

Private School Scholarships to Divert \$30 Million More in Revenue

Bill Analysis: House Bill 140

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Championed as a quasi-voucher bill by its author, House Bill 140 would expand Georgia's private school scholarship tax credit program from \$50 million to \$80 million, diverting an additional \$30 million in potential state revenue from the general fund. The program provides dollar for dollar tax credits to taxpayers who contribute to private school scholarships through student scholarship organizations.

As designed, the program is hampered by its unfocused use of scarce resources, a lack of accountability and an unclear connection to Georgia's workforce development goals.

Any student enrolled in a public school in Georgia can receive the scholarship regardless of financial need. Most other states with similar programs reserve the scholarships for low-income students. In addition, under the proposed legislation, the requirement that scholarship recipients be enrolled in a public school is removed so that all students, even those already in private schools, can receive a scholarship.

The tax credit program is supposed to "provide a program of educational improvement," according to the original legislation, but there is no publicly available evidence that it does.¹ Tax credits can be earned by individuals, families and corporations contributing to scholarships. No information is available on scholarship recipients. The public has no means to determine if the private schools improved the educational outcomes for the 25,000 students the bill's sponsor says received the scholarship since 2008.²

There is a great need for educational improvement in Georgia. It should begin with a goal to significantly raise the graduation for the state's one million low-income students from where it is now — 60 percent. After a decade of cuts in education spending and at a time when the Quality Basic Education program is underfunded by \$1 billion, policymakers should determine whether public schools are still getting the resources needed to develop Georgia's future workforce.³

The scholarships divert potential state revenues to private schools and away from an already stretched general fund. The private school scholarship program served about 8,100 students in the 2011-2012 school year.⁴ Before shifting more resources from public schools to private ones through the tax credit, a question should be answered: What benefit is the state getting in return for a potential loss of \$30 million in tax revenue and the possible budget cuts in education spending that might follow?

Program Cost

House Bill 140 would reduce the state's potential tax revenue for fiscal year 2014 by a total of \$80 million: \$50 million for the existing program and \$30 million for the proposed expansion. The statewide cap on tax credits would increase by the annual percentage change in Consumer Price Index for All Urban Consumers through 2022. With this annual increase, the cap would increase to almost \$97 million in 2022.⁵

HB 140 Would Cut More into Revenue Each Year

	Current Tax Credit	Additional Tax Credit	Total
2014	\$50,000,000	\$30,000,000	\$80,000,000
2015	\$51,195,000	\$30,717,000	\$81,912,000
2016	\$52,418,561	\$31,451,136	\$83,869,697
2017	\$53,671,364	\$32,202,818	\$85,874,183
2018	\$54,954,110	\$32,970,466	\$87,926,576
2019	\$56,267,513	\$33,760,508	\$90,028,021
2020	\$57,612,303	\$34,567,384	\$92,179,690
2021	\$58,989,241	\$35,393,544	\$94,382,785
2022	\$60,399,083	\$36,239,450	\$96,638,534

Source: GBPI calculations. Data from the U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers, U.S. City Average, All Items, 2002-2012. This estimate does not account for tax credits that taxpayers may rollover for up to five years; this would likely increase the annual cost of the tax credit.

What the Bill Would Do

Current Program

The tax credit program for private school scholarships was created in 2008. Through the program, individuals, families and corporations in Georgia can earn tax credits equal to the amount of donations they make for private school scholarships. For example, a couple can donate \$2,000 to a scholarship and their tax liability is decreased by that \$2,000. In essence, taxpayers are redirecting their tax dollars to scholarships instead of the state. The donations are made to student scholarship organizations, which are nonprofits that collect, manage and distribute the donations to private schools. Taxpayers can designate a student for their donation as long as it is not a dependent.

Individuals can receive a tax credit of up to \$1,000 and couples can receive one of \$2,500 annually. A corporation can receive a tax credit of up to 75 percent of its income tax liability.

Any student enrolled in a public school or pre-kindergarten program qualifies for a scholarship. The maximum scholarship amount a student can receive is the average annual amount of state and local expenditures per student. For 2013 the scholarship cap is \$9,046.⁶

Originally the total amount of statewide tax credits was capped at \$50 million annually. In 2011 the legislature determined the cap would increase each year pegged to the consumer price index. Public information about the program is limited to the number and amount of total scholarships as well as the number and total value of the tax credits. Demographic information about scholarship recipients is not available.

Proposed Program Changes

House Bill 140 would increase the statewide cap on tax credits by \$30 million bringing the total amount of tax credits to \$80 million. The bill makes other changes to the existing program. Under the proposed legislation:

- Any student eligible to enroll in a public pre-kindergarten or K-12 program could receive a scholarship.
- Taxpayers would not be allowed to designate their contributions to a specific student.
- Limited liability and Subchapter S corporations would be eligible to participate.
- The amount of credit that corporations may apply to their income tax liabilities would be 50 percent annually and corporations could apply the tax credit to other tax liabilities such as sale of alcoholic beverages.
- Total tax credits for corporations would be limited to 25 percent of the total annual statewide cap.
- Taxpayers could apply unused tax credits to following years; the value of these credits would be added to the total statewide allowable amount of tax credits.

Policy Considerations: Program fails the good education policy test

In this time of significantly limited financial resources and with the pressing need to dramatically improve the knowledge and skills of Georgia's workforce, new investments in education must maximize the possible benefits for the largest number of students with the greatest need. Policymakers should determine if House Bill 140 does this.

Nearly 60 percent of Georgia's public school students are low-income.⁷ These students—there are more than 1 million of them—struggle in school. In the 2010-11 school year, the graduation rate of these students was 15 percentage points below that of students who were not economically disadvantaged: 59.4 percent compared to 74.6 percent.⁸ Low-income students need extra support to match the academic success of middle- and upper-income students.

The private school scholarship tax credit program does not direct money to these students or students in low-performing schools. If these students benefit, it is by chance, not design. Georgia differs from other states that have similar tax credit programs by not using financial need to determine scholarship recipients. There are seven states that operate tax credit programs, according to a recent report from the Fordham Institute.⁹ Only Georgia and Arizona do not direct scholarships to low-income students.

The tax credit program has been likened to a voucher program by its designer.¹⁰ Comparing it to voucher programs in other states, it is evident that here, too, Georgia differs. The Fordham Institute notes that of the seven state voucher programs, five are directed to families with limited financial resources, one is for students who attend failing schools and one requires students to come from low-income families and also attend a poor-performing school.¹¹

Program Prohibits Transparency and Evaluation

Because it is illegal to collect and report demographic information on scholarship recipients, the number and proportion of low-income students who have received scholarships is unknown. Perhaps many low-income students have been awarded scholarships. Even if they have, however, they may still face financial barriers. The annual tuition at many private schools is \$14,000 or more.¹² This is well above \$9,046, the current cap on the scholarship award, which could put many of these schools out of reach for low-income families.

At the same time, the scholarship program does not require private schools to foster the educational improvement that is its stated intent. Participating private schools are not required to show that the scholarship students who once attended public schools are learning more than they did in those schools. In fact, unlike public schools, participating private schools do not have to provide any information about students' academic success. It is unclear what educational improvement means when students attending a private school receive a scholarship to continue attending that school.

Program's \$30 million Price is Bad Education Policy, Which Limits Improved Education Outcomes

Beyond this, expanding the tax credit program diverts \$30 million away from potential state revenues each year, which may trigger more cuts in education. Continuing years of declining investment in public schools and public school students, the Quality Basic Education program is underfunded by \$1 billion in the proposed fiscal year 2014 budget, and many programs including those in critical areas such as Science, Technology, Engineering and Math have been cut or even eliminated. What should be cut next?

Instead of more cuts, Georgia should make additional investments in education to increase the high school graduation rate among our one million low-income students and build the state's workforce. These investments, though, should reflect findings of effectiveness from research and evidence from the field. They should also have the potential to help significantly higher numbers of our low-income students learn more and graduate. Lawmakers should determine if expanding the private school scholarship program does that.

Better Ways to Spend \$30 million for Educational Improvement

If \$30 million in new funding is available, however, there are strategic investments Georgia could make in programs with clearer returns than Georgia's private scholarship program.

- *Replicate the federal school improvement grant program.* With funding from the America Recovery and Reinvestment Act, the U.S. Department of Education provided competitive grants of between \$500,000 and \$2 million to low-performing schools as a means to transform them. Interim data indicate that the majority of participating schools experienced improvements.¹³ With \$30 million Georgia could create a similar competitive program to provide 60 struggling schools with \$500,000 grants annually.
- *Provide more time for learning.* One of the common practices of successful charter schools is providing more time to learn.¹⁴ These schools extend the school day, the school year, or often both. This extra time enables students to participate in enrichment activities or to receive additional instruction in areas in which they struggle. Georgia could follow the path of higher-performing states like Massachusetts, Connecticut, Tennessee and Colorado and provide additional learning time for students in high-need schools.¹⁵ Since two-thirds of school districts in Georgia have cut days from the school calendar, this could be particularly beneficial for students.¹⁶
- *Transform teacher preparation.* A new model of teacher preparation, based on how doctors are trained, has been developed by reform organizations. Teacher-candidates spend a year working closely in the classroom with master teachers while taking courses in instruction. Teachers trained through these programs are more likely to stay in the classroom and to improve student achievement.¹⁷ Georgia State and Kennesaw State universities won federal grants to institute this model. With funding, all of the teacher preparation programs in Georgia could be similarly restructured.

Perhaps the best place for the state to invest its limited financial resources is in teacher and principal quality. Teacher quality is the greatest school-based factor in student achievement.¹⁸ Principals are the second greatest school-based factor.¹⁹ Despite this, the state significantly reduced funding for professional development for teachers in recent years, while it eliminated funding for professional development for principals. Restoring this funding is a key recommendation of the state's Education Finance Study Commission.²⁰ The proposed fiscal year 2014 budget takes a step in this direction but falls far short of the commission's recommendation.

Many possible investments could lead to better teaching and education outcomes across Georgia's schools that serve students with the greatest needs. Lawmakers should determine if expanding the private school scholarship tax credit program is one of them. They should also determine if private school scholarship expansion helps Georgia reach its goals to develop a highly-skilled workforce, with 250,000 new students who have completed a postsecondary certificate or degree by 2020.

Endnotes

¹ Georgia General Assembly, House Bill 1133, 2008.

² Representative Earl Ehrhart, Meeting of the Income Tax Subcommittee, Georgia House of Representatives, February 13, 2012.

³ By 2020 60 percent of jobs in Georgia will require postsecondary training but only 42 percent of young adults in the state currently have a postsecondary certificate or degree. To ensure that the state's workforce's skills reflects employers' needs, Georgia is seeking to increase the number of students who complete a postsecondary certificate or degree by 250,000 by the year 2020. (University System of Georgia. (2012). Complete College Georgia. http://www.usg.edu/educational_access/documents/GaHigherEducationCompletionPlan2012.pdf)

⁴ Glenn, M. and Giniinger, M. (2012). School Choice Now: The Year of School Choice, School Choice Yearbook 2011-12. Washington, DC: Alliance for School Choice.

⁵ GBPI calculations. Data from the U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers, U.S. City Average, All Items, 2002-2012. This estimate does not account for tax credits that taxpayers may rollover for up to five years; this would likely increase the annual cost of the tax credit.

⁶ External Affairs and Policy Division, Georgia Department of Education. Student Scholarship Organization.

⁷ 59.75 percent of students enrolled in the state's public K-12 school qualify for the federal free and reduced price lunch program. (Georgia Department of Education, Free & Reduced Price Eligibility, October 31, 2012.

⁸ Georgia Department of Education. 2010-11 Report Card.

⁹ Stuit, D. & Doan, S. (2013). School Choice Regulations: Red Tape or Red Herring? Washington, DC: The Thomas B. Fordham Institute.

¹⁰ Representative Earl Ehrhart, Meeting of the Income Tax Subcommittee, Georgia House of Representatives, February 13, 2013

¹¹ Stuit, D. & Doan, S. (2013). School Choice Regulations: Red Tape or Red Herring? Washington, DC: The Thomas B. Fordham Institute.

This total does not include voucher programs that are restricted to special education students.

¹² Tuition at many schools that belong to the Atlanta Area Association of Independent Schools is at or exceeds \$14,000.

¹³ U.S. Department of Education. Snapshot of School Improvement Grants Data, November 19, 2012. <http://www2.ed.gov/documents/press-releases/sig-data-presentation.pdf>

¹⁴ Dobbie, W. and Fryer, R. (2011). Getting beneath the veil of effective schools: evidence from New York City. Cambridge, MA: Harvard University. http://www.economics.harvard.edu/faculty/fryer/files/effective_schools.pdf

¹⁵ Fleming, N. "States Pledge to Expand Time in School," Education Week. December 11, 2012. <http://www.edweek.org/ewarticles/2012/12/12/14expanded.h32.html>

¹⁶ Johnson, C. D. (2012) Survey says: trouble for schools. Atlanta, GA: Georgia Budget & Policy Institute

¹⁷ For example, teachers trained through the Memphis Teacher Residency program were found to be more effective than teachers from all other preparation programs in Tennessee. Graduates of the Boston Teacher Residency have an 80 percent retention rate, well above the national average of 50 percent for teachers in high need schools. (Tennessee Higher Education Commission. 2012 Report Card on the Effectiveness of Teacher Preparation Program, Memphis Teacher Residency Overview. http://www.state.tn.us/the/Divisions/ftt/12report_card/PDF%202012%20Reports/Memphis%20Teacher%20Residency.pdf. Boston Teacher Residency. The BTR Impact. <http://www.bostonteacherresidency.org/btr-impact/>

¹⁸ Hanushek, E., Kain, J., and Rivkin, S. (1998). Teachers, schools and academic achievement. New York: National Bureau of Economic Research Working Paper No. 6691.

¹⁹ Branch, G., Hanushek, E., and Rivkin, S. (2013). "School leaders matter," Education Next. Cambridge, MA: Harvard College <http://educationnext.org/school-leaders-matter/>

²⁰ State Education Finance Study Commission, Georgia Department of Education. Summary of Recommendations. September 2012.