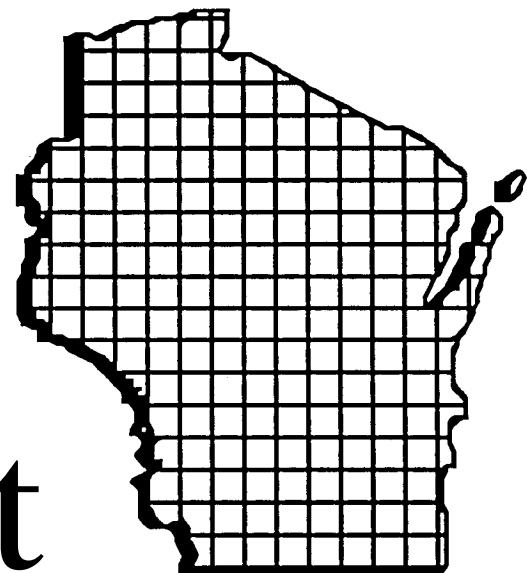


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Research
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Report



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**The Supply Side
of Educational
Choice**

*Providing Capital for
Successful Private and
Parochial Schools*

REPORT FROM THE PRESIDENT:

For the last decade Milwaukee has been the focal point in our country over the issue of educational choice. In every Wisconsin budget, choice has been debated as part of the ongoing struggle to improve a private educational system that has proven to help low income students in the city of Milwaukee. All of these debates have centered on the “demand” side of the choice issue — the number of children allowed in private and parochial schools, and the level of support for their education. What has been lacking, however, is an examination of the “supply side” of school choice. How do successful private and parochial schools expand their infrastructure to meet the demands of a rising number of students desperate to escape a public school system that doesn’t work?

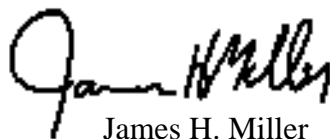
We asked Professor Martin Sweet of Dickinson College to research this issue. His major degrees, including his Ph.D. come from the University of Wisconsin. He also has a law degree from the University of Minnesota. More importantly, he is familiar with existing choice data from academic studies.

In this paper, Dr. Sweet shows that the initial question of the supply side in educational choice is being dealt with by a well-known group in Milwaukee — Partners Advancing Values in Education (PAVE). What PAVE has developed is a structured business model that helps to transform private educational institutions into ongoing community-based businesses that specialize in education and community programs.

As this report points out, private schools do not have the bonding ability to go out and raise additional capital to expand their schools. PAVE provides advice and expertise for these institutions to learn basic business practices, such as balance sheets and business plans, so that the private sector can help in their expansion. More to the point, this program also establishes that successful private and parochial schools that have a track record of actually out-performing public schools can expand and help more students obtain quality education.

Sweet’s study documents two successful choice schools — Marva Collins where 91% of the fourth graders have achieved the reading proficiency rating, and Garden Homes Lutheran where 98% of their eighth graders graduate from high school. Both of these schools, because of their outstanding academic success, have expanded with the help of PAVE.

These programs are crucial to the long-term success of educational choice in Wisconsin and across the country. Private schools will never be able to obtain government funds for their capital costs — that must come from the private sector. It will come when these schools demonstrate that they are educational institutions worthy of investment for the future of their students and communities.



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THE SUPPLY SIDE OF EDUCATIONAL CHOICE

Providing Capital for Successful Private and Parochial Schools

MARTIN SWEET, PH. D.

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EXECUTIVE SUMMARY

Having endured the political struggles to establish school choice programs and the legal maneuvers to constitutionalize voucher programs, school choice advocates are now faced with a new round of challenges in their quest to improve the quality of education for children: the physical capacity of the best private schools involved in the school choice program is not large enough to accommodate the increased demand for seats in their classrooms. The supply of high quality education has yet to rise to meet the new demand spurred by school choice. This lack of space threatens to undermine much of the rationale behind school choice.

The voucher program operating in the Milwaukee Public School system over the last decade will soon involve 15,000 students opting out of the public school system and electing to attend approximately 110 private schools. The exceptional private schools in the choice program — those schools that have very high graduation rates and test scores — are routinely turning away qualified applicants. Because it is the best private schools in this program that spur the public schools to reform, the turning away of these students challenges choice advocates to consider ways to expand the physical structures of high-achieving private schools.

In the Milwaukee school choice program, the State of Wisconsin provides a voucher of not more than \$5800 for each public school student attending a private school. This amount of money must cover the private school's cost of educating the child, specifically including direct instruction, building administration, transportation, instructional staff services, pupil services, and general administration. Yet the Milwaukee Public School system routinely spends approximately \$9000 per pupil and does not even include the amount of money budgeted by the public schools for capital projects and debt service. Therefore, private schools involved in the choice program must not only educate children for about half the cost of public schools, they must use this same money to try to expand their infrastructure to accommodate the burgeoning demand for their services. Given the dilapidated state of most parochial school buildings and the risk of planning on the long-term viability of such a politically contentious program, it is no wonder that school choice advocates face a daunting task.

Partners Advancing Values in Education (PAVE), a not-for-profit organization in Milwaukee, has come up with one solution to the supply-side dilemma. By acting as a funding agent for less specialized foundations, PAVE has been able to use its expertise in assessing the feasibility of school infrastructure expansion to target philanthropic dollars toward this end. Yet PAVE's involvement in the supply side of school choice is quite different from outright charity. Instead, PAVE works with recipient schools to train their school leaders to write business plans, understand the financing of multi-million dollar projects, and place schools in the context of being a neighborhood resource. PAVE limits its direct giving to schools to five percent of a project, but will also work with local banks and investors in securing low interest loans for those schools best positioned for infrastructure expansion projects.

INTRODUCTION

The school choice (or voucher) debate has been previously cast in terms of market forces (Witte, 2002; Chubb and Moe, 1990). The debate has centered over whether the provision of money to public school children to attend private schools will help students realize their educational potential, narrow the race gap in achievement, or result in an overall better quality education for both choice and public school students (*Economics of School Choice*, 2003; Howell and Peterson, 2002).

The theory underlying school choice is relatively straightforward. Though individual programs across the states may vary in their details, choice programs uniformly rest upon three principles. First, public school students are allowed to opt to attend a private school. Instead of students being relegated to a school by virtue of geography, choice programs allow a student to select the school of his or her choosing. Students may opt to attend a private school for any number of reasons, including because of accessibility, quality, or curriculum. Second, money is then transferred from public schools to private schools. Since choice students generally lack the financial resources to pay the entire cost of private education, money that ordinarily would have been spent on the public school student is transferred to the private school. And third, to ensure that not all public school students eligible for school choice exercise that option, public schools will reform to stem the tide of students and dollars rolling out of the public schools.

Scholars, educators, and interest groups have spent a considerable amount of time and resources investigating whether vouchers actually work, and whether they are constitutional. Since the majority of school choice programs disproportionately involve religious schools, challenges have been levied against these programs under the Establishment Clause of the First Amendment. As the Supreme Court has recently answered the constitutional issue in favor of school choice in *Zelman v. Simmons-Harris* (2002), the future of the debate seems now squarely on the efficacy of voucher programs.

Despite the growing volume of research in this area, the focus of choice research has been too narrow. So far, this research has, in economic terms, chiefly centered on the school choice demand side of the equation. That is to say, with one notable exception (Hill, 1999) most researchers have examined the impact of these programs on students (Smith and Meier, 1995; Wells, 1993). Does choice spur demand for private schools? Do vouchers provide for a better education for choice students? Do vouchers help public schools? While the demand side issues of school choice are critical to understanding the politics and policy effects of choice, another set of issues, those relating to supply, remains relatively unexamined. *What of the schools themselves? What are the supply-side issues for school choice? What happens to the schools that participate in the choice program?*

In voucher programs, market forces mean that students from public schools will “vote with their feet” and transfer to private institutions should those schools offer a product superior to the public schools. The public schools will lose students and money, and the private schools will gain students and money. Yet what is sometimes lost in the mix is that schools have a fixed capacity with limited prospects for expansion, and that high barriers to entry exist for new schools. When school choice works, and works well, the very best schools will be turning away worthy appli-

cants. Once a school is full, putting more students into that school is no longer an issue of buying another desk — but instead building at least another classroom and hiring another teacher. *Paying* for this infrastructure development can not simply be met by receiving another single voucher payment from the public schools. If the voucher program achieves its objectives by increasing demand on private schools, the most desirable private schools may face full classrooms without the financial wherewithal to cover infrastructure expansion.

So how can good voucher schools supply enough space to meet the natural burgeoning demand? This research explains how one interest group has come up with a solution to this thorny issue. Using its expertise in analyzing school quality and fitness for expanse, one not-for-profit organization has decreased the capital investment risk for, and fused together monies from, a series of businesses, industry leaders, schools, and other partners, to expand the capacity of several high performance schools — exactly those schools most in need of assistance. The model provided by this organization may not be the only solution for this supply side issue, but it does expand our knowledge of the issue, and perhaps more importantly, provides one crucial avenue by which school choice programs can meet their full potential. This model of supply side school choice reform necessitates an understanding of the context in which this organization operates. This includes some background information on the setting and the partners necessary for success. Two examples of schools that have been helped by this organization are also presented to give the reader a sense of the importance of expertise, the need to have an outside organization or person move the process along, and the role of various funding sources and options.

THE MILWAUKEE EXPERIMENT

The City of Milwaukee has been at the center of most of the debate in the history of school choice in America. Formed out of what seemed to many to be a strange coalition, between Republican Governor Tommy Thompson and Democratic State Representative Polly Williams, Milwaukee inaugurated its Milwaukee Parental Choice Program (MPCP) back in 1990. Beginning with just over 300 students, thirteen years later the MPCP boasts participation of more than 10,000 MPS students. This number is set to increase as the legislation enabling the MPCP calls for a gradual expanse to include up to fifteen percent of the Milwaukee Public School (MPS) enrollment of approximately 100,000 students. Though it was Cleveland's choice program that was ultimately used by the Supreme Court to constitutionalize school choice, those involved in choice nationwide know that Milwaukee has long been “ground zero” in the choice debate (Williams, 2003).

Of all of the schools districts within southeastern Wisconsin, MPS has the largest African American enrollment (approximately 60 percent, compared to the next highest district with just over 25 percent), lowest performance measures (*e.g.*, grade specific national examinations, ACT scores, graduation rates), and worst discipline measures (*e.g.*, truancy, dropouts, and suspensions) (Public Policy Forum, 2002). The situation in Milwaukee, like in many major cities across the nation, is a school system at risk.

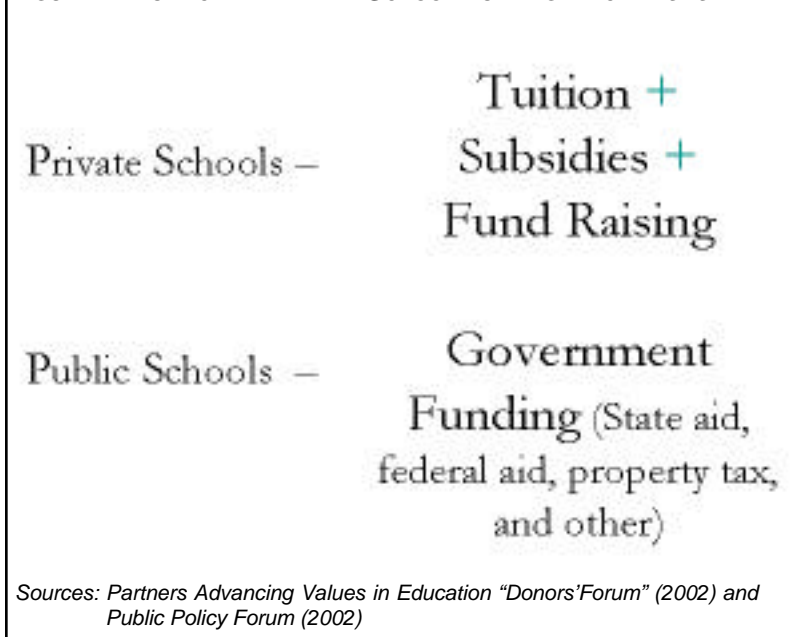
The school system and the State of Wisconsin, however, have not sat idly by while the education system impairs its students. Rather, MPS and the State of Wisconsin have boldly implemented a number of reform minded programs. These programs include an “Open Enrollment Program” allowing students to attend public school districts different from where those students

live; the “Chapter 220 Program,” permitting students from Milwaukee to enroll in suburban school districts; and most significantly the MPCP — “school choice.”

Though the MPCP program has been operational for more than ten years, in some measure the program has just recently been hitting its stride. In the 1998-1999 academic year, state legislators amended the choice legislation to include eligibility for parochial schools to receive state monies, resulting in a massive growth of the program. Including the parochial schools, MPCP students may now choose among over 100 different schools, ranging from tiny kindergarten-only schools to massive K-12 schools, from Catholic to Muslim schools. While some of these schools have been in existence for decades, others are brand new start-up schools formed as a direct response to the availability of receiving choice students.

Under Wisconsin law, the MPCP imposes several requirements upon participating choice schools as a condition of program involvement. To be sure, participating schools are still private entities, but achievement and reporting requirements levied upon these schools have significantly placed the imprimatur of the State on these private schools. Yet one major difference between public and private schools looms omnipresent in the supply side school choice debate: public schools rely upon government funding for infrastructure expense, while private schools — even choice schools — can not. Where public schools have tax dollars and bond initiatives, private schools have tuition, limited governmental subsidies, and private fundraising. Bake sales have a difficult time competing with AAA-rated bonding entities.

FIGURE 1 PUBLIC AND PRIVATE SCHOOL FUNDING MECHANISMS



The MPCP provides that participating schools receive a voucher worth the lower amount of either the choice school’s per child expenditure, or a state-computed figure approximating state aid per pupil. Notably private school vouchers are based on a per pupil spending figure from public schools that does not include many related expenses (Hill, 1999). For the last several years that has resulted in a typical voucher between \$4800 and \$5800 per choice student. This figure can exceed the tuition charged by some choice schools, or it can fall drastically short of tuition for other schools.

Though some groups, like the People for the American Way, decry the Milwaukee program as containing a “voucher surcharge” (Neas, 2002) since some schools receive money for a student in excess of the charged tuition, a comparison of the voucher amount with MPS per pupil spending — the district from which the choice students had been receiving their education — reveals that this amount of money places the private schools at a competitive disadvantage.

Milwaukee Public Schools spend approximately \$5400 in instructional services per student — an amount roughly in line with the voucher for the private schools. Yet private schools (as well as MPS) have several other expenses in their budgets, for which no compensation is made in the MPCP. MPS spends an additional amount of money close to \$4000 per student in operations, including pupil services, instructional staff services, general administration, building administration, transportation, and “other” expenses (Public Policy Forum, 2002). Instructional spending is just a bit more than 60 percent of operational expenses for MPS. Thus instead of the voucher representing a “surcharge,” in the words of Ralph Neas, the voucher only partially covers the costs associated with a student’s public school education.

What makes the drastic underpayment to private schools problematic for everyone, and not just the private schools themselves, is that MPCP does not allow private schools to compete on a level field with public schools. Private schools are not paid for the services rendered to choice students, and are not able to fulfill their role in the choice calculus. If the choice schools actually offer a high quality education and consequently spur increased demand for the choice schools, at some point the physical limitations of the schools’ facilities reach their capacity. With the best private schools unable to enroll students, the competition that was to be afforded to the public schools is significantly hampered. Since the premise of choice is that the existence of superior alternatives to the public schools spurs innovation on behalf of public schools, the MPCP under the current funding formula will not drive reform of the public schools through innovation.

Skeptics of the supply side dilemma may claim that the best private schools can simply expand to accommodate the new demand, or that other private schools will fill the gap left in its wake. Yet this argument neglects three critical factors in this issue. First, private schools are not only being under-funded with regard to operational expenses, the MPCP does not provide compensation for costs directly associated with infrastructure expansion. MPS spends close to \$50 million annually in capital projects and debt service alone (Public Policy Forum, 2002), bringing MPS annual spending close to the \$10,000 per student level. But again, there is no corresponding accounting of this sort of spending that is transferred to the private schools.

Second, there is a gap within private schools in terms of provision of a quality education (White, 2000). While there are some very good private schools, only some of those schools are properly positioned to compete with the public schools. The notion that all private schools are superior to public schools is simply not true. Because of the narrow focus in some private schools and because of the overwhelming inferior physical conditions of private schools, there may not

TABLE 1 MILWAUKEE PUBLIC SCHOOLS, BUDGETED SCHOOL OPERATIONS EXPENSES (2001-2002) AND MAXIMUM MPCP VOUCHER PAYMENT

	MPS	Voucher
Instruction	\$5,423	
Building Administration	\$589	
Transportation	\$573	
Instructional Staff Services	\$445	
Pupil Services	\$423	
General Administration	\$202	
Other	\$1,294	
Total	\$8,949	\$5,553

Source: Public Policy Forum, 2002 “Public Schooling in Southeastern Wisconsin”

be enough quality private schools to accommodate the overflow in demand for those superior private schools.

And third, there is a noteworthy risk inherent in the MPCP attenuated with infrastructure expansion — the voucher related expansion could be thwarted by politics. The choice program today is only viable for two years, just as long as the budget term in Wisconsin. The large capital expenditures necessary for infrastructure expansion requires some assurance of the long-term political prospects for the program. Without the knowledge of the long-term viability of the program, raising capital to expand incurs significant risk. It is in rectifying these three elements of supply side school choice where one particular not-for-profit in Milwaukee enters the story.

PAVE AND SUPPLY SIDE REFORM

Partners Advancing Values in Education (PAVE) came to the voucher debate in Milwaukee as one of the early players providing scholarships to low-income minority families who did not receive vouchers from MPS. Beginning in 1992, PAVE provided thousands of subsidies to near poverty-level families to enroll their children in private elementary or secondary schools. Since that time, PAVE's scholarship program has been a model for at least 20 other programs around the country (White, et al., 1996). Though the plan for PAVE was to have its millions of dollars in grants be replaced by public funds over time as the school choice program found its footing, legal challenges and limited eligibility for the MPCP have resulted in PAVE continuing in the scholarship realm to date.

Though over time the scholarship demands on PAVE have decreased — in part due to the success of choice and the work of other foundations, including the Fleck Foundation and the Bader Foundation — PAVE continues to be both a participant and a pioneer in the choice debate. In addition to providing scholarships, PAVE now also serves as a clearinghouse for school choice information, provides leadership training for principals, and has entered into the “new horizon” for choice — supply-side school choice.

FIGURE 2 PAVE's MISSION

Make Excellent Educational Opportunities Possible for Low-income Families in Milwaukee

- Scholarships
- Leadership
- Capital Investments

Source: Partners Advancing Values in Education “Donors’Forum” (2002)

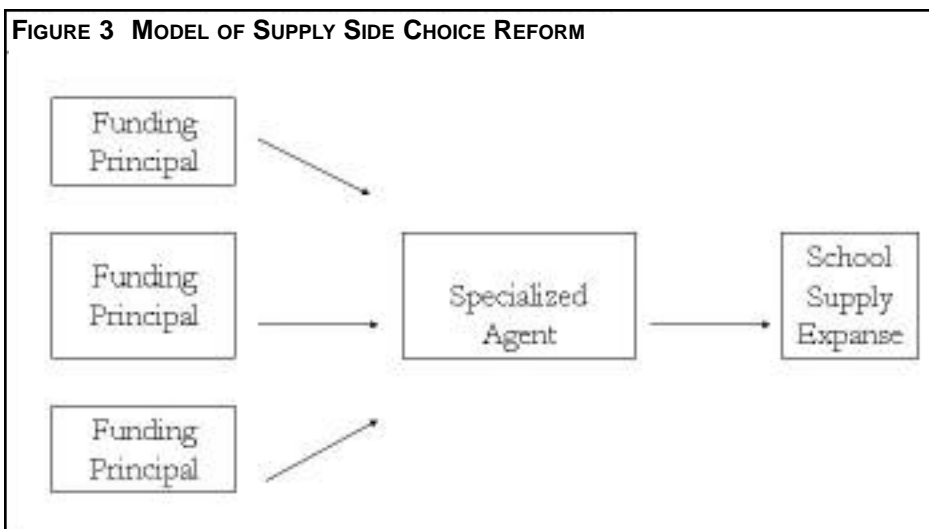
According to Dan McKinley, executive director of PAVE, “the facilities for parochial schools have been in a near crisis state.” Citing the early time period construction of most of these schools, the changing nature of parishes and their members, and the lack of business acumen of school leaders, McKinley argues that the choice program has successfully addressed the demand for private schools, but left completely open the issue of the supply of private schools. In

this view, supply side school choice is the natural result of a successful demand side school choice program. When students choose private schools over public schools, there must be enough seats in the private schools to accommodate those students. In particular, the very best schools — those schools that are the best competitors against the public schools — must increase their capacity to hold the choice students. Supply must rise to meet rising demand.

Because choice schools are faced with an underpayment for the services rendered by the schools, political uncertainty, and a lack of uniform quality among private schools, PAVE's entry into supply side school choice is critical. PAVE has retooled itself to position choice schools to meet the new demand by expanding their capacity. In short, PAVE transforms choice schools into small businesses, replete with financial assistance and leadership training. PAVE serves as an agent of change for those schools best positioned to expand for the long-term. In some cases PAVE works with schools, like Garden Homes discussed below, in establishing a new vision for how schools can meet community needs. In most cases PAVE addresses the new demands of choice school principals, by teaching these leaders how to receive funding for business and facility planning. And PAVE at times provides direct financial assistance to schools to increase their capacity. A generalized schematic model of this process is detailed below in Figure 3.

The generalized model used by PAVE in its capacity as an agent of change for choice schools is not terribly complex. PAVE gathers funds from philanthropic agencies and individuals — each listed as “funding principal” — uses its own particularized knowledge of which schools stand the best

chance of change and how to accomplish such change, and then targets the money and its knowledge accordingly to those schools. The lack of complexity, however, should not be taken as a lack of sophistication. PAVE recognized the natural result of a successful school choice program, used its fundraising ability honed during its scholarship heyday, brought in staff who specialize in determining whether and how to expand a business, and then targeted scarce resources where it could do the most good. The “real sophistication” of PAVE's actions comes from, in the words of one foundation representative, “fueling the coalition.”



Funding Infrastructure Expanse

The efforts of PAVE in securing the supply side growth for choice could not have occurred without the pivotal participation of Milwaukee's largest philanthropic organization. The Bradley Foundation, which sported about \$700 million in assets at the height of the stock market in 2000,

has been the single largest benefactor to provide money to PAVE. In the early years of PAVE's school choice work, the Bradley Foundation provided nearly \$11 million for scholarships, and has in the last few years provided a \$20 million matching grant over five years to PAVE to support the new infrastructure expense projects. For the sake of context, consider that education comprises just about 40 percent of the annual giving for the Bradley Foundation. In total, of the \$180 million granted for education over the last ten years, approximately \$40 million of that money has gone toward school choice. Thus, since the Bradley Foundation has granted PAVE more than \$30 million, PAVE has by far been the single largest beneficiary of the Bradley Foundation's financial commitment to school choice.

The need for reform of the physical structures of private schools, according to Dr. Dan Schmidt, a Bradley Foundation Vice-President, is crucial. While public schools have been failing physically over the last several years, private schools were way behind. In Schmidt's words, private schools physically have been "crippled and quickly atrophying." It used to be, according to Schmidt, that parish members would take out multiple mortgages on their own homes to carry the church schools forward. But today neighborhood residents are not always even stakeholders in their local institutions, much less in a financial position to support the schools in such a manner.

Thus PAVE can enter into the equation by bringing together a series of partners to carry the private schools forward. PAVE's involvement with the school signals to investors that the risk of investment is low and that returns on the investment will be high. The PAVE supply side program, therefore, is the provision of a method for private schools to catch up with the public schools, to compete on a level playing field, and to make the choice program fulfill the true ideals of choice.

While Bradley has been the single largest philanthropic organization filling PAVE's coffer, Bradley is not alone in this venture. One other such giving institution is the Fleck Foundation. Fleck, however, only provides limited funds to PAVE (about \$35,000). Instead, Fleck symbolizes another avenue of input for PAVE. Fleck uses its own financial wherewithal to target schools, approximately \$500,000 annually, but relies upon PAVE and its expertise in identifying worthy school projects. The Fleck Foundation uses PAVE as a sounding board on grant proposals it receives from schools. Because of the expertise built up by PAVE in evaluating the cost effectiveness of grants to private schools, Fleck Foundation Executive Director Andy Fleckenstein reports that PAVE effectively can veto proposals sent to the Fleck Foundation. When the Fleck Foundation receives grant proposals for capital improvement projects, Fleckenstein routinely sends such proposals to PAVE for evaluation as to whether Fleck should grant the proposal.

Over time PAVE has positioned itself in the choice venture as both the specialized giving arm of a large foundation and an expert gatekeeper for another foundation. What is key to PAVE — what sets PAVE apart from all other philanthropic institutions — is its knowledge of school reform, its expertise. Not-for-profit organizations wishing to emulate the PAVE model in other parts of the country must acquire expertise in the supply side issues of school choice.

Targets of Opportunity

PAVE's fundraising prowess and specialized knowledge together call for a targeted campaign of giving only to those schools best positioned for expansion. Throwing money at schools that either will not attract new students or will not be able to maintain those students fails to achieve

PAVE's mission, reduces the clarity of signal of low risk to other investors, and could potentially undermine the choice movement. But by shrewdly targeting PAVE's dollars at high performing schools that can expand under a sound business plan, the overall success of PAVE's mission of providing excellent educational opportunities to low-income children can be realized.

PAVE has not had to seek out schools in need of assistance. In fact, given the physical state of private schools, PAVE has been able to sort through a large number of proposals and only fund those most deserving schools. At any given point in time, however, PAVE will only be actively pursuing four or five expansion projects. By keeping the number of participating schools low, PAVE is afforded an opportunity to closely monitor each project and to ensure that the dollars are being spent appropriately.

The first major step in this process is the basic selection of the participating school. Here PAVE analyzes a proposal to determine whether the project is feasible, specifically the scope of the project physical requirements and the projected costs. PAVE has staff with years of experience with business analysis and puts that knowledge to use in the choice realm. PAVE requires each school applying for assistance to provide a detailed project plan, describing the project, market conditions, goals and objectives, risks and rewards, and budget. While most school leaders understand that expansion is desired, the business aspects of how that expansion will occur is often a mystery to them.

The information provided by the schools is then used to begin PAVE's independent analysis of the financing feasibility and the organization's core-business feasibility. Participating schools must have the proper governance and organizational structures, education plan and curriculum, enrollment plan and market feasibility, and external programs and partners. The selection committee meets to discuss their findings and to determine if any intervention efforts are necessary for the project to progress, such as specialized training for school leaders. It is critical to the venture that schools selected for expansion will succeed, both in terms of drawing new students and educating those students at high levels.

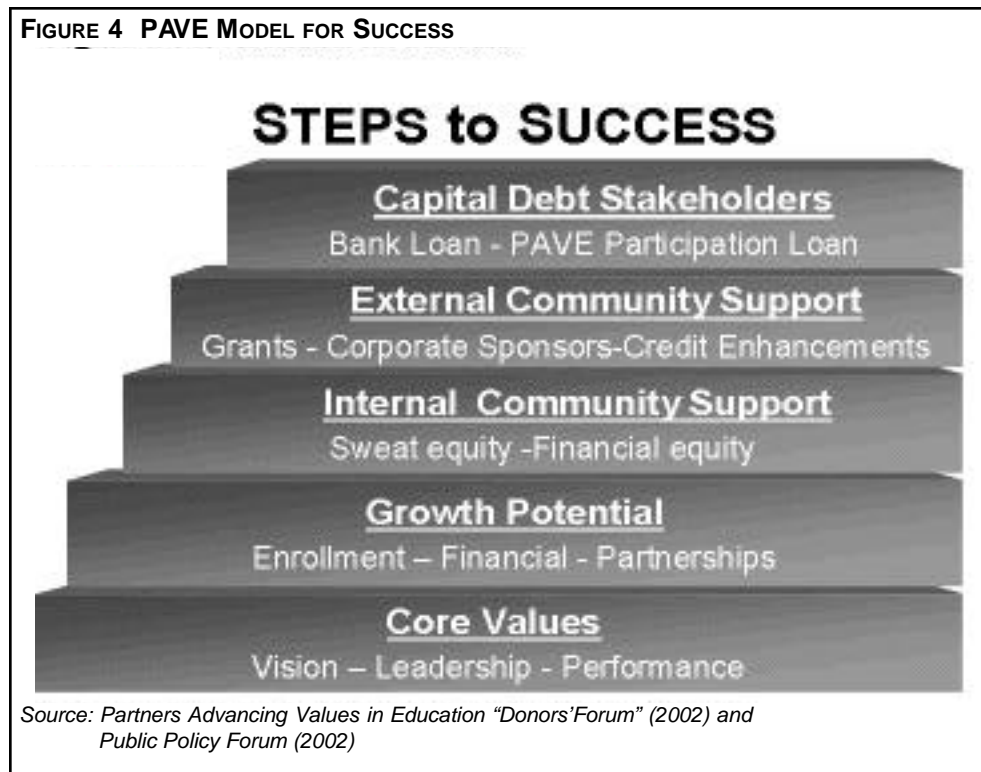
Schools that are selected typically differ from their competition in one of three ways. First, selected schools have strong core values, including a sound vision as an educational institution, strong leadership and proven results. The schools may have a unique curriculum, an especially well-regarded leader, atypically high test results, or some combination thereof. Second, these schools know that infrastructure expansion is dependent upon actual growth potential of the choice school, in terms of student enrollment and financial stability. There must be actual demand — and sustainable demand at that — for the new seats in the school. Detailed research must be undertaken on the local census tracts to know who those students will be to fill the new space in the school. And third, PAVE only assists those schools willing to work hard to expand. Without a school being actually able to provide both labor and financial contributions, and make partnerships with external groups, PAVE will look elsewhere. The schools receiving assistance must be willing to help themselves — with an extensive network of administrators, teachers, and parents who will walk door-to-door to conduct surveys, organize meetings of the parents of prospective school attendees, and do whatever else necessary to move the project along. PAVE demands such involvement from the stakeholders in the process not simply for division of scarce resources, but because such involvement ties the stakeholders to the ultimate success of the school.

Once a school has been selected for participation, PAVE moves on to the development services phase of the project. At this point, architects must prepare initial plans, and budgets and

financing requirements need to be established. The true “development” work also occurs here, including figuring out how the capital campaign will progress and what reasonable goals for such a campaign are. PAVE conducts its due-diligence to analyze the operational, financial, market, and enrollment projections, and then, along with the school, seeks out amounts of money from other foundations and financial partners.

Typically projects pushed by PAVE run in the \$4 million range, with PAVE providing five to ten percent of the project dollars in direct giving. The rest of the money is provided by the school and its community partners, including churches, banks, and health care centers. As the model of what it means to be a neighborhood school has transformed into a neighborhood center of activity (including education, daycare, healthcare, and a recreation center) the number of stakeholders in the future of our schools has dramatically increased. By binding these institutions together through a project of common interest, PAVE has also attempted to ensure the long-term viability of the schools. The final phase in the process involves the full panoply of construction related tasks, including final design, environmental impact studies, requests for proposals, preparation of contracts, and the actual project construction.

The physical expansion of voucher schools is dependent upon the school being run by the right individual(s), and the schools must recognize that the decision whether to fund expansion is keyed to the soundness of the business plan. Taken together these two ideas militate toward the proposition that for a school to expand, it must be run on a sound business principle by a trained business leader. This principle is one of cornerstones of PAVE’s “Steps to Success” of infrastruc-



ture expanse, listed in Figure 4. A trained business leader should possess the core values that can lead a successful effort to expand a school. But because most choice school leaders lack true business training, another critical ingredient must be added to the mix: leadership training.

Leadership Training

Choice school leaders today face a multitude of demanding tasks and constituencies. Many choice school leaders are often unprepared specifically for educating low-income children, involving parents and joining together community institutional partners for the students and their families. Combined with the tasks of governing a school devoid of traditional institutional support and managing the finances of what can be a multi-million dollar budget, school choice leaders faced what seemed to many to be insurmountable obstacles toward effectively managing such a school.

Because local colleges and universities traditionally focus their educational efforts for school leaders on more statewide issues, these educational facilities do not normally provide for the unique challenges facing choice school administrators. In the late 1990s, PAVE funded a specialized masters program through Marquette University's Administrative Leadership program to address this need. Yet the results were not as positive as hoped. According to PAVE, the Marquette program left unaddressed the

business and organizational issues germane to Choice . . . schools; governance issues (especially for parish schools confronting a radical transformation when most of their students came from families who were not parishioners nor of the same faith); resource development and communication issues; and the cultural issues that arose as a school community became more diverse and more affected by 'the culture of poverty.'

To remedy this void in educating leaders of choice schools, PAVE organized a collaboration of seven local colleges and universities (Alverno College, Cardinal Stritch College, Concordia University of Wisconsin, Marian College, Marquette University, Mount Mary College, and Wisconsin Lutheran College) that would strategically pool their resources to address the needs of this specific population. These leadership training sessions can address leadership issues throughout different levels of school leadership, not just for the school head. An on-going evaluation of the leadership training can assist in making sure that the material presented to the school leaders remains relevant to the task.

Once a choice school has been selected for expanse and the core values of the institution find resonance with the philanthropic institutions (Campbell et al., 2002) involved in the process, the growth potential of the school becomes the focus of attention, followed by the other steps displayed in Figure 4 above. How these steps play out is exemplified in the featured case studies below of two institutions that have received PAVE funds for infrastructure expanse.

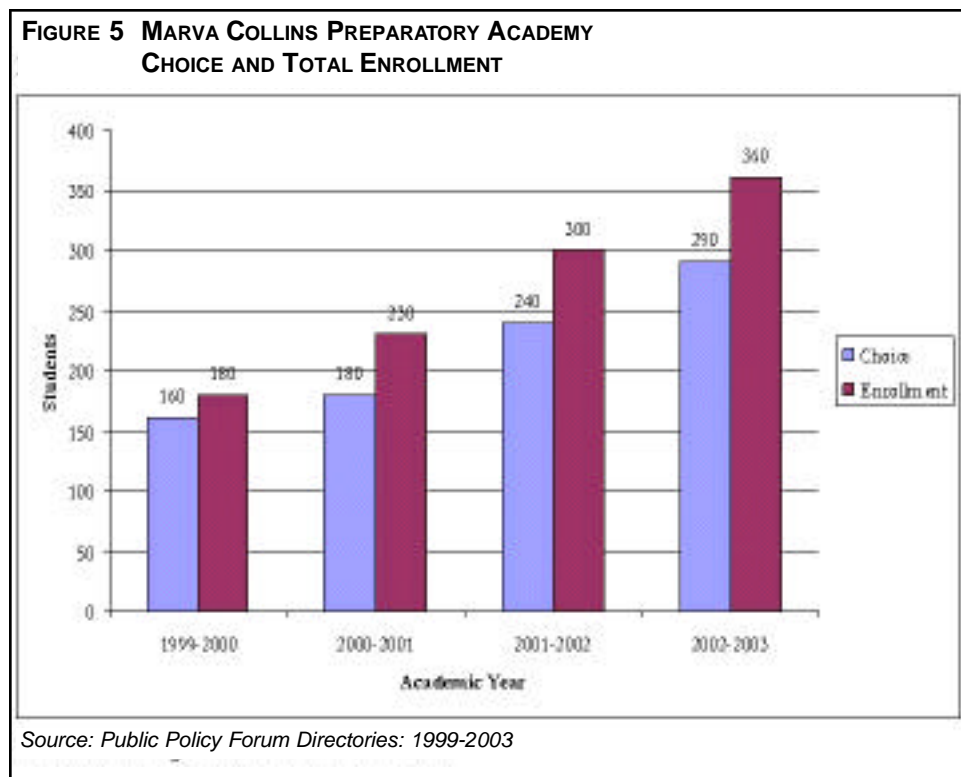
Marva Collins

Upon entering Marva Collins Preparatory School of Wisconsin (MCPS WI), one has little idea that what lies inside has long been the talk of the education community nationwide. Housed in an older annex to a church, the physical surroundings are, if not spartan, at least unassuming. Marva Collins, however, has been written up by *Newsweek*, *Education Week*, and *American Enterprise* magazine as a shining example of private education in the urban core. Exposés by CNN, the *Boston Globe*, *New York Times*, and the *London Sunday Times* have also sung the praises of Marva Collins Prep.

Committed to Marva Collins' philosophy that "children don't fail, teachers do," MCPS WI serves what could be a difficult population. More than 95 percent of the student body is minori-

ty, almost 90 percent of the student body qualifies for Milwaukee's Choice Program, and more than 75 percent of the students come from single parent homes. Further MCPS WI selects its student body from its applications randomly. The school does not pre-screen out students with financial, social, or even academic troubles. And with this student body, Marva Collins still performs with aplomb. Ninety-one percent of Marva Collins fourth grade students have achieved the reading proficiency rating, compared to 65 percent for the nation and just 54 percent for MPS students. Sixty-three percent of MCPS WI seventh grade students achieved a similar rating in math, compared to 24 percent of eighth grade students nationwide and just nine percent of MPS students.

One can see that Marva Collins has a unique educational philosophy and has had proven results. Robert Rauh, Marva Collins' principal, had a sterling reputation within the community as a selfless leader, genuinely concerned about the children who attend his school, and had long-standing ties to the community. It was also important to demonstrate that enrollment changes could occur under expansion. As can be seen in Figure 5, the expanse of Marva Collins has been quite dramatic.



When Marva Collins began with the choice program in 1997, the school had about 75 students. With PAVE's assistance, Marva Collins expanded by 50 percent the following year, and just three years later could enroll up to 400 students. PAVE helped Marva Collins with financing new leases for new classrooms, and helped position Marva Collins to purchase its own building

from its then landlord. While not all of the new demand was directly attributed to the choice program (i.e., MPCP students did not fill all of the new seats), some of this is due to the randomized admissions process used by the school. The lesson, however, was clear to Rauh: "without the foundations' help, it would have been very difficult to expand."

Rauh went to PAVE and a series of other local foundations shortly after joining the choice program. Marva Collins was faced with a dilemma. The school wanted to maintain its location, yet faced competition from other organizations for leasing space. Knowing that Marva Collins would expand down the road, the school needed not only enough space for its current students but want-

ed to ensure that the school would be able to absorb more students in the years to come. PAVE came up with a solution to have Marva Collins lease 20 classrooms, even though the school only had enough students for 13 rooms. PAVE's feasibility study showed that Marva Collins should lease the additional 7 classrooms that would be temporarily unused by Marva Collins, but secure the entire building for future Marva Collins students.

PAVE, however, did not stop there with Marva Collins. PAVE assisted Marva Collins with business plans, 3-year and 5-year budgets, and the details of how to finance the purchase of the previously leased building. PAVE directly secured a \$1 million low interest loan, and then facilitated meetings for Marva Collins with local banks — including the bank that ultimately provided the rest of the financing for the purchase. Now that Marva Collins owns its building, the school has further embarked upon a major renovation of the facilities. Following the renovation, Marva Collins will be able to accommodate 480 students a year. Again, PAVE has proven to be instrumental toward this end. In addition to the feasibility and business plan issues, PAVE also was able to help the school evaluate bid proposals, direct the school toward qualified vendors, and assist the school with the decision whether to hire a construction management firm. In the words of Rauh, "PAVE is a very nice resource to have around."

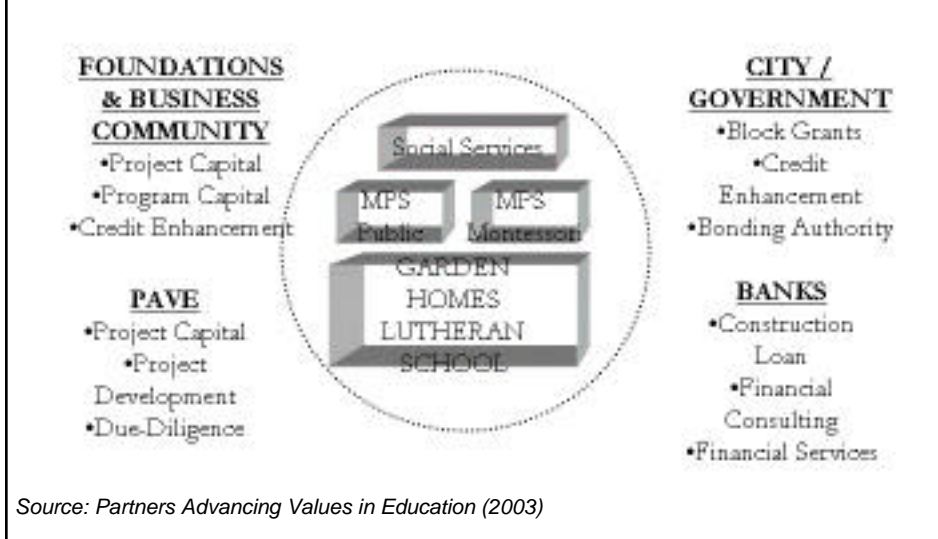
Garden Homes

Another school to receive assistance from PAVE for infrastructure expansion is Garden Homes Lutheran, a K3-8 school that has been in the MPCP program since 2001. Rather than leasing new space and then purchasing the building as Marva Collins did, Garden Homes has a more ambitious project on board. Since Garden Homes has maximized its use of its current building, including placing several classrooms in its basement and several more in what was its gymnasium, Garden Homes is attempting to secure financing to build a brand new 43,000 square foot building adjoining the Garden Homes Lutheran Church. As of March 1, 2003, Garden Homes had secured just over \$500,000 of the needed \$4 million for the project.

The Garden Homes vision goes beyond mere education of school children. In fact, according to Garden Homes' Pastor, Dr. E. Allen Sorum, Garden Homes sees its outreach into the community as a mechanism "to transform a stressed urban area into a stable, constructive and attractive neighborhood for families with young children." The provision of a top-notch education, of course, is key to the success of Garden Homes. And so far the school has been able to vastly outperform almost all other schools. Whereas less than half of all freshmen students in MPS in Milwaukee can expect to graduate high school, 98 percent of all Garden Homes eighth grade graduates go on to graduate from high school.

Beyond education, however, providing before and after school care, a community center, and partnering with MPS, is part and parcel of the Garden Homes philosophy. These measures, which are in essence a comprehensive approach to the process of neighborhood stabilization, can enable, according to one church elder, the Garden Homes Lutheran Church and School to become "a village." Centering a place to be the locus of all activities (school, recreation, and health) is important, because it ultimately involves the parents all the more. And research has shown that parental involvement in education is one of the critical factors in educational success (White, et al., 1998). This village notion, however, has required several partners — including philanthropic foundations, parish member donations, government assistance, and bank loans. Figure 6 displays what PAVE calls the "synergy of partnerships" used in this venture.

**FIGURE 6 PAVE AND GARDEN HOMES LUTHERAN SCHOOL'S
"SYNERGY OF PARTNERSHIPS"**



Through this new project, Garden Homes expects to be able to double its current enrollment of 125 to 250 by the 2006-07 school year — with the vast majority of those students coming from the neighborhood immediately surrounding the school. Since Garden Homes currently attracts about 70% of its student body from the

MPCP, all things remaining constant, Garden Homes stands to almost triple its budget, increase its teaching staff by 50 percent, and result in an annual surplus of more than \$100,000. Sorum, and the bevy of teachers and parents who have been intimately involved in securing the expansion project, report that quite simply they would have been unable to understand how to expand and to leverage the rest of the financing for this project without PAVE's assistance.

PAVE's assistance to Garden Homes has been multi-faceted. First, PAVE provided Garden Homes assistance on consultation for a building facilities plan. Garden Homes had thought that expanding their current building would be the least expensive method of expansion. Instead, however, PAVE showed Sorum how building a new facility was actually more cost effective. But more importantly, according to Sorum, PAVE provided Garden Homes with the simple message: do not be afraid — PAVE would stand with Garden Homes along the entire way. Second, PAVE provided consultation on three annual business plans for Garden Homes. PAVE convinced Garden Homes of the need for a careful plan, spelling out the number of students needed for expansion. Sorum reported "we simply weren't used to [this process]. What did we know about paying for \$120,000 worth of interest?"

Third, PAVE expanded Garden Homes' view of the project to include the entire neighborhood. The vision for this project could not be of a stand alone project, but rather for a locally based neighborhood resource. Thus the before-school programming, the after-school programming, and the gymnasium are community resources. In fact, as part of Garden Homes' outreach in the local neighborhood, in some instances local residents learned that the local public school was the seventh highest performing MPS school — yet their children were often being bussed across town to attend an inferior public school. As a result of the Garden Homes Lutheran project, MPS parents have garnered more information about local public school options.

Fourth, PAVE provided financial assistance to Garden Homes, approximating direct assistance of \$200,000 and involvement in loans totaling \$2.4 million. PAVE granted the \$200,000 to Garden Homes as seed money to help raise the rest of the financing on the entire project. PAVE

also secured a \$1,000,000 low interest loan to Garden Homes, and brokered a deal between Garden Homes and the Wisconsin Evangelical Lutheran Synod for another \$1.4 million loan.

Beyond the direct giving and loan securing, however, PAVE provided another resource to Garden Homes: counseling. Much of the involvement PAVE had with Garden Homes involved speaking with Garden Homes. PAVE provided the constant affirmation that after the inevitable setbacks: “We can find a way around this. Don’t give up.” Bill Bell and Dan McKinley gave Sorum the assurance of a partner in the development project who would not back out. And PAVE is the organization that convinced Garden Homes to join the School Choice program. Because Garden Homes did not want to compromise its belief in excellence and did not want government interference with providing a religious education, Garden Homes resisted joining the Choice program. But after discussions with Dan McKinley at PAVE, Pastor Sorum realized how participation could actually be compatible with school choice and at the same time force the public schools to improve.

CONCLUSION

The choice program in Wisconsin has gone through several stages, from inception to today — strange political bedfellows, legal challenge, program growth, and political challenge. But choice, in Milwaukee and elsewhere nationwide, has so far failed to confront the next wave of challenges facing the students who have been trying to escape a failing public school system. That challenge is the supply of high quality choice schools.

In Milwaukee, PAVE has been leading the way in showing the best private schools how to grow to accommodate choice students. Rather than doling out charity and hoping for the best, the PAVE model focuses on teaching school leadership how to grow a school as a business. PAVE works intensively with a few high end achieving schools, and offers its assistance only when the conditions for success are present. Private schools must be well positioned in the market for growth, provide much of the work itself, and adopt business practices toward this end. PAVE creates the coalitions and then teaches schools how to run a successful growing school.

The PAVE model of supply side choice has its most immediate effect on the school choice program. By ensuring that poor students have the choice to attend private schools that produce educational results, PAVE’s approach pushes the public schools to reform and to innovate in response. The PAVE model, however, also has applications outside of choice programs, including charter schools. If one wants a school to grow, in Cleveland’s choice program or Peoria’s charter school program, the PAVE model of bringing together funding principals and pushing schools to adopt sound business practices can be adopted.

Acknowledgements

Martin J. Sweet is an assistant professor of political science at Dickinson College in Carlisle, Pennsylvania. He holds a bachelors, masters, and doctorate from the University of Wisconsin-Madison, and a law degree from the University of Minnesota Law School. I would like to thank the staff at the Wisconsin Policy Research Institute, John Witte, Don Downs, Will Howell, Andy Rudalevige, Dan McKinley, Bill Bell, Robert Rauh, Allen Sorum, and Sammis White for their assistance in this project.

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