

**FUNDING IMPERMANANCE: QUANTIFYING THE  
PUBLIC FUNDS SENT TO CLOSED SCHOOLS IN THE  
NATION'S FIRST URBAN SCHOOL VOUCHER  
PROGRAM**

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**ABSTRACT**

Since the 1990-1991 school year the Milwaukee Parental Choice Program (MPCP) has provided vouchers to tens of thousands of mostly low-income Milwaukee children attending private schools at public expense. The Milwaukee voucher experience, as a free-market government reform reliant on the use of non-government service providers, sits firmly in the new public management framework. This analysis uses fiscal and enrollment data to quantify the amount of public money sent to the 128 voucher schools that exited the MPCP. The author finds that about 12% of the total program expenditure was on closed schools between 1991 and 2013. The authors conclude that policymakers should consider the likelihood of substantial investment in failed institutions when considering the implementation of new public management reforms.

*Keywords:* school vouchers, privatization, new public management

## INTRODUCTION

Efforts to reform public management through the introduction of market forces and non-government service providers, known broadly as both reinventing government (Osborne and Gaebler, 1993) and new public management (Kettl, 2005), can be traced to the late 20<sup>th</sup> century (Thompson, 2002). When initially proposed, new public management reforms spurred much debate over their effectiveness and possible long-term impacts on public service delivery (Kaboolian, 1998; Stillman, 1999). Thompson (2002), for example, highlighted the need to understand both the impacts of the implementation of new public management reforms, as well as the long-term “opportunity costs” of such reforms (365). Stillman (1999) expressed concern about the “hyperimpermanence” of institutions resulting from the growth of the shadow-state, but there has been limited research on the measurable impacts of government funding of impermanent non-government service providers (102). In this article, the research gap is addressed by using the 25 year-old Milwaukee private school voucher program as an example of a mature new public management reform. Specifically, the common occurrence of school closure in the voucher program is used to quantify one long-term effect of new public management reforms: the funding of impermanent institutions.

Donald Kettl (2005) provided a concise overview of the common characteristics of new public management reforms. The Milwaukee voucher experience exhibits all six of Kettl’s (2005) “core components” (1). The first component, productivity, states that government is being asked to provide more services for less tax revenue. The Milwaukee voucher program, formally known as the Milwaukee Parental Choice Program (MPCP), was designed to increase productivity by obtaining similar or increased educational outcomes for students for substantially less taxpayer support (See Witte, 2000; Savas, 2000; Costrell, 2009; 2011; DeFour, 2011). The second component, marketization, is the introduction of market-forces into public service delivery for purposes of changing bureaucratic incentives. This idea too is core to the premise of

school voucher programs like the MPCP. Milton Friedman (1955) originally articulated that education vouchers would force public schools to improve in response to parental demands. Indeed, a sizable body of school voucher research focused on the impacts of vouchers on public schools (Hoxby, 2003; Carnoy et al., 2007). The third component, service orientation, is the prioritizing of customer service and empowerment in service delivery. The original MPCP was borne of a coalition including low-income minority parents who viewed school vouchers as a means of empowerment (Dougherty, 2004). Accordingly, parental satisfaction is frequently included in voucher program evaluations, and used as justification for their existence (Witte et al., 2008; Wolf et al., 2010; Wolf & Stewart, 2012). The fourth component, decentralization, is also core to the voucher school idea. The providers of voucher-funded education in Milwaukee are not centralized systems, but rather independent or religiously networked schools connected only by their participation in the MPCP.

Kettl's (2005) fifth and sixth components relate less directly to the operations of the MPCP, but are present in the political debates surrounding its implementation. Policy refers to improving government's "capacity to devise and track policy" (Kettl, 2005 p. 2). In voucher programs generally, and the MPCP specifically, this manifests in debates over whether to administer programming in a state's education agency, or house administration of voucher programs outside of agencies overseeing traditional modes of public education. The final component, accountability, is an ongoing subject of debate for the MPCP, and voucher programs in general (Van Dunk & Dickman, 2003; Ravitch, 2010). Voucher advocates argue that such programs increase accountability by being responsive to customers, a position firmly in the new public management framework (Savas, 2000; Witte, 2000). Voucher skeptics, however, argue the absence of democratic governance makes it impossible for school voucher programs to be truly accountable (Ravitch, 2010), a position consistent with hollow-state skeptics (Stillman, 1999; Williams, 2000).

Much of the research on the MPCP focused on its academic impacts on individual public school pupils and

program users (Carnoy et al., 2007; Chakrabarti, 2008; Greene and Marsh, 2009; Cowen et al., 2012; Cowen et al., 2013). However, as the preceding discussion indicates, the MPCP is not just an attempt to reform education, but also a longstanding example of a new public management reform whose experience can enrich the public administration literature on public governance reforms and their impacts. Specifically, the author examines the lifecycles of schools participating in the MPCP to quantify the financial impact of organizational failure in a new public management reform, and its implications for measuring productivity (Witte, 1999; Ford, 2011; Kisida, Jensen & Wolf, 2011; Andersson & Ford, 2014; Ford, 2014). As mentioned, increased productivity is a key goal of new public management reforms, and voucher programs like the MPCP have been cited for their perceived positive impacts on productivity (Savas, 2000; Wolf & McShane, 2013). However, though research indicates the MPCP is obtaining similar academic results for less taxpayer funding than the Milwaukee Public Schools (MPS) (Costrell, 2011, Carlson, Cowen & Fleming, 2013), the funding of failed institutions, which John Witte (1999) described as negative attribute of school voucher programs, has never been included in the discussion of voucher program impacts on public productivity. This article addresses the research gap by:

- 1) Quantifying the number of schools that have left the MPCP since 1991;
- 2) Identifying the direct reasons why schools left the MPCP, in particular focusing on school closure; and
- 3) Quantifying the total inflation adjusted public payments made to closed voucher schools.

The results of this analysis provide an example of the potential long-term costs of mature new public management reforms (Thompson, 2002), bringing context to the scholarly and practitioner understanding of the productivity and fiscal impacts of such reforms (Stillman, 1999).

## **BACKGROUND AND LITERATURE REVIEW**

The MPCP has, for over two decades, enabled mostly low-income Milwaukee pupils to attend private schools at state

expense. Inflation-adjusted numbers show that \$1.6 billion in public funds was sent to private schools in Milwaukee between 1991 and 2013 via the MPCP. The program began in the 1990-1991 school year as a limited experiment allowing up to 1,000 low-income pupils to attend lightly regulated non-sectarian private schools in the City of Milwaukee (Witte, 2000; Kava, 2013). The program was created in reaction to persistent low-levels of academic achievement in the Milwaukee Public Schools (MPS), and dissatisfaction with MPS among certain leaders of Milwaukee's African-American community (Witte, 2000; Dougherty, 2004). Since 1991, the program has changed in significant ways. In the 2013-2014 school year, over 25,000 students with household incomes at or below 300 percent of the federal poverty level are using a voucher to attend over 100 mostly religious schools at state expense (Kava, 2013; Staff, 2014). Program participation is uncapped, and given the large concentration of low-income pupils in MPS, the vast majority of Milwaukee's K-12 students are eligible to apply for a voucher (Cowen et al., 2012). Program applicants apply directly to the school they wish to attend. If program income and residency requirements are met, participating schools must accept students via random lottery (Evers, 2014). Participating schools are required to administer the Wisconsin Knowledge and Concepts Exam to all voucher students, and release the results publicly (Cowen et al., 2013). In addition, schools must obtain accreditation from an approved agency, and meet a variety of health, fiscal, and policy disclosure requirements (Kava, 2013).

Once enrolled, a student generates a payment equal to the lesser of a school's audited per-pupil cost, or the maximum voucher payment (\$6,442 in 2013). The payment is delivered directly to the school from the Wisconsin Department of Public Instruction (DPI) in four equal installments over the course of the school year (Kava, 2013).<sup>1</sup> If a student leaves a school prior to the official January count date, the second half of the payment is not delivered (Kava, 2013).

A five-year state-mandated evaluation of the program, finished in 2012, found the MPCP had no significant academic effects on the math achievement levels of program users, and a small positive effect on reading achievement caused by a change

in state accountability policy (Witte et al., 2012; Carlson, Cowen & Fleming 2014; Witte et al., 2014). The study also found positive graduation rate effects for voucher users, however the authors caution that their panel had a 56% attrition rate for MPCP high school users over the course of the study (Cowen et al., 2013).<sup>2</sup> Research on the competitive effects of vouchers in Milwaukee has consistently shown relatively small public school efficiency gains attributable to competition from the MPCP (Carnoy et al., 2007; Chakrabarti, 2008; Greene and Marsh, 2009). Together, the competitive effects literature and academic impact evaluations indicate that the aggregate student achievement effect of voucher policy on K-12 education in Milwaukee is substantively small. MPS students continue to fare poorly compared to their urban peers on the National Assessment for Educational Progress, and racial gaps between African-American and White students are among the largest in any urban area in the United States (National Center for Education Statistics, 2011). The most recent Wisconsin state accountability report for MPS finds the district to be the lowest performing in the State of Wisconsin (DPI, 2014).

Costrell (2010) calculates the fiscal impact of the MPCP by comparing the maximum per-pupil voucher payment, \$6,442 in 2011, with the MPS per-pupil revenue limit, \$10,013 in 2011. The MPS revenue limit is the amount of money MPS can raise from state and local sources through Wisconsin's equalization aid formula for each pupil enrolled in the district (Kava and Olin, 2013). Costrell (2009) used the fact that the maximum per-pupil MPCP voucher payment is also made up of state and local funding sources to justify using the two numbers for a basis of public support comparisons. Costrell (2010) estimates that roughly 90% of Milwaukee voucher users would be enrolled in MPS if the MPCP did not exist. Under this assumption, Wisconsin taxpayers on whole saved about \$51.9 million in 2011. However, Costrell offers a range of scenarios, and if 30% or more of voucher users are assumed to remain in private school even without a voucher program, these savings disappear.

Exactly how many students would still be in private school as private-pay students if the MPCP did not exist is unclear. The Public Policy Forum, a Milwaukee think-tank, has

challenged the 90% assumption, stating that most of the recent increase in voucher usage "...appears to have come from students already enrolled in [MPCP] schools (Dickman and Schmidt, 2012, p. 3)." Dickman and Schmidt's conclusion is based solely on comparisons of a school's total private and voucher enrollment in consecutive years. If voucher usage increased and total enrollment did not, it is assumed that vouchers went to students enrolled as private-pay students in the prior year. Without tracking the location and voucher status of individual students, this conclusion is impossible to verify.

The experience of recent expansions of school vouchers in Wisconsin, however, lends additional support to Dickman and Schmidt's conclusion. During the first year of the Racine Parental Choice Program, a voucher program with a parallel design to the MPCP, DPI reports that about 50% of program users were enrolled in private school in the previous year (Evers, 2013). During the first year of the Wisconsin Parental Choice Program, a statewide voucher program which first enrolled students in 2013, data from DPI show 73.1% of voucher recipients were enrolled in private school prior to receiving a voucher (Gasper, 2013). Though the experiences of the Racine and Wisconsin Parental Choice Programs cannot yield conclusions about the MPCP, the fact that users of a new means-tested voucher program in Wisconsin were mostly able to attend private school prior to receiving a voucher suggests it is at least plausible that a large number of users of the long-existing voucher program in Milwaukee would have attended private school in the absence of the MPCP. In Spring 2014, Wisconsin Governor Scott Walker signed into law Wisconsin 2013 Senate Bill 286, which requires that pupils in the MPCP be included in the state's student identifier system (Wisconsin Act 256, 2013). When fully implemented, policy makers will be able to determine whether new MPCP students were enrolled in public schools in the previous year. The change will allow for improved use of the Costrell method for estimating the fiscal impact of the MPCP.

The completion of the five-year evaluation of the MPCP, increasing program testing and transparency requirements, and the additional information to be provided under Senate Bill 286

all serve to further understanding of the impacts of voucher policy in Milwaukee (Carlson, Cowen and Fleming, 2014; Kava, 2013). Study of the phenomenon of voucher school closure, and the larger context of the MPCP as a mature new public management reform involving the provision of the most expensive public good provided by state and local governments (Mullins & Pagano, 2005), is a logical progression in the scholarly discussion of Milwaukee's school voucher reform experience.

### **HOW DO VOUCHER SCHOOLS CLOSE?**

There are several ways in which a private school participating in the MPCP might close. First, because they are private institutions, every school participating in the voucher program can simply shut its doors and no longer operate as a school. Ford (2011) finds comparatively low growth to be a significant predictor of voucher school closure; concluding that schools unable to attract students, and the vouchers that come with them, are comparatively more likely to go out of business. Second, participating MPCP schools can be terminated from participation in the MPCP by DPI for failing to meet the minimum requirements of all private schools in the state (Wisconsin State Statute, 118.165 2014). Those requirements define a private school as an institution where:

- “The primary purpose of the program is to provide private or religious-based education.
- The program is privately controlled.
- The program provides at least 875 hours of instruction each school year.
- The program provides a sequentially progressive curriculum of fundamental instruction in reading, language arts, mathematics, social studies, science and health. This subsection does not require the program to include in its curriculum any concept, topic or practice in conflict with the programs religious doctrines or to exclude from its curriculum any concept, topic or practice consistent with the program's religious doctrines.



- The program is not operated or instituted for the purpose of avoiding or circumventing the compulsory school attendance requirement under s. 118.15(1)(a).
- The pupils in the institution's educational program, in the ordinary course of events, return annually to the home of their parents or guardians for not less than 2 months of summer vacation, or the institution is licensed as a child welfare agency under s. 48.60(1)."

• Two significant pieces of legislation, Wisconsin 2003 Act 155 and Wisconsin 2005 Act 125, increased the ways in which a MPCP school could be terminated from the program by the Wisconsin DPI. Act 155 empowered DPI to cut off voucher funding to any school that poses a significant health or safety risk to pupils (Wisconsin Act 155, 2003). In addition, DPI can use their authority under the Act 155 statute to terminate a school from the MPCP for having an ongoing financial concern, failing to file an independent financial audit, or failing to meet any other program requirement (Wisconsin Act 155, 2003; Kava, 2013). 2005 Act 125 introduced mandatory standardized testing and independent accreditation requirements for all private schools enrolling voucher pupils (Wisconsin Act 125, 2005). Under the changes, schools that fail to obtain accreditation, lose their accreditation, or fail to submit standardized test scores to DPI, are terminated from the MPCP (Wisconsin Act 125, 2005; Kava, 2013). More recently, the Wisconsin state legislature implemented requirements that MPCP schools create and make public a number of additional school policies that mirror many of the policy requirements of Wisconsin public schools (Wisconsin Act 128, 2009; Kava, 2013).<sup>3</sup> Failure to create and public release these policies also can result in termination from the MPCP.

### **WHAT HAPPENS WHEN VOUCHER SCHOOLS CLOSE?**

The very first voucher school to close was Juanita Virgil Academy (Witte, 2000). The school went bankrupt and shut its doors in February of 1991, during the first year of the Milwaukee voucher program (Witte, 2000). The school enrolled 71 pupils

who, because it was the middle of the school year, were presumed to have returned to MPS (Witte, 2000). During the third year of the MPCP, three schools closed mid-year, forcing over 350 students to find a new school (Witte, 1999). More recently, Milwaukee media has reported anecdotally on the student disruption caused by mid-year voucher school closures (Borsuk, 2005; McClain, 2008).

In addition to student disruption, mid-year school closures can also result in a loss of money for the state. Under Wisconsin's voucher law, voucher payments to schools are generated by two separate enrollment counts, one in September, and one in February. However, the first of four payments to participating MPCP schools is sent prior to the official headcount date (Kava, 2013). Schools report their accepted applications, receive their first payment, and then must return any funding for students who do not actually enroll in the school.<sup>4</sup> If a school closes prior to the first count date, it may receive payments for students that never actually attend (Kava, 2013).

When a school closes between academic years, students must find a new school in which to enroll, but the state does not lose any direct payment made to the school. As mentioned, there are no data to determine exactly what happens to a student who must switch schools as a result of a MPCP school closure. However, Cowen et al. (2012) find that students leaving the MPCP for public schools are more likely to be African-American and comparably low-achieving. Carlson, Cowen and Fleming (2013) find that students leaving the voucher sector for a public school in Milwaukee experience significant academic gains. Meaning, on aggregate, there is evidence that students from closed voucher schools that return to MPS improve academically.

#### **HOW MANY VOUCHER SCHOOLS HAVE CLOSED, AND WHY?**

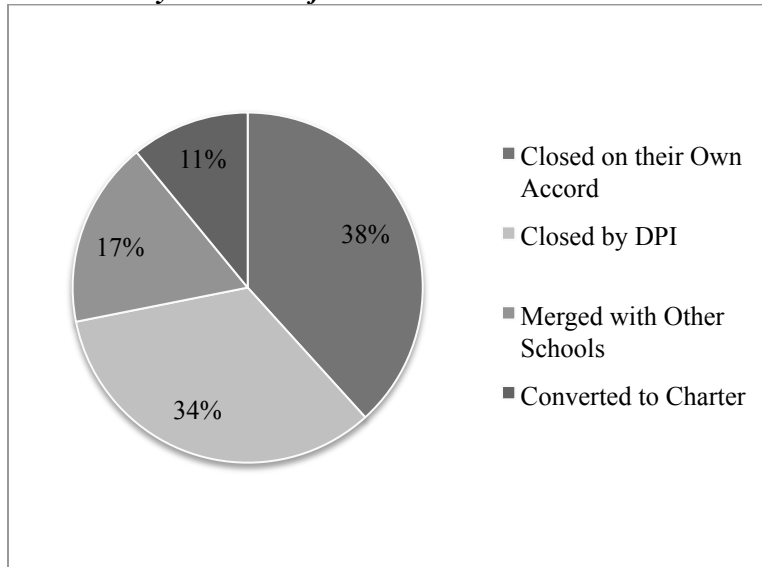
According to data from the Wisconsin DPI, between 1991 and 2013, 240 private schools enrolled students via the Milwaukee school voucher program (Staff, 2014). Of the 240

schools, 128, or 53%, are no longer participating in the MPCP. A database containing the reasons each of the 128 schools left the MPCP was assembled by the author using the following sources:

- A 2000 audit of the MPCP conducted by the Wisconsin Legislative Audit Bureau (Bezruki et al., 2000);
- A list of terminated schools obtained by the author from DPI staff and updated by the author (Staff, 2010);
- A review of *Milwaukee Journal Sentinel* newspaper archives;
- A review of the current roster of charter schools operating in Milwaukee (Evers et al., 2013);
- Previous research by John Witte (2000); and
- Inquiries to merged schools made by the author.

As can be seen in Figure 1, a majority of former MPCP schools either closed on their own accord, (49 schools) or were terminated from the MPCP by DPI (43 schools).<sup>5</sup> A smaller number merged with other schools (22 schools) or converted to a charter school (14 schools). Most of the MPCP schools that left the program via a merger were Catholic or Lutheran, often keeping multiple campuses under a single school name and structure (Ford, 2011). The schools which converted from the voucher to charter sector were either non-sectarian, or willing to give up their religious affiliation. Witte et al. (2012) speculate that the incentives for MPCP schools to convert to charter schools include a higher per-pupil payment, and the lack of student income-eligibility requirements.

**Figure 1**  
*Reasons Why Schools Left the MPCP*



As discussed, there are several ways in which a voucher school can cease to be a MPCP program participant. In this study, focus is placed on the 92 schools that left the MPCP and closed their doors. By ceasing to be in operation in any capacity, the public investment in these schools via the voucher program arguably yield no direct future benefits to Wisconsin taxpayers. However, students attending closed MPCP schools via a voucher still received an education over some period of time. The quality of the education received could in fact yield some kind of future benefits to the state of Wisconsin. Multiple evaluations of voucher programs have been premised on measuring the impact of exposure to a voucher program over some time period as opposed to measuring the effects of being consistently enrolled in a voucher program (Cowen et al., 2013; Wolf & McShane, 2013). However, the limited comparisons of closed MPCP schools to schools currently in operation suggest, on aggregate, that closed MPCP schools were comparably lower performing than schools in both MPS and the MPCP (Kisida, Jensen, and Wolf, 2011; Ford, 2014). In addition, recent policy and

advocacy trends demonstrate that a desired policy goal of legislators and community groups is to fund private voucher schools as part of Milwaukee's public education infrastructure. Two high profile Milwaukee advocacy efforts, Schools that Can and Milwaukee Succeeds, make clear their goal is to fund and expand high-quality schools, including those in the MPCP (Richards, 2011; Herd-Barber, Lovell & Schlifske, 2013). Further, successful legislative efforts premised on increasing the public accountability of the MPCP, including the previously mentioned 2003 Act 155, 2005 Act 125, 2009 Act 128, and Wisconsin 2013 Senate Bill 286, demonstrate Wisconsin policy makers' desire to prevent voucher school closures, and move the MPCP closer to a public school accountability structure (Van Dunk & Dickman, 2003; Kava, 2013). Given this, the author believes it reasonable to define school termination at the hands of the state, or voluntary private school closure, as an undesirable public policy outcome (Jeynes, 2012).

In contrast, a school that leaves the MPCP to become a charter school, or to merge with another school, is not necessarily problematic from a public policy standpoint. The official state-mandated evaluation of the MPCP by the School Choice Demonstration Project finds that charter schools that formerly participated in the MPCP have higher levels of performance than other charter schools in the city, meaning a voucher conversion to a charter could be seen as positive (Witte et al., 2012). While the public investments in schools that leave the MPCP via a merger or a charter conversion still represent a significant public expenditure, which is of interest, it is a substantially different situation than a school that no longer exists in any capacity.

## **METHODOLOGY AND RESULTS**

Four pieces of information are used to determine the amount of public money Wisconsin has sent to closed voucher schools between 1991 and 2013:

- 1) A comprehensive list of the status of all current and former school participants in the MPCP;

- 2) Annual enrollments for each school for every year it participated in the MPCP;
- 3) The amount of voucher money paid to each participating private school in each year of their participation in the MPCP; and
- 4) An inflation measure to adjust historic voucher payments to present-day value.

As mentioned, a comprehensive list of the status of all current and former MPCP schools was assembled by the author using multiple sources of information. First, a DPI database of all participating MPCP schools, with enrollments broken down by year, was used to create a list of every private school that participated in the MPCP between 1991 and 2013 (Staff, 2013b; Staff, 2014). That list was checked against DPI's list of current MPCP program participants to determine which schools are no longer participating in the MPCP (Staff, 2014). Second, the list of former participants was crosschecked against a list of schools terminated by DPI obtained by the author from DPI staff (Staff, 2010). Third, remaining schools on the list were cross-checked against DPI's official list of charter schools in operation during the 2013-2014 school year to determine which former MPCP schools are currently operating as charter schools (Evers et al., 2013). Last, DPI's official list of terminated charter schools, personal inquiries, and searches of the *Milwaukee Journal Sentinel* archives were used to determine the status of the remaining former MPCP schools on the list (Evers et al., 2013).

The amount of voucher money paid to each participating private school in each year of their participation in the MPCP was estimated using DPI enrollment numbers, and the overall MPCP expenditure reported by the Wisconsin Legislative Fiscal Bureau (Staff, 2014; Kava, 2013). Wisconsin's voucher law sets the per-pupil voucher payment at the lesser of a school's actual audited per-pupil cost, or the maximum amount set by the legislature (\$6,442 in 2013). A review of fiscal data released by DPI between the years 1999 and 2012 reveals that in any given year, up to 43% of voucher schools received less than the maximum per-pupil voucher payment (Staff, 2013c). Hence, annual voucher payments to individual schools cannot be

assumed to be the maximum per-pupil voucher amount multiplied by enrollment. Information on the actual per-pupil payments to individual MPCP schools is not available for all schools for all years. Accordingly, an alternative method is used in this analysis. Specifically, an actual average program per-pupil voucher payment amount was calculated by taking the total annual program appropriation and dividing by the total number of students in the MPCP each year (Kava, 2013). While this method is imperfect, it does allow for total estimates over the life of the MPCP despite the stated data limitations.

Finally, the Bureau of Labor Statistics' Midwest Urban Consumer Price Index (CPI) is used to convert each annual average per-pupil voucher payment into present day value (BLS, 2014). The use of the CPI to adjust for inflation is widespread in education research (Hanushek, 1996; Hanushek & Rivkin, 1997; Levin & Driver, 1997; Zhou & Johnson, 2009). Still, the appropriate way in which to adjust for cost changes in education over time is the subject of significant debate (Fowler Jr. & Monk, 2001). Rothstein & Mishel (1996) identify two problems encountered when making inflation adjustments for education costs. First, purchasing power at any given time varies by region, and second, the determinants of the CPI index do not accurately reflect K-12 education cost drivers. The first problem is not relevant to this study because the analysis is focused on a single city, however the second problem must be addressed.

The author believes the CPI, despite its limitations, to be an appropriate tool for this study for two reasons. First, the MPCP per-pupil voucher amount is a state and local cost, not a direct education expenditure. The annual per-pupil voucher allocation in Wisconsin, as well as the annual dollar increase in support for public schools via revenue limits, is driven by legislative action, not the actual cost of education. Second, the use of the CPI in both education policy design and budgeting is well established in Wisconsin. At various times during the MPCP's history the annual increase in per-pupil voucher payments, as well as the annual increase in public school revenue limits, was indexed to the CPI (Kava & Olin, 2013; Kava, 2013). In addition, both Governor Scott Walker (2013) and Wisconsin State Superintendent Tony Evers (2012) used the

CPI to identify historical trends in their official budget requests. While the CPI is an imperfect number for adjusting education expenditures overtime, the author believes its widespread use in the Wisconsin policy and budgeting process, as well as the nature of the MPCP voucher appropriation, justifies its use.

The described four pieces of information are used to determine the total MPCP state and local public cost, the total amount of public funds sent to schools that left the MPCP, and the total amount of public funds sent to closed voucher schools in each year of the MPCP's history. The year-by-year results are listed in Table 1.



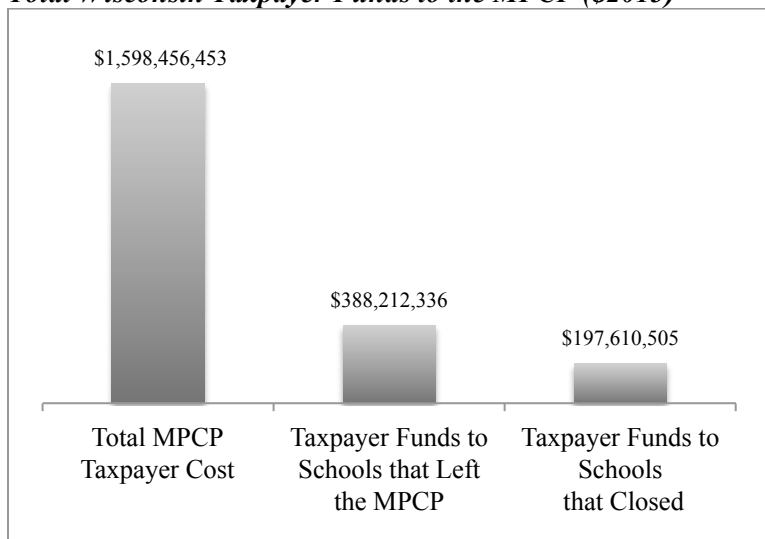
**Table 1**  
***Historical MPCP Fiscal Data in 2013 Dollars***

Year	Average Per-Pupil Voucher Payment	Total MPCP State and Local Public Cost	Public Funds to Schools that Left the MPCP for Any Reason	Public Funds to Closed Schools
1991	\$3,608	\$1,230,168	\$1,230,168	\$533,914
1992	\$4,236	\$2,206,904	\$2,206,904	\$775,170
1993	\$4,252	\$2,585,088	\$2,585,088	\$829,099
1994	\$4,419	\$3,239,134	\$3,239,134	\$1,171,038
1995	\$4,614	\$3,700,540	\$3,700,540	\$1,287,345
1996	\$4,712	\$6,851,888	\$6,851,888	\$3,642,716
1997	\$6,041	\$10,009,821	\$9,701,734	\$5,098,545
1998	\$6,340	\$9,795,099	\$9,046,994	\$4,615,425
1999	\$6,321	\$38,463,528	\$21,219,731	\$7,964,510
2000	\$6,371	\$51,009,875	\$26,769,513	\$11,428,964
2001	\$6,570	\$63,198,946	\$29,184,917	\$14,139,113
2002	\$6,798	\$73,973,768	\$33,016,963	\$14,921,193
2003	\$6,899	\$80,505,845	\$31,464,195	\$16,094,270
2004	\$6,877	\$91,246,822	\$34,110,962	\$19,001,731
2005	\$6,476	\$97,368,314	\$33,740,533	\$20,490,412
2006	\$6,627	\$105,640,051	\$32,611,172	\$17,574,645
2007	\$6,913	\$123,349,505	\$31,404,214	\$15,180,201
2008	\$6,699	\$129,116,093	\$26,740,931	\$14,676,698
2009	\$6,848	\$138,204,937	\$27,536,894	\$16,168,765
2010	\$6,612	\$138,378,866	\$17,469,274	\$8,946,225
2011	\$6,360	\$133,524,692	\$2,919,024	\$1,608,961
2012	\$6,219	\$144,277,873	\$1,461,561	\$1,461,561
2013	\$6,199	\$150,578,694	\$-	\$-

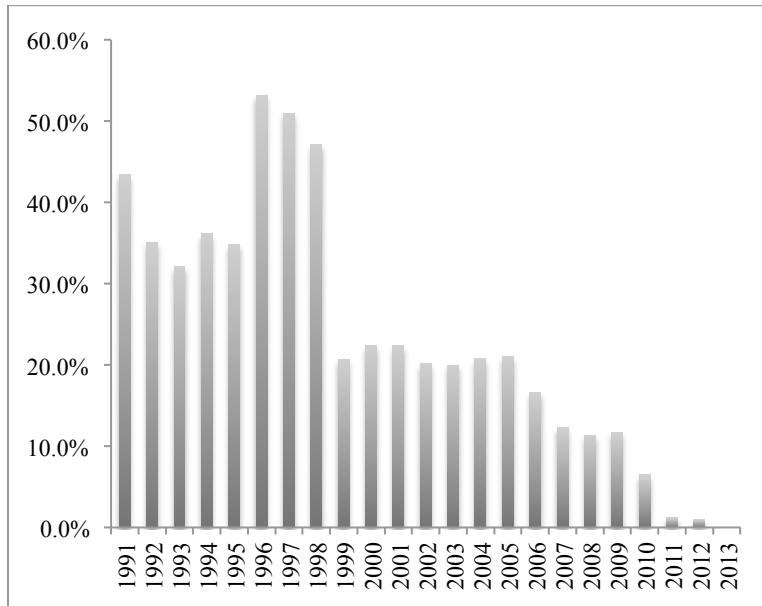
As illustrated in Figure 2, the state of Wisconsin sent about \$1.6 billion dollars to private MPCP schools between 1991

and 2013. About 24% of those funds, an estimated \$388 million, were sent to schools that left the voucher program. A smaller percentage of those funds, 12.36%, an estimated \$197.6 million, were sent to schools that closed. As illustrated in Figure 3, in the majority of years of the MPCP’s existence, over 20% of state voucher payments went to schools that would go on to close.

**Figure 2**  
***Total Wisconsin Taxpayer Funds to the MPCP (\$2013)***



**Figure 3**  
*Annual Percentage of Total MPCP Payments that Went to Closed Schools*



Together, the presented results show that Wisconsin taxpayers have directed substantial amounts of public money to private schools that closed, and that in any given year a percentage of the public investment made in the MPCP can be expected to go to schools that will eventually close. In theory, the occurrence of school closures should be expected given the market-theory underlying school voucher programs (Friedman, 1955). According to Friedman (1955) and Chubb and Moe (1988), in a market-based education system parents will seek high-performing schools, and low-performing schools will improve or close. Meaning, in theory, school closures are simply part of the process of improving education in a market-based reform system. But, after over two decades the MPCP has generally not been shown to improve student outcomes for users or non-users, and, the occurrence of school closures have been fairly consistent over time (Witte et al., 2012; Witte et al., 2014).

What then, to make of the public investment in closed voucher schools?

### **DISCUSSION AND CONCLUSIONS**

New public management reforms and the reinventing government movement were designed to increase government accountability and productivity by introducing market forces into the provision of public goods, empowering consumers, and utilizing non-government service providers. As Rhodes (1996) and Thompson (2002) stated, introduction of these reforms poses a challenge to traditional modes of government management, and forces policymakers to examine impacts and externalities not typical of traditional government programming. The track record of the MPCP makes it a fertile case for understanding long-term understudied impacts of new public management reforms. In this study, focus was placed on the fiscal consequences of the government funding of impermanent service providers.

When a publicly funded service provider closes, the immediate consequence is that users of their service must look elsewhere. In the case of a publicly funded voucher school, parents must find new schools for their children, and students experience negative social and academic consequences (Rumberger et al., 1999; Witte, 1999; Kretchmar, 2011; Cowen et al., 2012). Of course, public schools can and do close as well. McShane et al. (2012) note that 49 MPS closed their doors between 2007 and 2012. However, as Wolfe (1993) demonstrated, failure in a marketplace is fundamentally different than government failure. Consider, when a MPS school closes its doors, the MPS centralized school system continues to exist. The prior investment made in the closed school may carry on, to some degree, within the system; teachers can be reassigned, supplies can be moved, and learning materials can be used in other schools. When a Milwaukee voucher school closes, there is often no system to carry on the public's prior investment (the exception being the limited number of closed Catholic and Lutheran schools tied to a central authority). Simply, the causes

and broader implications of school closure are different in Milwaukee's public and voucher school sectors.

Savas (2000) writes that the lower costs of privatization reforms justify their existence even if service quality remains stagnant. In other words, even if trying to do more with less is unsuccessful, doing the same with less is good policy. Savas, however, does not consider the possibility of a large public investment in impermanent public institutions in his productivity calculus. Stillman (1999) wrote that the dangers of new public management reforms and the general movement towards what he called a "temporary" American state was the loss of institutional knowledge and public sector capacity (70). Williams (2000) similarly argued that reinventing government approaches diminish the long-term capacity of government to provide effective services. Indeed, the presented data highlights Stillman and William's concerns, and demonstrate the need to consider public investment in impermanent non-government institutions when calculating productivity gains results from new public management reforms. The Milwaukee voucher experience provides a marker; about 12% of the public investment in the city's private voucher program was made in schools that eventually closed. A higher percentage, 24%, was made in schools that would go on to leave the MPCP. These specific numbers can be applied when estimating the likely rate of failure of voucher schools in other states, but the broader lessons can be applied to other policy areas. Simply, the potential costs of institutional failure should be included in the calculation of productivity gains attributed to new public management-style reforms.

It can be correctly argued that public money sent to a now-closed voucher school still served the core purposes of funding the education of a child over a certain period of time. In essence, if school vouchers are a method of government by contract, it should not be expected that the contractor permanently remain in operation. This leads to a more philosophical question for policy makers and taxpayers regarding the goal of the substantial public investment made in K-12 education and other policy areas. Is the goal to fund services for specific customers of government on an annual basis

in a manner informed by business principles and the operation of markets, or, is the goal to fund a broader system of institutions that evolve and strengthen over time? Given the fact that new organizations often struggle to overcome their liability of newness in their early years of existence, high turnover among public-service providing organizations has potential negative impacts on service quality (Hager, Galaskiewicz, and Larson, 2004). The limited evidence of the MPCP suggests this may be happening, as closed voucher schools tended to be lower performing than their peers (Ford, 2014).

The practical lesson from this study of government funding of impermanent institutions is that policymakers should consider several questions before deciding to embark on a specific new public management reform that utilizes non-government service providers. First, is the public service or good one in which building organizational capacity is important? For example, using a private entity to process license plate renewals, a common practice in American states, is a reform where building organizational capacity is not important. If a gas station that processes license plate renewals goes out of businesses, there are limited negative impacts aside from customers having to use a different provider. If a school or health clinic closes, however, the loss of organizational capacity and knowledge will have broader negative impacts. A second question to consider is, what is the social impact if a provider fails? Again, if organizational failure simply forces customers to get an identical service elsewhere, the societal impact is minimal. But if the failure has long-term impacts on the quality of life and prospects of citizens, like a school failure, the societal impacts are negative and sprawling. Lastly, policy makers should ask, what is the public's capacity for failure? Utilizing market forces in the provision of public goods naturally leads to some providers being pushed out of the market. If the failure of a publicly funded non-government organization is outside the public's zone of acceptability, a new public management approach will likely be unsuccessful.

The Milwaukee voucher case is just one example of a new public management reform focused on using non-government organizations in the delivery of a specific public

service. It would be compelling to know if other longstanding reforms in other policy areas have similar rates of institutional exits. It would also be useful to understand if other school voucher programs, most of which are in their infancy, share the experiences of the Milwaukee voucher program. For now, however, the Milwaukee case illustrates the need to consider and better understand the reality that the real-world application of reinventing government, privatization, and new public management theories carries the potential negative outcome of public investment in failed institutions. This reality should be part of policy makers' cost-benefit analyses when deciding if and how to reform traditional public service delivery.

### NOTES

1. Prior to the passage of Wisconsin 2011 Act 32 the Wisconsin Department of Public Instruction delivered an individual check on behalf of each parent to each participating school. Since 2011 the Wisconsin Department of Public Instruction has sent a single bundled check on behalf of all parents to each participating school.
2. A comparable attrition rate for MPS pupils is not reported in the Cowen et al. (2013) study.
3. Policy disclosure requirements conceptually mirror requirements of Wisconsin public schools, but are specifically tailored to private schools. Requirements include high school diploma granting, non-harassment, suspension and expulsion, transfer of credit, and school visitor policies (Wisconsin Act 128, 2009).
4. It is common for MPCP schools to have to return money for students who do not actually enroll because schools have no independent way of knowing when parents apply, and are accepted, to multiple voucher schools.
5. Closing on their own accord is defined as no longer enrolling pupils via the MPCP and no longer being listed by DPI as a private school operating in Wisconsin.

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