students, provided that operating costs fell \$1,000 per pupil short of the maximum

schools depreciated current capital outlay for buildings at 100 percent, compared to only about 25 percent for the other private schools. Low-cost religious schools also depreciated media and equipment at higher rates than other private schools.

The following low-cost religious schools qualified for the maximum voucher of \$4,894 per pupil through capital outlay spending (primarily by building new facilities) and elected to depreciate the entire cost of construction in a single year:

- St. Lawrence Catholic (57 percent voucher students) with operating expenditures of only \$2,615 per pupil.
- St. Josaphat Catholic (53 percent voucher students) with operating expenditures of only \$2,828 per pupil.
- St. Matthew Catholic (49 percent voucher students) with operating expenditures of only \$2,886 per pupil.

At St. Lawrence, 71 voucher students generated \$177,500 for a school serving a total enrollment of 125 students. In each school, however, private funding paid for about half of the capital investment because about half of their students did not qualify for vouchers.

Table 11
Allowed Capital Outlay and Debt

	Religious Low Cost	Religious High Cost	Non- Religious	Total
Average operating cost (audited) Schools	\$ 2,759 26	\$ 4,721 34	\$ 5,030 20	\$ 4,168 80
Total capital outlay charge				
<i>Educational media</i>	\$ 226	\$ 109	\$ 26	\$ 127
<i>Equipment</i>	347	319	100	273
<i>Buildings and sites</i>	1,142	256	250	542
<i>Leasehold Improvements</i>	30	69	20	44
<i>Grand total</i>	1,745	753	397	987
Program related debt cost				
Long-term debt principal	\$ 28	\$ 27	\$ 441	\$ 131
Long-term debt interest	33	6	57	27
Temporary borrowing interest	0	1	11	3
Allowed capital outlay and debt	\$ 1,807	\$ 786	\$ 907	\$ 1,148
Total costs	\$ 4,566	\$ 5,507	\$ 5,936	\$ 5,316
Capital outlay percent of total	40%	14%	15%	22%

Note: Low-cost schools have operating costs of less than \$3,200.

Capital outlay charges for both initial assets and current expenditures are combined in Table 11 with debt principal and interest, a third source of taxpayer-supported capital. Altogether, capital outlay charges at low-cost religious schools totaled \$1,807 per pupil (40

voucher. In a school with just 10 percent of students qualifying for vouchers, the voucher program pays only 10 percent (effectively, a 10 percent matching rate) of the \$1,000 per-pupil cost, or \$100 per pupil.

percent of total costs). Already qualifying for the maximum voucher, the typical high-cost religious school engaged in less capital spending and elected to use a lower depreciation rate. The result was a capital outlay charge of only \$786 per pupil or 14 percent of total spending. Non-religious school capital outlay charges totaled about the same percentage of total costs as high-cost religious schools.

Long-term debt accounted for almost half of non-religious schools' capital outlay charge. The "annual mortgage" payment is a sensible way to charge voucher students for use of facilities in the year when the student attended the private school. For schools with pre-existing facilities, a sensible annual charge for facilities usage would be to charge one-fifteenth (6.25 percent) of the fair market value of the building. Underlying this strategy is the assumption that the pre-existing facility has a useful life of 16 years and that voucher students should be charged for one year of usage, not for all 16 years. All high-cost religious schools and most non-religious schools charge voucher students for only one year of usage (6.25 percent of fair market value).¹⁸ In contrast, most low cost schools had a financial incentive to maximize the voucher so several chose to charge for all 16 years of use in a single year (by electing to depreciate at 100 percent of fair market value). Similar concerns surround the depreciation of pre-existing equipment and leasehold improvements and the depreciation of current-year facility and equipment acquisitions.

The taxpayer overpayment resulting from allowing cost election in excess of 6.25 percent for buildings and sites is shown in Table 12. This table also describes the taxpayer overpayment due to allowing cost elections in excess of 20 percent for educational media, equipment and leasehold improvements. The protocol for calculating the excess capital charge starts by calculating a capital charge using conventional depreciation rates. The process:

- Eliminates the idea of cost election (i.e., letting schools decide if they will charge for more than one year of capital usage).
- Depreciates all pre-existing or current purchases of facilities over a 15-year period (6.25 percent of fair market value).
- Depreciates all pre-existing or current purchases of educational media, equipment or leasehold improvements over a five-year period (20 percent of fair market value).

The subsidy is the difference between chargeable capital outlay allowed by MPCP under the cost-election system and the capital outlay charge calculated using conventional depreciation rates.

¹⁸ Both non-religious schools, Urban Day and Harambee, elected 100 percent depreciation.

Table 12
Taxpayer Subsidy (Per Student) of Private School Capital Outlay

	Maximum Cost Election	Religious Low Cost	Religious High Cost	Non- Religious	Total
Average operating cost (audited)		\$ 2,759	\$ 4,689	\$ 5,030	\$ 4,147
Chargeable capital outlay--Depreciation allowed by MPCP					
Educational media	100.00%	226	109	26	127
Equipment	100.00%	347	319	100	273
Buildings & sites	100.00%	1,142	256	250	542
Leasehold improvements	100.00%	30	69	20	44
Total	na	1,745	753	397	987
Long-term debt costs	na	61	32	499	158
Chargeable capital outlay--Conventional depreciation allowances					
Educational media	20.00%	\$ 58	\$ 53	\$ 19	\$ 46
Equipment	20.00%	89	122	46	92
Buildings & sites	6.25%	279	261	58	216
Leasehold improvements	20.00%	6	15	5	10
Total	na	432	451	127	365
Long-term debt costs	na	61	32	499	158
Excess facilities and equipment charge		\$ 1,314	\$ 302	\$ 270	\$ 622

Note: Low-cost schools have operating costs of less than \$3,200.

Under this more restrictive protocol for fairly estimating the annual cost of capital and equipment, the capital outlay charges are much more in line with public school facilities costs, which generally average around 10 percent of total spending. Capital outlay and debt charges totaled about \$500 per pupil in both low-cost and high-cost religious schools. This amount represents 18 percent of the operating costs in low-cost religious schools and 10 percent of the operating costs in high-cost schools. Non-religious schools incurred the highest capital costs, which totaled at \$127 per pupil for capital outlay and \$499 in the form of long-term debt.

Across all schools, the excess capital charge enabled by the overly generous depreciation of property allowed by MPCP in 1998-99, totaled \$622 per student, more than twice as much as would have been allowed by conventional rules governing property depreciation.¹⁹ The excess capital charge was concentrated in low-cost religious school--\$1,314 per pupil--where the financial incentives for maximizing the voucher payment were the greatest. Excess capital charges came to only about \$300 per pupil in high-cost religious schools and \$270 per pupil in non-religious schools.

¹⁹ The aggregate excess depreciation totaled about \$3.5 million. The taxpayer subsidy of the excess depreciation is probably less because 12 schools electing 100 percent depreciation for current-year capital outlay expenditure qualified for the maximum voucher. Depreciated assets contributing to total program costs in excess of the maximum voucher are not subsidized by taxpayer funding.

VII. Expenditures of MPCP Private Schools and Milwaukee Public Schools

Many policymakers and analysts simply assert the cost-effectiveness of private and religious schools, frequently defending their conclusions on a revenue source--tuition--rather than on expenditure data. More critical observers acknowledge the contributed services of many teachers and administrators in religious schools and argue that private schools generally teach low-cost, easy-to-educate children even though many students come from low-income families. The audited financial information for private schools participating in the MPCP constitutes an unusual opportunity to unlock the “black box” of private school costs. Unfortunately, all of the private and religious schools in the MPCP data set already receive substantial taxpayer subsidies averaging nearly half of all revenue, which certainly changed their spending behavior, perhaps dramatically. On the other hand, the post-program financing behavior of private schools is the important information needed to formulate public policy for the taxpayer support of private schools and religious institutions.

Our study presents private school operating costs at the most detailed level reported by MPCP schools (see Tables 13 and 14). Food service, summer school and debt costs are separately delineated. The analysis ignores initial assets or pre-existing capital.²⁰ Debt-financed capital outlay is counted as a cost only when principal and interest payments are made--the same rules used in the MPCP program. All other current-year expenditures for capital are counted as costs--effectively depreciated at 100 percent. This simple protocol for costing out capital outlay is most consistent with the debate over private school spending. For comparative purposes, Table 13 also presents MPCP's total cost calculation, which involves the complicated system of cost election and incorporates the use of pre-existing assets as a cost. The MPCP total cost calculation is about \$600 per pupil higher in low-cost religious schools, about the same for high-cost religious schools and about \$250 less for non-religious schools.

As a group, high-cost religious schools had operating costs nearly \$1,900 higher than low-cost religious schools. High-cost religious schools spent at least twice as much in all subcategories of operating costs, except salaries and benefits. In low-cost schools, salaries totaled to 65 percent of operating costs, and benefits added 12 percent to spending cost (combining to 77 percent). In high-cost schools, salaries totaled 61 percent of operating costs. Benefits added 10 percent to spending (combining to 71 percent).

²⁰ In the previous section of this study, we described the fairest way to charge voucher students for the use of pre-existing facilities with a uniform depreciation standard.

Table 13
Expenditures Per Pupil in Voucher Schools and Milwaukee Public Schools

	Religious Low Cost	Religious High Cost	Non- Religious	Total	Milwaukee Public Schools
Operating expenditures					
Salaries	\$ 1,797	\$ 2,891	\$ 3,065	\$ 2,579	2,852
Benefits	381	452	374	410	1,193
Professional services ¹	51	143	232	136	345
Property services	256	564	625	479	294
Supplies	172	339	263	266	³
Other goods & services	101	300	471	278	150
Total operating expenses	2,759	4,689	5,030	4,147	4,837
Food service	65	141	186	127	262
Current capital outlay charge ²					
Educational media	\$ 53	\$ 79	\$ 41	\$ 61	⁴
Equipment	111	235	86	157	180
Buildings & sites	1,015	355	433	542	17
Leashold improvements	30	29	7	24	0
Total ⁵	1,210	698	567	785	197
Total debt costs	61	33	509	161	232
Start-up costs	1	1	9	3	na
Summer school costs	-	1	29	8	na
Total cost	\$ 4,097	\$ 5,564	\$ 6,330	\$ 5,232	\$ 5,528
Total cost--MPCP calculation ²	\$ 4,632	\$ 5,597	\$ 6,160	\$ 5,424	na

Note: Low-cost schools have operating costs of less than \$3,200.

¹ Includes all purchased services at MPS schools, excluding those in operations and maintenance.

² Does not include initial (pre-existing) assets. Depreciates all capital outlay at 100 percent.

³ Incorporated into other goods and services.

⁴ Incorporated into equipment.

⁵ Total capital outlay charges allowed by MPCP were \$1,745 per pupil for low-cost religious schools, \$733 per pupil for high-cost religious schools and \$397 per pupil for non-religious schools, together totaling \$987 per pupil.

Once again, low-cost religious schools present a fuzzy financial picture. While clearly spending less on operating costs, low-cost religious schools spent \$500 per pupil more than high-cost religious schools on capital outlay in 1998-99. While much of the preference low-cost schools show for capital spending is fueled by the financial incentives of the capital outlay loophole, the penchant for buildings existed prior to the voucher program. As shown in Table 8, the fair market value of initial (pre-existing) assets per pupil in low-cost school exceeded the asset base of high-cost schools.

Table 14
Expenditures in Voucher Schools and Milwaukee Public Schools (Percent of Total)

	Religious Low Cost	Religious High Cost	Non- Religious	Total	Milwaukee Public Schools
Operating expenditures					
Salaries	43.9%	52.0%	48.4%	49.3%	51.6%
Benefits	9.3%	8.1%	5.9%	7.8%	21.6%
Professional services	1.3%	2.6%	3.7%	2.6%	6.2%
Property services ¹	6.3%	10.1%	9.9%	9.2%	5.3%
Supplies	4.2%	6.1%	4.2%	5.1%	³
Other goods & services	2.5%	5.4%	7.4%	5.3%	2.7%
Total operating expenses	67.4%	84.3%	79.5%	79.3%	87.5%
Food service	1.6%	2.5%	2.9%	2.4%	4.7%
Current capital outlay charge ²					
Educational media	1.3%	1.4%	0.7%	1.2%	⁴
Equipment	2.7%	4.2%	1.4%	3.0%	3.3%
Buildings & sites	24.8%	6.4%	6.8%	10.4%	0.3%
Leashold improvements	0.7%	0.5%	0.1%	0.5%	0.0%
Total ⁵	29.5%	12.5%	9.0%	15.0%	3.6%
Total debt costs	1.5%	0.6%	8.0%	3.1%	4.2%
Start-up costs	0.0%	0.0%	0.1%	0.1%	na
Summer school costs	0.0%	0.0%	0.5%	0.1%	na
Total cost	100.0%	100.0%	100.0%	100.0%	100.0%
Total cost--MPCP calculation ²	113.1%	100.6%	97.3%	103.7%	na

Note: Low-cost schools have operating costs of less than \$3,200.

¹ Includes all purchased services at MPS schools, excluding those in operations and maintenance.

² Does not include initial (pre-existing) assets. Depreciates all capital outlay at 100 percent.

³ Incorporated into other goods and services.

⁴ Incorporated into equipment.

⁵ Total capital outlay charges allowed by MPCP were \$1,745 per pupil for low-cost religious schools, \$733 per pupil for high-cost religious schools and \$397 per pupil for non-religious schools, together totaling \$987 per pupil.

Ironically, the asset base of low-cost schools exceeded high-cost schools and then grew even larger during 1998-99. Low-cost schools devoted approximately 30 percent of total 1998-99, spending to capital, compared to about 13 percent in high-cost schools. Many explanations exist for the low-cost schools' greater capital expenditures, without which many erroneous policy conclusions could well be drawn. For example, low-cost schools may be underutilized (driving up the *per-pupil* market value) and badly in need of repair. One could conclude that low-cost schools deserve the capital outlay loophole of MPCP to reward both operating cost "efficiency" and to boost facility improvements.

On the other hand, it is disturbing from a policy perspective that low-cost schools spend so much taxpayer funding on capital. If the voucher infusion is responsible for some of the

spending behavior, one would hope that the new money would be used for reducing class size, upgrading personnel and expanding services--expenditures that would show up as personnel and purchased service costs. Low-cost schools may simply be neighborhood religious schools serving low-cost homogeneous elementary students--schools that are tightly linked to the supportive services of the parish and religious personnel that are not fully reflected in the calculation of school costs. Space may not have been available to accommodate many new voucher-supported students. These ideas fit with the relatively low proportion of voucher students in low-cost schools (33 percent) compared to high-cost schools (53 percent). Spending on capital and taking full advantage of the capital funding loophole is a rational response to a taxpayer-supported program that the Wisconsin Legislature could abolish at any time. The question, however, is whether taxpayers should finance facilities expansion at private and religious schools even within the context of the existing voucher program.

Non-religious school spending patterns resemble those for high-cost religious schools except that they spend even less on salaries (48 percent of spending compared to 53 percent) and benefits (5.9 percent of spending compared to 8.1 percent). Debt and capital outlay totaled 16 percent of spending.

No definitive comparison of private and public costs yet exists in the United States, but the audited financial data collected from private schools in the MPCP program offer the best opportunity yet to compare private and public school spending. Using principal-reported data from the High School and Beyond survey, Coleman and Hoffer (1987) conclude that per-pupil expenditures in Catholic schools are roughly 50 percent less than in public schools. "Other private" schools spent 38 percent as much; "high-performance private schools spent 30 percent more than public schools." Levin's (1998) analysis of Milwaukee's non-religious private schools participating in the voucher program, however, suggests that choice schools have no cost advantage. Our study builds on Levin's approach by using much more precise data both for private schools and for Milwaukee's public school system. As shown below, our study finds no cost advantage for high-cost religious and non-religious schools. Low-cost religious schools spend less, even after making adjustments for the different kinds of students served in public and private schools.

Public and private schools serve a different mix of children, which greatly complicates a comparison of per-pupil costs. Milwaukee enrolls greater numbers of children requiring special education or bilingual education or other special services, all of which cost more than regular education (Levin, 1998). Further, Milwaukee serves greater numbers of low-income students requiring specialized services.

All costs of the Milwaukee Public Schools are included in the private-public comparison except for the higher costs associated with services that private schools do not provide (see Appendix C for more details). Costs excluded from the comparison include:

- All instructional costs for special education (\$800 per pupil), vocational education (\$144 per pupil), drivers education (\$11 per pupil), co-curricular activities (\$51 per pupil) and other special needs (\$17 per pupil).

- Twenty-eight percent of the remaining instructional costs (\$1,184 per pupil) representing state and federal categorical funding (except for special education, vocational education and drivers education categorical aid programs). This amount comprises federal funding (\$631 per pupil), state integration funding (\$317 per pupil) and state categorical aid (\$235 per pupil).
- All pupil services except guidance (\$288 per pupil). Most pupil services are related to special education, attendance or health.
- Instructional staff services related to special education (\$53 per pupil) and vocational education (\$28 per pupil).
- Regular and special education transportation (\$539 per pupil).
- Fund 20--Special Projects Fund, primarily special education projects not accounted for in the general fund (\$174 per pupil).
- Fund 23--Teach Fund (\$77 per pupil).
- Fund 71--Expendable Trust Fund (\$79 per pupil).
- Fund 80--Community Service Fund (\$72 per pupil)

The activity in the capital projects fund (Fund 40), which is financed by the sales of bonds subsequently paid off through the debt service fund, is also excluded to prevent double counting. The voucher program treats debt-financed capital projects the same way. The pupil count is based on 103,784 full-time equivalent students.

This protocol for including or excluding expenditures in the public-private comparison contains many underlying assumptions about costs in religious and private schools. Student transportation for private school students, if any, is assumed to be a non-school service where providers contract individually with parents.²¹ Private schools are assumed to provide no special education services or vocational education that have an identifiable budgetary cost. These assumptions may exclude small amounts of private spending legitimately comparable to public school expenditures on high-cost pupils. On the other hand, our study makes no adjustment for the contributed services of religious personnel. Salaries for members of religious orders usually understate market value. Religious schools may also use donated land and buildings.²² Both situations lead to underestimating the true costs of private education.

²¹ Although MPCP accounting does not specifically identify transportation, private schools are asked to put student transportation into the "other goods and services" category.

²² MPCP data show that private schools are more likely to own or rent facilities than to operate in donated facilities. According to the data profiled in Table 10, three out of four Catholic schools reported ownership of facilities. For other religious schools, one in two owned facilities. Several of the schools without facilities reported high per-pupil costs for "property services," which indicates the schools were paying rent.

On the public schools side, the protocol assumes that all state and federal categorical funding is used for services that private schools are not expected to provide such as the programs funded by integration aid, bilingual education, and specific programs, such as Title I, aimed at children from low-income families. (Note that a public school district's Title I funds are also distributed in services to eligible private schools students.) Further, the protocol assumes that the higher costs for these populations do not exceed categorical aid for these purposes. Funding, however, often falls short of need.²³ All debt and maintenance and operations expenditures are included as a public school cost even though it is likely that special education and programs for low-income children add to the facilities, operations and maintenance burden of public schools.

Total costs in high-cost religious schools of \$5,564 per pupil roughly matched the MPS total costs of \$5,528 per pupil. Non-religious schools spent approximately \$700 per pupil more than MPS; low-cost religious schools spent about \$1,500 per pupil less than MPS. As an outcome of the capital finance loophole, MPCP allowed low-cost religious schools to claim costs of \$4,632 per pupil, which is roughly \$900 per pupil less than MPS spending.

MPS spent much more on employee benefits than the private and religious schools, which tended to spend more on supplies and capital outlay. Salary expenditures per pupil were practically identical for MPS and high-cost religious schools; non-religious schools spent about \$200 per pupil more on salaries. At \$1,193 per pupil, benefits for MPS employees accounted for 30 percent of total compensation. At high-cost religious schools and non-religious schools, only 14 percent of total compensation went for benefits. Surprisingly, private school spending on "professional services" fell short of public school spending on "purchased services" in all categories of private schools. Since the "property services" category includes rent, it is not surprising that the average private school spent about \$200 per pupil more than MPS. Property services do not include wages and benefits. In MPS, almost all of the \$294 per pupil spent on property services represented utility costs. All three types of private schools spent more on supplies (\$266 per pupil) than MPS spent on supplies and all other costs (\$150 per pupil). Supplies and all other costs averaged \$544 per pupil in private schools--three times the spending at MPS.

Private schools spent four times as much on capital outlay (\$785 per pupil) as MPS (\$197 per pupil). Low-cost religious schools spent six times as much on capital outlay. MPS showed a preference for debt financing, spending \$232 per pupil. Altogether, MPS spent about \$420 per pupil on capital, which was less than half of the private school average and one-third of the low-cost religious school average.

Food service averaged \$127 per student compared to \$262 per student at MPS. Only 43 of 80 schools actually included food service in its financial records. The 41 schools averaged \$281 per pupil.

²³ Given that Congress has never appropriated enough funding to fully fund Title I, MPS spending in Tables 13 and 14 is probably too high. Similarly, state aid for bilingual education pays for only about two-thirds of the cost of bilingual education.

VIII. Conclusion

Milwaukee's voucher program became an issue for every Wisconsin taxpayer. With the inclusion of religious schools in 1998-99, the number of voucher-funded students in Milwaukee's voucher program quadrupled to 6,050. Just one year into the voucher program, voucher students made up 33 percent of enrollment in low-cost religious schools and 53 percent of enrollment in high-cost religious schools. The Wisconsin Legislature charged taxpayers from every school district outside of Milwaukee for \$14 million of the \$28 million price tag.

Analysis of the audited financial data filed by private schools to qualify for voucher funding yielded startling information: In the very first year of taxpayer subsidies for religious schools, vouchers accounted for 44 percent of all revenue in religious schools. Vouchers averaged \$4,256 per pupil in low-cost religious schools, \$4,773 in high-cost schools and \$4,761 in non-religious schools. Tuition made up only 25 percent of revenue. Private schools were allowed to depreciate pre-existing facilities at 100 percent upon entering the voucher program, resulting in annual windfall voucher payments of \$1,314 per pupil in low-cost religious schools and \$302 per pupil in high-cost religious schools.

After adding facilities, equipment and debt service to operating costs, *total* costs ranged from an average of \$4,097 per pupil in low-cost religious schools to an average of \$5,564 in high-cost religious schools. Non-religious schools spent an average of \$6,330 per pupil. The cost of religious and private schools in Milwaukee proves staggering compared to tuition. Some may argue that private schools are still a bargain when measured against the public school price tag of \$915 million in Milwaukee. The average private school in Milwaukee spent about the same as the Milwaukee Public Schools after excluding expenditures for special education, vocational education, adult education, other expenditures financed by restricted funding, and transportation. Private schools showed a clear preference for spending money on buildings and equipment rather than on personnel.

Per-pupil taxpayer support for private schools in Milwaukee exceeded the fees charged to private citizens for the same service by a factor of three or four. In low-cost religious schools, voucher students generated revenue nearly four times greater than the actual tuition (\$1,125 per student) charged to private citizens purchasing the same services. In high-cost religious schools, voucher students generated revenue almost three times greater than the actual tuition (\$1,726 per student) charged to private citizens purchasing the same services. The generous taxpayer support of this dual-fee system is not caused by wrongdoing on the part of either the voucher schools or the Wisconsin Department of Public Instruction, which distributes the funds; rather it is the result of the legislation itself.

Taxpayer-funded students in many schools bring in a disproportionate amount of revenue. Voucher students in the average low-cost religious schools, for example, make up 33 percent of enrollment but vouchers provide 43 percent of revenue. The fact that most of the "tuition discount" and overpayment for capital goes to religious schools raises special concerns. Taxpayer revenue in Wisconsin can be used by private schools to replace funding from traditional sources. The extra money allows the church the option of reducing its subsidy to the

school. Private and religious schools have complete budgetary discretion--they can reduce their tuition for non-voucher students,²⁴ build a chapel, buy religious books, or generally use the revenue as they see fit. Indirect taxpayer support of these proselytizing activities could be viewed as compelled taxpayer support of religion.

²⁴ According to the Public Policy Forum, a non-partisan policy organization in Milwaukee, there is evidence that at least a few voucher schools, including religious schools, are using the state voucher overpayment to reduce tuition for students not in the voucher program. See, "Exploring Parents' Educational Choices," The Public Policy Forum, April 2000, p. 6.

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Appendix A

Sources of Data

This report is based on data from two sources: *An Evaluation: Milwaukee Parental Choice Program, Report 00-2*, February 2000, the state audit conducted by the Wisconsin Legislative Audit Bureau (WLAB) in accordance with the legislation authorizing the Milwaukee voucher program, and the Financial Information Reports for 1998-99 made available in spreadsheet files by the Wisconsin Department of Public Instruction (DPI).

All private school enrollment and expenditure data are taken from DPI, while information on private school tuition comes from the WLAB audit's individual school profiles. DPI's enrollment numbers are used by the state to calculate the state payment to each voucher school and are therefore the more accurate of the two. The Legislative Audit does provide total student and voucher student enrollment, but its figures are based on a single, January pupil count and are therefore less accurate than DPI's numbers, which are derived from independent, end-of-year audits that each participating private school must have in order for DPI to calculate state payment.

The two reports list slightly different numbers of schools participating in the voucher program: Whereas WLAB's Appendix I profiles 86 schools, DPI reports 82. This is due to the fact that DPI has combined two multi-campus schools (Seeds of Health, with three campuses and St. Vincent Pallotti with two) into one school each for accounting purposes. DPI also has no separate entry for the Immaculate Conception school because it merged midyear with another voucher school. This report follows DPI's format to make use of its more accurate enrollment data for the above multi-campus schools, and, in the case of Immaculate Conception, to avoid double counting those students whose school merged with another voucher school midyear.

The taxpayer overpayment calculations for a small number of schools are based on incomplete tuition payment data. According to the WLAB audit profiles, 16 religious schools offer two tuition rates, generally offering lower rates to students who are members of the parish. Neither DPI nor the WLAB audit data, however, break school enrollment down into parishioner/non-parishioner figures. (The one exception to the parish/non-parish basis for differing tuition rates is the Nazareth school, which has a sliding scale based on income. Because it is a variable tuition religious school, however, it is treated in the same manner as the other dual tuition religious schools.)

In the absence of this parish/non-parish member enrollment information, there is no way to calculate precisely how much state taxpayer money in excess of tuition goes to each school, because that figure depends on the tuition rate and the actual numbers of parishioner and non-parishioner voucher students. This report, therefore, uses the average of the two tuition rates--in other words, it assumes that half of the voucher students are parish members and half are not. To the extent that the majority of students at a parish school are parishioners, using this parishioner/non-parishioner average understates the size of the state taxpayer subsidy. Conversely, if a greater number of voucher students are not parish members, this average overstates the state taxpayer subsidy.

Data may be incomplete with respect to tuition levels for part-time kindergarten students. Many schools in the study that offer kindergarten have at least some students in that grade who are not full-time students. Yet only six of these schools reported to the WLAB that they charge different tuition rates to their full- and part-time kindergartners. (Of those six, one--Sharon Junior Academy--would appear to be anomalous, as it reports a *higher* rate (\$205 for “constituents,” \$237 for “non-constituents”) for its kindergartners, all of whom are part-time, than for its students in grades 1- 8 (ranging from \$167 to \$194 for constituents, and between \$200 and \$225 for non-constituents, depending on grade level). Four of the others (St. Marcus, St. Margaret Mary, Sherman Park and Tamarack) have part-time kindergarten tuition set at 64 percent, 61 percent, 72 percent and 80 percent of full tuition, respectively. A fifth school, Lakeshore Montessori, has only kindergarten students, but reports a part-time tuition that is 65 percent of the full-time tuition rate. Although it may well be that other voucher schools also charge a lower tuition to part-time kindergarten students, this report consistently utilizes the tuition data actually reported by the schools to the WLAB. Thus, the calculations used to produce this report assume that schools that have kindergarten charge *full-time* tuition to *part-time* kindergartners unless they specifically report otherwise. To the extent that any of these schools do *not* in fact do this, the actual tuition overpayment is higher than has been estimated in this report.

Appendix B

Schools Excluded from Tuition Analysis

1. Schools without tuition-paying students

Louis Tucker - Non-religious school, enrolling 39 voucher students, reported tuition of \$3,500. The school reports an operating cost of \$3,451 per pupil, with a total cost of \$3,385 per pupil.

Medgar Evers - Non-religious school, enrolls 48 voucher students. The school reported a total cost of \$3,906 per pupil.

Agape Center - Non-religious school, enrolls 105 voucher students. The school reported \$4,576 per pupil in operating costs and a total cost of \$4,905 per pupil.

Family Academy - Non-religious school, enrolls 42 voucher students. The school reported \$4,896 per pupil in operating costs and a total cost of \$5,038 per pupil.

Blyden Delany - Non-religious school, enrolls 30 voucher students. The school reported \$4,910 per pupil in operating costs and a total cost of \$5,132 per pupil.

Hickman's - Non-religious school, enrolls 72 voucher students. The school reported a total cost of \$4,882 per pupil.

Milwaukee Multicultural - Non-religious school, enrolls 19 voucher students. The school reported \$5,412 per pupil in operating costs and a total cost of \$5,529 per pupil.

Family Montessori - Non-religious school, enrolls 19 voucher students. The school reported \$5,412 per pupil in operating costs and a total cost of \$5,529 per pupil.

2. Schools without tuition information

Seeds of Health - Seventh Day Adventist school enrolls about 500 students including 18 percent voucher students according to audit. According to the audit actual tuition for tuition-paying students is \$6,173. Operating costs of \$4,719 and total costs of \$5,080.

Sharon Junior - Seventh Day Adventist school enrolls 39 students including 34 voucher students according to audit. According to the audit, actual tuition for tuition-paying students is \$1,770. Operating costs of \$4,328 and total costs of \$4,769.

North Milwaukee Christian - Enrolls 36 students including 6 voucher students. According to audit the, actual tuition is \$1753. Operating costs of \$2,015 and total costs of \$7,375. The difference primarily represents 100 percent depreciation of the facility.

Marva Collins - Non-religious school, enrolls 181 students including 141 voucher students. Tuition is on a sliding scale, but no details are available. Audited tuition was \$1,550 per pupil. The school reported \$4,680 per pupil in operating costs and a total cost of \$4,738 per pupil.

3. Schools with audited tuition discrepancies

Sherman Park - Lutheran school enrolled about 28 students (22 voucher students). Published tuition was \$1,710 for non-voucher students. Audited actual tuition was about \$50,000. Audited operating costs totaled \$3,713, and total costs equaled \$5,482. This school is also excluded from the revenue analysis.

Keal Prep - Christian school enrolled 10 students (two voucher students). Published tuition is \$3,500, but no tuition revenue was reported in the audit. Audited operating costs totaled \$4,505 and total costs equaled \$4,774.

Gray's Christian - Enrolled about 43 students (39 voucher students). Published tuition was \$6,323 for non-voucher students. Audited actual tuition was about \$32,294. Audited operating costs totaled \$6,932 and total costs equaled \$8,558. This school is also excluded from the revenue analysis.

Texas Bufkin - Non-religious school enrolled about 49 students (38 voucher students). No tuition is published, and no tuition is reported in the audit. Audited operating costs totaled \$4,087 per pupil, and total costs equaled \$4,559.

Woodson - Non-religious school enrolled about 200 students (192 voucher students). No tuition is published and only \$247 per pupil is reported in the audit. Audited operating costs totaled \$4,752 per pupil, and total costs equaled \$4,784.

Ceria M. Travis - Non-religious school enrolled about 57 students (53 voucher students). No tuition is published but \$20,851 per pupil in tuition is reported in the audit. Audited operating costs totaled \$5,047 per pupil, and total costs equaled \$5,573.

Parklawn Christian - Enrolled about 32 students (18 voucher students). Published tuition was \$3,750 for non-voucher students. Audited actual tuition was about \$7,197. Audited operating costs totaled \$5,791, and total costs equaled \$8,721.

Learning Enterprise - Non-religious school enrolled about 157 students (78 voucher students). No tuition is published, and no tuition is reported in the audit. Audited operating costs totaled \$7,585 per pupil, and total costs equaled \$7,775. This school is also excluded from the revenue analysis.

Lakeshore Montessori - Non-religious school enrolled about 13 students (six voucher students). Published tuition is \$4,750, but \$12,789 per pupil in tuition is reported in the audit. Audited total costs equaled \$5,496.

Appendix C

Public-Private Cost Comparison Protocol

Public and private schools serve a different mix of children. Milwaukee Public Schools (MPS) serves more children requiring special education, bilingual education or vocational education. MPS also serves greater numbers of low-income students requiring specialized services. The school system also provides legally required programs to promote integration. This appendix describes the protocol used to subtract MPS spending for high cost students and programs not required of private schools.

All instructional costs for special education (\$800 per pupil), vocational education (\$144 per pupil), drivers education (\$11 per pupil), co-curricular activities (\$51 per pupil) and other special needs (\$17 per pupil) are subtracted from MPS spending. (See Table C-2.) To account for the costs of integration programs, bilingual education and the cost of programs for children from low-income families, 28 percent of the remaining instructional costs (\$1,184 per pupil) are also subtracted. This amount represents state and federal restricted funding other than funding for special education, vocational education and drivers education. This amount is equivalent to federal funding (\$631 per pupil), state integration funding (\$317 per pupil) and state categorical aid (\$234 per pupil). These calculations are shown in Table C-1.

Table C-1
Revenues Subtracted from MPS Costs

	Code	Total	Per Pupil
State			
Integration aid	615	\$32,919,256	\$317
Integration (nonresidents)	616	3,314,994	32
Bilingual	618	2,324,635	22
Special project grants	630	12,878,505	124
SAGE	650	5,515,915	53
Other state	690	350,653	3
Total		57,303,958	552
Federal			
Other federal aid	719	2,888,596	28
Fed categorical	710	5,067,201	49
Title 1	751	45,578,582	439
Title 6	752	1,189,930	11
Other federal revenue	790	10,841,998	104
Total		65,566,307	631
Total		122,870,265	1,184
Percent of instruction	10	23%	23%

Source: Annual Financial Report, 1998-99.

Note: Excludes state and federal revenue for special education, vocational education and drivers education.

This approach assumes that the cost of programs for high-cost students described in Table C-1 are fully funded. Categorical funding, however, often falls short of actual cost, forcing general operating revenue to pick up the slack. Given that Congress has never appropriated enough funding to fully fund Title I, MPS revenues in Table C-1 probably underestimate cost. Similarly, state aid for bilingual education pays for only about two-thirds of the added cost of bilingual education.

Table C-2 describes the effect of several other assumptions used to subtract MPS spending for high-cost students and programs not required of private schools. All pupil services except guidance (\$288 per pupil without guidance) are subtracted because most pupil services are related to special education, attendance or health. All instructional staff services (a category that includes library and media) were included in the public-private comparison except those related to special education (\$53 per pupil) and vocational education (\$26 per pupil). All regular and special education transportation (\$539 per pupil) is excluded from the private-public comparison because it is assumed that parents provide transportation or contract directly with transportation providers.

The entire cost of general administration (\$165 per pupil), school administration (\$496 per pupil), business administration (\$94 per pupil), central services (\$181 per pupil) and debt service in the general fund (\$70 per pupil) are included in the public-private comparisons.²⁵ All operations and maintenance funds are also included; after removing wages and salaries, all expenditures in this area are classified as “property services” as used in Tables 13 and 14.

Except for debt service in Funds 30 and 38 (\$162 per pupil) and food service (\$262 per pupil), expenditures from all other funds are excluded from the private-public cost comparison:

- Fund 20 - Special Projects Fund, primarily special education projects not accounted for in the general fund (\$174 per pupil)
- Fund 23 - Teach Fund (\$77 per pupil)
- Fund 71 - Expendable Trust (\$79 per pupil)
- Fund 80 - Community Service (\$72 per pupil)

The activity in the capital projects fund (Fund 40), which is financed by the sales of bonds subsequently paid off through the debt service fund, is also excluded to prevent double counting. The voucher program treats debt-financed capital projects the same way.

The pupil count is based on 103,784 full-time equivalent students, a figure that includes all preschool students in special education and Head Start programs. Most kindergarten students attend school full time and therefore, count as full-time students.

²⁵ Programs for high-cost children have administration and business costs. However, the full amount of categorical funding has been subtracted from instructional expenses.

Table C-2
Expenditures per Pupil in Milwaukee Public Schools, 1998-99

	Fund	Pro- ration	Salaries	Benefits	Purchased Services	Other Objects	Capital Objects	Total
Instruction								
Undifferentiated curriculum	10110	72%	\$ 1,862	\$ 780	\$ 130	\$ 145	\$ 200	\$ 3,117
Regular curriculum	10120	72%	555	232	128	8	2	926
Physical curr. w/o drivers ed	10140	72%	80	33	2	4	1	120
Vocational education	10130	0%	86	36	9	8	8	144
Drivers education	10145	0%	6	3	0	0	1	11
Special curriculum	10150	0%	554	232	10	3	1	800
Cocurricular	10160	0%	33	14	2	3	0	51
Other Special needs	10170	0%	12	5	0	0	0	17
In cost comparison¹			1,798	753	187	113	146	2,997
Supporting services								
Pupil services								
Guidance	10213	100%	59	25	0	0	0	84
All other pupil services	10210	0%	164	69	53	1	0	288
In cost comparison¹			59	25	0	0	0	84
Instructional staff services								
Spec. ed. supervision	102233	0%	33	14	4	1	0	53
Voc ed Supervision	102237	0%	17	7	1	1	0	26
Other services	10220	100%	162	68	43	22	0	296
In cost comparison¹			162	68	43	22	0	296
Administration								
General administration	10230	100%	100	41	19	4	2	165
School administration	10240	100%	335	140	17	4	0	496
In cost comparison¹			434	181	36	8	2	661
Business administration								
Business director	10251	100%	8	3	2	2	0	15
Fiscal	10252	100%	22	9	4	2	0	37
Internal service	10258	100%	21	9	0	2	2	35
Other business office	10259	100%	5	2	0	0	0	8
In cost comparison¹			56	23	6	6	3	94
Operations and maintenance								
Operations	10253	100%	198	83	126	10	3	419
Maintenance	10254	100%	89	37	54	22	1	205
Facilities acquisition	10255	100%	3	1	60	0	17	82
In cost comparison¹			290	122	240	33	21	706
Central services¹	10260	100%	53	22	73	8	25	181
Debt service¹	10280	100%	0	0	0	0	70	70
Transportation	10256	0%	3	1	535	0	0	539
Insurance and judgements	10270	0%	na	na	na	na	na	43
Payment to CESA	10290	0%	na	na	na	na	na	0
Special projects	20000	0%	na	na	na	na	na	174
Teach fund	23000	0%	na	na	na	na	na	77
Debt service fund¹	30000	100%	na	na	na	na	98	98
Non-referendum debt¹	38000	100%	na	na	na	na	64	64
Capital projects	40000	0%	na	na	na	na	169	169
Food service	50000	0%	na	na	na	na	na	262
Expendable trust	71000	0%	na	na	na	na	na	79
Community service	80000	0%	na	na	na	na	na	72
Total included in cost comparison			2,852	1,193	585	182	429	5,251

Source: 1998-99 Annual Financial Report filed with the Wisconsin Department of Public Instruction

Note Calculations based on 103,784 full-time equivalent students.

¹ Not a total. Sum of the cell entries multiplied by the proration column.

Appendix D

Descriptive Data

	Denomi- nation	Total FTE Pupils	Percent Voucher Pupils	Revenue (Audited)	Tuition ² (Audited)	Average Voucher	Operating Cost (Audited)	Total Program Cost (Audited)
Average								
High-cost religious		237	53%	\$ 5,934	\$ 1,726	\$ 4,773	\$ 4,689	\$ 5,597
Low-cost religious		190	33%	3,343	1,125	4,256	2,759	4,632
Non-religious		145	73%	7,648	3,600	4,761	5,030	6,160
All schools		198	51%	5,453	1,662	4,602	4,147	5,424
Number of schools								
High-cost religious		34	34	32	28	34	34	34
Low-cost religious		26	26	26	25	26	26	26
Non-religious		20	20	18	6	20	20	20
All schools		80	80	76	59	80	80	80
High-Cost Religious								
Believers in Christ Christian Academy	Believers in Christ	250.4	50%	3,836	648	4,894	4,069	5,165
Blessed Sacrament	Catholic	201.0	8%	1,604	938	3,789	3,490	4,150
Clara Muhammad	Islamic	63.0	87%	5,228	1,359	4,894	4,771	5,416
Community Vision	Baptist	39.5	67%	6,935	1,034	4,894	4,376	6,246
Corpus Christi	Catholic	127.5	51%	3,780	1,548	4,484	3,688	4,504
Divine Savior	Catholic	507.0	1%	7,201	5,067	4,894	5,461	6,060
Early View	Christian	82.2	93%	5,154	3,500	4,845	4,800	4,845
Emmaus	Lutheran	93.6	88%	4,481	1,263	4,817	4,047	4,878
Gray's	Christian	43.0	90%	1	1	4,894	6,932	8,916
Holy Redeemer	Christian	270.7	90%	5,114	1,658	4,841	4,317	4,841
Holy Spirit	Catholic	57.0	44%	4,472	679	4,894	4,417	4,960
Keal Prep	Christian	9.8	79%	4,880	1	4,774	4,505	4,774
Lutheran Special	Lutheran	24.5	37%	14,010	2,649	4,894	8,907	9,101
Marquette	Catholic	975.5	1%	10,961	5,467	4,894	8,152	9,384
Messmer	Catholic	351.0	43%	12,163	1,297	4,894	4,964	5,622
Notre Dame	Catholic	63.0	73%	12,891	711	4,894	7,136	7,426
Our Lady of Good Hope	Catholic	171.8	15%	2,528	1,156	4,694	4,080	4,718
Parklawn	Christian	44.0	34%	7,116	7,197	8,721	5,791	8,967
Resurrection	Catholic	231.0	60%	4,357	1,831	4,298	3,686	4,298
Seeds of Health	Adventist	455.4	18%	6,095	1	4,894	4,719	5,211
Sharon Junior	Adventist	38.7	88%	4,278	1	4,769	4,328	4,769
Sherman Park	Lutheran	28.3	80%	1	1	4,894	3,713	5,842
St. Adalbert	Catholic	202.5	83%	4,719	800	4,894	3,562	5,393
St. Barbara	Catholic	63.5	43%	4,453	1,015	4,894	3,585	5,168
St. Catherine of Alexandria	Catholic	195.3	27%	2,607	1,373	4,894	3,263	5,227
St. Catherine School	Catholic	172.5	73%	4,295	1,477	4,884	3,518	4,948
St. Joan Antida	Catholic	397.0	24%	8,026	2,962	4,894	5,337	5,727
St. Leo	Catholic	216.8	86%	8,019	869	4,894	4,955	5,717
St. Marcus	Lutheran	83.8	67%	4,202	772	4,894	3,729	5,307
St. Margaret Mary	Catholic	398.8	10%	1,991	1,215	3,792	3,438	4,056
St. Martini	Lutheran	113.5	83%	4,708	2,570	4,832	4,171	4,990
St. Rose	Catholic	197.5	87%	8,030	1,225	4,894	4,679	5,683
St. Vincent Pallotti-East	Catholic	262.0	14%	3,602	1,145	4,694	3,438	4,758
Yeshiva	Jewish	154.3	39%	8,137	2,104	4,894	6,303	6,700
Low-Cost Religious								
Catholic East	Catholic	183.0	51%	3,824	1,227	3,537	2,531	3,581
Christ Memorial	Lutheran	112.0	34%	2,829	1,195	4,661	2,828	4,929
Gospel Lutheran	Lutheran	102.0	72%	4,008	1,501	3,957	2,894	4,066

Mother of Good Counsel	Catholic	437.8	19%	2,799	1,671	4,383	2,862	4,660
Mount Calvary	Lutheran	186.0	58%	3,987	1,476	4,741	3,061	4,953
Nazareth	Lutheran	42.0	27%	13,202	1,518	4,622	2,730	4,730
North Milwaukee	Christian	36.0	15%	2,301	¹	4,894	2,015	7,375
Oklahoma Ave.	Lutheran	75.0	19%	3,041	1,529	3,725	2,955	3,736
Our Lady of Sorrows	Catholic	161.0	36%	2,790	960	3,733	3,077	3,871
Our Lady Queen of Peace	Catholic	224.0	21%	1,827	926	3,792	2,835	3,872
Salam	Islamic	154.5	63%	3,243	1,769	3,858	3,136	3,919
St. Alexander	Catholic	155.5	12%	2,791	900	4,218	2,685	4,285
St. Anthony	Catholic	251.8	69%	4,037	713	4,084	2,311	4,331
St. Augustine	Catholic	110.0	15%	3,143	792	4,894	3,049	6,006
St. Bernadette	Catholic	210.5	19%	3,200	1,239	3,891	3,058	4,077
St. Helen	Catholic	138.0	21%	2,767	883	4,654	3,041	4,745
St. John Kanty	Catholic	155.3	33%	2,759	838	3,096	2,835	3,255
St. Josephat	Catholic	169.5	52%	3,646	865	4,321	2,818	4,661
St. Lawrence	Catholic	117.5	55%	3,431	639	4,894	2,615	5,226
St. Matthew	Catholic	107.5	48%	3,290	882	4,894	2,886	6,336
St. Paul	Catholic	144.0	8%	2,930	1,302	3,457	2,829	3,588
St. Peter Immanuel	Lutheran	247.5	18%	2,163	1,168	3,565	2,989	3,798
St. Philip Neri	Catholic	175.8	62%	2,896	1,436	4,894	2,591	5,010
St. Roman	Catholic	434.5	5%	1,711	1,231	4,894	2,366	6,373
St. Sebastian	Catholic	406.8	14%	2,796	252	4,144	2,657	4,164
St. Veronica	Catholic	402.8	3%	1,500	1,214	4,859	2,093	4,890
Non-Religious								
Agape Center	Secular	105.1	100%	9,446	na	4,894	4,576	5,955
Blyden Delany	Secular	30.0	100%	4,718	na	4,894	4,910	5,132
Bruce Guadalupe	Secular	484.4	5%	¹	na	4,894	4,216	4,924
Ceria M. Travis	Secular	57.0	93%	7,457	¹	4,894	5,047	6,017
Family Academy	Secular	41.8	100%	6,365	na	4,894	4,896	5,278
Family Montessori	Secular	30.5	62%	4,779	3,743	4,736	4,650	4,881
Harambee	Secular	345.8	71%	5,668	1,036	4,894	4,291	7,142
Hickman's	Secular	71.9	100%	7,837	na	4,882	5,078	5,498
Lakeshore Montessori	Secular	13.0	48%	12,530	¹	4,894	8,224	8,629
Learning Enterprise	Secular	157.0	50%	¹	na	4,894	7,585	7,775
Louis Tucker	Secular	38.8	99%	4,539	na	3,835	3,451	3,835
Marva Collins	Secular	160.5	88%	6,905	¹	4,894	4,582	5,581
Medgar Evers	Secular	47.9	100%	1,654	na	3,906	4,247	4,639
Milwaukee Montessori	Secular	156.8	9%	29,422	5,778	4,894	7,182	16,487
Milwaukee Multicultural	Secular	19.3	100%	7,871	na	4,894	5,412	5,743
Tamarack	Secular	92.4	68%	5,292	3,984	4,894	4,901	5,078
Texas Bufkin	Secular	48.9	78%	4,514	na	4,559	4,087	4,559
Urban Day	Secular	573.0	73%	7,804	3,034	4,894	3,761	5,754
Woodlands	Secular	216.0	27%	5,482	4,022	4,894	4,748	5,078
Woodson	Secular	200.3	96%	\$ 5,379	¹	\$ 4,794	\$ 4,752	\$ 5,215

¹ Problems with data. See Appendix B² Audited tuition divided by number of students without vouchers.

Appendix E - Sample Data Sheet - St. Philip Neri

	K-12	Food Service	Total		COUNT	FTE
Salaries	290,736	2,172	292,908	ALL PUPILS-SEP		
Benefits	32,411	166	32,577	4K (437 HR)	16	8.00
Professional Services	8,631		8,631	4K (524.5 HR)		0.00
Property Services	16,449		16,449	5K (1/2 DAY)	22	11.00
Supplies	50,419	3,243	53,662	5K (3 FULL DAY)		0.00
Other Goods & Services	56,698		56,698	5K (4 FULL DAY)		0.00
Total Operating Expenses	455,344	5,581	460,925	5K (5 FULL DAY)		0.00
				GRADES 1-12	161	161.00
				TOTAL ALL PUPILS-SEP	199	180.00
	Initial Balance	Current Expenditur		ALL PUPILS-JAN		
Educational Media	9,625	0		4K (437 HR)	14	7.00
Less: Debt Financing				4K (524.5 HR)		0.00
Non-Debt Financed Amt	9,625	0		5K (1/2 DAY)	23	11.50
Choice Program Percentage	100.00%			5K (3 FULL DAY)		0.00
Choice Program Related Amt	9,625	0		5K (4 FULL DAY)		0.00
Cost Election	20.00%			5K (5 FULL DAY)		0.00
Capital Outlay Charge	1,925	0	1,925	GRADES 1-12	153	153.00
Equipment	48,610	39,883		TOTAL ALL PUPILS-JAN	190	171.50
Less: Debt Financing				ALL PUPILS-FTE AVERAGE		175.75
Non-Debt Financed Amt	48,610	39,883		SUMMER SCH - FTE		
Choice Program Percentage	100.00%	100.00%		TOTAL MEMBERSHIP - FTE		175.75
Choice Program Related Amt	48,610	39,883		PER PUPIL COST (FTE)		4,928
Cost Election	20.00%	20.00%				
Capital Outlay Charge	9,722	7,977	17,699			
Buildings & Sites	400,000	0		CHOICE PUPILS-SEP		
Less: Debt Financing				4K (437 HR)	7	3.50
Non-Debt Financed Amt	400,000	0		4K (524.5 HR)		0.00
Choice Program Percentage	100.00%			5K (1/2 DAY)	11	5.50
Choice Program Related Amt	400,000	0		5K (3 FULL DAY)		0.00
Cost Election	100.00%			5K (4 FULL DAY)		0.00
Capital Outlay Charge	400,000	0	400,000	5K (5 FULL DAY)		0.00
Leasehold Improvements				GRADES 1-12	101	101.00
Less: Debt Financing				TOTAL CHOICE PUPILS-SEP	119	110.00
Non-Debt Financed Amt	0	0		CHOICE PUPILS-JAN		
Choice Program Percentage				4K (437 HR)	5	2.50
Choice Program Related Amt	0	0		4K (524.5 HR)		0.00
Cost Election				5K (1/2 DAY)	11	5.50
Capital Outlay Charge	0	0	0	5K (3 FULL DAY)		0.00
Total Capital Outlay Charge			419,624	5K (4 FULL DAY)		0.00
				5K (5 FULL DAY)		0.00
				GRADES 1-12	101	101.00
				TOTAL CHOICE PUPILS-JAN	117	109.00
				CHOICE PUPILS-FTE AVERAGE		109.50
				SUMMER SCH - CHOICE FTE		
				TOTAL CHOICE MEMBRSH - FTE		109.50
				CHOICE PMT ELGIBILITY		
				a) Maximum payment per FTE	4,894	
				b) Per pupil cost	4,928	
				TOTAL ELIGIBILITY (lesser of a or b)		
				times Total Choice Membrshp - FTE)		535,893
				PAYMENTS RETAINED		
				Payments Issued	310,450	
				Less: Payments Returned	9,100	
				Payments Retained by School		301,350
				AMOUNT DUE FROM (TO) STATE		234,543
Program Related Debt Cost						
Long-Term Debt Principal						
Long-Term Debt Interest						
Temporary Borrowing Interest						
Total Debt Cost			0			
Start Up Cost			0			
Summer Sch Costs (if not already incl)						
Total Cost			880,549			
Less:						
Offsetting Revenues	14,415					
Total Cost Reductions			14,415			
NET PROGRAM COST			866,134			