



The Florida Corporate Income Tax Credit Scholarship Program:

Updated Fiscal Analysis February 2007

Conducted by the
Collins Center for Public Policy, Inc.

Executive Summary

The Florida Corporate Income Tax Credit Scholarship Program: Updated Fiscal Analysis

The purpose of this tax credit education scholarship program as defined by the Florida Legislature is to provide low income school aged children with scholarships which will expand their educational opportunities and help the children of Florida achieve a greater level of educational excellence.

Business taxpayers use limited tax credits against their Florida corporate income taxes to fund this program. The research objective was to determine whether the tax credit program reduced revenues for public education as opponents projected or whether the state accrued revenues as proponents advocated. The Collins Center for Public Policy, Inc. updated its 2002 projections of the Florida Corporate Income Tax Credit Scholarship Program fiscal impact upon public education revenues with data from fiscal years 2002-2004.

The major findings for the three years of available data (2002 FY- 2004 FY) are as follows:

1. General Fund Revenues for K-12 public education did not decline as a result of the Corporate Income Tax Credit Program. In fact, K-12 general fund revenues increased more than \$2 billion the past three years from \$13.6 billion in 2002 FY to \$15.7 billion in 2004 FY.
2. K-12 per pupil state and local revenues did not decline but increased from \$6,751/student in 2002 FY to over \$7,782/student in 2004 FY.
3. The State of Florida accrued nearly \$140 million in public school revenues since 2002 by saving the difference between the value of the \$3,500 scholarship and the value of K-12 per pupil state and local revenue.
4. The Collins Center's 2002 projections of the accrued net statewide revenues were within \$5.04 million or 3.6% of the actual results (\$144.9 million-projected v. \$139.8 million-actual).

Conclusion:

The Corporate Income Tax Credit Scholarship Program did not have a negative impact upon K-12 General Fund Revenues for public education. In fact, K-12 General Fund revenues increased over \$2 billion during a three-year period while the state accrued \$139.8 million in actual revenues by saving the difference between the value of the \$3,500 scholarship and the value of K-12 per pupil revenue. These savings would allow the state to increase per pupil spending by an average of \$17.92 per year for the 2.6 million children in the public schools during this period.

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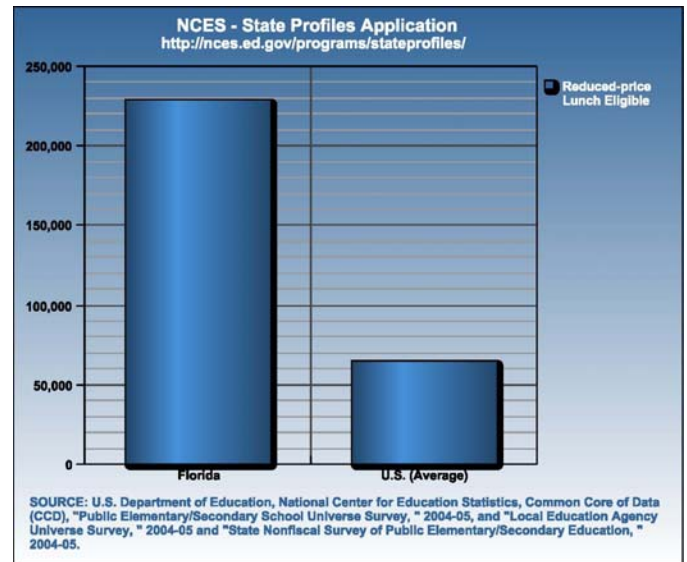
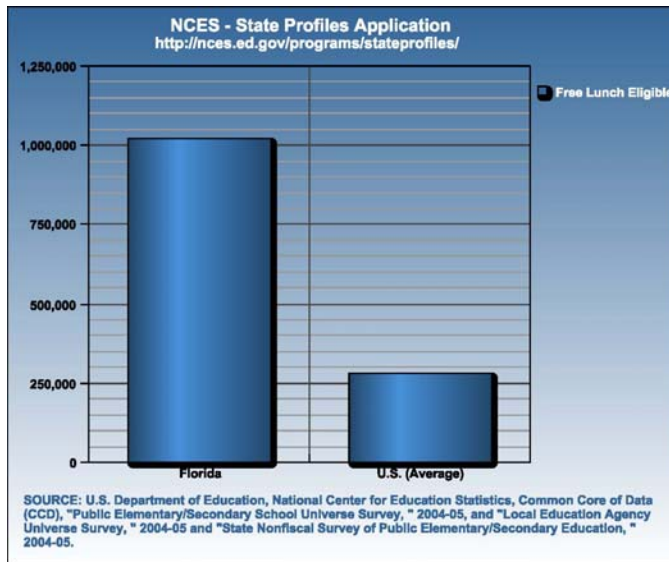
Introduction

One of Florida's greatest challenges is to provide a high quality education for 2.6 million school aged children. This challenge is complicated by the fact that many of Florida's children live in families with low incomes. These families have limited means to provide their children with a high quality education if they reside in areas where the schools are low performing.

A common way of determining if children are from low income families is their participation in the national school lunch program—a program that provides free and reduced price lunches. These low income families have average annual incomes at or below 185 percent of the poverty level.

According to the most recent federal data, Florida has over 1.2 million low income school children participating in the national school lunch program.

Since 1994, Florida has seen a 50% increase in the number of low income students participating in the national school lunch program¹. The number of Florida school children participating in the national lunch program is 3.5 times the national average.



School Choice Strategy

Florida has adopted many strategies to provide low income children with a high quality education. One of the strategies is "school choice."

¹ Food Research and Action Center, National School Lunch Program (2004)
http://www.frac.org/State_Of_States/2006/states/FL.pdf

“School choice” is a K-12 reform strategy endorsed by the Legislature, the Governor, a number of Constitutionally-independent school districts, and some business and civic leaders. It is based on the belief that families want what is best for their children, know the needs of their individual children better than anyone else, and should be able to make decisions about the type of education their children should receive.

To some proponents, a family’s choice of schools is regarded as “a basic parental liberty”.² Other supporters view school choice as a market-driven process that encourages competition and will result in the improvement of public schools.³ The general public appears to support more school choice as a way of improving academic “basics” and of maintaining the discipline needed for a good learning environment.⁴ Parents often perceive private schools as being better than public schools on both counts.⁵

“School choice” is opposed by those who believe that it undermines the state’s commitment to universal public education by diverting money and eventually students and their families away from public schools and into private schools. Opponents, such as the nation’s largest teachers union, argue that the state and the nation need a system of common public education to ensure literacy and dedication to democratic values. As a result, school choice is seen as an elitist strategy that subsidizes tuition for students in private schools while reducing funding and opportunities for low-income children who remain in the public schools.⁶ In addition, many opponents of school choice programs are concerned that private educational institutions generally are religious schools and that public funds cannot constitutionally be used to subsidize religious practice and instruction.⁷ They argue that many public schools are as good as or better than most religious schools and would be even better with more resources.

School choice in Florida encompasses a number of programs that permit parents to apply for or select from a variety of offerings. Parents who can afford to move, and the flexibility to do so, always have the option of moving to the “school boundary zone” or “catchment area” or “feeder pattern” that defines the geographic area served by a school that the parents perceive as desirable. They also have the option of applying to private schools and paying private school tuition. Many middle-income families, most low-income families and a number of families who have disabled children do not have the option to move freely or to choose to pay private school tuition.

Many public schools in Florida also offer other choices that are open to students from all income levels: magnet schools, charter schools, deregulated schools, schools-within-schools (such as the International Baccalaureate Program and career academies), alternative schools,

² Gill, B.P., Timpane, P.M., Ross, K.E., Brewer, D. J. (2001). *Rhetoric Versus Reality: What we know and what we need to know about vouchers and charter schools*. Washington, D.C.: RAND.

³ Coulson, Andrew J. (2001). *Toward Market Education: Are Vouchers or Tax Credits the Better Path?* Washington, DC: The Cato Institute.

⁴ *On Thin Ice: How Advocates and Opponents Could Misread the Public’s Views on Vouchers and Charter Schools* (1999). New York: Public Agenda.

⁵ *Ibid.*, p. 29.

⁶ National Education Association (2001) <http://www.nea.org/issues/vouchers/index.html>

⁷ Neas, Ralph G. (2001). *A Model to Avoid: Arizona’s Tuition Tax Credit Law*. Washington, DC: People for the American Way.

year-round schools, dual enrollment and controlled open enrollment.⁸ These public school choices have increased substantially over the last decade.

One of Florida's largest school choice programs is the Corporate Income Tax Credit Scholarship Program sometimes referred to as the "Step Up for Students Scholarship Program."

The Corporate Income Tax Credit Scholarship Program

The 2001 Florida Legislature passed "The Corporate Income Tax Credit Scholarship Program"⁹ with an implementation date of January 1, 2002. The program's purposes, as stated by the Legislature, is to encourage private, voluntary contributions to nonprofit scholarship-funding organizations, expand educational opportunities for children of families that have limited financial resources, and enable children in Florida to achieve a greater level of excellence in their education.

The program gives business taxpayers, on a first-come, first-served basis, limited credits against their Florida corporate income taxes for contributions to "eligible nonprofit scholarship-funding organizations." There is an annual aggregate tax credit limit for the entire state of \$88 million. The credit cannot exceed 75% of the corporate taxes due by the taxpayer after applying all other tax credits available to the taxpayer. One percent of the credits are set aside for small businesses taxpayers.¹⁰

The "eligible nonprofit scholarship-funding organizations"¹¹ that receive these contributions use the donated money to provide scholarships to families with a "qualified child" who is eligible for free or reduced-price school lunches under the national school lunch program, and was counted as a full-time equivalent student during the previous state fiscal year for purposes of state per-student funding or received such a scholarship the previous year.¹² These scholarships must be used for the child to attend (1) any "eligible nonpublic school"¹³ or (2) another public school of choice outside the child's current public school district.

⁸ *Education Fact Sheets* (2001). The Florida House of Representatives Academic Excellence Council, p. 143.

⁹ Florida Statutes Section 220.187.

¹⁰ The Statute provides for additional limitations, such as a reduction of the credit by any Federal tax benefits that the credit causes. As of the date of this analysis, regulations to govern the administration of the credit were not available. F.S. §220.187 (5).

¹¹ An "eligible nonprofit scholarship-funding organization" is a charitable organization that is exempt from Federal income tax, complies with statutory rules for administering the scholarship program, submits an annual financial and compliance audit to the State, and meets other standards that may be established by rule by the Florida Department of Education. See F.S. §220.187 (2)(c), (6), (9)(b). It cannot spend any of the donated money for administrative expenses, F.S. §220.187 (6)(i), and it must spend all of the eligible contributions made each year for scholarships during that year, F.S. §220.187 (6) (i).

¹² F.S. §220.187. A specific child cannot be designated by the corporate donor as the beneficiary of a contribution F.S. §220.187 (2)(b).

¹³ An "eligible nonpublic school" must demonstrate fiscal soundness as defined by the Statute, comply with antidiscrimination laws, meet state and local health and safety laws and codes and comply with all state laws relating to the general regulation of nonpublic schools. F.S. §220.187 (8) (a).

In the table below is the number of participating private schools for the last three years:

2005-2006	852 Schools
2004-2005	973 Schools
2003-2004	924 Schools

According to the Florida Department of Education, the number of scholarship students participating in this program the last four years is listed in the table below:

2006-2007	16,800 (estimated)
2005-2006	13,497
2004-2005	10,473
2003-2004	11,550
2002-2003	15,585

Eligible low-income families may apply to the “eligible nonprofit scholarship-funding organizations” to receive the scholarships. Qualified children received a scholarship up to \$3,500 per year for tuition, textbook or transportation costs of attending an eligible nonpublic school¹⁶ or up to \$500 per year to pay for transportation to an out-of-district public school in the first four years of the program. The scholarship limit was raised to \$3,750 during the 2006 legislative session.

Fiscal Impact on Public Education Revenues

There is a debate between opponents and proponents of the scholarship program that centers on the financial impact of the corporate income tax credit upon public education revenues.

Proponents claim that this program will even the educational playing field by offering low income students an alternative to those public schools that are ineffective and unsafe. Proponents also argue that the scholarship program actually saves the state money by offering low-income children scholarships that are less than half the revenue of what a public school student receives.

Opponents counter that voucher programs divert tax dollars away from public education thereby decreasing public education funding. Another criticism is that voucher programs take better students and concerned parents away from already troubled public school systems without offering any solutions to existing problems.

¹⁴ Office of School Choice, Florida Department of Education: Corporate Tax Scholarship Program Statistics http://www.floridaschoolchoice.org/Information/CTC/program_statistics.asp

¹⁵ Office of School Choice, Florida Department of Education: Corporate Tax Scholarship Program Statistics http://www.floridaschoolchoice.org/Information/CTC/program_statistics.asp

¹⁶ At least 75% of the scholarship funding for nonpublic private schools must be used for tuition. F.S. §220.187 (6)(d)1.

This report updates the Collins Center's 2002 fiscal analysis to determine whether the tax credit program diverted money away from K-12 public schools, as some critics claimed, or whether it has been an economical means of improving the choices low-income families can make about their children's education, as the program's proponents claim.

What is the fiscal impact of the Scholarship Program upon public school funding in Florida?

The debate centers on whether statewide public education revenues will be reduced because of the Corporate Income Tax Credit Scholarship program. As a result, this analysis uses revenues per student rather than expenditures per student as the relevant data source.

Revenues per student can be tracked because they come from identifiable sources and are publicly reported by the Department of Education and expended by local school districts each year. Expenditures per student are more difficult to track because the federal government, the state legislature, and local school board use different spending criteria on the revenues making it difficult to verify and track true costs. Because the public debate focuses on the effect of the scholarship program on revenues, this analysis of necessity focuses on revenues and not on expenditures for public education.

This analysis also focuses on the fiscal impact of the scholarship program at the state level and not at the local district level. The scholarship program may have a different effect from district to district depending upon use, legislative appropriations, and local district spending.

The six critical questions answered by this fiscal analysis are as follows:

1. Have Florida's Corporate Income Tax revenues declined as a result of the Corporate Income Tax Credit Scholarship Program?
2. Have Florida's General Revenue Collections declined as a result of the Corporate Income Tax Credit Scholarship Program?
3. Have Florida General Fund Revenues for K-12 schools declined as a result of the Corporate Income Tax Credit Scholarship Program?
4. Have K-12 per pupil revenues declined as a result of the Corporate Income Tax Credit Scholarship Program?
5. Has Florida accrued net statewide revenues as a result of the Corporate Income Tax Credit Scholarship Program?
6. Did the Collins Center's projections of accrued net statewide revenues in 2002 approach the actual results?

Analysis

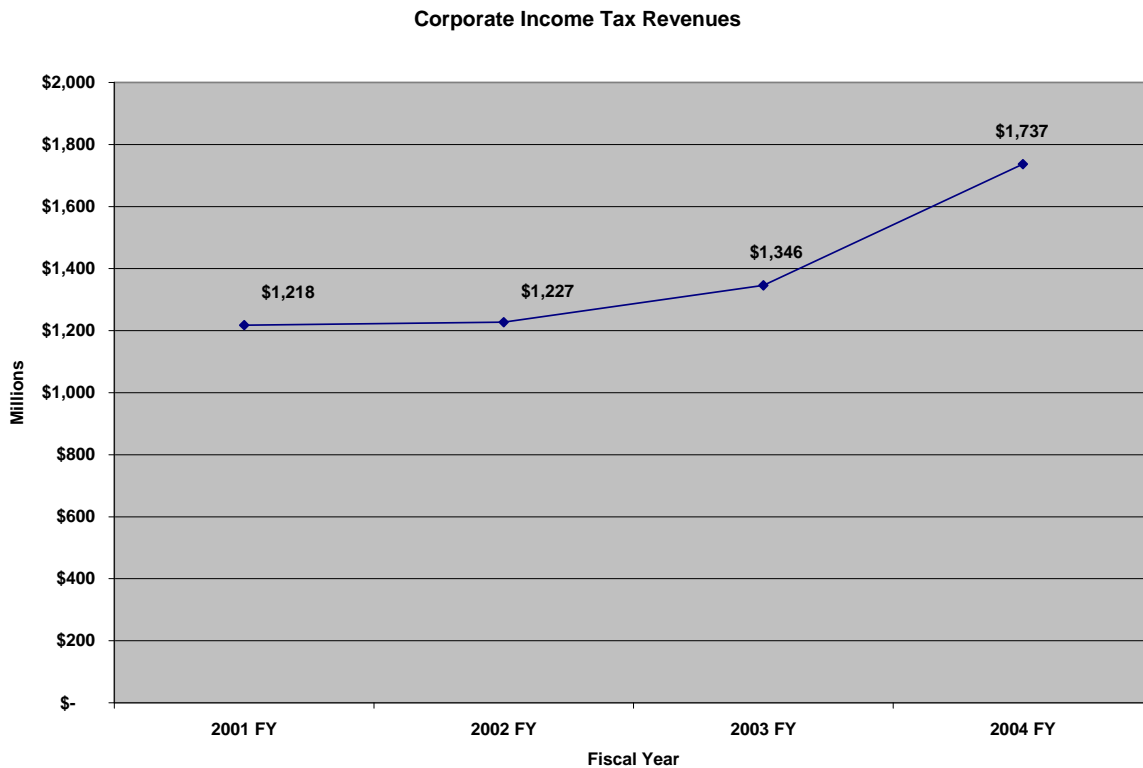
1. Have Florida's Corporate Income Tax revenues declined as a result of the Corporate Income Tax Credit Scholarship Program?

No, in fact, Florida's Corporate Income Tax revenues have increased since the implementation of the program in 2002¹⁷.

Chapter 220 Florida Statutes contains the provision of Florida's Corporate Income Tax. It is "imposed upon all corporations, organizations, associations, and other artificial entities which derive from this state or from any other jurisdiction permanent and inherent attributes not inherent in or available to natural persons, such as perpetual life, transferable ownership represented by shares or certificates, and limited liability for all owners."

Florida Statutes Section 220.187 provides that tax credits may be applied to the Corporate Income Tax if a monetary contribution is provided to an eligible nonprofit scholarship-funding organization. The statewide cap has been raised from \$50 million to \$88 million per year.

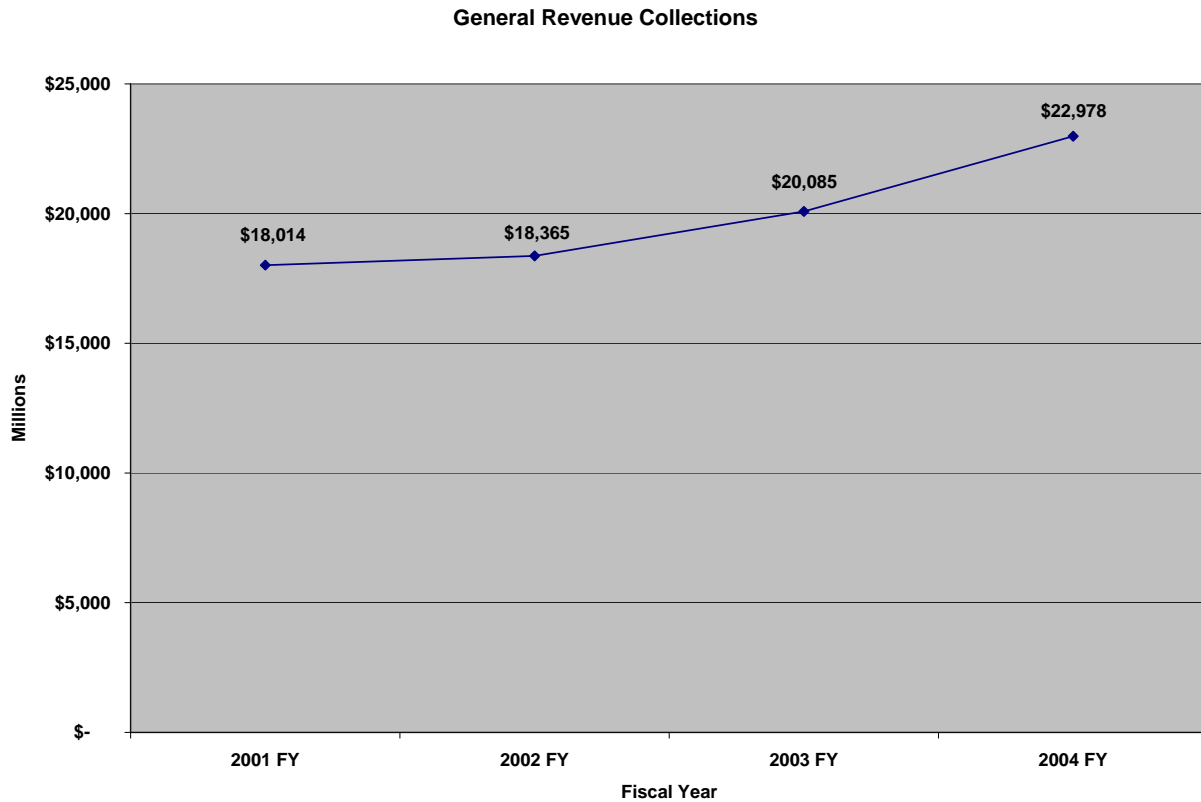
According to the Department of Education, estimated eligible contributions for the 2002, 2003, and 2004 fiscal years totaled \$126,655,500 or 2.9% of total Corporate Income Tax Revenues Collected for the three year period.



¹⁷ Revenue Collection Summary, Department of Revenue 2005 Annual Report

2. Have Florida's General Revenue Collections declined as a result of the Corporate Income Tax Credit Scholarship Program?

No, like the corporate income tax, general fund revenue collections comprised primarily of sales tax and use tax receipts have increased since the programs implementation.¹⁸

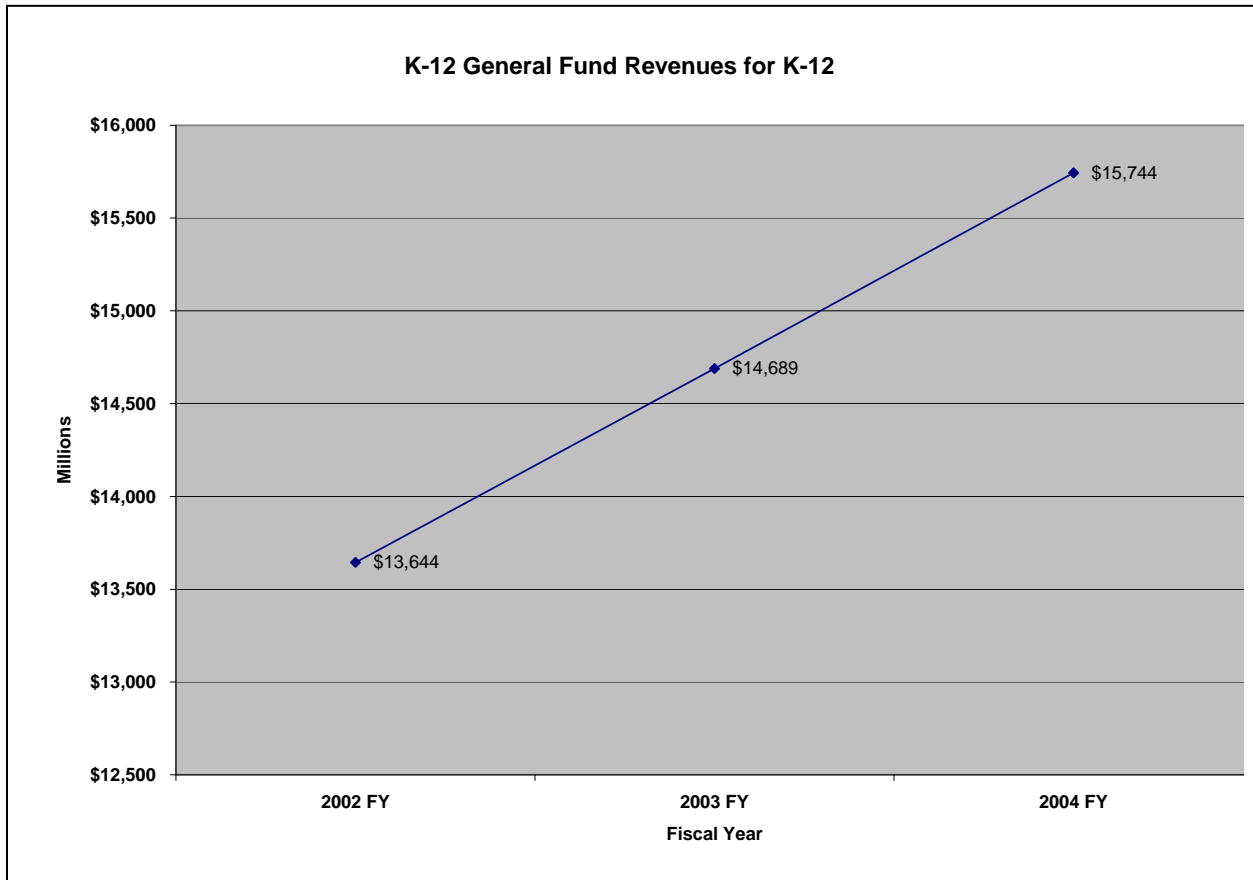


¹⁸ Revenue Collection Summary, Department of Revenue 2005 Annual Report

3. Have Florida General Fund Revenues for K-12 schools declined as a result of the Corporate Income Tax Credit Scholarship Program?

No, since the inception of the tax credit scholarship program, K-12 general fund revenues have increased each year for public schools.¹⁹ The Corporate Income Tax is one of many sources of revenue for General Funds which provide money for a variety of state programs.

The General Fund revenues for education increased an average of 7.6% each year from 2002 FY to the 2004 FY. These increases were almost twice the average annual increase of 3.8% experienced in the 10 year period between 1991 and 2000 FYs²⁰.



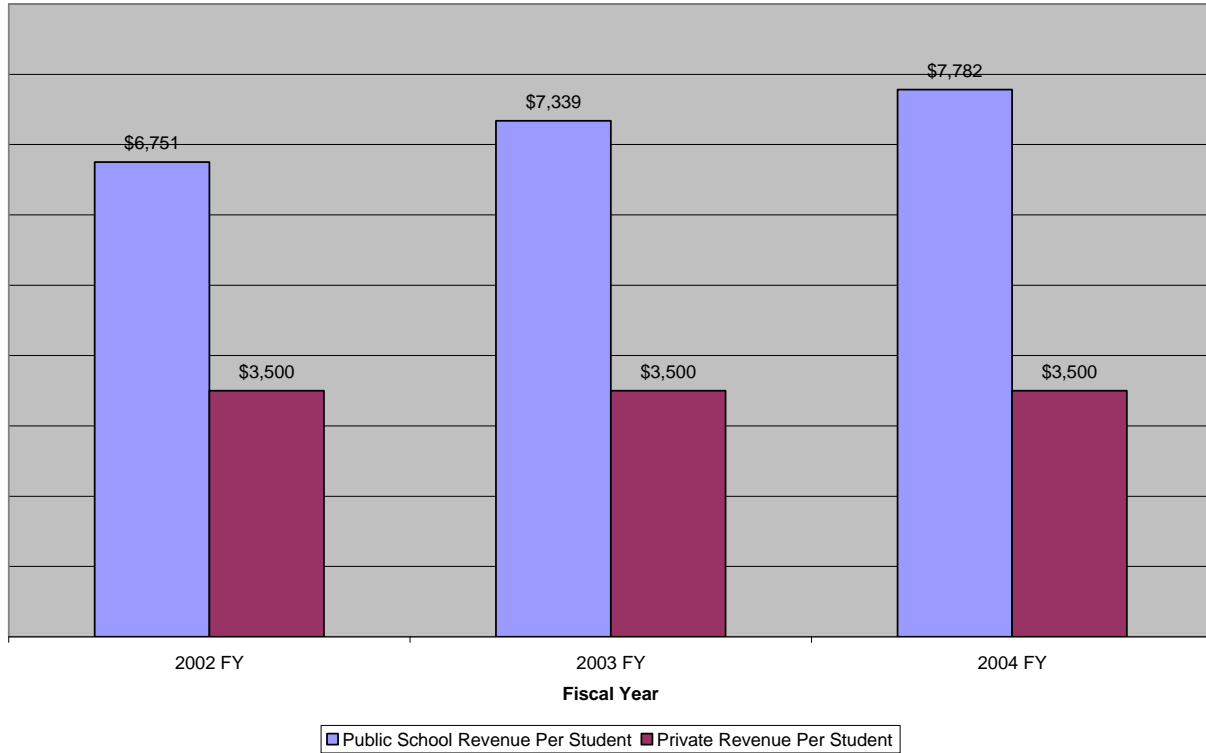
¹⁹ Florida Department of Education, Financial Indicators, 2002-2004 FY

²⁰ The Florida Corporate Income Tax Credit Scholarship Program--A Preliminary Analysis: Collins Center (April 2002)

4. Have K-12 per pupil Revenues declined as a result of the Corporate Income Tax Credit Scholarship Program?

No, instead K-12 per pupil state and local revenues have risen steadily since the inception of the program (all federal revenues are removed from the model to isolate the impact upon state and local revenues which comprise over 90% of revenues that are provided to public schools)²¹.

Compare Public v. Private Revenue Per K-12 Student



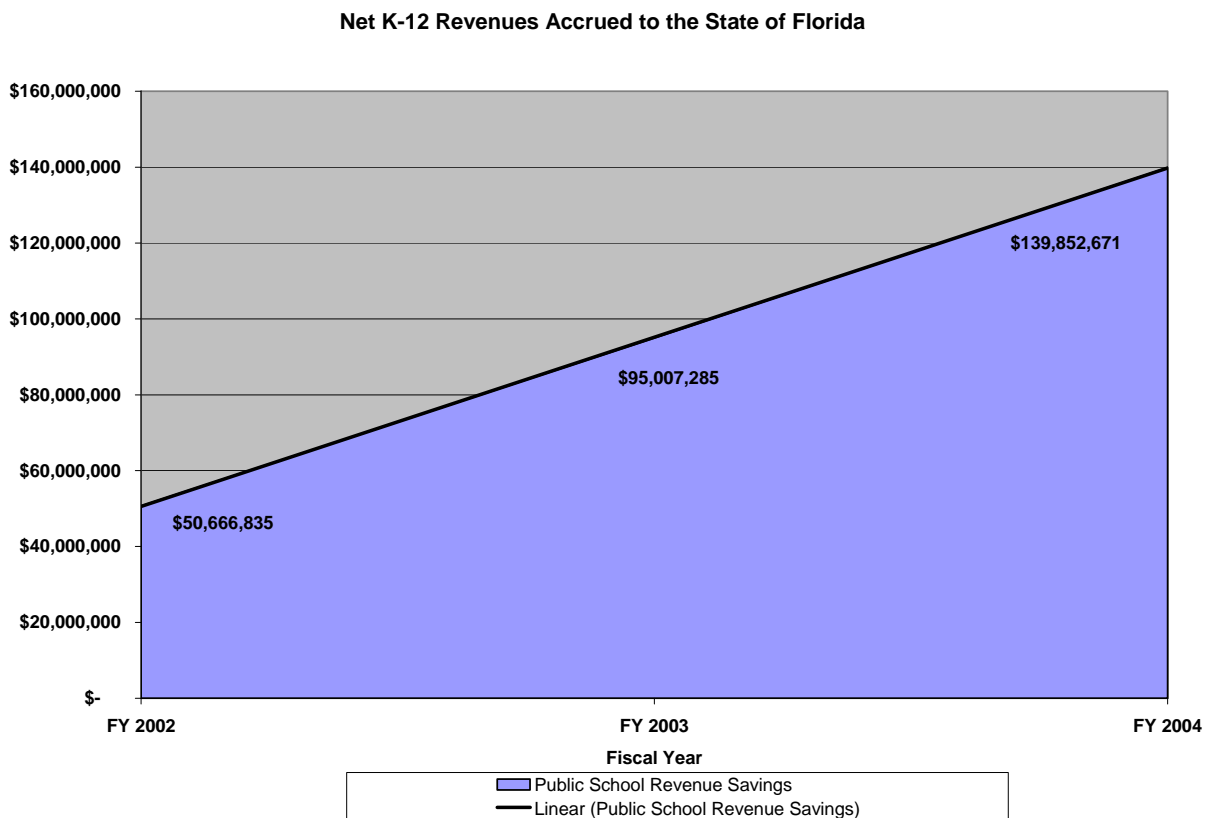
²¹ Florida Department of Education, Financial Indicators, 2002-2004 FY.

5. Has Florida accrued net statewide revenues as a result of the Corporate Income Tax Credit Scholarship Program?

Yes, the State of Florida accrued nearly \$140 million in public school revenues since 2002 by saving the difference between the value of the \$3,500 scholarship and the value of K-12 per pupil state and local revenue.

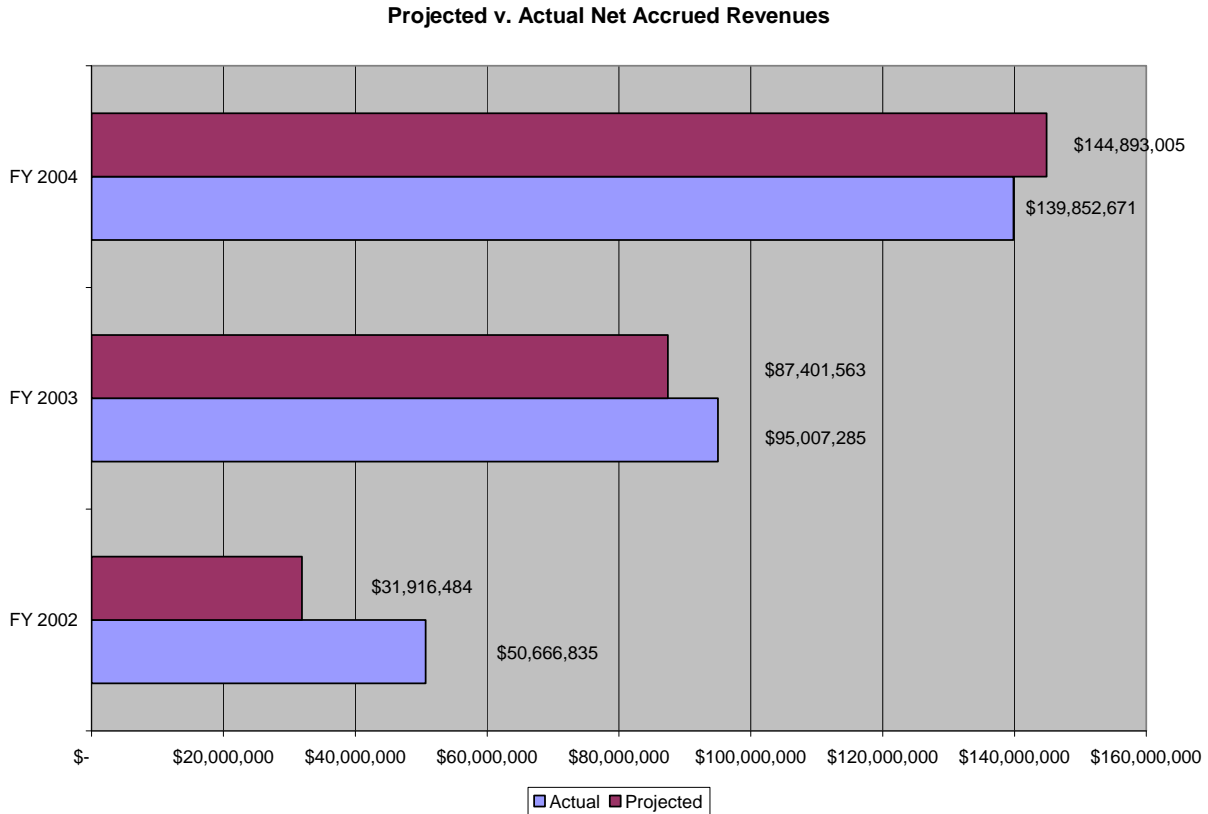
These net statewide accrued revenues are calculated by the following formula:

$$\text{K-12 per student revenue} - \text{Scholarship value} = \text{Accrued revenue} \times \text{Participating students}$$



6. Did the Collins Center’s 2002 projections of accrued net statewide revenues approach the actual results for the past three years?²²

Yes, the accrued net statewide revenue projections were within \$5.04 million or 3.6% of the actual results.



Conclusion:

Predictions that the Corporate Income Tax Credit Scholarship Program will decrease public education revenues have not been fulfilled based on the education funding data from the past three years. In fact, the opposite has occurred as revenue funding levels for public education have increased dramatically. As projected by the Collins Center in 2002, there have been statewide accrued net revenues along with yearly increases in K-12 per pupil revenues.

²² The Florida Corporate Income Tax Credit Scholarship Program – A Preliminary Analysis: Collins Center (April 2002).