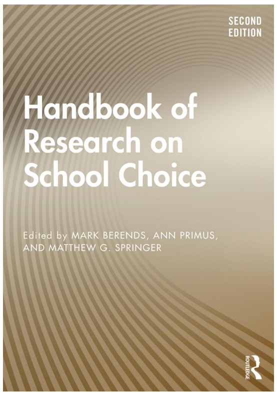

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TAX CREDIT SCHOLARSHIPS IN AN EVOLVING SCHOOL CHOICE ARENA

Implications for Research, Policy, and Practice

Luis A. Huerta and Steven Koutsavlis

Education tax credit programs (including tax credit scholarships and individual tax credit/deduction programs[1]) have been proposed in over 45 states throughout America, and 31 programs are now operating in 20 states (National Conference of State Legislatures, 2018; EdChoice, n.d.).[2] Most of the existing programs, all of which operate in conjunction with scholarship granting organizations (SGOs),[3] became operational in the late 1990s and have expanded significantly over the last 15 years.[4] Similar to vouchers,[5] most education tax credit scholarship (TCS) programs limit eligibility to students who meet particular requirements; however, several extend subsidies to existing private school students without respect to family income or student characteristics. Unlike traditional voucher programs, private schools that choose to participate in TCS programs are not required to accept state-subsidized awards in exchange for full tuition.

The political and policy debate on TCS programs hinges on the same divergent views for improving public education that have historically dominated the debate on vouchers. Specifically, proponents argue that market competition will disrupt a public monopoly in education and revitalize a system that has become ossified by large, inefficient bureaucracies. Public subsidies for private school tuition (through either tax credits or vouchers) allow families to choose learning environments that match their individual preferences (Chubb & Moe, 1990). As a result, schools are incentivized to compete for clients (students) and ostensibly increase the quality of their educational offerings (Friedman, 1962). The counter-argument asserts the state must protect important public goals that privatization threatens to eliminate (Apple & Pedroni, 2005). These include goals of social cohesion and equity, where schools are responsible for creating productive and democratic citizens (Labaree, 1997). Research into the potential of choice programs to deliver these social goals is mixed and contested (Witte, 2000; Carnoy, 2001; Krueger & Zhu, 2004; McEwan, 2004). The expansion of tax credit policies therefore raises critical questions concerning equity, access, and social desirability. While TCS programs are promoted as a viable legal, political, and policy alternative to vouchers (at both the state and federal level), research measuring the effects of these mechanisms has not nearly kept pace with their rapid proliferation.

This chapter focuses on the growth of TCS programs, with a specific look at two: the *Arizona Original Individual Tax Credit Scholarship Program* and the *Florida Tax Credit Scholarship Program*. We chose the Arizona and Florida programs because they are among the three largest and longest operating programs in operation. The Arizona program was enacted in 1997 and has grown to serve nearly 32,000 students per year (EdChoice, n.d.). The Florida program, enacted in 2003, currently serves about 107,000 students. Arizona and Florida also provide strong case study examples because unique policy implications raised in these states are representative of the challenges other locales have encountered as they implement similar mechanisms. These include questions regarding legal, regulatory, accountability, access, cost, and equity. This chapter focuses on these domains and the broader lessons learned from the scale-up of TCS programs in these states.

The Expansion of Tax Credit Scholarships

The presence of individual choice in American education was significantly advanced in the *Zelman v. Simmons-Harris* (2002) United States Supreme Court decision, which upheld the individual choice of sectarian schooling with the use of public vouchers throughout the nation. The majority opinion, issued by Justice Rehnquist, ruled that Cleveland's voucher program was neutral toward religion because parents had a variety of choices where to send students, including both secular and sectarian schools. Since *Zelman*, state legislatures have realized more success in passing tax credit legislation compared to voucher programs. (For further discussion, see Huerta & d'Entremont [2007].)

TCS programs employ a variety of alternative mechanisms that may present new legal, political, and policy alternatives to vouchers, which had encountered a number of issues in these domains. From a legal standpoint, tax credits may avoid the religious entanglements associated with state-level Blaine Amendments that restrict the use of public funding for religious institutions.[6] From a political perspective, vouchers have historically been a contentious political concern because they support sectarian schooling and sometimes divert funds from school budgets. Conversely, tax credits might be interpreted simply as subsidies associated with tax policy, and therefore may be more palatable to voters. Citizens may also see tax credits as more widespread than vouchers, and as a direct return of tax monies. Some have seen vouchers as a more redistributive policy associated with means-testing and providing assistance to needy families based on income.

From a policy perspective, school district officials may be less resistant to TCS programs than, say, voucher programs, because tax credits are drawn from general state revenues and not exclusively education budgets. This could potentially result in fiscally neutral policies that do not negatively affect school budgets, although a mass exodus of students from public schools would still raise concerns about funding, layoffs, and closures. Tax credit programs may also be seen as providing the most indirect path of public money to private schools. Therefore, policymakers may be less inclined to impose state regulations on private schools that enroll tax credit beneficiaries versus voucher recipients.

Arizona Tax Credit Programs

In Arizona, proponents of choice mechanisms who were stymied by voucher pushback from the courts found more relief using TCS mechanisms instead. In the state legislature, voucher advocates had long championed the cause of school choice, but they did not solicit a wide breadth of data on the pros and cons of these new choice incarnations. They were more concerned with advancing legislation that could be passed through both chambers and withstand court scrutiny.

The Arizona state legislature passed its Original Individual Income TCS program in 1997 and launched the initiative the same year. The program entitles individual taxpayers to a tax credit for donations to various SGOs that in turn award scholarships to K–12 students to attend private schools. The SGOs determine the amount of each individual award; in 2017, the average award was $1,724. As of 2018, Arizona operated four discrete TCS programs, which grew to collectively serve 73,566 students (EdChoice, n.d.). This represents approximately 6 percent of all Arizona K–12 students in both public and private schools (National Center for Education Statistics, 2017a, 2017b;

EdChoice, n.d.).[7] To be eligible, students must have been in grades K–12 or in preschool with a designated disability. SGOs consider financial status when awarding scholarships, but maintain discretion over how they allocate awards (although decisions may not be based on donor recommendations). SGOs must make awards available to more than one school and must spend at least 90 percent of contributions on student scholarships.

Along with the Original Individual Income TCS Program, Arizona operates three other TCS programs: the Low-Income Corporate Income TCS Program (enacted in 2006, serving 20,076 students in 2018), Lexie's Law for Disabled and Displaced Students TCS Program (enacted in 2009, serving 936 students in 2018), and the "Switcher" Individual Income TCS Program (enacted in 2012, serving 20,976 students in 2018) (National Center for Education Statistics, 2017a, 2017b; EdChoice, n.d.). Each program has individual eligibility requirements outlined in Table 27.1. Proponents of these mechanisms considered many factors during their formulation; however, here too, concerns about cost and choice seem to have taken precedence over research and effectiveness. Arizona's Goldwater Institute, an organization that lobbies vociferously for vouchers and tax credit scholarships in the state, developed numerous reports that found positive cost dividends for TCS programs and touted the benefits of expanded parental options (Lukas, 2003). Yet, because Arizona does not collect student-level data concerning TCS programs, these cost analyses are based on grossly speculative estimates on the number of students who switch from public to private school by means of these programs.

Overall, Arizona lawmakers gave little concern to equity and oversight considerations and ensuring that these programs served the state's neediest students. This is evident in how the bills were considered, the nature of their contents once adopted, and the lack of hearings about their implementation and efficacy. Moreover, ongoing efforts to limit data collection and impose accountability requirements are often deliberate, and scuttle the ability of researchers, watchdogs, and journalists to examine how these programs are being used and what effects (if any) they are having on students. Such limitations may have led researchers to focus on other aspects of these policies, such as program stipulations, cost considerations, means testing for scholarship eligibility, and equity considerations.

Florida Tax Credit Scholarship Program

The Florida Tax Credit Scholarship Program is a public program in which corporate tax credits fund tuition scholarships for eligible K–12 students to attend private schools. In 2018, Florida's TCS program served 108,098 students, representing about 3.5 percent of K–12 public and private school students in the state (National Center for Education Statistics, 2017a, 2017b; EdChoice, n.d.). The Florida Legislature created the TCS program in 2001, shortly after the Circuit Court for Leon County declared that the state's earlier voucher initiative, the A+ Opportunity Scholarship Program (OSP), violated the Florida Constitution's "uniformity clause."[8] The OSP provided scholarships for attendance at public *or* private schools to students who attended failing public schools. In 2006 the Florida Supreme Court affirmed the Circuit Court's decision and held that "through the OSP the state is fostering plural, nonuniform systems of education in direct violation of the constitutional mandate for a uniform system of free public schools" (*Bush v. Holmes*, 2006). Subsequently, an OSP grant could only be used by students who attended a public school of choice.

This fueled the expansion of the Florida TCS program. It is financed by corporate income tax credits from the Department of Revenue, which issues dollar-for-dollar credits to companies in exchange for voluntary contributions to nonprofit SGOs that distribute scholarships to eligible students. Since its inception, the types of credits companies are eligible to claim have been expanded beyond only corporate income tax up to 75 percent of liability to include corporate income tax credits up to 100 percent of liability, insurance premium tax, severance taxes on oil and gas production, self-accrued sales tax liabilities of direct pay permit holders, and alcoholic

Table 27.1 Overview of Tax Credit Scholarship and Education Savings Accounts in Select States

State	*Program Type*	*Name of Program*	*Income Cap for Initial Eligibility*	*Prior-year public sch req*	*Enrlmnt Cap*	*Scholarship Award, Voucher, Credit Deduction Cap*	*Avg Award*	*Testing Mandate*	*Student Eligibility (Low Income or SPED Requirement)*	*Year Enacted*	*Scholarship Awardees (2016)*
Arizona	Tax Credit Scholarship	Original Individual Income Tax Credit Scholarships	None	No	None	None	$1,724	None	Priority	1997	31,578
Arizona	Tax Credit Scholarship	Low-Income Corporate Tax Credit Scholarships	185% of FPL	Yes	None	$5300 (K–8), $6600 (9–12)	$2,165	None	Yes	2006	20,076
Arizona	Tax Credit Scholarship	Lexie's Law	None	Yes	None	90% State Funding	$4,696	None	No	2009	936
Arizona	Tax Credit Scholarship	"Switcher" Individual Income Tax Credit Scholarships	None	Yes	None	None	$1,360	None	Priority	2012	20,976
Florida	Tax Credit Scholarship	Florida Tax Credit Scholarship Program	100% x FPL	No	None	$5,272	$6,007	National norm-ref exam	Yes	2001	106,958
Arizona	Education Savings Account	Empowerment Scholarship Accounts	None	Yes	Yes	90% Charter Funding	$12,400	None		2011	4,525
Florida	Education Savings Account	Florida Gardiner Scholarship Program	None	No	None		$10,311	State/National SPED only		2014	10,531

Sources:

School Voucher Laws: State-By-State Comparison. (n.d.). Retrieved from http://www.ncsl.org/research/education/voucher-law-comparison.aspx
Scholarship Tax Credits. (n.d.). Retrieved from http://www.ncsl.org/research/education/school-choice-scholarship-tax-credits.aspx
Enlow, R. (Ed.). (2018). The ABCs of School Choice 2018 Edition. Retrieved from https://www.edchoice.org/wp-content/uploads/2018/01/ABCs-of-School-Choice-2018-Edition-1.pdf
Scholarship Tax Credits. (n.d.). Retrieved from https://www.cato.org/education-wiki/scholarship-tax-credits

beverage taxes. Eligible students comprise those who qualify for the federal free and reduced-price lunch program (185 percent of poverty level) or who are in foster care; in 2016, eligibility thresholds expanded to families earning 260 percent of the federal poverty level (estimated to be over $60,000 per year) (Fineout, 2014). The program also awards $500 scholarships for transportation expenses to public school students who choose to enroll in schools outside the districts in which they reside.

As with the TCS programs in Arizona, legal, political, and policy mechanisms have fueled the expansion of the Florida TCS program as an alternative to vouchers in the wake of the now-defunct OSP. In the following section, we describe how the Florida program may also be operating in violation of the Florida Constitution's uniformity clause. Our analysis argues that it is essentially a voucher program funded by corporate donations that yield credits on income and other tax liabilities that companies would have otherwise owed to the state.

The Politics of Accountability

The Polemics of Research

In their efforts to persuade interested parties, both opponents and supporters have used research concerning the legal issues, cost and efficacy, accountability requirements, oversight, and equity considerations of TCS programs (Welner, 2008). But the scholarly analysis in the domain of student effects and outcomes is limited and does not provide much information on key questions (Zimmer & Bettinger, 2015). These data, should they be collected, are vital to individuals conducting research and to those overseeing these emerging programs, allowing for a fuller measure of how these programs affect students and state coffers. Moreover, to determine if TCS programs constitute the establishment of parallel systems of education (in violation of legal provisions), the public must have access to key measures concerning student enrollment, teacher accreditation, expenditures (on both school and system levels), and student outcomes.

We do not know, for instance, how many families are switching from public to private schools as a result of TCS programs, nor do we have information concerning the academic or social effects of a student receiving a grant from an SGO to attend a private school. Neither SGOs nor schools are required to provide the data needed to yield such evaluative judgments in the case study states (Welner, 2008). Thus, current TCS arrangements allow public dollars to flow to private institutions without basic compliance and reporting mechanisms in place. In fact, the majority of TCS programs expressly prohibit or limit the ability of the government to administer standard oversight measures on private schools, and less than half require private schools to administer student achievement tests to grant recipients (Workman, 2012). Accordingly, no randomized controlled trials presently exist that have looked specifically at the effects of tax credit scholarships on student outcomes. Nor are there extensive analyses concerning how the competitive effects of these program have, or have not, affected the behavior of public schools in the locales in which they operate. This, despite the fact that TCS proponents contend that awarding school aid directly to parents—rather than to local school bureaucracies—will set in motion market pressures that spur competition between private and public schools and push educational quality upward (Coulson, 2004).

In the next section, we use Arizona and Florida to illustrate how the debate around TCS programs unfolded, how research and information—though limited—informed or did not inform that discussion, and how different parties utilized it to advance their position. The role research plays in how TCS programs became adopted and amended in these states depends on the unit of analysis and case study one considers.

Arizona's Effort to Avoid Accountability of TCS Programs

Tax credit scholarship bills often advance through legislature along partisan lines, and in the Arizona House of Representatives and Senate, powerful lawmakers have muscled tax credit bills through their respective chambers. Steve Yarbrough, the president of the Arizona State Senate, provides an illustrative case in point. Yarbrough has promoted a host of choice policies in the state of Arizona, including the TCS plan currently in operation, which provides $100 million annually for these programs. Yarbrough was instrumental in getting tax credit measures through the legislature, deciding which bills could advance through committee, and making TCS programs one of his signature priorities (Fischer, 2009). The Arizona Republic highlighted Yarbrough's legislative maneuvering, calling him the person "who decides what bills live or die in the Arizona legislature" (Pitzl, 2017, headline). Yarbrough considers getting TCS programs passed in Arizona as his signature legislative achievement in his 15-year history with the Senate, and he has advanced the measures through senate sessions without extensive debate or consideration of opposing opinion (Pitzl, 2017).

In a three-part investigation, Phoenix's *East Valley Tribune* outlined how the Arizona programs became rife with financial abuse, and how individuals, including Mr. Yarbrough, benefited financially by starting their own tuitioning organizations that received state funds (Reese, 2009). Their investigation found an untold number of SGOs and families using tax credit scholarships in ways that may have violated federal tax law governing charitable gifts—and two-thirds of all SGOs failed to spend at least 90 percent of their donations on scholarship awards (as required by state law since 2003). Executives at two of the largest SGOs, including Yarbrough's, have used tax credit donations to enrich themselves (e.g., spending organization money to buy automobiles and real estate, and to finance outside businesses) (Reese, 2009). Yarbrough's SGO, the Arizona Christian School Tuition Organization (ACSTO), has received roughly $185 million from donations since 1998, and issued over 31,500 private school scholarships, all subsidized by state tax credits. On its website, ACSTO states, "We exist to make Christian education a reality" (Arizona Christian School Tuition Organization, n.d.). Mr. Yarbrough, in addition to his duties as president of the State Senate, works a reported 40 hours per week as the organization's executive director, drawing an annual salary of $125,000 for his services (Carey, 2017). Additionally, ACSTO outsources many of its operational responsibilities to a private outfit called HY Processing, paying them over $630,000 for services in 2014. Yarbrough serves as a part owner of the firm and benefits financially from providing these scholarship distribution services (Carey, 2017).

This case highlights how the lack of stringent oversight requirements for TCS programs can lead to abuse and mismanagement. With millions of dollars flowing from subsidies and parents, first to SGOs and then to private schools, there are many points where obfuscation can occur. Moreover, researchers found that a majority of tax credit donations led to scholarship awards for students already enrolled in private schools and granted irrespective of family income. Only seven out of 55 SGOs used family need as the main factor in determining who receives tuition grants (Arizona Department of Revenue, 2016).

Originally, SGOs were not required to provide any information regarding donor identities, income levels of donors or recipients, or data concerning student metrics; thus, the Arizona Department of Revenue did not collect or provide any such data (Welner, 2008). Newer legislation did require that the Arizona legislature hold annual hearings regarding the oversight and implementation of these state programs. Evidence about lack of oversight and accountability and issues with earmarking certain recipients obviously raised questions about whether the law was operating appropriately and reaching students who may be most in need of private subsidies. So in 2009, Democratic leaders in the state House of Representatives called for investigations into the state's TCS programs and built a task force to examine these measures (Gabrielson & Reese, 2009). However, loopholes and issues remain. The Arizona Joint Legislative Income Tax Credit Review Committee has not met in over three years to review these programs, reportedly because of indifference among house and senate leadership. During this period, lawmakers neglected to hold hearings on 13 discrete tax credit programs, in violation of the law (Giles, 2017). Moreover, no requirements for data collection and testing on the student level have been integrated into any of tax credit programs in the state.

When those challenging TCS programs were unable to find remedy in state courts, they considered other areas outside the legal realm. Courts pushed for some equity and accountability protocols (and referenced research concerning these areas in cases and rulings), and did reject previous voucher laws as unconstitutional. Nonetheless, state legislatures made most determinations regarding program requirements put into future laws (see *Kotterman v. Killian*, 1999). The Arizona state legislature has appeared resistant to concerns regarding fair distribution and accounting protocols and has been reticent to engage in minimum oversight provisions. Thus, these TCS programs continue to operate within the state amid flagrant violations. Opponents of Arizona's TCS programs did successfully petition to have the law authorizing them put up for referendum by voters on the November 2018 ballot, under Proposition 305 (Sanchez, 2018). The measure was defeated and the law repealed.

The Case for Tax Credit Program Accountability in Florida

In contrast to Arizona, Florida's program is strictly limited to corporate taxpayers and does not involve individuals applying for credits. State corporations are offered a dollar-for-dollar tax credit for donations to SGOs and can contribute up to $5 million to any organization they choose. Florida works with only two SGOs (Florida Department of Education, n.d.), whereas Arizona works with over 50 (Arizona Department of Revenue, 2016). Prior to recent reforms, Florida's SGOs were also largely unregulated; during the program's initial rollout, Florida had to discontinue operations with the state's largest SGO in light of accounting irregularities, unlawful charging of administrative fees, issues with graft, theft of funds, schools falsely inflating enrollment statistics, and equity stipulations not being met due to mismanagement (Welner, 2008). Accounts of such abuse concerned lawmakers as new TCS bills advanced through the legislature and reports started to garner additional attention within the statehouse (see Florida Senate Committee on Education, 2003; Gallager, 2003; Goss, 2012).

Studies of Florida's TCS program's effects on scholarship recipients are limited: The state-commissioned evaluations reflect nearly the entire universe of research that has attempted to measure achievement effects to date. Statutes prohibit TCS student test score data from being released to the general public (a decision that was reached as part of a compromise to require any testing at all); however, the data are made available to outside evaluators. Figlio and the National Bureau of Economic Research (2012) performed a review and found the results inconclusive. The findings are complicated by the point in time in an academic school year when tests are administered (which is highly variable) and incompatible comparisons across the variety of achievement tests that are administered by private and public schools.[9] Figlio and Rouse (2006) examined competitive effects of Florida's program and found that the perceived threat of public schools receiving adverse accountability ratings had a greater effect on school behavior than the actual TCS credits themselves. They found that purported gains in test scores might be attributed to countervailing factors, such as changes in student characteristics, rather than the TCS program itself. Figlio and Hart (2011) claimed that the areas in which schools are located can influence how effective a TCS program may be in spurring change within local bodies of schools. They contended that private schools "located in areas where citizens care a lot about educational quality" (p. 76) could have a more substantive effect on public school behavior and outcomes within that community compared to areas where educational quality may be undervalued.

While further research on Florida's program is needed to investigate other questions of effectiveness and equity (e.g., the effects of TCS programs on tuition elasticity over time, supply-side behavior of private schools, and democratic education goals), having program data to analyze is a prerequisite to answering additional questions in this domain. Policymakers must provide the regulatory guidance and funding necessary to collect these data, and include a full account of TCS awards, general revenues, student profiles, and attrition statistics. Without this information, it is impossible to calculate the true fiscal impact of TCS programs. It thus behooves lawmakers to incorporate and enforce provisions that allow outsiders to investigate questions of efficacy and equity. In addition, lawmakers must attend to the governance, practice, and accountability standards of private schools, which are not uniform with public schools. This includes teacher accreditation requirements, accountability systems, curriculum and assessments, admissions criteria, and services to students with unique needs, such as special education and English language learners. Special education awards are insufficient to meet the unique disability needs defined in a student's Individualized Education Program (IEP) (Mead, 2007). Moreover, private schools are not required to hire certified special education teachers.

Most TCS programs require special education students who accept a subsidy to give up elements of their due process rights guaranteed under the Individuals with Disabilities Education Act (IDEA) (Mead, 2007). Only programs in Louisiana, Maine, North Carolina, and Vermont retain full federal rights, while programs in 14 other states either retain partial rights, explicitly revoke rights, or are silent on the issue. For example, the Jon Peterson Special Needs Scholarship Program in Ohio includes statutory language that outlines how parents of participating students cannot "allege a violation of requirements involving the implementation of the IEP and whether the child has received FAPE [Free Appropriate Public Education]" (Ohio Department of Education, 2014). Curbing a student's due process rights guaranteed under IDEA means there is no state authority for providing access to FAPE, and oversight of special education services aligned with IEPs is nonexistent. There is thus no recourse or process through which to seek due process when IDEA rights are violated. Families forgo a range of rights afforded to students with disabilities when they utilize TCS programs.

In Florida, the lack of parallel accountability and adequate funding systems may threaten the ability of the state to guarantee an effective and efficient education for all students—a principle issue argued in recent legal challenges to the Florida's TCS. Specifically, challengers have argued that the program does not guarantee uniform systems of governance, teacher certification, testing and accountability, and curriculum standards, and that it creates parallel, nonuniform systems of schools (*Citizens for Strong Schools v. Florida State Board of Education, 2015).* For example, the Florida Department of Education (FDOE) is charged with administering only rudimentary oversight of its TCS program. This includes: verifying eligibility of SGOs and submitting a list of eligible firms to the Department of Revenue; confirming eligibility of participating schools; reviewing private school expenditures linked to program funding; establishing a forum that advertises the programs; establishing an adjudication process for program violations by parents, private schools, or school districts; maintaining a bank of nationally norm-referenced tests that meet testing requirements; and overseeing an independent evaluation of the program (Fla. Stat. §1002.39, 2014; Fla. Stat. §1002.395, 2014). These oversight duties are not substantive in comparison to the broader governance, administration, and accountability systems that the FDOE oversees in all public schools—including teacher accreditation and teacher quality standards, testing and accountability, and curriculum standards.

By way of another example, Florida statute requires that public school teachers be certified by the state and meet minimum requirements (Fla. Stat. §1012.55(1) b, 2013); this includes completion of a bachelor's degree, having "attained at least a 2.5 overall grade point average on a 4.0 scale in the applicant's major field of study," and a demonstrated mastery of general knowledge, subject area knowledge, professional preparation, and education competence (Fla. Stat. §1012.56(3) g, h, I, 2014). TCS-participating private schools are not subject to these requirements and are only required to demonstrate that they "have at least 3 years of teaching experience in public or private schools, or have special skills, knowledge, or expertise that qualifies them to provide instruction in subjects taught" (Fla. Stat. §1002.421 (2) h, 2014).

In addition, Florida statute requires all students to participate in the *Next Generation Sunshine State Standards*, which "establish the core content of the curricula to be taught in the state and specify the core content knowledge and skills that K-12 public school students are expected to acquire" (Fla Stat. §1008.22 (3), 2014; Fla Stat. §1003.41 (1), 2014). To assess whether instruction is aligned with these, all public school students participate in both the Florida Comprehensive Assessment Test (FCAT 2.0) and the Florida End of Course (EOC) assessments. Scores on the FCAT 2.0 are used to evaluate teachers in accordance with a value added model (Fla. Stat. §1008.34, 2014). Information on teacher, school, and district performance is disseminated to the public and is used to evaluate all schools and districts in the state (Fla. Stat. §1008.34, 2014). Because the FDOE has no regulative or oversight authority over private schools, they are not subject to any of these stipulations. For private schools to participate in a TCS program, they must meet only minimal student testing requirements on a national norm-referenced test (Florida Department of Education, 2014a).[10]

The distaste for oversight is made explicit in a 2014 legislative amendment to the Florida TCS program, which states that FDOE's purpose "is not to prescribe the standards or curriculum for private schools. A private school retains the authority to determine its own standards and curriculum" (S. 850, 2014). By prohibiting the FDOE from engaging in oversight of private schools, the TCS program may threaten public authority and Florida's ability to insure a uniform education system where all students are presented with similar opportunities to learn content as well as to gain access to varying perspectives. Even if evidence shows that a TCS program saves taxpayers money, the cost effectiveness must be balanced against the need for wider public accountability of private schools.

Measuring the Cost Efficiency of Tax Credit Scholarship Programs

Advocates of TCS programs have stated that private school choice will lower total education spending because private schools typically spend less per pupil than comparable public schools do (Aud, 2007; Lueken, 2016; EdChoice, n.d). However, a closer examination of private school operations suggests that using per-pupil expenditures to estimate the potential cost of TCS programs is inappropriate. Any measure of their immediate fiscal and educational efficiency must account for significant cost differentials compared to a comprehensive public school system (Levin & Driver, 1997) and must include measures of quality and amount of services provided to *all* students. For example, public schools routinely enroll greater numbers of special education, vocational education, and English language learner students who require more expensive educational services than those that private schools typically provide (McEwan, 2004). Indeed, economists have expressed concern that if the TCS amount underprices the actual cost of providing services to students with disabilities, "fewer schools may open or participate in any choice program, and schools that do participate may attempt to discourage matriculation of high-cost students, perhaps by providing low-quality programs" (Cullen & Rivkin, 2003, p. 69). Fiscal impact measures therefore must move beyond attempts to compare tax credit amounts to per-pupil funding or expenditures. A reduction in public school enrollments must also account for effects on the economies of scale that support public school infrastructure, including fixed costs (e.g., administration, transportation, utilities, maintenance).[11]

A recent report from the private school choice advocacy group EdChoice has concluded that tax credit scholarship programs have saved state treasuries between $1.7 and $3.4 billion dollars since 1998 (Lueken, 2016). The report, one of a series from EdChoice, repeated many of the claims made by education tax credit and other market-based school reform policy advocates and calculated estimated cost savings based on unfounded assumptions advanced throughout the series (Spaulding, 2005; Aud, 2007). Additionally, its methodology fell short in fully accounting for net fiscal impact of TCS programs. Specifically, the report examined ten of the largest TCSs in operation across seven states,[12] which collectively account for roughly 90 percent of the national tax credit value provided families and corporations through SGO arrangements. According to its calculations, the largest three programs in the U.S. (Arizona's Original Individual TCS, Florida's TCS, and Pennsylvania's Education Improvement TCS) resulted in roughly three-fourths of all cumulative fiscal savings. The report argued that these programs realized fiscal savings as a result of students leaving public schools and entering private schools (defined as "switchers").

SGO program arrangements only realize financial savings for state governments when the cost of providing tax credits to families and corporations is offset by corresponding reductions in school expenditures for students opting out of the public education system. If these programs only included students who would otherwise have attended private institutions, the programs would yield a net cost to state governments for each tax credit awarded to an organization or individual. At the student level, the report estimated that these programs saved state treasuries between $1,650 and $3,000 per scholarship across all programs. It calculated the net savings on the assumption that three-fifths of participants across all TCS programs would have enrolled in public schools if not for the presence of these tax subsidies. The report highlighted how the fiscal dynamics of TCS programs vary considerably, and thus the percentage of students in each program that would have to switch from public schools to achieve cost neutrality (described as the "breakeven switcher rate") varies from state to state and program to program. The calculation of switcher rates also varies widely across the ten case study programs. Though no state governments track data on switchers,[13] the report claimed tax savings to taxpayers can still be calculated by estimating the break-even switcher rate. Without government data, however, the process of calculating switchers is unverifiable and opaque.[14]

The EdChoice report overlooked other important research that has provided valid counter-narratives to its repeated methodological shortcomings. For example, Welner (2008) offered a clear alternative methodological approach to calculating fiscal effects that challenged the use of hypothetical variables, including the calculation of switchers. More importantly, the scholar called for an accounting of supply-side behavior of public schools over the long term. That is, overcrowding may have yielded an increase in switchers and boosted taxpayer savings, while under-enrollment may have yielded additional costs for public schools in maintaining efficiencies of scale, creating a net loss. Huerta and d'Entremont (2007) also examined supply-side factors, but focused instead on private school supply variables (e.g., school capacity, tuition rates). They described how scholarship recipients' behavior may have increased demand for private schooling and outpaced the existing supply of empty seats, thus affecting tuition elasticity by increasing the cost of private schools and discouraging switchers from leaving public schools. These behaviors must be measured beyond the short term to develop a full accounting of net fiscal impact in the long term.

Additional research on Georgia's TCS program (Suitts & Dunn, 2011) has challenged the hypotheticals that the EdChoice reports adopted in their methodology. This research surveyed all operating SGOs[15] and yielded a more robust accounting of switchers. Specifically, not one of the SGOs in Georgia could identify the name of one public school that a scholarship recipient had attended. These data call into question the program's hypothetical switcher rates (estimated at 98 percent in the current EdChoice audit), and further contest the findings of the report.

Implications and Guidance for Policy, Research and Practice

The most important lesson learned in accounting for the growth of TCS programs is that, because SGOs are not compelled by state statutes to collect or publish data on scholarship recipients, policymakers must provide the regulatory guidance and funding necessary to collect this information, including a full accounting of SGO awards, other revenues, tracking which schools students choose, private school enrollment criteria, and determining the attrition rate of choosers. As well, policymakers must create statutory language that will allow researchers access to data that may develop better and more accurate answers to thorny policy questions.

Policymakers also must not be seduced by claims that TCS programs are more cost-efficient and effective in guaranteeing students a quality K–12 educational opportunity. Instead, by expanding data collection efforts and data access, policymakers will allow researchers to begin tackling other important questions that market-based school reform policies raise, including the effects of TCS programs on tuition elasticity over time, supply-side behavior of private schools, and democratic education goals.

Tuition elasticity depends upon which private schools participate, the subsidy amount given, and the types of students that private schools admit. In addition to diverting public money to private schools, a TCS may not provide scholarship amounts sufficient to cover full tuition at private schools. Evidence describing the effects of tax subsidies on the elasticity of tuition prices is limited (Huerta & d'Entremont, 2007; see also d'Entremont & Huerta, 2007). However, it is important to understand how scholarship amounts may stimulate increased participation that may impact a supply-side response that influences tuition prices. Because states do not regulate tuition prices, families that use the benefit to enter private schools today may not have sufficient residual income to pay a tuition increase in the future. Without an accurate account of actual tuition costs, parents are not informed of any additional costs they must bear; thus, scholarship amounts may result in only a partial payment for what is guaranteed by most state constitutions as a free public education. These are all important factors that may impact tuition elasticity, but for which we have insufficient data.

Another relevant issue is whether private schools have the capacity to respond to increased demand if TCSs are scaled-up (supply-side response) and whether a pent-up demand for private school options exists from parents (demand-side response). These supply and demand issues raise the question of how large a benefit is needed to elicit a response from both private schools and the parents who may want to enroll their children. In addition, policymakers and researchers must be cognizant of an important supply-side behavior that school choice advocates often overlook: Expansion of private school choice is more dependent on the criteria schools use in choosing students, and less dependent on giving parents the ability to choose schools. In recent research measuring the effects of voucher and education tax credit subsidies on private school tuition, Hungerman and Rinz (2016) described how subsidies may have yielded cream-skimming of students who were either unwilling or unable to pay a higher tuition or who were screened out on the basis of academic ability or performance.[16]

Lastly, even if research might indicate that education tax credit programs may save taxpayers money, the cost effectiveness of a program must be weighed against the need for wider public accountability measures that will hold to account private schools that enroll students who use publically subsidized scholarships. By prohibiting state education departments from engaging in due diligence and oversight of private schools,[17] TCSs may threaten public authority and the ability of states to ensure uniform education systems that advance the democratic goals of equity, social cohesion and citizenship (Levin, 2002). When weighing the implementation of tax credit scholarships, policymakers must look beyond measures of cost efficiency and effectiveness and seek more balanced and empirically robust assessments that would allow them to make informed decisions about how to proceed with effective and equitable school reform policies.

Notes

1 In general, education tax credit programs grant benefits to individuals, families, or corporations according to their education expenses or their contributions to public schools or scholarship granting organization (SGO). There are three types:

1. Education Tax Credits for Expenses: a *nonrefundable credit* given families who claim public or private school expenses, including tuition (e.g. Illinois, Iowa) or a *refundable* credit, excluding tuition (Alabama, Minnesota); or a *nonrefundable credit* for individuals' contributions to public schools (Arizona).

2. Education Tax Deductions for Expenses: a *deduction* given families who claim public or private school expenses, including tuition (Minnesota).
3. Education Tax Credits for Contributions to SGOs: a *nonrefundable credit* given individuals or corporations who make charitable contributions to nonprofit SGOs. In turn, the SGOs distribute tax credit scholarships (TCS) to families who sign-up to receive one for their children (e.g. Arizona, Pennsylvania, Florida).

2 Alabama, Arizona, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Minnesota, Montana, New Hampshire, Nevada, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Wisconsin, and Virginia.

3 Such programs grant benefits to individuals, families, or corporations, as credit for education expenses or contributions to school granting organizations. Participants (individuals or corporations) receive credits for charitable contributions made to granting organizations, which then distribute scholarships to families.

4 Since the *Zelman v. Simmons-Harris* (2002) United States Supreme Court decision, the rapid growth of education tax credit programs (including tax credit scholarships and individual tax credit/deduction programs) has eclipsed voucher program participation. In 2018, there were 271,460 students participating in tax credit scholarship programs and nearly 900,000 participating in individual tax credit/deduction programs. In comparison, voucher program participation in 2018 included only 183,951 students (EdChoice, n.d.).

5 As of 2016, 26 voucher programs were operating in 14 states (Arkansas, Colorado, Florida, Georgia, Indiana, Louisiana, Maine, Mississippi, North Carolina, Ohio, Oklahoma, Utah, Vermont, and Wisconsin) and the District of Columbia.

6 Thirty-seven states, including Arizona and Florida, have constitutional restrictions against providing public monies to sectarian institutions in the form of Blaine Amendments.

7 A ratio of TCS recipients to total private and public school K–12 enrollment in Arizona was used to approximate this percentage. Because Arizona does not publish private school enrollment data, we relied on 2015 private school enrollment numbers from NCES.

8 The Florida Constitution's "adequacy provision" bars a two-tier and nonuniform educational system and mandates that "[i]t is . . . a paramount duty of the state to make adequate provision for the education of all children residing within its borders. Adequate provision shall be made by law for a uniform, efficient, safe, secure, and high quality system of free public schools that allows students to obtain a high quality education" (Florida Const. art IX, §1[a]).

9 There are two issues that must be considered when evaluating the use of these assessments. First, while the majority are norm-referenced, meaning the test takers' performance is compared to that of their peers, these assessments do not measure the same constructs. For example, it is common for the performance on one assessment to be related to the performance on another, but it is possible for a student to be placed in one percentile group for one test and a different percentile group for another. The second issue is the use of the converted Florida Comprehensive Assessment Test (FCAT) scores. Specifically, Florida public schools stopped administering the Stanford Achievement Test (SAT) after the 2007–2008 school year, so the only data available for public school students is the FCAT. To compensate for the lack of norm-referenced assessments, Figlio and the National Bureau of Economic Research (2012) converted students' FCAT scores to percentile rankings based on a concordance analysis using scores from years when Florida students took both the FCAT and the SAT. The correlation between the predicted scores produced from the concordance analysis and student's actual was .82 for math and .79 for reading. From a statistical standpoint, these are very high correlations; however, there is still a 20 percent chance that the predicted score was not the same as the actual score.

10 The McKay Scholarship Program for Students with Disabilities does not require participating private schools to administer student assessments, nor is there an explicit requirement for private schools to provide services or curriculum for students with disabilities. Moreover, the majority of participating private schools are parochial (71 percent for TCS and 63 percent for McKay) and the majority of students who participate in both programs elect to attend parochial schools (81.4 percent for TCS and 59.2 percent for McKay) [see Florida Department of Education, 2014b].

11 Adding new students, many of whom are likely to be drawn from less advantaged families, to private school attendance rolls may tax institutional supports and reduce cost advantages. In addition, church subsidies and private endowments, access to low-cost facilities, and the willingness of teachers to accept lower wages in exchange for smaller classes depresses tuition costs and estimates of private school spending.

12 Arizona, Florida, Georgia, Indiana, Iowa, Pennsylvania, and Rhode Island.

13 Presently, no TCSs that include SGOs are compelled by statute to collect or publish data on scholarship recipients, and thus no formal accounting exists on the number of students who have exited public schooling and entered private institutions as a result of these programs.

14 The report relied on annual changes to private school enrollment (drawn from the U.S. Census Bureau data) to calculate the percentage of students switching from public school to private, without accounting for other factors that may influence private school enrollment growth.

15 Georgia state statutes define a scholarship granting organization as a "student scholarship organization" (SSO).

16 It is important to note that this study used only a representative sample of tax credit and voucher programs across several states (in operation before 2009), chosen based on the characteristics of their subsidy granting mechanisms. The researchers extrapolated their findings and explained how laws that were not included in the study may yield like results because of similar subsidy granting mechanisms contained in most tax credit and voucher program laws.

17 As of 2018, only 10 of the 22 TCS programs in operation require private schools that accept education tax credit scholarships or deductions to administer statewide or other assessments. Four out of six education savings account (ESA) programs (Florida, North Carolina, Nevada, and Tennessee) require private schools that accept ESA students to administer statewide or other assessments.

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