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Bill Analysis

Transparency for Private School Scholarships Improves

Bill Analysis: Senate Bill 243 (LC 33 5148-ECS)

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Senate Bill 243 (SB 243) unlike the related House Bill 140 (HB 140) introduced earlier in 2013 legislative session, would bring overdue focus, transparency and accountability to the private school scholarship tax credit program. But it does not end its annual expansion. The proposed changes would encourage making students with the greatest financial need a top priority, direct more money to students and provide more information about the finances of participating organizations. At a time when the state is cutting its support for public education, however, lawmakers should not divert potential state revenue away from critical needs to a program with an unproven track record.

The private school scholarship program was established in 2008 to "provide a program of educational improvement."[1] It offers dollar-for-dollar tax credits to taxpayers, including corporations, for donations to private school scholarships through Student Scholarship Organizations (SSOs). Under current rules any student enrolled in a public school, even if only for one day, regardless of family income is eligible for a scholarship. Most states with similar programs require scholarship recipients to demonstrate financial need.[2]

The SSOs are nonprofit organizations that solicit, manage and distribute donations to private schools. Little information is available about them or the students who receive scholarships.

The statewide annual cap on the tax credit was initially set at $50 million in 2008. In 2011 legislation was passed to automatically expand the program annually based on the Consumer Price Index.

A more complete description of the program is available in a Georgia Budget and Policy Institute analysis of HB 140. That bill seeks to increase the tax credit by $30 million but without any of the measures that enhance transparency and accountability offered by SB 243. In addition, HB 140[3] would broaden eligibility to any student including those currently attending a private school without giving any consideration of students' financial need.

Program Cost

Senate Bill 243 does not propose changes to the cost of the private school scholarship tax credit program. The annual statewide cap on the total tax credit is to increase by current Consumer Price Index through 2018.

Estimated Annual Increase[4]

Fiscal Year	Tax Credit Cap
2013	$52,000,000
2014	$53,092,000
2015	$54,206,932
2016	$55,345,278
2017	$56,507,528
2018	$57,694,186

Source: GBPI calculations. Data from the Georgia Department of Revenue, Georgia Tax Expenditure Report Fiscal Year 2014, U.S. Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers, U.S. City Average All Items Index, 2002-2012

What the Bill Would Do

Senate Bill 243 would target the program to students with financial need and bring Georgia's program in line with the practices of other states. It would revise the program in three areas: student eligibility, financial practices and transparency, and accountability.

Student Eligibility

The bill would limit eligibility to students who enrolled in and attended a public school for a minimum of six weeks prior to entering a private school. Students entering pre-kindergarten, kindergarten or first grade would be exempted from this requirement. This would prevent students who enrolled in a public school but did not attend one from being eligible. Reports say current private school students enroll in public school without attending to gain eligibility and that the practice is encouraged.[5]

Several exceptions are carved out in the proposed eligibility criteria. Students entering pre-kindergarten, kindergarten or first grade would be exempt as would students who attend or would be assigned to a low-performing school. Students who have experienced documented physical violence or threats of violence are also exempt. Also, parents may gain an exemption if they send written notification to their assigned public school that classroom activities conflict with their religious beliefs.

Senate Bill 243 directs SSOs to consider financial need when selecting scholarship recipients. Need would be calculated based on federal adjusted gross income, as adjusted for family size using the modified scale published by the Organization of Economic Cooperation and Development. In practice this means that students of all income levels remain eligible for the scholarships, but that financial need can be a factor when SSO staffers determine who gets scholarships.

Financial Practices

The bill would require larger SSOs to direct more funds to student scholarships. Currently all SSOs can retain 10 percent of the money collected. Under the proposed changes, as donations increase, the portion SSOs can retain falls.

Table 2 How Much SSOs Can Keep

SSO Contributions	Percent Retained
Up to $1.5 million	10%
More than $1.5 million, less than $10 million	7%
More than $10 million, less than $20 million	6%
More than $20 million	5%

Source: Senate Bill 243, Georgia General Assembly, 2013.

Senate Bill 243 would also eliminate the amount of donations SSOs can carry over from one year to the next. Now SSOs can carry over up to 25 percent of the non-retained funds. This carry over combines with potential retained donations to allow SSOs to hold about one-third of donated money. Some hold much higher proportions.[6]

Transparency and Accountability

Senate Bill 243 provides greater transparency and accountability to SSO finances. All SSOs now are required to conduct an annual audit, which verifies that they properly designate funds to students. Under the proposed changes, the audits would go further to verify money is received and distributed as required. Audits that don't comply would be flagged by the Georgia Department of Revenue, which would report on its website details of the SSO's failure to verify these requirements. The department, which pre-approves all donations to SSOs, would no longer pre-approve until the SSO submitted proof of compliance.

A persistent concern about the private school scholarship program is the lack of information about students. While proponents say the program serves low-income students, data is not collected to verify that.[7] Senate Bill 243 would shed some light on demographics of scholarship recipients by requiring SSOs to report the average household income for all scholarship recipients after accounting for family size by a measure commonly used in Europe.[8] This is not a measure used by the Department of Revenue or the Georgia Department of Education, however, and its use limits comparisons between scholarship recipients and the rest of Georgia's students.

Policy Considerations: Program's unchecked automatic expansion diverts critical state revenues

Senate Bill 243 offers some valuable improvements to the private school scholarship tax credit program. However it does not address some important issues.

The intent of SB 243 is to provide an education alternative for children attending failing schools. This intent is not supported by an amendment that allows students to qualify for the scholarships if their parents register objections to required public school activities that conflict with their religious beliefs, whether or not the school is failing. Added as an amendment during debate on the Senate floor, the new language allows students currently attending private religious schools to receive scholarships. That amounts to a tacit subsidy of Georgia's private religious schools.

The state has underfunded public education for a decade. In the current school year, Georgia is underfunding public schools by $1.1 billion and it is proposing to underfund them by another $1 billion in the 2013-2014 school year. The state's per-pupil investment is falling. Yet the statewide cap on the total tax credit for private school scholarships increases automatically each year based on the Consumer Price Index. This provides a benefit to participating taxpayers and private schools at a time when public schools are cutting instructional days, furloughing teachers and increasing class sizes.

At the same time, the automatic increase diverts more potential revenue away from the state. This means less funding for critical investments like education and workforce development.

The program's annual expansion is not tied to performance. Participating private schools are not required to show scholarship students meet education goals or reach higher levels of achievement than would be expected if they remained in public schools. In short, private schools are not held to the same levels of accountability or achievement that public schools are.

Senate Bill 243 is a welcome start to improving the private school scholarship tax credit program. It addresses several key concerns in the current structure, where HB 140 does not. More needs to be done to ensure Georgia's neediest students benefit and that it is a cost-effective way to improve student achievement.

EndNotes

[1] Georgia General Assembly, House Bill 1133, 2008.
[2] Stuit, D. & Doan, S. (2013). School choice regulations: red tape or red herring? Washington, DC: The Thomas B. Fordham Institute.
[3] The analysis HB 140 underestimates the cost of increasing the statewide annual cap on the tax credit by the Consumer Price Index. It incorporates the estimated CPI increase beginning in 2015. The CPI increase was adopted in 2011, however. The Georgia Department of Revenue estimates that the cost of the annual statewide tax credit is $52 million for fiscal year 2013. (Georgia Department of Revenue (2012). Georgia tax revenue report for fiscal year 2014. http://opb.georgia.gov/sites/opb.georgia.gov/files/related_files/site_page/TER%20for%20FY2014%20with%20Transmittal%20Letter.pdf)
[4] 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.
[5] Suitts, S. & Dunn, K. (2011).A failed experiment: Georgia's tax credit scholarships for private schools. Atlanta, GA: Southern Education Foundation
[6] Ibid."
[7] Georgia Rep. Earl Ehrhart, Meeting of the Income Tax Subcommittee, Georgia House of Representatives, February 13, 2012.
[8] This is the modified equivalence scale published by the Organization for Economic Cooperation and Development (OECD). For a detailed explanation see the brief What are equivalence scales?, which is available from the OECD at http://www.oecd.org/social/family/35411111.pdf.