

How Voucher Programs Undermine the Education Landscape in North Carolina



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Introduction

In 2023, North Carolina lawmakers went all-in on vouchers. Via changes incorporated in the 2023 budget bill, North Carolina became the tenth state with a universal voucher program, one in which all private school students are eligible for state-funded subsidies regardless of their family income.¹

The budget also triples the program's funding. What was once a small, limited program spending just \$10.8 million per year has ballooned. By the 2032-2033 school year, the program is slated to spend \$551 million per year.

These changes will have profound impacts on the education landscape in North Carolina for years to come.

So how did we get here? And what will the impacts be on North Carolina's students?

This paper seeks to provide those answers. It includes the history of the Opportunity Scholarship program. It details how state lawmakers have expanded the program over the years to increasingly subsidize private school enrollments. It will show how privatization schemes like voucher programs create budget pressures in our inclusive public schools while expanding opportunities for fraud and corruption. It describes the dismal academic outcomes of voucher programs in other states and how North Carolina students are also likely to suffer academically. Finally, this report offers policy recommendations that will center the needs of students.

History of the Opportunity Scholarship voucher program

While the Opportunity Scholarship voucher program is less than 10 years old, its roots run much deeper. The state's first foray into school vouchers dates back to 1956. That's the year lawmakers unveiled the Pearsall Plan, North Carolina's effort to maintain racially segregated schools despite 1954's seminal *Brown v. Board of Education* ruling from the U.S. Supreme Court.

The Pearsall Plan waived mandatory attendance requirements for students assigned to integrated schools and granted local districts the authority to close schools that faced pressure to integrate. Notably, the plan included a constitutional amendment under which the state would provide vouchers so that parents whose children were assigned to integrated public schools could instead enroll their children in racially segregated private schools known as "segregation academies."



Voters approved the Pearsall Plan's voucher program in 1956. In 1966, three Black families from Charlotte challenged the Pearsall Plan in federal court, where it was declared unconstitutional.²

The racist history of school vouchers in North Carolina is no anomaly. School choice schemes are largely the products of efforts to undermine traditional, inclusive public schools and maintain racial segregation. Following *Brown v. Board of Education*, states across the South turned to vouchers to allow white families to exit public schools facing integration. By 1965, seven states in the South used vouchers to resist school integration efforts. These segregationist efforts were supported by libertarian economists Milton Friedman and Friedrich Hayek, who recognized how vouchers presented a way to dismantle and privatize public schools.³



It was not until 45 years after the end of the Pearsall Plan that vouchers reemerged as a viable policy idea in North Carolina. Vouchers reemerged in 2012 with the introduction of HB 1104.⁴ These new vouchers were to be limited to students from families earning less than 225 percent of the federal poverty level and who had been enrolled in a public school the prior semester.

While HB1104 failed to receive a floor vote, advocates had much more success the following year when they successfully created the Opportunity Scholarship voucher program.

The program originally started as an individual bill (HB 944). Like 2012's HB 1104, HB 944 was unable to move through committee for a floor vote. Instead, the bill's advocates were able to get the program rolled into the budget bill.⁵ Lawmakers will often try to get controversial programs rolled into budget bills to minimize scrutiny and increase pressure on members to vote in the affirmative.

Initially, the program was limited to students from families qualifying for the federal free or reduced lunch program who were enrolled in public school. The initial appropriation was just \$10 million.

Critics warned that the program would not stay limited for long.⁶ Those critics were correct.

In the ensuing decade, lawmakers dramatically expanded the program. That \$10 million program is now a \$264 million program slated to grow to \$551 million by 2032-2033. What was once limited to public school families with low incomes is now open to all North Carolinians, including wealthy North Carolinians who have already chosen to enroll their children in private schools.

As this report argues, these changes will dramatically alter the educational landscape in North Carolina, creating substantial harm for students.

Six ways voucher programs harm students

Vouchers negatively impact students in traditional inclusive public schools. They also tend to negatively impact the students who accept the vouchers to attend unregulated private schools. There are, broadly, five ways that vouchers harm students.

1. Large, statewide voucher programs have overwhelmingly negative academic results

Evaluations of statewide voucher programs have shown overwhelmingly large negative test results for voucher recipients. Studies of programs in Washington DC, Indiana, Louisiana, and Ohio found that voucher students perform worse academically than their peers who remain in traditional, inclusive local public schools.⁷ Preliminary data from Tennessee indicates that voucher students in that state are also academically underperforming their public school peers.⁸

In many cases, the negative impacts were shocking. Voucher students in Ohio and Louisiana experienced negative outcomes on par with those of the COVID pandemic.⁹ These negative effects have persisted over years, showing that the impact is not simply the temporary result of changing schools, but an indication of persistent lower academic quality in voucher-accepting private schools.

2. Vouchers reduce students' civil rights protections

When students leave public schools to enroll in private schools, they forego their civil rights protections. Unlike private schools, public schools must provide educational services to all students. Further, they are not allowed to discriminate. When public schools fail to meet these

standards, federal laws provide families with legal avenues for recourse and compensation.

This is particularly true for students with disabilities, multilingual learners, students of certain religions, and LGBTQ+ students and families. Private schools are not bound by the Individuals with Disabilities Education Act (IDEA) and are therefore under no legal obligation to provide adequate services to students with disabilities. Similarly, private schools may discriminate against multilingual families by failing to provide materials in other languages or to provide services to English-learning students.

Finally, private schools are allowed to openly discriminate on the basis of religion and against LGBTQ+ students and their families.

Many schools require families to sign a “lifestyle policy” pledging that their behavior will align with the “values” of the private school. Sadly, many of these policies and the schools themselves—though subsidized by public funds—are brazenly homophobic and transphobic.¹⁰

Despite legal protections against racial discrimination, many schools require applicant families to submit to interviews or a school tour to determine the applicant’s “fit” for the school. These visits offer publicly subsidized private schools another opportunity to discriminate against applicants.



3. Universal voucher programs exacerbate racial and economic segregation

Where traditional public schools succeed, they teach children how to respect others and work well with peers with different values. In contrast, voucher advocates tout how vouchers “allow families to choose schools that align with their values,” as school voucher advocate Corey DeAngelis testified to Congress.¹¹ Such sorting hurts children’s opportunities to succeed in diverse workplaces and exist in a well-functioning democracy.

The full body of research on vouchers’ impact on racial segregation is mixed. However, many of these studies include examinations of smaller voucher programs targeted to students from families with low incomes or students in low-performing schools. Studies of large, comprehensive voucher programs all show that vouchers exacerbate racial segregation.

School segregation has substantially worsened in every country with voucher programs. Large-scale voucher programs have left schools in Sweden, Chile, New Zealand, and the Netherlands substantially more economically and racially segregated.¹²

Other states with large voucher programs have seen segregation worsen as their voucher

programs have grown. Ohio's voucher program disproportionately serves white students.¹³ Meanwhile, researchers describe Indiana's voucher program as "effectively re-creat(ing) the segregation academies that littered much of the southern United States in response to the 1954 *Brown v. Board of Education* decision."¹⁴

Unlike traditional inclusive public schools, unregulated voucher schools are not required to provide transportation or no-cost meals to students from families with low incomes. As a result, many private schools remain off-limits to students experiencing deep poverty, even if a voucher is sufficient to fully cover tuition costs.

North Carolina's private school sector is already a driver of racial segregation in North Carolina's schools. A 2020 study from researchers at Duke and the University of North Carolina found that private schools contribute to the racial segregation of North Carolina students.¹⁵ The evidence tells us that further expanding this sector will worsen this persistent problem.

4. Vouchers exacerbate budget pressures in our already underfunded inclusive public schools

Vouchers drain money from and exacerbate budget pressures in our already-underfunded inclusive public schools. Such pressures are especially problematic in a state like North Carolina that ranks dead last in terms of school funding effort and already has the greatest share of students in inadequately funded schools districts.^{16,17}

Vouchers exacerbate budget pressures in three ways.

First, appropriations made to private school voucher programs are appropriations that are then unavailable to our underfunded public schools. States are not allowed to run budget deficits. So, every dollar spent on subsidizing unregulated private schools with voucher payments is one less dollar that can support our public schools.

Second, when a student leaves a public school, the school's funding is reduced by the average cost of a student. However, schools face certain fixed costs (central office, principal salaries, teacher salaries, utilities, etc.) that cannot be reduced when one student leaves the school. This is particularly acute in districts with declining enrollment. Last year, 101 of 115 school districts experienced declining enrollment.

Finally, voucher programs leave public schools with the students who require the most resources. Experience from states like Ohio shows that vouchers tend to draw the most advantaged students—those who, on average, require the fewest resources to meet academic standards—away from public schools.¹⁸

Meanwhile, most private voucher schools are off limits to students from families with very low



incomes because very few private voucher schools offer transportation or free lunch, as public schools do. On average, these students require greater levels of intervention to meet academic standards. Similarly, few private vouchers offer English learner or special education services, leaving public schools responsible for students requiring the most significant support.

5. Vouchers pass education costs onto families

In most cases, vouchers are insufficient to cover the full cost of tuition and fees at most private schools, which leaves parents responsible for covering the difference. Additionally, very few private voucher schools provide transportation, free lunch, or special education services like public schools do. Parents must cover the cost of these services not covered by voucher schemes.

6. By emphasizing the private returns to education, vouchers undermine the collective benefits of public schools

Voucher proponents emphasize that parents should have control over “their” tax dollars.¹⁹ They ignore the collective societal benefits of a well-educated populace, such as a thriving economy and democracy. By emphasizing the private returns over the public benefits, voucher proponents undermine collective efforts to provide a well-resourced, inclusive public school system. If voters no longer understand or recognize the collective benefits of education, then they will be less likely to support schools via taxes.

Why North Carolina’s Opportunity Scholarship is worse than most other voucher programs

In every state, vouchers appear to be a bad deal—for both voucher and public school students.²⁰ The Opportunity Scholarship is no exception.

Handout to the rich

Under the new eligibility rules established by the 2023 budget bill, there are no longer income caps. Previously, families had to earn less than 3.7 times the federal poverty rate (\$111,000 for a family of four) to be eligible for the Opportunity Scholarship voucher. Following the passage of the 2023 budget bill, however, the program is now open to millionaires and billionaires.

Furthermore, the 2023 budget bill removed all prior public school enrollment requirements. Before the changes, students entering grades three through 12 had to have previously enrolled in a public school. These changes mean the state will now provide vouchers to families who never intended to enroll in public schools. For these families, the Opportunity Scholarship is not an expansion of choice but simply a public subsidy for the choices that they have already made.

With these changes, the Opportunity Scholarship has become a policy lever to transfer wealth from low- and middle-income North Carolinians to the already wealthy. The median North Carolina household with a child in private school earns nearly double the typical North Carolina household.²¹ Republican

education leaders have admitted as much, noting that the new vouchers will largely be awarded to the disproportionately wealthy families already enrolled in private schools.²²

It is important to remember that when initially implemented, the program was only available to families earning 185 percent of the federal poverty level (\$55,500 for a family of four in today's dollars), and students had to have been enrolled in a public school previously.

Lack of financial oversight offers opportunities for fraud

The state conducts shockingly little financial oversight of private voucher schools. What little oversight exists rests almost entirely on self-reported data from the private voucher schools, opening avenues for fraud.

Data from the two agencies charged with overseeing private schools and North Carolina's Opportunity Scholarship voucher program show several cases where schools have received more vouchers than they have self-reported students. Several other private schools have received voucher payments from the state despite not reporting their enrollment data.

There have been at least 43 incidences where a private voucher school received more vouchers than they had self-reported students. If the enrollment figures were accurate, this would represent approximately \$1.6 million in fraudulent payments.

Additionally, since 2015, 648 vouchers (a total value of \$2.5 million) have been awarded to schools that failed to report their enrollment to DNPE. Another 23 schools continued to receive vouchers after they stopped reporting their enrollment data to the state.²³

It is unclear how many of these instances represent fraud, but at least one of the identified schools, Mitchener University Academy, is under investigation by the State Bureau of Investigation.²⁴ Additionally, Trinity Christian School in Fayetteville (which has received more voucher funding than any school in the state) embezzled nearly \$400,000 from its employees. Despite the conviction and continued employment of the school's basketball coach, the school continues to receive taxpayer subsidy via vouchers.²⁵

These examples are the entirely predictable outcome of a financial oversight system relying largely on the honor system. Private voucher schools must certify their tuition policies and that voucher students are actually enrolled. But it's unclear whether anyone at the State Education Assistance Authority is checking if these certifications are true. Parents applying for a voucher for their child must provide their child's Social Security number and date of birth and report their family income. However, North Carolina law requires the state to verify only 4 percent of applications, which leaves the window wide open for would-be fraudsters.



Absence of private school quality standards opens program to fly-by-night operators

In other state voucher programs, lawmakers have established at least a few minimum quality standards that private schools must meet before enrolling voucher students (and therefore receive public subsidy). North Carolina lawmakers, however, have eschewed such safeguards, opening the program to low-quality fly-by-night schools.

A 2021 Duke study found that North Carolina’s voucher program was the only one in the nation that lacks regulation in all five of these areas that are crucial for setting minimum quality standards in private schools:

1. Accreditation or state approval of the private voucher schools
2. Regulation of voucher school curriculum
3. Requiring teachers in voucher schools to be certified
4. Requiring administration of state tests to voucher students
5. Establishing minimum student instruction time in voucher schools²⁶

As a result, many voucher students attend small, fly-by-night private schools rather than the exclusive, well-resourced academies that most folks envision when they think of private schools.

Figure 1: North Carolina’s voucher program is the most unregulated in the nation

REQUIREMENTS FOR PRIVATE SCHOOLS PARTICIPATING IN SCHOOL VOUCHER PROGRAMS IN OTHER JURISDICTIONS												
	AZ	CLE	D.C.	IN	LA	ME	MD	MIL	OH	VT	WI	NC
Accreditation or State Approval		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Regulated Curriculum	✓ ¹	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Certified Teachers		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
State Testing Program		✓	✓	✓	✓	✓ ²		✓	✓ ³	✓	✓	
Regulated hours/days of school	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	

1 Any student with a voucher must be educated in reading, grammar, math, social studies, and science.
 2 If 60% of students are publicly funded, school must participate in the state testing program.
 3 For all high schools and for any school in which 65% of students are getting vouchers.

Lack of information undermines any potential benefits of the free market

The lack of regulation in North Carolina’s Opportunity Scholarship voucher program undermines the free market argument for vouchers. A well-functioning market requires many buyers (families looking to potentially enroll in a private school), many sellers (private schools willing to enroll students), and good information.²⁷ However, the lack of comparable, publicly available testing data in North Carolina leaves families with no good information on private schools’ ability to improve student learning. Instead of making decisions based on good information, Opportunity Scholarship families are at the mercy of the unregulated marketing efforts of private schools.

Legislators have resisted efforts to collect and disseminate information on the academic outcomes in voucher schools. Private schools enrolling voucher students must annually administer a test to students in grades three through 12. Beginning with the 2023-2024 school year, the schools have to administer common tests to students in grades three, eight, and 11. In the other grades, the schools can choose which test they administer, making results incomparable across schools. In all cases, the results are explicitly shielded from public records laws, leaving the results unavailable to members of the public.

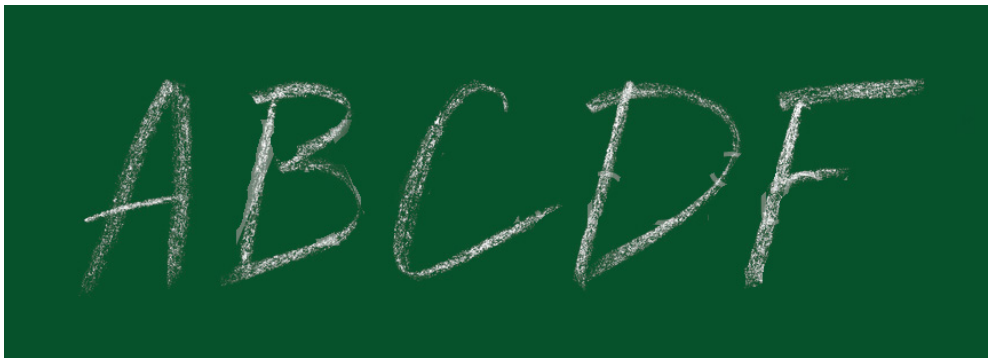
If a school has more than 25 voucher students in a specific grade level, they must report “the aggregate standardized test performance of eligible students in grades three, eight, and 11.” This language may be shared with the public; however, it is of little

use. Even if parents knew to request such data from the state (there are no obvious means of making such requests on the State Education Assistance Authority website), the measures provide little useful information to parents as the results are not comparable to standardized test reporting in public schools.

Advocates and researchers have provided lawmakers with information on what data should be collected in order to properly compare academic outcomes of voucher students against similar peers in public schools.²⁸ However, state lawmakers refuse to make the statutory changes and investments necessary to provide parents with useful information.

Lawmakers do not have to limit themselves to information on standardized test results. The state could collect and verify information on class sizes, course offerings, college-going rates, student satisfaction, teacher qualifications, curriculum quality, or other quality indicators.

If lawmakers thought that markets could drive educational excellence and help families find the best education for their children, they would make good information a central pillar of privatization schemes. Their unwillingness to collect and disseminate these or any other such data betrays the extent to which free-market arguments for vouchers ring hollow.



The Only Research Done on North Carolina’s Program Provides No Meaningful Information

In 2018, researchers from N.C. State released a working paper, “An Impact Analysis of North Carolina’s Opportunity Scholarship Program on Student Achievement,” which purported to evaluate the academic outcomes of Opportunity Scholarship voucher students compared to their peers in traditional public schools.²⁹ Sadly, the report provided no useful information on the academic outcomes for voucher students. The researchers seemed more intent on pushing a pro-voucher narrative that happened to align with the foundations funding their research.

The researchers administered standardized tests—tests that failed to align with state standards—to 89 unrepresentative voucher students who were specifically recruited for the study by a voucher advocacy organization. The researchers compared these students’ test results against 156 public school students who were drawn from a disproportionately disadvantaged pool of students who had no motivation to perform well on the exam.³⁰



Lack of curricular standards exposes many Opportunity Scholarship students to hateful indoctrination and outright falsehoods

Over 90 percent of Opportunity Scholarship voucher students attend religious schools. Of those, more than three-quarters use a biblically based curriculum presenting concepts that directly contradict the state’s educational standards.³¹

Such schools often teach students falsehoods, such as the idea that man walked with dinosaurs or that climate change is a hoax.^{32,33}

Many schools also indoctrinate students with racist and homophobic ideologies. An analysis from *The Guardian* newspaper found voucher schools using textbooks that “whitewash the legacy of slavery, frame Native Americans as lesser and blame the Black Lives Matter movement for sowing racial discord.”³⁴ Fayetteville Christian School, which to date has received \$5.4 million in voucher funds, promises to expel any LGBTQ+ students, calling them deviant and “perverted.”

Students are further indoctrinated in free-market ideology. Authors of the Abeka curriculum market that they “present free-enterprise economics without apology and point out the dangers of Communism, socialism, and liberalism.”³⁵

Attending such religious schools might limit students’ post-secondary education options as some universities do not admit students from non-accredited high schools.

The program fails to allow families to choose the best school for their children. Instead, it allows schools to choose their students.

Understandably, parents want to find the best school for their children, and some are unhappy with their local options. But this “choice” is illusory for the vast majority of families. Voucher advocates falsely claim that the

Opportunity Scholarship allows families to choose the school that best fits the needs of their child. Such claims ignore two important shortcomings of the Opportunity Scholarship voucher program.

North Carolina’s vouchers only cover the full tuition costs of a subset of private schools. The maximum voucher amount—provided to families who qualify for the federal free or reduced lunch program (185 percent of the federal poverty level, or \$55,500 for a family of four)—is \$7,213. Ten years ago, the General Assembly’s Fiscal Research Division estimated an average tuition cost in North Carolina’s private schools of \$7,694.³⁶ Adjusted for inflation, that would be \$10,053 today.³⁷

Of course, tuition is just one cost of attendance. Families might be charged application fees and additional fees for services. Families are generally responsible for the costs of transportation and school meals—services provided for free to families with low incomes in traditional inclusive public schools. These additional costs leave private schools out of reach for many families with low incomes, even if the voucher fully covers the cost of tuition.

Compounding the financial issue is that the Opportunity Scholarship places no limits on how private schools can adjust their tuition. Private schools in states with recently expanded voucher programs are raising their tuition and requiring families to apply for vouchers before determining what tuition they will charge.³⁸ A study examining the finances of 20 percent of nonprofit private schools found that universal voucher programs like the revamped Opportunity Scholarship “lead to price increases but no change in enrollment.” Those price increases were roughly the same as the public subsidy.³⁹ Without financial regulation, exclusive private schools will be able to reap public subsidies without opening their doors to students from families with low incomes.



Finally, private voucher schools choose their students through discrimination. Researchers at Public Schools First NC examined the policies of every private school that received \$100,000 or more in Opportunity Scholarship voucher funds in the 2022-2023 school year, 334 schools in total. Their analysis identified six ways voucher schools discriminate against students to choose who attends their schools:

- 1. ACADEMIC:** Requiring certain test scores or other academic measures
- 2. DISABILITY:** Refusing to enroll students with disabilities
- 3. LIFESTYLE:** Policies regarding the outside-of-school behaviors of students and parents
- 4. LGBTQ+:** Barring enrollment of students who are LGBTQ+ or who do not accept the school’s position on LGBTQ+ issues
- 5. RELIGION:** Requiring or giving enrollment preference to students or parents who are members of a specific religious group
- 6. “RIGHT FIT”:** Schools may require an interview, tour, or testing before acceptance, granting them broad leeway to discriminate based on the student or family’s so-called “fit” at the school⁴⁰

Lack of accountability is deliberate policy choice

As this section shows, North Carolina’s Opportunity Scholarship voucher program is dangerously unaccountable.

- There are no minimum quality standards, allowing fly-by-night schools to receive public subsidy for enrolling voucher students.
- There are no curricular standards, allowing schools to indoctrinate their students with lies and falsehoods.
- Voucher schools are allowed to openly discriminate against students with disabilities, LGBTQ+ students and their families and to tacitly discriminate against students for any other reason.
- The lack of financial oversight opens dangerous opportunities for financial fraud.
- The absence of testing accountability means we cannot know for sure whether North Carolina’s voucher students are experiencing the same poor academic outcomes observed in other states’ voucher programs.

Lawmakers know how to address the accountability shortfalls identified in these examples. It’s quite easy to design a voucher program that excludes fly-by-night schools, prohibits discrimination, minimizes financial fraud, and measures student performance. That lawmakers continue to leave these problems unaddressed demonstrates shows they want a program that is wholly unaccountable.

The program is a drain on state coffers

Voucher advocates often partly justify vouchers as a way for states to save money on education spending.⁴¹ In theory, it is possible to design a voucher program that allows states and school districts to reduce education spending without undermining existing service levels for remaining students. However, few programs include the necessary guardrails to save money.

Voucher programs can save a state money if they incentivize students to exit the public school system because the student receives a voucher that is worth less than the state would have otherwise spent on that student. In other words, if a state that spends \$10,000 per student in public schools gets a student to exit the public system by offering them a \$9,000 voucher, the state saves \$1,000.

However, if the state provides that same voucher to a student who had no intention of enrolling in a public school, then the state is losing \$9,000. A 2020 North Carolina Justice Center analysis estimated that 54 percent of all vouchers in the 2023-2024 school year would be provided to students who had no intention of enrolling in a public school.⁴² This amount is approximately double the share necessary to ensure that vouchers are a money-loser for the state.

Subsequent legislative changes in the 2021 and 2022 budget bills further prioritized families who had no intention of enrolling their children in public schools.

The changes enacted by the 2023 budget bill will result in the state awarding even more vouchers to families who have no intention of enrolling their children in public schools.

The Opportunity Scholarship program’s negative effect on state and school district finances is discussed in greater detail in a subsequent section of this report.

Understanding the Opportunity Scholarship

This section explains the history of the Opportunity Scholarship voucher program. It provides data on the program’s historical and projected funding levels and how the program’s eligibility rules have changed since its inception. It further analyzes the schools that have received Opportunity Scholarships, noting school characteristics such as geographic location, school type (religious versus non-religious), size, and school stability. Finally, this section looks at what we know about Opportunity Scholarship students.

Funding for the Opportunity Scholarship voucher program

The table below provides detailed data on the state’s appropriations to the Opportunity Scholarship voucher program. In nine years, the program has grown from \$10.8 million and 1,216 vouchers in the 2014-2015 fiscal year to \$180.8 million and 25,568 vouchers in the 2022-2023 fiscal year.

Figure 2: Opportunity Scholarship historical expenditures, recipients, and awards

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Direct Appropriation	\$10,840,000	\$17,640,000	\$24,840,000	\$0	\$0	\$0	\$0	\$0	\$30,000,000	\$30,000,000
Appropriation to Reserve*	\$0	\$0	\$34,840,000	\$44,840,000	\$54,840,000	\$64,840,000	\$74,840,000	\$103,840,000	\$150,840,000	\$176,540,000
Total Appropriation Changes		63%	238%	-25%	22%	18%	15%	39%	74%	14%
Available for Vouchers***	\$10,440,000	\$17,240,000	\$24,440,000	\$34,325,563	\$49,606,907	\$64,957,995	\$80,180,537	\$90,454,832	\$140,555,906	\$181,343,268
Recipients	1,216	3,682	5,624	7,371	9,651	12,284	16,042	20,377	25,568	
Total Awards	\$4,635,320	\$13,149,842	\$21,760,837	\$28,058,656	\$37,988,912	\$48,117,458	\$61,469,705	\$79,467,926	\$134,639,138	
Average Awards	\$3,812	\$3,571	\$3,869	\$3,807	\$3,936	\$3,917	\$3,832	\$3,900	\$5,266	

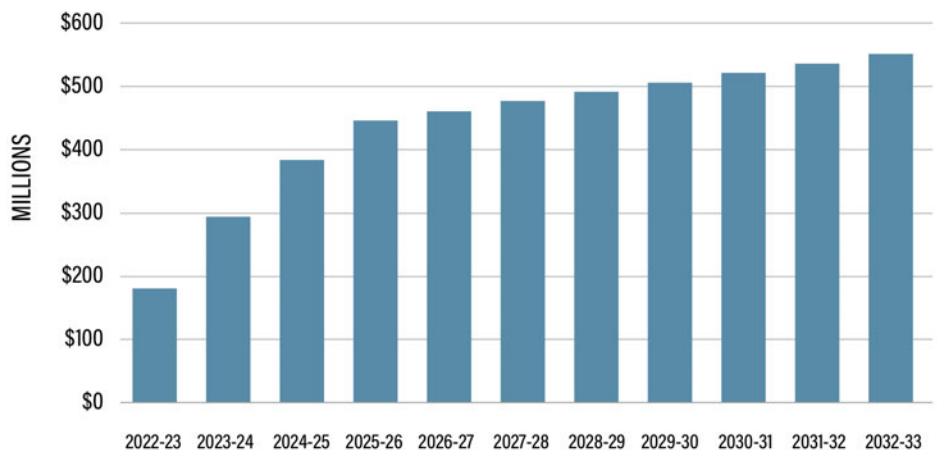
* Direct appropriations are for vouchers awarded in the same year as the appropriation.

** Appropriations to the Reserve are for vouchers in the subsequent school year. For example, FY 17-18’s appropriation of \$44.8 million is for vouchers awarded in FY 18-19.

*** Amount available for vouchers is net of funds for SEAA’s administration of the program. Beginning in FY 17-18, amounts available for vouchers could include unused funds from prior fiscal year.

Since 2016, the Opportunity Scholarship voucher program has been the only educational program that receives automatic budget increases even if the state does not pass a new budget. The 2023 budget provides for annual funding increases through the 2032-2033 fiscal year, in which total appropriations will reach \$550.1 million.

Figure 3: Scheduled funding for the Opportunity Scholarship voucher program



Spending \$550 million in traditional public schools would allow the hiring of 7,300 additional teachers, an 8 percent increase in the total number of teachers. Alternatively, this funding could give all teachers and instructional support staff 9 percent raises.

\$550 million is also enough to do all of the following:

- Restore funding cuts to teacher assistants
- Restore funding for textbooks, supplies, and materials
- Provide free school breakfast and lunch for all students
- Expand the community schools model to over 800 schools

Voucher award amounts

The table below summarizes Opportunity Scholarship voucher award amounts following the passage of the 2023 budget bill. Voucher amounts vary based on family income. Award amounts in future years will change in line with state funding for public schools.

Figure 4: Estimated Opportunity Scholarship voucher amounts for 2024-2025

Family Income Relative to Free or Reduced Lunch Eligibility	Maximum Household Gross Income 2023	Voucher Award as Percent of State Per-pupil Funding	Estimated Award Amount 2024-25
0% to 100%	\$57,720	100%	\$7,468
101% to 200%	\$115,440	90%	\$6,722
201% to 450%	\$259,740	60%	\$4,480
Above 450%	No maximum	45%	\$3,360

The Opportunity Scholarship Grant Fund Reserve

State appropriations to the Opportunity Scholarship program originally paid for scholarships awarded in that same fiscal year. That changed in 2016 when legislators created the Opportunity Scholarship Grant Fund Reserve. With this change, Opportunity Scholarships became “forward funded.” That is, appropriations to the Reserve sit in state coffers until they are awarded (sent to private schools) in the next fiscal year. For example, North Carolina will use the \$177 million appropriated to the Reserve in FY 2023-2024 to fund vouchers in the 2024-25 fiscal year.

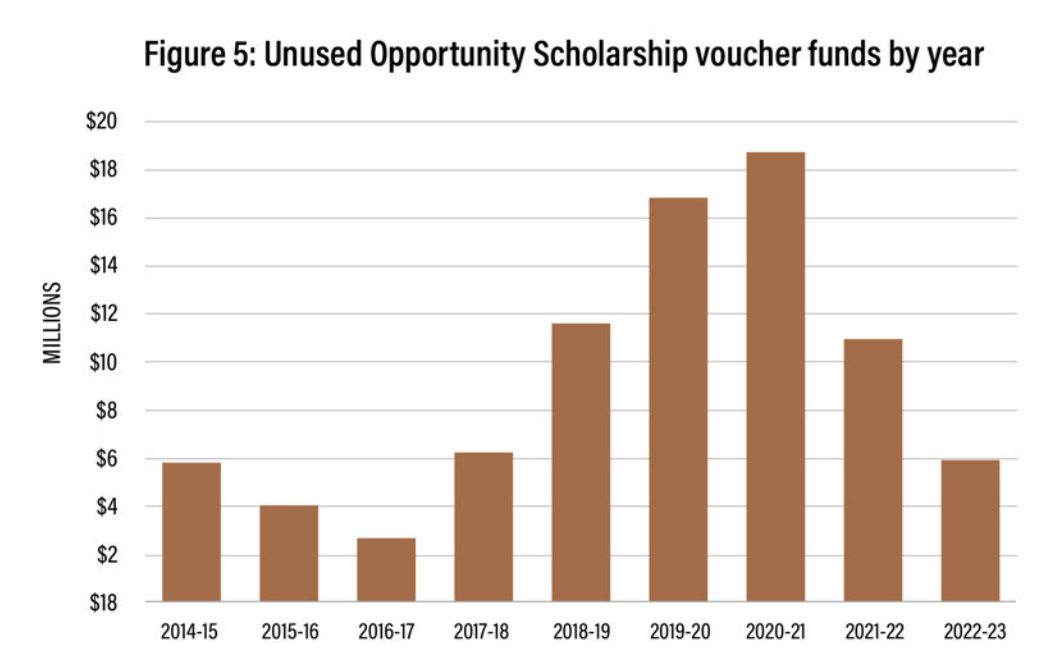
However, not all Opportunity Scholarship appropriations are for awards in the subsequent fiscal year.

In 2022, the General Assembly began appropriating \$30 million to the Opportunity Scholarship voucher program for same-year awards. This appropriation is above and beyond the appropriations made to the Reserve. Because the appropriation is recurring, the Opportunity Scholarship voucher program will continue to receive this funding every year, absent future action from the General Assembly.

Unused funds and carry-over

Since the program’s inception, the Opportunity Scholarship has always left funds unspent. Unspent funds represent an inefficiency of the program. Unspent voucher funds could otherwise be deployed to useful purposes such as increasing teacher pay or lowering class sizes in our inadequately funded traditional public schools.

In total, nearly \$83 million was left unused through the 2022-2023 fiscal year. \$83 million is the equivalent of 1,100 classroom teachers.



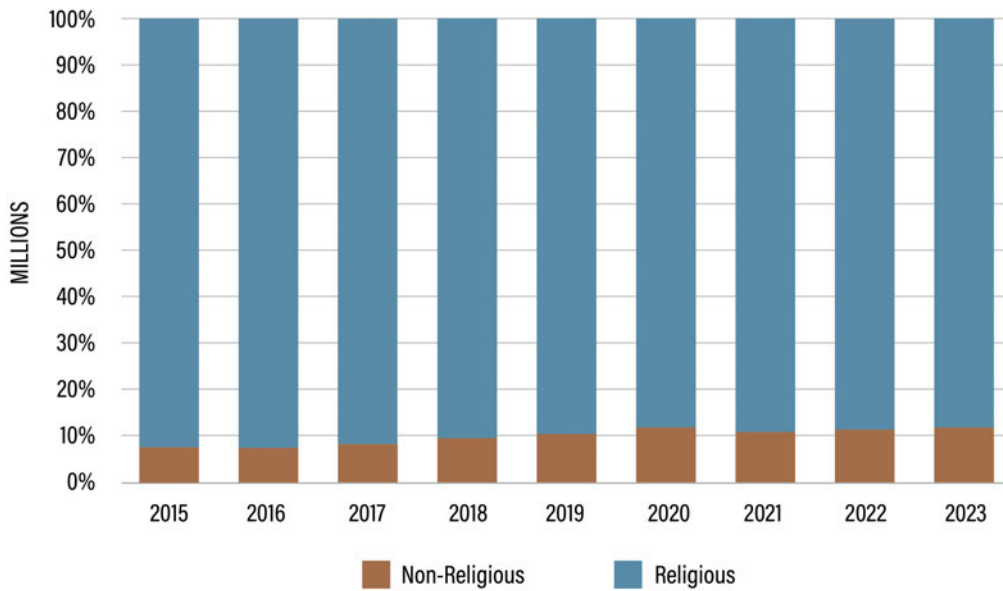
Initially, unused Opportunity Scholarship funds were returned to state coffers, where the state could redeploy them in the following fiscal year. That changed in 2016 when legislators added language directing unused voucher funds be carried forward into the Opportunity Scholarship Reserve, where they fund vouchers in the next fiscal year.

Opportunity Scholarship students overwhelmingly attend religious schools

Opportunity Scholarship vouchers overwhelmingly benefit religious schools. Over the course of the program, 89 percent of vouchers have been awarded to students attending private religious schools, even though just 60 percent of private schools in North Carolina are religious.

The expansion of the Opportunity Scholarship voucher program will likely see more vouchers going to students attending non-religious schools since many vouchers will now be provided to students already enrolled and able to afford private schools.

Figure 6: Opportunity Scholarship voucher awards by school type

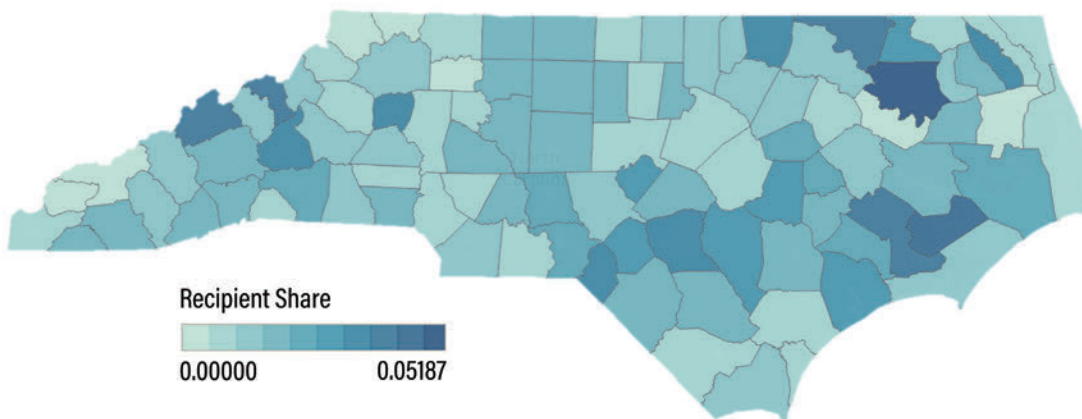


Vouchers are having the greatest impact in rural counties

The map below shows where Opportunity Scholarship usage is greatest in North Carolina by measuring voucher usage as a share of each county’s estimated school-age population. Many counties with the highest voucher usage (see Figure 7) are rural counties.

While several of the counties with the highest usage are in the west, there also appears to be relatively high usage along the I-95 corridor and in counties containing military bases.

Figure 7: Share of school-aged children receiving Opportunity Scholarship vouchers, 2023



The table below details Opportunity Scholarship usage in the ten counties with the highest usage. It is interesting to note that these are almost entirely rural counties that are more at risk for the harmful budgetary impacts and racial segregation arising from voucher programs.

It is unclear how these patterns might change under the new eligibility guidelines.

The steady creep from limited eligibility to universal eligibility

Over the past decade, the Opportunity Scholarship voucher program has grown from a small program narrowly targeted to current public school students from families with low incomes to a universal program that will subsidize the private school tuition of the children of millionaires.

The table below summarizes how lawmakers changed the program’s eligibility requirements over time.

Figure 8: Top 10 counties for Opportunity Scholarship usage

County	School Aged Population	Vouchers	Voucher Share
Bertie	2,140	111	5.2%
Pamlico	1,312	61	4.6%
Northampton	2,147	85	4.0%
Mitchell	2,072	81	3.9%
Craven	15,576	598	3.8%
Madison	2,727	102	3.7%
Cumberland	59,325	2,148	3.6%
Pasquotank	6,244	215	3.4%
McDowell	6,562	225	3.4%
Alexander	5,353	183	3.4%

Figure 9: Changes in Opportunity Scholarship eligibility requirements

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Family Income	185%	246%	246%	246%	246%	246%	278%	324%	370%	No limit
Income Cap Exception	None	None	None	None	None	None	None	Foster care	Foster care	N/A
No Prior Public Enrollment for Students Entering	K-1	K-1	K-1	K-1	K-1	K-1	K-1	K-2	K-2	No Prior Public School Enrollment Required
Cap on Vouchers to Grades K-1	35%	35%	45%	45%	45%	45%	None	None	None	None
Annual Voucher Value	\$4,200	\$4,200	\$4,200	\$4,200	\$4,200	\$4,200	\$4,200	90% of per-pupil state funding	90% of per-pupil state funding	Up to 100% of per-pupil state funding depending on family income

As previously explained, the program was initially limited to students from families with incomes less than 185 percent of the federal poverty rate (\$55,500 for a family of four in today’s dollars). Today, there is no income limit. Millionaires and billionaires are eligible to receive public subsidy to send their children to private schools.

Originally, students had to have previously been enrolled in a public school to receive a voucher unless they were entering grades K-1. Additionally, the state capped the number of vouchers awarded to these

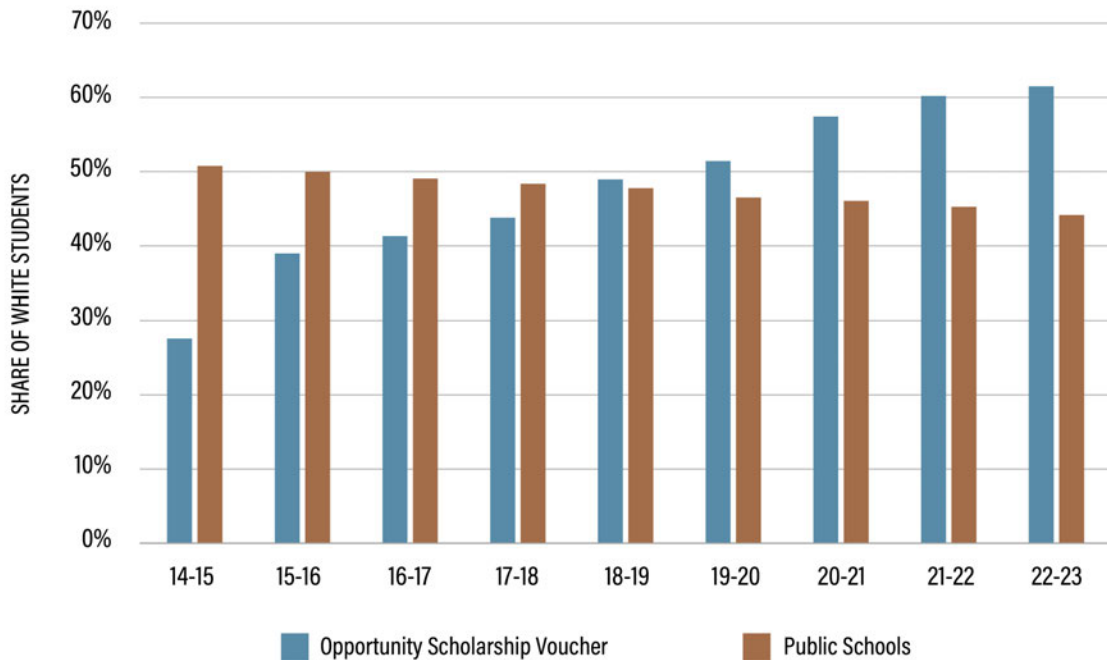
grade levels. These criteria helped limit the number of vouchers awarded to families who always intended to enroll in private schools.⁴³ Paying such families to do something they were already planning to do creates a drain on state coffers. The elimination of these requirements means the voucher program will now largely subsidize wealthy families who had already chosen to withdraw from the inclusive public school system.

Finally, legislators have increased the maximum annual voucher amount from \$4,200 to 100 percent of what the state spends on the average public school student. The maximum voucher award for the 2023-2024 school year will be \$7,213. That is, the maximum voucher amount has increased 72 percent, vastly outpacing the 28 percent increase in inflation over this time period and nearly double the increase in per-student funding in public schools.⁴⁴

Vouchers increasingly funding white families

The changes in voucher eligibility have coincided with a change in the racial composition of Opportunity Scholarship voucher recipients. The program is increasingly funding private school attendance for white families. In the 2022-2023 school year, approximately 61 percent of Opportunity Scholarship voucher recipients identified as white, despite white students comprising just 44 percent of public school students.

Figure 10: Share of white students participating in Opportunity Scholarship voucher program versus public school enrollment



The disparity will likely continue to expand as legislators have opened the Opportunity Scholarship voucher program to wealthy families who can already afford to send their children to private schools. North Carolina’s private schools serve substantially more white students than North Carolina’s public schools. In the 2019-2020 school year, 46 percent of public school students were white. That same year, 76 percent of private school students were white.⁴⁵

It should come as little surprise that a voucher program is disproportionately subsidizing white families. Researchers have already documented how voucher programs in Indiana and Ohio are contributing to racial segregation in those states.^{46,47}

Private schools are already the primary driver of racial segregation in some of the North Carolina districts with the greatest share of voucher usage. Duke University researchers found that:

In Bertie County, a small rural county where 74 percent of all students were Black, its two, nearly all-white private schools enrolled more than 40 percent of all the county’s white students... In Northampton, two private schools enrolled 23 percent of all the county’s white students; otherwise, the county’s public schools were racially quite evenly balanced among themselves.⁴⁸

These findings are consistent with national research that shows the strongest predictor of white private school enrollment is the proportion of Black students in the local public schools.⁴⁹ Opening the Opportunity Scholarship to families who have already enrolled in private schools provides public subsidy to the racial segregation of North Carolina schools.

Many voucher students attend small, precarious schools

Opportunity Scholarship voucher students attend schools that are smaller and more precarious than the typical public school student.

In 2022, the typical school enrolling Opportunity Scholarship voucher students enrolled just 110 students. This enrollment compares to 468 students in local inclusive public schools and 514 in the typical charter school. Three percent of voucher students attended schools with 20 or fewer students. Three Opportunity Scholarship schools did not report their enrollment in 2022.

The private schools admitting voucher students are much more likely to close than their counterparts in the traditional public sector. They are even more likely to close than the typical private school.

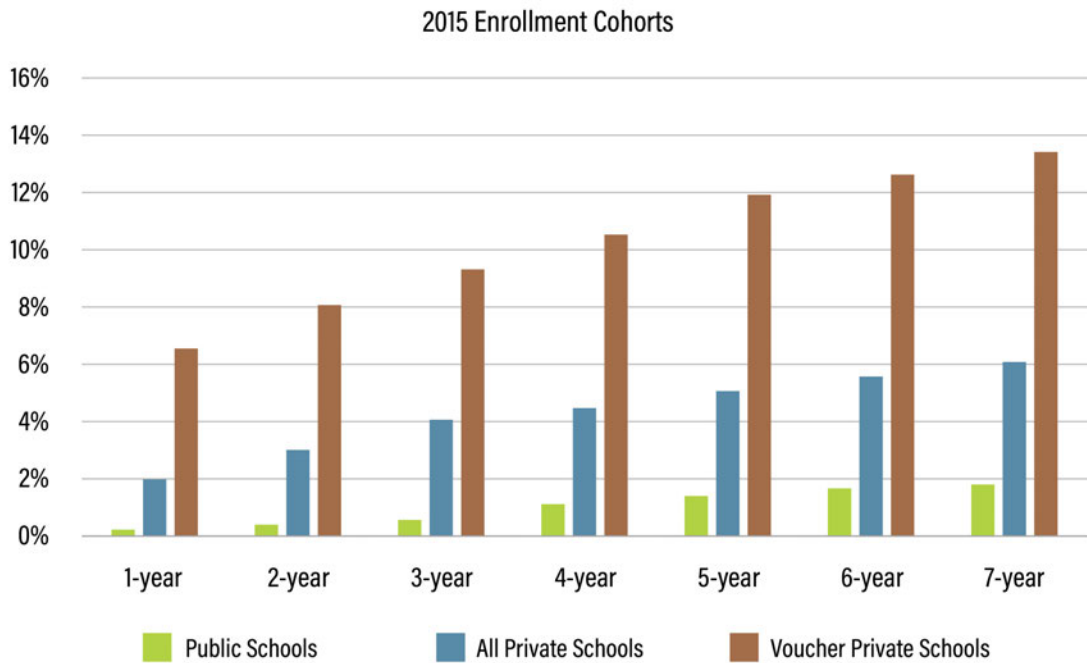
Figure 11: Enrollment characteristics of schools by sector, 2022

	Opportunity Scholarship Schools	Traditional Public Schools	Charter Schools
Median	110	468	514
Largest	1,532	3,539	3,403
Smallest	2	2	44
Not Reporting	3	0	0
Share of students at schools with < 21 students	3%	0%	0%

Figure 12 shows the chances of a student’s school still existing in future years. For the initial cohort of Opportunity Scholarship students, there was a 13.4 percent chance that the school they attended in 2015

would not exist seven years later. Contrast this to public school students, who faced just a 1.8 percent chance that their school would not exist in 2022. School closures are traumatic for current students and families who have to scramble to find a new school and become part of a new school community, and former students lose an important connection to their community. As the graph shows, private schools accepting voucher students are more likely to close than other private schools.

Figure 12: Chances of school closure by school type



Reporting has shown that many Opportunity Scholarship schools are fly-by-night operations. For example, Teaching Achieving Students Academy (TASA) received \$440,814 in voucher funding between 2015 and 2023. Over that period, TASA had at least four locations, the last of which involved renting space from another private school. TASA was evicted from that space after their headmaster faced felony charges for smuggling contraband into a jail.⁵⁰ As of December 2023, TASA has moved once again and has received \$42,006 in voucher payments from the state.

How the Opportunity's Scholarship voucher hurts state, school district, and family finances

The Opportunity Scholarship voucher harms the finances of states and school districts. It can even harm the finances of families receiving the voucher. Expansion of the program will exacerbate these challenges, particularly in small rural communities.

How the Opportunity Scholarship voucher hurts state finances

Since its inception, analysts predicted the Opportunity Scholarship voucher would harm state finances. Subsequent program changes have undoubtedly exacerbated the cost to state coffers. State leaders have historically been unwilling to provide the data necessary to assess these costs accurately. However, recent reporting changes will make such fiscal estimates easier in the near future.

Calculating the fiscal impact of a voucher would be very easy if all vouchers were given to students who otherwise would have been enrolled in a public school. For each student who transfers from a public school to a private school as a result of receiving a voucher, the fiscal impact is simply the difference between the value of the voucher and the state's reduced expenditures from having one less student.

In practice, however, many vouchers are provided to students who would have attended a private school even in the absence of the voucher program. Providing a voucher to a student who would have attended a private school even without the voucher program represents a pure cost to state funds. Expenditures on these students are not offset by any corresponding reduction in public school expenditures.

For a voucher program to save money, the ratio of voucher value as a share of average per-pupil expenditures must be less than the share of voucher students who otherwise would have attended a public school. For example, consider a state that spends \$10,000 per student in public schools and offers a voucher of \$7,500. For this state to save money on its voucher program, more than 75 percent of voucher students would need to be students who transferred from a public school to a private school. If more than 25 percent of students were already planning to attend a private school, then the state loses money on its voucher program.

It is difficult to predict the fiscal impact of unestablished voucher programs. However, in 2013, the General Assembly's nonpartisan Fiscal Research Division estimated that the program would cost the state about \$15 million during its first five years of operation.⁵¹

This analysis was done at a time when the program limited eligibility to students who would have otherwise enrolled in a private school, even in the absence of the voucher program. Subsequent changes to voucher eligibility (see Figure 9: Changes in Opportunity Scholarship eligibility requirements) have vastly expanded the share of vouchers awarded to students who always intended to enroll in private schools. In particular, the 2023 changes, which eliminated the income cap and removed prior public school enrollment requirements, will significantly increase the negative fiscal impact of this program.

Figure 13: Fiscal Note for the Opportunity Scholarship Voucher

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Fiscal Note

BILL NUMBER: House Bill 944 (Second Edition)

SHORT TITLE: Opportunity Scholarship Act.

SPONSOR(S): Representatives Bryan, B. Brown, Brandon, and Hanes

FISCAL IMPACT						
(\$ in millions)						
	<input checked="" type="checkbox"/> Yes		<input type="checkbox"/> No		<input type="checkbox"/> No Estimate Available	
State Impact	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	
General Fund Revenues:	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	
General Fund Expenditures:	(2.1) to (2.1)	5.8 to 2.5	12.9 to 2.5	3.4 to 2.0	2.9 to 2.2	
State Positions:	2.0 to 2.0	2.0 to 2.0	2.0 to 2.0	2.0 to 2.0	2.0 to 2.0	
NET STATE IMPACT	\$2.1 to \$2.1	(\$5.8) to (\$2.5)	(\$12.9) to (\$2.5)	(\$3.4) to (\$2.0)	(\$2.9) to (\$2.2)	

Currently, the North Carolina State Education Assistance Authority (NCSEAA) does not publicly release the data that would allow for more accurate assessments of the Opportunity Scholarship voucher’s fiscal impact. However, a provision in the 2023 state budget bill will require the state to begin reporting this information on April 1, 2025.⁵² When this report is released, citizens will have a more accurate picture of the true fiscal cost of this voucher program.

It is important to remember that the state is incurring these unnecessary costs at a time when it is failing to meet its constitutional obligations to provide all public school students with access to “sound basic” schools. Under the long-running Leandro court case, North Carolina courts have consistently determined that the state is failing to provide public schools with the levels of funding called for in the state constitution. Programs like the Opportunity Scholarship voucher harm the state’s ability to meet its overdue, unfulfilled constitutional obligations to students, and such programs deserve additional scrutiny and skepticism.

How the Opportunity Scholarship voucher program hurts school district finances

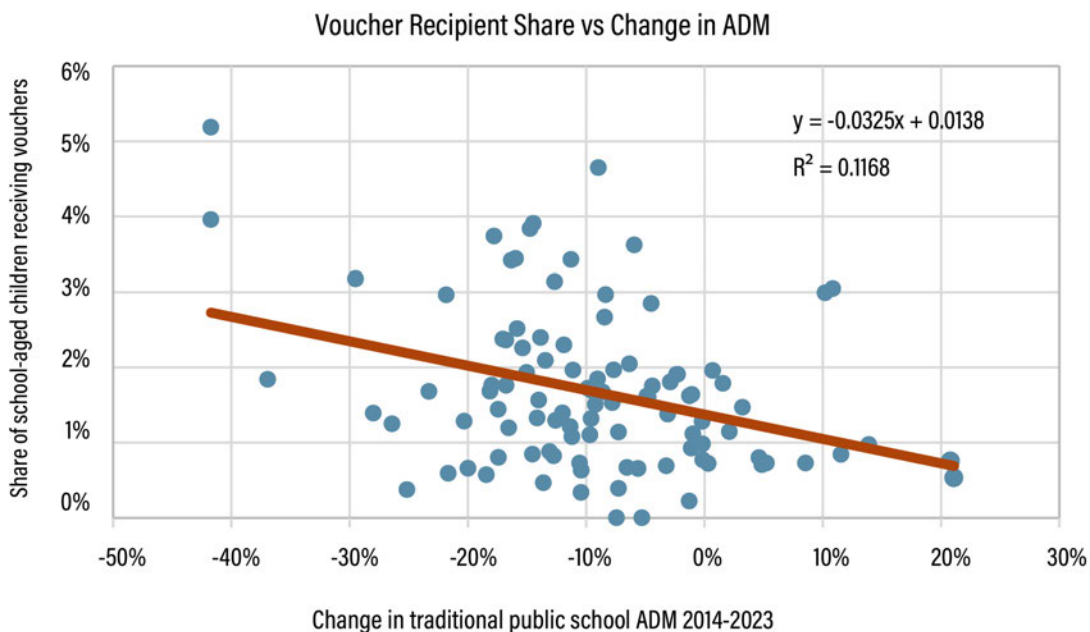
Vouchers negatively impact local district budgets mainly by contributing to declining enrollments, which are already acute in rural areas with declining populations. Under North Carolina’s school funding system, when a student leaves a district, that district’s budget is reduced by an amount equal to the average per-student state funding in that district. The problem for districts is that the budget reductions are generally greater than the marginal savings they realize from having one less student.

Schools face many fixed costs in the long or medium term—costs that cannot be reduced when smaller numbers of students depart the district. Central office costs, school building maintenance expenses, and student support staff are examples of fixed costs that districts cannot reduce without reducing services to remaining students. Even instructional costs—such as teachers and teacher assistants—are fixed when only a handful of students leave a school. When one student leaves, a school cannot fire one-twentieth of a teacher.

The net result is that when North Carolina school districts lose students due to privatization schemes like vouchers, the district’s per-student cost of educating students goes up as fewer students (and their associated funding) support the fixed costs of running a school district.⁵³

These budget pressures increase when cropping and creaming result in students with lower educational

Figure 14: Relationship between voucher usage and public school enrollment changes



costs leaving the school system. Evidence from voucher programs in Chile and Arizona shows that universal voucher programs are likely to attract fewer students with disabilities and students from families with low incomes (i.e., “cropping”). And within those categories of students, the voucher students tend to have milder disabilities and are less likely to experience deep poverty (i.e., “creaming”).^{54,55} That is, they are likely to crop students with lower educational costs, leaving behind students with higher educational costs.

Small, rural districts often face more significant challenges in responding to these budget pressures. Due to their small size and lack of density, they are less able to adjust spending in ways that do not reduce services to remaining students.⁵⁶

Statistical analysis shows that vouchers have a small but statistically significant impact on declining enrollments. From 2014 to 2023, every one percentage point increase in the share of school-aged students using vouchers is associated with a 3.25 percentage point decrease in public school enrollment.

The four counties that have seen the largest decline in traditional public school enrollment (Northampton, Bertie, Washington, and Warren) are all small, rural, low-wealth counties. They all have an above-average share of students utilizing Opportunity Scholarship vouchers. The Office of State Budget and Management estimates that these four school districts will lose \$2.4 million, or between 3 and 7 percent of current state funding, due to the expansion of the Opportunity Scholarship voucher program.

No, the 2023 budget language won't help district budgets

A provision in the 2023 budget bill has given some education advocates false hope that legislators will work to soften the fiscal impact that universal vouchers will have on North Carolina's school districts. Section 7.82 says:

It is the intent of the General Assembly to reinvest in the public schools any savings realized by the State each year, beginning in the 2025-2026 school year, because of the transfer of a student from a public school unit to a nonpublic school where the student accepts an opportunity scholarship grant award that is less than one hundred percent (100%) of the average State per pupil allocation for average daily membership for a student in a public school unit.

First, this is simply intent language. It does not transfer any money to school districts, nor does it obligate the General Assembly to do so in the future. It holds no weight of law.

Second, the dollar amounts would be small. Districts would receive nothing for voucher students who qualify for free or reduced lunch. They would receive just \$721 for students with family incomes within 200 percent of the threshold for free or reduced lunch eligibility.

Finally, if such language is enacted, it would likely do little to increase district resources. Earmarked revenue sources (e.g., lottery funding, Indian Gaming Fund) generally fail to increase funding. Instead, these sources supplant funding that otherwise would have gone to the districts. There is little reason to believe this earmarked revenue source would function differently.

Vouchers' negative fiscal impact on rural schools has underpinned voucher resistance in Georgia and Texas.^{58,59} Unfortunately, rural lawmakers in North Carolina have—to date—been less concerned with how vouchers harm school finances in their communities.

How the Opportunity Scholarship voucher program hurts families' finances

Opportunity Scholarships will help the pocketbooks of wealthy families who have already enrolled their children in private schools and can readily afford the expense. The median North Carolina household with a child in private school earns nearly double the typical North Carolina household.⁶⁰ These wealthy families will undoubtedly be left better off financially when they receive thousands of dollars to continue doing something they were already doing.

However, for families with lower incomes, a voucher is likely to leave them worse off financially. First, a voucher is unlikely to fully cover tuition and fees at high-quality private schools. The U.S. Department of Education estimated that the average private school tuition was \$10,740 in the 2011-2012 school year.⁶¹ Adjusted for inflation, that is the equivalent of approximately \$14,517 for the 2023-2024 school year, double the maximum Opportunity Scholarship award of \$7,213.⁶²

Private schools shift other costs onto families that might catch some Opportunity Scholarship families off guard. Unlike traditional public schools, private schools generally require families to cover expenses related to transportation, special education services, and school meals.

What to expect in the 2024 legislative session

Legislators could take many actions related to vouchers in the 2024 legislative session and beyond.

Converting vouchers to education savings accounts

For many school privatization proponents, the ultimate form of voucher is the education savings account (ESA). ESAs function similarly to traditional vouchers. Under ESAs, however, the list of allowable expenses extends beyond required tuition and fees. Funding is provided via a debit card so that, in addition to private school tuition, parents can charge other educational expenses to the state.

North Carolina already has an ESA program. The Personal Education Student Accounts for Children with Disabilities (PESA) provides \$9,000 to \$17,000 per year to families of students with disabilities.

By expanding the list of allowable expenses, ESAs make private schooling marginally more affordable for more families. Such a move would also likely open the program to homeschooling families. The most recent data indicates there are approximately 152,717 homeschooling students in North Carolina.⁶³

On the other hand, ESA programs in other states have been plagued with fraudulent and inappropriate

purchases. In Arizona, families have used ESA funds to purchase ice skating and sword casting classes, Disney+ subscriptions, trampolines, horseback riding lessons, ninja lessons, freeze-dried foods, snowboarding passes, golf equipment, and chicken coops.^{64,65}

2023's HB 420 proposed combining the Opportunity Scholarship voucher into the PESA program so that all voucher programs take the form of ESAs.⁶⁶ It would be unwise for legislators to pursue a plan that does little to expand quality educational opportunities for students but vastly expands opportunities for fraud by unscrupulous parents.

Evaluation of academic outcomes

Since the Opportunity Scholarship voucher's inception, scrupulous government advocates have lobbied lawmakers to implement accountability measures to determine whether the voucher program leads to better or worse academic outcomes. North Carolinians deserve to know whether spending on voucher programs leads to worse academic outcomes, as documented in Washington DC, Indiana, Louisiana, Ohio, and Tennessee. Additionally, families considering vouchers require good information on which to make their decisions.

So far, lawmakers have resisted efforts to evaluate voucher schools. It is unclear whether these government advocates will succeed in future years and convince legislators of the importance of a high-quality evaluation.

Expansion of funding

In 2024-2025, funding for the Opportunity Scholarship voucher program will total \$384.5 million. The program will receive annual funding increases through the 2032-2033 fiscal year until total appropriations reach \$550.1 million. Lawmakers may attempt to funnel even more state money into this privatization scheme.

As highlighted earlier, all families with students enrolled in private schools can now receive a state voucher. In the 2022-2023 school year, there were an estimated 126,768 private school students.⁶⁷ Of these students, 25,568 received a voucher, leaving approximately 101,200 private school students without a voucher. If each of these families applies for a voucher, demand for vouchers will exceed funding, putting pressure on legislators to expand program funding.

Additionally, there are an estimated 152,717 homeschool students, whose families might also lobby to gain access to voucher funding.

Creating a budget mechanism to support districts losing students to voucher schools

A special provision in the 2023 budget bill stated it is the legislature's intent to create a budget mechanism to mitigate vouchers' harmful impacts on school district budgets.

It is possible that legislators will act on this intent to craft language that will provide districts with additional

funding if they lose students to the Opportunity Scholarship voucher program. If such language emerges, public school advocates should monitor whether the language has strong protections against supplanting. Historically, earmarked revenue sources, such as lottery funding, have largely been supplanted and have failed to actually expand spending on public schools.

A smarter move: Eliminate the program entirely

The wisest path of action would be for lawmakers to eliminate the Opportunity Scholarship program entirely. The public costs of voucher programs far exceed their benefits. Voucher programs:

1. **Have overwhelmingly negative academic results for students accepting vouchers;**
2. **Reduce students' civil rights protections, particularly for students with disabilities and LGBTQ students;**
3. **Exacerbate racial and economic segregation;**
4. **Create added budget pressures in our already-underfunded inclusive public schools;**
5. **Pass additional education costs onto families; and**
6. **Undermine the collective benefits of public schools by emphasizing the individual's private returns to education.**

North Carolina's voucher program is particularly harmful. The lack of quality standards and oversight has opened the program to fraudsters and fly-by-night private schools. Additionally, the program is a massive handout to wealthy families who have already enrolled their children in private schools. And even if North Carolina lawmakers agree to add accountability and transparency measures, the program will continue undermining education.

Governor Cooper has recommended phasing out the program in each of his budget proposals.⁶⁸ Current voucher students would retain eligibility, allowing them to stay in their current schools. However, no new vouchers would be awarded. The program would cease to exist as existing voucher students matriculate or leave the program. Such a proposal provides the state an off-ramp from a harmful policy while minimizing potentially harmful student churn. ■

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