

CATO INSTITUTE POLICY FORUM

ARIZONA'S SCHOLARSHIP TAX CREDIT:
A NEW DIRECTION FOR SCHOOL CHOICE?

Monday, September 17, 2001

Moderator: Darcy Olsen,
Director of Education and Child Policy, Cato Institute

With:

Trent Franks, Former Member,
Arizona House of Representatives, and Author
Arizona's Scholarship Tax Credit Legislation;
Lisa Graham Keegan, Chief Executive Officer,
Education Leaders Council and former Arizona
Superintendent of Public Instruction; and

Carrie Lips, Author,

"The Arizona Scholarship Tax Credit:
Giving Parents Choices, Saving Taxpayers Money"

The Cato Institute
F.A. Hayek Auditorium
Washington, D.C.

P R O C E E D I N G S

MS. OLSEN: Good afternoon, everyone. Welcome to the Cato Institute. Sorry to keep you waiting. We had a speaker who actually had to run from his hotel to get here, but we are glad that he made it. Some of the flights were a little bit slow today, but everybody is here. It's good to see you all here, and I'm so glad you could be here.

We have a wonderful forum planned for you today to discuss the Arizona scholarship tax credit, which is a study that we've been waiting a long time to put out, and waited a long time to find out the findings that are in here. It's the first scholarship tax credit of its kind. And the findings, I think, are just wonderful. And Carrie will get into those details today.

As you know, at the Cato Institute, we work hard to try to infuse the K through 12 system with some free market principles, so that parents, instead of just having to send their children to schools assigned by the government, they actually have some choice and some direct say over the kinds of schools their children go to and the educational environments they're in. And I certainly believe that scholarship tax credits are one of the best methods of restoring that parental freedom and choice to parents.

Today we have three wonderful speakers. I'll introduce them all now, and then they will just come up to speak, and then we'll have a nice question and answer period. To my right is Trent Franks. He is a former member of the Arizona House of Representatives, and he is the author of Arizona's scholarship tax credit legislation. It's wonderful to have him. Currently, Trent is President of Liberty Petroleum Corporation, and he is a candidate for the U.S. Congress.

To my far left is Carrie Lips. Carrie is the author of the study we're releasing today on the Arizona scholarship tax credit, and she is also a former Social Security Analyst at the Cato Institute. Her writing has appeared in numerous publications, including the Washington Post, USA Today and the Atlanta Journal Constitution. She received her bachelor's degree from Princeton University and, most recently, her master's degree from the Kennedy School of Government at Harvard. So, we are delighted to welcome Carrie back to Cato today.

And right here, directly to my left, is Lisa Graham Keegan. She is a founding member and Chief Executive Officer of the Education Leaders Council. And she was Arizona's Superintendent of Public Instruction when Arizona implemented the scholarship tax credit. She is a huge proponent of school choice. And in 1999, she was awarded the Milton and Rose D. Friedman Award for Leadership in Educational Choice.

I hope that you will welcome our speakers today, and let's get started with Trent.

(Applause.)

TRENT FRANKS,
FORMER MEMBER, ARIZONA HOUSE OF REPRESENTATIVES, AND
AUTHOR OF ARIZONA'S SCHOLARSHIP TAX CREDIT LEGISLATION

MR. FRANKS: Well, I guess the first thing I would like to do is just to thank the Cato Institute for allowing me to be here. It was such a kind invitation. And it's interesting, because the Cato Institute was probably the first national public policy think tank that considered the scholarship tax credit's passage to be something of consequence. And I know that Carrie Lips and Darcy Olsen, in a sense, have been preaching the Gospel for tax credits for a long time. And I want them to know, and I hope all of you too, that we are so grateful to both of them.

It's also true that in most States, the Superintendent of Public Instruction in those States is often an opponent of true school choice. And that is not the case, or was not the case, in Arizona when we had Lisa Keegan as our Superintendent. And I have to say to you from my heart that if it were not for her help I am convinced that this effort to pass this scholarship tax credit would have failed.

And I see so many of you out there that have been champions for children, and tried to do things that would make a difference in the educational system. And I can only say to you that I am convinced that many children, thousands of children, countless children, who will never know your name, will walk into sunnier places on the higher roads of life because you lived and because of your commitment.

It is, in my opinion, in spite of today's circumstances and the tragedies that we have faced in the last week, entirely appropriate for us to be here in this place today. Ronald Reagan told us something. He said: You and I have a rendezvous with destiny. We can preserve this, the last best hope of mankind on earth for our children and our children's children. Or we can sentence them to take that very last step into a thousand years of darkness. If we do fail, at least let our children and our children's children say of us that we justified our brief moment here. We did all that could be done.

And I think the tragedies of recent days remind us that sometimes the steps into darkness are closer than we realize. And our children certainly appear to perhaps have to face greater challenges than we ever did. And it means that we must all be desperately focused on equipping them to face the future knowing the truth and loving one another. And that has been the goal of

school choice, in all of our hearts. And that has certainly been the goal with the scholarship tax credit effort in Arizona.

And so with that, let me just say to you that with the short time that we have, all of you are familiar with the voucher efforts, and maybe I could just point out a few differences. I know all of you have faced different strategies, and I applaud you from my heart. And with that, I hope you'll give me diplomatic immunity as I try to explain some of the advantages that we feel that the tax credit has to offer.

First of all, about 80 percent of the scholarship charities in Arizona that collect the monies from the donors focus on low-income children. And that means about 70 to 80 percent of the children are low-income children that receive these scholarship tax credits. But this effort is powerful enough that it has the ability to scholarship middle-income families, as well, if it's used to its fullest extent. The effort also provides significant savings to taxpayers.

Now, I know that's more fully dealt with in the Cato report, but more and more people are coming from the public systems with their children to the private system. And every time that happens we save the State at least \$2 in expenditure for every \$1 in tax revenues that they lose. And in addition, parents often augment their children's scholarship with monies of

their own, which provides even greater savings. And as time passes, the savings will increase.

The Arizona model is also an extremely powerful mechanism. By the end of this year, we will have raised about \$50 million to date. We are scholarshiping nearly 16,000 children, which makes it the largest school choice effort in the nation as far as a statewide program. And if everyone in Arizona took advantage of the tax credit, we'd raise over \$1 billion, which would scholarship half the children in the State. So, the mechanism is powerful, probably more so than being able to convince people to appropriate monies for vouchers.

The program is also insulated from government intrusion or interference. And that's especially important for two reasons. One, the first one, like vouchers, the scholarship tax credit allows parents to be the one to choose the schools. That's a foundational premise that we all understand. But the tax credit, unlike vouchers, gives choice on another front. And that's simply that it allows those who bear the cost of the education, or the program in this case, to have full choice over where their dollars go.

And that is a constitutional issue that is of significance, because it makes it very difficult for our opponents to get a hold of it. They've called it -- what's the word, Lisa -- they've called it fiendishly clever, when really

it's divinely simple. It's simply that these are private donations, coming from private individuals, going to private scholarship charities, to go to private scholarships for private individuals to go to the private school of their private choice. And I will privately suggest to you that that drives the NEA and ACLU privately insane.

(Laughter.)

MR. FRANKS: Because they cannot get a hold of it. And that's significant. That's one of the big differences. The tax credit, in view of those things, is far easier to pass legislatively and to sustain judicially because they simply have a difficult time speaking against it effectively.

But the greatest advantage, in my mind, of the scholarship tax credit is its inherent ability to protect religious schools receiving private scholarships from government interference or intrusion. And that's a big one. Because I know that it is very difficult for all of us in political terms, in the political realm, to discuss this whole issue of religious education and parents' rights in that regard, but that's one of the strongest and most important issues we have to deal with. Because all of us really know in our hearts -- the NEA and the ACLU certainly know -- that education is more than just reading, writing and arithmetic.

We know, as Thomas Jefferson told us, that the purpose of true education is to create young citizens with knowing heads and loving hearts. And we know that the heart of education is the education of the heart. And it's difficult sometimes to bring that into the kind of focus that it needs. It's very difficult for us to bring the educating of the hearts of our children into the grip and clarity that I believe it deserves. But perhaps we should just remind ourselves that it is far easier to shape the warm hearts of children than it is to reshape the cold hearts of adults, or men.

There was once a time -- and I say this in the context of being a Sunday school teacher for toddlers -- there was a time when Adolf Hitler, Josef Stalin and Osama bin Laden were just little children. And perhaps their hearts could have learned the love for innocent human life had they been afforded that opportunity. I don't know. But I do know that they slipped through our fingers and that they grew into twisted souls whose legacy is cataclysmic atrocity, hate and evil that is a horrifying witness of what is truly at stake in this debate.

So, I would admonish each one of you in your battle to try to make a better world for children, a better educational system, to remember that the most priceless truth that a child can ever learn in this world is that he is a child of God, that he is a profound miracle of God, and that every other child on

this earth is the same kind of miracle. Because if children learn to be at peace with their God and love their fellow children, their fellow human beings, then they will have the possessed purpose and the motivation to learn science and math and physics and all of these other things, and they will live and build a better world, and at the end of the day, that they will find their way home.

Now, I guess, in closing, I would just suggest to you that the message of truth that we have to pass along to coming generations is very important, because you and I are not here very long, and so we have to be very deliberate, we have to be very clear-minded, and we have to hurry. And perhaps the admonition of the school master of the nation, Daniel Webster, would be appropriate; I think he would say the same thing to all of us today.

He said: If we work on marble, it will perish. If we work on brass, time will deface it. If we rear up temples -- and perhaps we might add, World Trade Centers -- they will crumble into dust. But if we work upon immortal minds and imbue them with principles, with the just fear of God and the love for our fellow men, we engrave on those tablets something that will brighten for all eternity.

And I guess I would just hope that all of us today could recommit ourselves in the filling of this world with young citizens who possess knowing heads and loving hearts.

Thank you, and God bless you.

(Applause.)

CARRIE LIPS, AUTHOR,

"THE ARIZONA SCHOLARSHIP TAX CREDIT:
GIVING PARENTS CHOICES, SAVING TAXPAYERS MONEY"

MS. LIPS: Thank you, Trent.

When I first learned of Arizona's scholarship tax credit, I was intrigued. This tax credit allows taxpayers to receive a dollar-for-dollar tax credit for donations to organizations that provide scholarships to children to help them attend private school. Those organizations are required by law to distribute 90 percent of the funds they take in, in scholarships. At first, the maximum available tax credit was \$500, although that limit has since been raised to \$625 this year.

This tax credit appeared to have the potential to increase the number of parents able to exercise school choice without the political difficulties associated with more traditional school choice initiatives such as vouchers. But

while the potential for the scholarship tax credit program was undoubtedly promising, there was very little information about the State's experience with the program thus far. Therefore, my partner and I decided to study the program in an effort to answer four principal questions.

First, what organizations have been created to fulfill the job of receiving the donations and distributing those scholarships?

Second, whom is this program helping? What students and families have been receiving the scholarship money?

Third, what has been the impact of the program on Arizona's education system and on the State budget?

Finally, and perhaps most importantly, based on this experience, what will we expect to have experienced in the future? Will more private schools be created? How many more children will this help?

In order to answer these questions, working with our advisor, Professor Paul Peterson, of Harvard, we devised a survey which we sent out to all the organizations that the Arizona Department of Revenue identified as student tuition organizations. We then made follow-up calls and spoke with representatives of those organizations in order to gather supplemental data.

We surveyed Arizona's private schools in order to gain a better understanding of the existing private school marketplace. And, finally, we drew upon data collected by the Arizona Department of Revenue, Department of Education, and the Goldwater Institute.

Overall, we found that between the years 1998 and 2000, Arizona's tax credit generated roughly \$32 million in donations. That money was received by 30 scholarship organizations and funded 19,000 scholarships. In answering our first question, "What kinds of organizations exist to take in and to distribute those donations?" we found that the more than 30 organizations represent a wide array of interests. Only a few of the organizations accept applications from all students and give scholarships to attend any private school in Arizona. Most specialize in serving specific groups of students.

For example, some assist students on the basis of religious affiliation. Others by the type of school they attend, such as Montessori. Others give scholarships only to students attending private schools affiliated with that organization. In fact, many organizations are offshoots of specific private schools and serve the needs of students already affiliated with those private schools.

Most of the scholarship organizations are small. Of the 34 organizations active in 2000, 20 raised less than

\$200,000, and nine raised less than \$50,000. This diversity of organizations represents a significant benefit to the scholarship tax program, which Trent alluded to. Rightly or wrongly, other school choice initiatives -- namely, vouchers -- are seen by critics as using public funds to support private religious schools.

This tax credit program is simply immune to those charges. Each charitable organization sets the size of the scholarship and eligibility standards. Those taxpayers who want to take advantage of the opportunity to donate to an organization choose the organization that reflects their values. Our research indicates that the taxpayers have a lot of choice and a wide selection of such organizations to choose from.

This understanding about the variety of scholarship organizations helped us also to answer our second question: Which students is this initiative helping? We knew that there was this wide variety of organizations, but we also wanted to consider the criterion those organizations used to select the individual scholarship recipients. We found that, overwhelmingly, the scholarship organizations used financial need as the primary criterion for allocating scholarships to eligible students. In some instances, the scholarship organizations relied on the private schools themselves to identify the neediest students and to help distribute the scholarship money.

In some sense, some of the scholarship organizations can be better understood as a kind of financial aid office for private schools, assisting students that have been identified as having a serious financial need. In total, we estimated that more than 80 percent of scholarships were received by students identified by these organizations as having a financial need.

In addition, we tried to estimate how many of the scholarships were received by students newly transferring from the public to private schools or students who would have had to return to public schools if the scholarship weren't available. Unfortunately, many of the representatives of the scholarship organizations could not provide that information. They simply weren't collecting the data.

However, it was clear from our interviews that at this time most scholarships are used by students already enrolled in private school. In total, of the organizations able to offer an estimate, 36 percent of the scholarships were used by former public school students. However, those organizations accounted for only a small fraction of the total scholarships distributed.

Therefore, we thought it was reasonable to assume that the organizations that collected that data had a higher percentage of such scholarships than the average organization. So, we estimated that roughly between 15 and 30 percent of all scholarships were dedicated to students newly transferring or who

would otherwise have had to attend a public school. In order to be conservative about the effects of the program, for the rest of our calculations we assumed that 20 percent of all scholarship recipients were used by students who would otherwise have attended public school.

Given the private schools' incentives, and the incentives of the scholarship organizations, to target aid to new students, it might seem surprising that only roughly 20 percent of scholarships went to such students. But one must consider the process most scholarship organizations currently use to attract applicants and the situation that those organizations face. Most of these organizations have just started up. They have, by law, limited administrative resources. As I mentioned before, they're required by law to use 90 percent of their funds for the scholarships themselves. And therefore most have made only limited efforts to encourage new students to apply for assistance.

However, many scholarship organizations expressed a desire to improve outreach programs to low-income families with children currently in the public schools. For example, one organization described its plans to increase awareness of the availability of the scholarships by piggy-backing with programs that serve low-income students, such as the Big Brother/Big Sister Program and Boys and Girls Clubs. This suggests that in

the future more and more scholarships will go to students who are right now in the Arizona public school system.

So, based on this information, we concluded that the typical scholarship recipient comes from a relatively low-income family which has been making significant sacrifices to send their child to private school; but 1 in 5 scholarship recipients are students who would have otherwise had to attend a public school. This estimate of the number of scholarship recipients who would have otherwise attended public school allowed us to answer our third question: What has been the impact on Arizona's taxpayers?

To the extent to which the students who receive scholarships are already attending private school, then the tax credit is a total loss for Arizona's budget. However, for each student, in the year 2001, who would have attended a public school if it weren't for the scholarship, the State and localities save roughly \$4,600 worth of resources that would have otherwise been used to educate that child in the public school system.

For example, the \$13.7 million donated to scholarship organizations in the year 1999 funded nearly 15,000 scholarships for the year 2000-2001, that school year. Since roughly 3,000 of those scholarships were used by students who would have otherwise had to be educated at public expense, we estimate that the savings associated with not having to educate those children in

the public school system was worth approximately \$13.8 million, almost exactly offsetting the cost of the tax credit.

This is perhaps the most interesting finding about the tax credit: While critics of school choice programs claim that such programs hurt the public schools by draining resources away from them, in fact the exact opposite appears to be true. When a student leaves the public school, they free up resources for other students in that public school. It helps make it possible for public schools to achieve the goals you hear championed by many of those critics: smaller class sizes, more computers per student, et cetera.

To understand this dynamic, it's helpful to consider the reverse situation. It's easy to understand that if all private schools in Arizona were suddenly closed, and the close to 50,000 students currently attending private school had to switch back to the public schools, it would represent a significant new burden on Arizona's public school system and on Arizona taxpayers. The State would have to hire more teachers, buy more supplies, and perhaps even build new school buildings.

If we accept that new students entering the public school system represents a new cost for the State, clearly then the reverse is also true: If more students leave the public school system, taxpayers save money, and resources that would

have otherwise had to be used to educate those students are freed up.

Therefore, in summary, we found to date that Arizona's tax credit program helped roughly 3,000 more students afford private school in the 2000-2001 school year. It also reduced the cost of private school for another 12,000, most of whom were identified as having a financial need. And this initiative was essentially costless for Arizona taxpayers since it reduced the number of students having to be educated at taxpayer expense.

That left us to consider the last, most important, question: What is the likely effect of this relatively new program on Arizona's future? That answer depends on many factors. Most significantly will be the rate of taxpayer use of the tax credit. Last year, just 2.2 percent of Arizona taxpayers took advantage of the tax credit and contributed to a scholarship organization. That's up from 1.8 percent of taxpayers in the year 1999. We estimated how much money would be raised each year in the future based on moderate, conservative, and high-growth assumptions about the rate of increase in taxpayer participation.

Under the moderate growth scenario, we assume that the rate of participation will increase by 1 percentage point each year among taxpayers with yearly incomes of \$50,000 or more. This would mean that by the year 2015, only 5.4 percent of all Arizona taxpayers will be using the credit. This represents a

rate of increase in participation that is significantly less than we have seen since the tax credit first became available.

Therefore, in this moderate growth scenario, we are assuming that the rate of growth would slow over time.

On the one hand, it seems reasonable to assume that the rate of increase in participation would slow once those taxpayers most likely to be interested in using the tax credit are already doing so. However, there is also reason to believe that this moderate growth scenario may be too conservative. It would also be a reasonable set of assumptions that, over time, as more children receive scholarships, that their parents will encourage others to donate to scholarship organizations, leading taxpayer participation and total donations to increase more quickly.

However, in order to be conservative, we focused on this moderate growth scenario, which would mean that the tax credit would generate \$58 million of donations in the year 2015. In order to calculate the future effect of the program on Arizona's budget and on Arizona's education system, we considered a range of assumptions about the number of scholarships that would thus be available and the portion of those scholarships that would be dedicated to students newly transferring from the public school system.

These projections gave us a sense of the likely impact of the program in the future. Overall, we project that the

scholarship organizations will likely be helping send between 11,000 and 37,000 new students to private school by the year 2015. These estimates suggest that enrollment in private schools will increase from 5.2 percent of the student population to between 5.9 and 8.3 percent of the student population.

Additional scholarships will also reduce the burden of those families with students already in private schools. In fact, according to our conservative estimates regarding the number of scholarships that would be used by former public school students, there would be enough scholarships left over to assist between 40 and 80 percent of those students already in private schools.

The savings generated by the tax credit in the future will likely mean that the scholarship tax credit program will, at a minimum, remain revenue neutral for Arizona's budget. But it more likely will generate significant savings, perhaps in the magnitude of more than \$10 million per year by 2015.

The tax credit program will also likely increase the number and diversity of the private school marketplace in Arizona. Assuming that each private school serves roughly 200 students, an additional 60 to 175 private schools would likely open by 2015. While this may seem like a significant increase in the supply of private schools, Arizona has proven that when there

is a demand and resources are available educators can create more schools.

For example, when Arizona changed its law to allow for the creation of charter schools, the number of charter schools grew from 46 in 1995 to over 400 for the 2001 school year. Therefore, overall, our study confirmed that there is a great reason to be optimistic about the impact of Arizona's scholarship tax credit.

We would expect that over the next 15 years this program would enable thousands more families to choose a private school for their child, reduce the cost of private school for many more families, and free up significant taxpayer resources which could be returned to taxpayers or used to improve the public school system. It will also make Arizona's education system more competitive and diverse, both of which have been shown by studies to increase and to improve student outcomes and improve the education system overall.

I personally look forward to watching the progress of Arizona's program and the progress in other States that have created tax credits based on Arizona's model. Thank you for listening, and I welcome your questions during Q&A.

(Applause.)

LISA GRAHAM KEEGAN,
CHIEF EXECUTIVE OFFICER, EDUCATION LEADERS COUNCIL

MS. KEEGAN: Good afternoon. I really appreciate you all being here, in the President's words, "back to work," doing our work. And we are happy to be so.

I also want to thank Carrie for what is an excellent article on Arizona's tuition tax credits. And I hope you never show that to the editor of the book for whom I wrote an article about tuition tax credits -- it's far superior; just read Carrie's work -- it is very clear about what's really going on in Arizona. And so, we are greatly appreciative.

I also want to thank Trent for coming up with this idea. He is very generous about the role that I played in this. It was Trent's idea. And I can remember the specific moment, sitting in my office, when he was going through it. And I was so thick. I said, "Okay, I don't get it. I don't get it. Can you help your child?" "No." It's such a novel idea. "Well, how can you oppose that," I said. And Trend said, "Bingo." So, I don't think it was so much me. If the plan is fiendishly clever, I probably added something on the fiendish side. That's what I excel in.

You've heard about the tuition tax credits or you knew about them. They are unique, or they were unique. Happily they

are not going to be unique for very long. They are serving children in other States as we speak. And the idea is moving forward, as well it should. I do want to talk about how this fits into the overall picture of public education.

At the Education Leaders Council, and when I was Superintendent in Arizona, we always talk about a definition of public education that is different than what most people think. Public education ought to be one in which the child is served, where money follows the child to a school that works. There is a choice made by parents about which school a child can attend. And then the parent is given feedback about the performance of that school, and the State is given feedback about performance of their system. It's a very simple system, or it ought to be. We have managed to yuck it up.

We do have vouchers in Arizona, and every other State in the Union, in effect. We simply deny certain schools the ability to cash it. We do pay on a per-pupil basis in American public education for our children. Vouchers exist. It's a silly argument. We are paying. We simply decide who can and who cannot cash the check, if you will, for the education of a child. Right now we limit that to government schools in most States.

Tuition tax credits actually get around the issue of public education, if you will, altogether. This money never becomes public. It is always private. The argument in the

Arizona courts that came down on Christmas Eve in 1998, and I called Trent -- the best Christmas present I ever had, other than my children, of course -- was just fabulous.

Understand, if you look in Carrie's figures there, in 1998, there was a whole lot of faith going on, because this was being contested in the courts, when people put their \$500 tax credit donation in, and it could have been fully not deductible, depending on where the courts came down. And that was well known in Arizona at the time. So, I always took that as a great personal testament to the strength of the idea and that people were going to do it regardless of whether they got credit for it or not. So, God bless Arizona. It's a very good place to do this work.

But the point is that the tuition tax credits are actually not public education, if you will. They ought to be a piece of everybody's public education system and policy, because they provide a niche, they provide service for those schools that will never feel comfortable participating in public education -- and there will be several. They will feel, and rightfully so, to have these fears, that the government, if they're going to provide money, will want to provide stricture, and they will not want to participate even in what could be a very open public voucher program. They will always want to be outside of that

system, and the tax credit will always serve those schools and the students who wish to access them.

Lots of people are advocating one way or the other. In my opinion, you do everything. You open every door, every window, every crack in the floor, and recognize that tuition tax credits actually do exist outside of a public revenue system. This money is private. It's a determination made by a family that they will give, and then a credit ensues. That money never becomes public.

My favorite moment when we were arguing this in court was when the NEA lodged the argument that, in essence, all money is public. I knew it. And as I wrote it down, I said to the person next to me, "See, that's what they think." So, anyway, it was kind of stellar to be there and get it on tape. You can get the tape if you want. We certainly have it in our office.

Obviously this is a huge benefit to children, a huge benefit to the children. And Trent talked about the 16,000 children in Arizona alone that are benefiting from his idea. I sit on the board of one of these charitable tax organizations, and every year they have a dinner -- and I know that Trent goes also -- and you listen to these children and their families talk about what this has done for them. And I know you all do this work, and this is our work, but I'll tell you, it changes your life every year that you go. Because you think, I can get up in

the morning and get abused again because this is working. So, that's just fine.

Obviously there are other benefits. The competition itself is important to talk about for a minute. Those of you who are familiar with the medical transformation in the United States, kind of moving from a complete monopoly in health care to one that did embrace and has, as a fact of its life, private components, know that the tipping point, if you will -- if I may be so current -- was somewhere around 20 and 30 percent of competitiveness in the marketplace.

In the education system in Arizona right now, you heard Trent, or maybe it was Carrie, recite a figure of somewhere around 8 percent potentially for the tuition tax credits. In six years, the public charter school movement has taken for its own piece of this movement about 8 percent of our children. That gets you close.

If in a few years you're at 8 percent tuition tax credits, you're at 9 percent, now you're 15 percent, you're getting very close to the point where you're exerting a constant pressure. And I believe, more than anything in the world, in that pressure itself. I don't just believe that, I see that every day. It is ridiculous to say that if there is a school next door to you that children can access that they couldn't

access yesterday that you aren't going to change your behavior. Poppycock. It happens all the time.

So, the competition in itself is far more important than being able to spend more money on public education -- which is a fine thing to do, and I've certainly advocated for that -- but that does not make it change. Competition makes the change. If you then want to turn around and say, well, we'll have more revenue for the changes that need to take place, marvelous. But it's the competition that makes that difference.

The other thing that's interesting with the tuition tax credit is education is now marketed in Arizona. We saw it a little bit in the public charter schools. These schools only exist because somebody chooses to walk through their door, and so they do advertise. And you'll go to the movies in Arizona and, before the movie, you'll see an advertisement for a public charter school. You now also, in your home -- and this is great -- you are getting marketed for the tuition tax credits.

Now, in the first year, John and I, my husband and I, received I think two mailers. Last year I counted a dozen. And that's a dozen schools mailing into your home, or school organizations, education organizations. Now, granted, they're talking about scholarships for children who couldn't otherwise afford their school, but they are marketing education.

And I always remind people that I was a huge Cheerios in the morning fan. I mean, you just could not get me off of that. And if anybody had asked me, "Was I satisfied with my breakfast food?" "Yes." And then there was a coupon in the mail for Frosted Cheerios. And it changed my life. Because I don't have to do the sugar thing anymore, and embarrass myself with the fact that I dump half that damn container into my cereal in the morning. It's right there, and it's worse than what I was putting on the Cheerios -- just the best. I mean, you're working it hard for about two hours before you pass out in the corner. It's a sugar high like you can't believe.

But I didn't even know I should want Frosted Cheerios. What's going on in Arizona is the marketing of education into people's homes and it is so critically important. And I've had more people say to me, "I got a thing in the mail about this school. I didn't even know we had a school like that." And they're just "Hallelujah." That is important.

The other issue is companies are actually doing direct payroll deduction into the tuition tax credit. Private companies are becoming very interested in that. Cities are interested in doing it. I know my husband is the mayor of the city that we live in, and obviously very amenable to school choice. His city is looking for ways to do automatic payroll deduction into the tuition tax credits. So, when the community gets fired up and

wants to do something positive about education, and the thing that they do is choose to enhance school choice, it's just a really nice little movement activity.

I'm going to summarize by basically reiterating philosophy here. At the Education Leaders Council, as I say, we're very ecumenical about who provides education. We want it all. We want fabulous traditional public schools that come out of districts, fabulous public charter schools, fabulous tuition tax credit programs. And at ELC we're also very comfortable with the notion of flat-out money following kids into any school that works.

What we are not ecumenical about is whether or not students have the liberty to choose a school that works for them, and whether or not there are good schools available. It is a crime not to do that work. So much of the conversation around education seems to presume that there is one best answer or one best fit here. And I'm always reminded of the steps that were taken for years and years and years before the Wall came down between East Germany and West Germany, and what it took to really do that. I mean, it was very symbolic. But I see our struggle the same way.

And, quite frankly, I think that everything we do -- the standards movement that says, look, quality matters for all kids; the choice movement that says it is a fundamental part of

an American education that a student should be able to choose a school that works; tuition tax credits -- add enormously to this effort to blow through this monopoly wall. Every time you do something like this you pull down a brick. So, my advice to you is just grab the brick and pull, and this wall is going to come down.

Thank you very much.

(Applause.)

MS. OLSEN: Thanks, Lisa, thanks, Trent, thanks Carrie.

We will be happy to take your questions. I think we will have a microphone that will come around to you. When the microphone gets there, if you could just identify yourself and direct your question, if you would like to, or just open it up to the panel.

MR. HERSHEY: I'm Bob Hershey. I'm a management consultant.

Do you have some preliminary results as to how the kids were doing in science and math?

MS. LIPS: No. We weren't able to attach specific students to test scores. That would be a great study for someone else to do if they had more resources than we did.

MS. KEEGAN: Let me just add to that, because I think it's a fabulous question. In Arizona, we do not do any compulsory testing of private schools, which I think is as it

should be. We have asked those schools to volunteer their academic information. We also make our State testing program free for those schools, because they've already paid for it. So, if they want to participate in that, they can.

The only evidence that we have is ancillary evidence that academic achievement in the State is up for all students in all groups in all subjects. And we believe that competition has something to do with that.

MR. PIELER: George Pieler, with the IPI Center for Education Freedom, also a co-founder of the Washington Scholarship Fund here in the District.

Carrie, first of all, you and Jennifer did a superb job, I think, of establishing something we've all been hoping to see, which is that the scholarship credit has created a large pool of capital for scholarship-granting organizations, which is the most important fact I suspect. And I understand it's more difficult to estimate the other thing we all were looking for, which is an increase in the private school population as a result of the credit. But I wonder if you had a chance to look at just sort of gross data, like how many children in Arizona in 1997, either in broad numbers or percentage, that were in private school as opposed to today, or something of that nature.

MS. LIPS: Unfortunately, as Lisa referred to, there is not as much hard data on the private school population readily

available. And so we mostly tried to collect anecdotal evidence. We talked to the Archdiocese of Phoenix and discussed what he had seen. And the Catholic population is a significant portion of the private school population in Arizona. He discussed that, for whatever reason, they had. And whether or not he could attribute it to this tax credit or not, he had seen a significant increase. They were opening two new Catholic schools during this coming 2000-2001 school year.

And we did have the sense -- I'm trying to think if we have numbers in here -- one of the things that's interesting is that Arizona's private school population as a percentage of their overall student population had actually been falling throughout the nineties. Partially that's I'm sure due to the availability of charter schools and there just being more choice in general in Arizona, making the private school less necessary. So, we would think that it would be a very positive outcome if the amount of students enrolled in private schools just held constant.

We also, as I mentioned, conducted a survey of private schools, and asked them if they had seen their enrollment increasing, staying constant, or decreasing. And the numbers were less than 10 percent who said they had seen a decline in students trying to enroll, and I believe it was 26 percent had seen an increase, and the remainder had seen it held constant. But hopefully there will be more solid data over the years.

MR. PIELER: Based on the private school population, is it tracked?

MS. KEEGAN: Arizona keeps no figures on private education. And I think private education likes it that way. I will tell you, however, in Arizona, you have to remember we grow by 25,000 students a year. It's a pretty fast growth rate. And the studies, if anybody is thinking about doing that -- and Carrie and I were talking about how difficult it is to ascertain why the private schools aren't growing, because they generally open full -- there are very few, comparatively, private schools in Arizona. They are in great demand. And I think, Carrie, you report 30 percent more demand than there are spots available. And we have roughly that in the public charter sector, as well.

MR. FRANKS: Perhaps I could just add a little bit to that. The Goldwater Institute has done some study that I have to suggest to you. I don't know exactly what all their criteria or what bases they used, but since 1997, since this went into effect, according to their figures, we've had an increase in the percentage of students in the private schools of almost 25 percent. Now, that's a significant number. And that of course is in the face of, as Lisa said, the charter school situation, which I think absolutely suppresses what would otherwise be the impact of the scholarship tax credit in terms of demand for it. Because when people have their children in a charter school, they

already feel like they've made the choice. Half the people in Arizona think charter schools are private. That's just the reality.

So, it would be good if you might contact the Goldwater Institute, because to me that was an astonishing figure. They had mentioned that for the past 25 to 30 years that there was either a flat line or a slight decline in the percentage of children going to private schools, but since the 1997 passage of this -- and again, it could be no connection -- but, over 20 and almost 25 percent of the total population of private schools has increased. And like Lisa said, for the first time in I think 20 or 30 years now the Catholic Diocese are building schools rather than closing them and consolidating them.

MR. LEVY: Bob Levy, Cato Institute.

I assume that there are some entities that might call themselves schools that, because of their curriculum or lack of curriculum, would not qualify for the tax credit program. What are the requirements? And perhaps, related to that, you could clarify your statement that a tax credit system means necessarily less entanglement on the part of the government than would say a voucher system. Presumably, if there is a voucher system, somebody has to decide which schools qualify to participate in the voucher program, and why would it be any different with a tax credit program?

MS. KEEGAN: Well, it is. Let me give this a stab, and Trent will correct me if I'm wrong in terms of our philosophy about this. Actually, you don't. The schools are not qualified themselves. You simply have to be a school that is extant; I mean, you're in existence. You have students. And, Trent, you can tell me if there are other qualifications.

The tax credit scholarship fund that you've set up has to be for the benefit of two or more schools. So, many times, schools will simply get together, a couple of schools, form a scholarship fund, and they will provide scholarships to their schools.

When this bill was being passed, of course the discussion was there was going to be fraudulent use, et cetera. If you set up this scholarship organization, you do have to register yourself with the Department of Revenue -- and you're a business. So, if you were going to commit fraud, it would be akin to filing tax statements with the Department of Revenue for a company that doesn't exist.

It would be very hard to do, quite frankly, particularly because there is no better gossip network than education generally. And so we did not consider that we needed to qualify these schools by quality. Arizona, as I say, has a very hands-off policy toward the private education sector, both upper division and K-12. We do not, for example, certify

universities the way some States do. So, this is very typical Arizona policy.

Many people said you ought to qualify and make sure that these scholarships are only given to children who are of low income. The fact of the matter is -- and Carrie does nice work here -- that the vast majority of the scholarships are given to children who have financial need. Because as a school, why would you give money to somebody who can already afford to be paying for you? And the fact of the matter is that the mechanism you would put in place to secure and make sure that people were not giving money to kids who could afford to go to school would probably cost you more than the amount of money that is currently being spent on kids who can otherwise afford to be in the schools.

And Carrie might disagree with some of that, but it's a pretty small percentage of scholarships that are going to kids who wouldn't qualify for free lunch, for example. I don't know if I've thoroughly answered your question, though.

MS. OLSEN: Did that answer your regulatory question?

MR. FRANKS: Perhaps I could expand on the regulatory aspect.

MR. LEVY: I was thinking not so much of fraud and abuse, but, rather, suppose I wanted to start a school that taught white supremacy or that taught the violent overthrow of

the U.S. Government, would my school qualify for a tax credit? And if it would, why could not the same rule be adopted for a voucher program? Why is it that you say that tax credits are less entangling in terms of government involvement in monitoring curriculum than would be a voucher program?

MR. FRANKS: Let me just say, as far as the regulatory aspect, the legislation itself said that the schools would qualify if they otherwise fit the regulatory environment that was in place at the time it was passed. Now, that was that they had to adhere to the fire code. That was essentially it. We don't have a great deal of private school regulation in Arizona.

But to answer your question, there are always weird things happening. And what's to stop people from starting a private school right now that is some Nazi school? The reality is, however, in this situation, if you're a private scholarship organization, you must be a 501(c)(3), which is a time-honored, tested mechanism that has many laws, Federal and State, that have dealt with just about every scenario you can think of. And so there is a significant amount of built-in credibility simply because you have to be a 501(c)(3).

Second, as a 501(c)(3), if you should scholarship a child to a white supremacist school, it's going to be really hard on your marketing approach from then on. I mean, it's going to be difficult for you, so it's the worst thing that you could

possibly do. And overall, that is, in a sense, the accountability. First of all, the donors have to feel like this is a good cause. And it's certainly in the best interest of the scholarship charity to say we scholarship low-income children, because they're not going to get people to come along and say, well, I understand that you scholarship children who come from billionaire families. They're not going to respond to that.

The donors, first of all, are your first regulatory or your first accountability mechanism. Second of all, the organizations themselves have a name to protect. Third, there is a tremendous set of laws that deal with 501(c)(3)'s that are already in place to deal with most of the considerations that you talk about. And as far as the strange schools that could come into effect, that's already the case now. The main thing that makes it difficult for government to interfere with this system as opposed to a voucher-driven system is because the government is not paying for this one.

MS. KEEGAN: I would simply answer that issue by saying that the thing that keeps you from opening a school such as the one you mentioned is that it's morally repugnant. And in a civil society, most people won't come to your school and they will call News 12 and they will go out there with a camera and they will be shamed out of existence. And personally I think that's the way it should be. I mean, we are as a society fortunately not very

open to such hostile attempts to educate our children in ways like that. So, the marketplace of society, I would say, takes care of that.

Unfortunately, we are less indignant as a society about schools that teach counseling instead of algebra. So, I do think that's easy to see, and I've never heard of it happen. When we were pushing vouchers and choice in Arizona for years, I heard about the coven schools that were going to crop up. I just had no idea how many people wanted to be witches.

(Laughter.)

MS. KEEGAN: And apparently there is this huge pent-up demand, mostly in union members, for a coven school, because they talk about them all the time.

(Laughter.)

MS. KEEGAN: It never has happened. And I want to believe that you would not have a supremacist school open its doors and try to avail itself of a public program, because they would not, as Trent knows, they would not want to be seen in civil society as performing such an act -- I hope.

MR. KIRKPATRICK: Dave Kirkpatrick. I'm a retired public educator, who spent over a dozen years heading the AFT and NEA major affiliates, including the State Association in Pennsylvania, which cheers them to no end. I've been officially condemned since.

A couple of comments. Since the witches thing came up in California in initiative 94, I've been to a lot of meetings and seen a lot of print where people raise this question. I've not yet heard anybody else give the answer, aside from the fact that there is no demand and it would be embarrassing and it would be repugnant. The same Supreme Court that in 1925 gave us the Pierce decision, 9 to nothing, that parents have the right to send their child to the school of their choice, that same Court also said unanimously the State has a right to regulate or prohibit any school that is deleterious to the common interest, which is the major reason they don't exist. Because the State, it's very clear, can abolish them.

I also wanted to comment on your 20 to 30 percent tipover. Because Education Week a couple of months ago pointed out that 25 percent of our K through 12 students now have choice, 5 million in non-public schools and about 8 million in charter schools, magnet schools, alternative schools; 2 million or so maybe in home schooling. And even they left a major item out. And that is, a few years ago, there was a national survey of public school parents that asked them why they live where they do. Fifty-three percent said because they've got their child in a school where they want them to go. Which is why my colleagues are crazy in

being afraid there is going to be a great fleeing from the school.

MS. OLSEN: Do you have a question for the panelists?

MR. KIRKPATRICK: No. I'm just adding to her that the choice already exists, but it does show why your growth rate won't be too high, because more people are satisfied and have choice right now than we recognize.

MS. OLSEN: A question over here.

MS. KEEGAN: They need Frosted Cheerios, David, and they don't know it.

(Laughter.)

MR. MILLIKAN: Al Millikan, Washington Independent Writers.

As you've watched the White House Faith-Based Initiative moving along this year, do you think there is anything that can be learned from Arizona, particularly when it concerns maintaining religious integrity and avoiding litigation and government strings for any faith-based initiative?

MR. FRANKS: I have to jump in. I apologize. And please, ladies, pick this up. But I absolutely believe that the way that Mr. Bush could solve so many of his initiative challenges would simply be to introduce the tax credit on a Federal basis, even though it wouldn't have some of the savings

elements. It would certainly add choice and it would certainly be easier to pass. I think the votes are in the Senate.

We have a representative here from John Kyl's office, Noah Silverman, and earlier this year I had written a draft proposal for the Federal Senate for this effort. And John Kyl did introduce it and Mr. Jeffords did his thing, and now we're not sure whether we're going to be able to get a vote. I don't know the situation, and perhaps Noah can expand on that. But if this could be done on the Federal level, it would certainly solve a lot of the educational choice issues, and I think would be sustainable in the Federal legislature in spite of the makeup.

And secondly, if Mr. Bush could say, all right, we're just going to allow a \$100 tax credit to the types of faith-based organizations that we are talking about here, all of a sudden his entanglement issue evaporates. And in my judgment, that is absolutely the way to do it, because that is, of all the differences between this approach and the others, it is that singular difference that it separates any entanglement from the government themselves. And I really hope, those of you who might have the administration's ear more than I do, that you would pass that along. That is his answer.

MS. OLSEN: We can take one or two more questions, and then we will go ahead and head up to the reception.

MR. JACOB: Matt Jacob.

One of the whole reasons for school choice and the advocacy of more school choice has obviously been traced to the fact that there is concern that a lot of low-income kids could do a better job or could learn more in a private school as opposed to public schools, and so the desire to move them into those settings. And I'm just curious, according to the research report here -- and I guess, Carrie, maybe you may want to speak to this, or one of the other panelists -- 87 percent of the scholarships you note were given by organizations that did not have data collected on the origin of those students' schools, or the origin of the students.

And so to the extent that you might want to be able to do a study, or an analysis to follow those students in other words, and find out how they're progressing at private schools, this doesn't seem to offer a database to do that. Do you have a concern about that? Do you see that as a missed opportunity? How would you solve it?

MS. LIPS: I think it's a challenge for the scholarship organizations. But one of the things that was interesting in getting to talk to a lot of the representatives of these organizations is that most of these people were just private citizens, who were either teachers or parents affiliated with the school, who saw people who were going to have to leave their private school and decided to start this up. People were doing

this in their spare time. There were very, very few organizations that had a staff that was a paid staff.

So, as long as that holds true, there probably won't be great data collection, and so that's true. I put the number in there, and the organizations that were able to offer an estimate only accounted for 13 percent of all the scholarships. But from talking with the representatives I could get a sense of what their intentions were. And certainly the intention was to help people who were not otherwise able to afford private schools to have the option of affording private school. So, as much as it would be great from a research perspective to have more hard data, I'm not personally concerned that that's not going to be the movement as this scholarship organization moves forward.

And one more thing. As much as we would love to see it, and it would be fabulous, as someone interested in the research numbers, to watch test scores change over time, one of the things that I think is interesting, as someone who has followed some of the research, is how many other criteria you can use in judging a program.

Paul Peterson, of Harvard, has done lots of research on the effects on parental satisfaction, of being able to exercise a choice. And parents in these randomized experiments, they had a whole group of parents, all of whom want to be able to use a voucher. Those who receive a voucher express greater

satisfaction with the school their child attends and, perhaps most importantly, a greater involvement in their child's education. There have been innumerable studies that show when parents are involved in their child's education, the child does better.

So, I think that we would love to watch test scores change, but parental satisfaction is another thing to look at, and just being able to exercise a choice I think is a positive outcome.

MS. KEEGAN: And I might just add to that really briefly, and maybe this even gets back to the other question about what do we know about religious endeavors, et cetera. First of all, in the public charter schools in Arizona, Sikh, Jewish, Baptist, Catholic, all of those organizations are involved in some way in public charter schools.

They are not allowed to teach religion during the school hours, and they don't for the most part. And again, it happens from time to time that we have to pick up the phone and say you can't do that. But I will tell you that I don't think that happens any more than you get religion in the traditional public schools, where some community is espousing a certain belief and they're teaching it during the daytime.

What is important to me, and it gets to this same issue, is actually not that we get more kids into private than

public school. I absolutely do not care who, at the end of the day, makes money off of the school. I think it's a silly question. I think it is good schools versus bad schools. So, your issue over, is the school of quality, to me is one in which I don't think there is any reason to say that the government coming into private schools and regulating their tests and the way they have to perform is going to be particularly helpful.

However, let me just stop there; we are clearly doing that, and I am advocating for that on the public side. Well, why is that? Because the monopoly situation that we're in puts us in a position where people don't know a good school when they see one. We've been able to market lots of things, and nobody knows good math scores and nobody knows a good reading program. And it's really kind of phenomenal to me.

So, I would hope that as this movement moves forward schools begin to market themselves on the basis of, in one part, their test scores. "Here is how many of our kids do this well in mathematics." A number of private schools already do that, but I am hoping for the day when a parent says not "I love the color of this school," which is usually what you get, or "Just incredible brick," and "The flowers are outstanding," they say, "I love that math program and those scores are very compelling to me."

And I don't care where it happens -- traditional public, private -- to me what's most important there is that it

is a competitive open market and people can bring their skills to the marketplace and there is a drive to get better. So, private and public doesn't really interest me that much.

MS. OLSEN: We'll take one more question.

MR. NEILY: I'm Clark Neily, at the Institute for Justice.

Perhaps a two-part question. I think perhaps, Trent, I would like to get your input on this, as a former legislator and hopefully a future legislator. In the event the Cleveland scholarship program is upheld by the Supreme Court -- obviously we hope that it is -- it's certainly our hope that the drive for school vouchers becomes stronger.

I wonder whether the existence, for example, of a tax credit program in place might undercut the ability of State legislators in particular to put through a kind of school voucher program. In other words, people might say, look, we've already got your tax credit thing here and you don't need the voucher program; we already threw you that bone. So, that's one question.

The other question that goes with that, and I think maybe Carrie would have something to say about this: Is there any reason to believe or are there any plans to study the possibility that essentially there will be a plateau effect with participation in tax credits? In other words, that it will just

kind of peter out at a certain percentage, which remains essentially nominal, where you don't really have, let's say, 30 or 40 percent of kids participating in that program because it just never gets that big.

MR. FRANKS: First of all, I would like to just publicly thank the Institute for Justice, because Clint Bolick represented a lot of us, including myself, and I believe Lisa Keegan also personally. And he was absolutely brilliant in his representation for the State and the Supreme Courts. And interestingly enough, we won by one vote in the Arizona House, one vote in the Arizona Senate, one vote in the Arizona Supreme Court, and it appears that they rejected our opponents' challenge by one vote in the U.S. Supreme Court. So, this is one of those things where we're just grateful for everyone's involvement.

But to answer your question specifically about, does this undercut vouchers, my answer is that that potential exists, but I think, overall, it's not the concern that it should be or the concern that you might think it would be. Because in a lot of States we have amendments that are far more restrictive than the First Amendment of the United States Constitution. It simply is very different.

In our Arizona Constitution we have a clause that simply says that no tax shall be laid or any appropriation of public money made to aid any private sectarian school or church.

It's very, very sweeping. And yet we were still able to be upheld in the State Supreme Court because it wasn't public money. I am convinced that vouchers, even if they were upheld on the Federal level, would fail most of the time in a State Supreme Court in many States. So, you still have that battle to face, too. So, I think that that's one of those challenges.

Will it change the overall impact if we have vouchers upheld in the U.S. Supreme Court? I believe so. I believe it will help school choice in general. I still think some of the same dynamics exist because of the State challenges, and I also think legislators are going to be a little bit more hesitant to appropriate public money than they are to allow a tax credit for someone to voluntarily donate. That's just the legislator's mindset. But I have great hope that we will prevail in the Supreme Court. And I just hope that we are very wise after that in the way that we proceed.

MS. LIPS: And just real quickly, I see no reason to expect that this would plateau any more than the number of students and families willing to exercise a voucher would change. There is the question of how quickly will the donations increase, how many taxpayers will donate to these schools, and therefore how many scholarships will be available. But it seems to me that right now there is just a lack of awareness in Arizona about this

potential to contribute costlessly to these charities. And as that happens, we should see a significant increase.

And then, once the scholarships are available, you know as well as I do the demand among many parents, and in particular low-income parents, for scholarships or vouchers is great. There are as many polls that will show you that some 50 percent of parents wish they could send their child to a private school or if there wasn't a financial difficulty they would be sending their child to a private school right now. So, I believe that the demand is out there and that in the future the tax credit could be helping to send a significant portion of the student population to private school.

MS. OLSEN: Before you all clap for our panelists, I would like to let you know that you're all invited to a reception upstairs in the Wintergarden. We have food and drinks, and I invite you to talk to the panelists up there and thank them all for coming.

(Applause.)

(Whereupon, the Cato Institute Policy Forum concluded.)