



The Corporate Income Tax Credit Scholarship Program Saves State Dollars

at a glance

The corporate income tax credit scholarship program produces a net savings to the state. We estimate that in Fiscal Year 2007-08, taxpayers saved \$1.49 in state education funding for every dollar loss in corporate income tax revenue due to credits for scholarship contributions. Expanding the cap on tax credits would produce additional savings if there is sufficient demand for the scholarships. The Legislature may wish to consider expanding the program when the level of tax credits awarded approaches the cap and there is a sufficient waiting list of students who could use the scholarships.

Including insurance premium tax credits in the scholarship program would broaden its funding base and increase the probability that the tax credit cap is reached. Currently, not all insurance companies in the state have an incentive to participate in the program.

Private school representatives indicated that incentives would not encourage their schools to have their scholarship students participate in the FCAT.

Scope

As directed by Ch. 2008-241, *Laws of Florida*, this report evaluates the fiscal impact of increasing the cap for the Corporate Income Tax Credit Scholarship Program. The report also assesses the option of using insurance premium tax credits as an additional funding source and examines options for encouraging private schools with

scholarship recipients to participate in the Florida Comprehensive Assessment Test.

Background

The Florida Legislature established the Corporate Income Tax Credit Scholarship Program in 2001 to expand educational opportunities for low-income students.¹ The program enables these students to attend private schools using scholarships financed with corporate income tax credits.

All corporations doing business in Florida must pay a corporate income tax equal to 5.5% of income earned in Florida, and these revenues are deposited to the General Revenue Fund. Corporations participating in the scholarship program make contributions to scholarship funding organizations, and receive tax credits equal to the amount of these contributions, not to exceed 75% of their corporate taxes due. The maximum amount of tax credits that may be granted under the program was capped at \$50 million for Fiscal Years 2003-04 and 2004-05, and \$88 million for Fiscal Years 2005-2006 through 2007-08. For Fiscal Year 2008-09 the Legislature raised the cap to \$118 million. Because the amount of tax credits is capped, corporations must apply and the Department of Revenue must approve the tax credits prior to companies taking credits for their contributions.

¹ Section 220.187, *F.S.*

Corporate income tax scholarship credits have accounted for approximately 5% of the state’s corporate income tax revenues since the program’s inception. On average over the past three fiscal years, the amount of tax credits approved were approximately 96% of the program’s cap of \$88 million.

The maximum scholarship amount per student is \$3,950 and may be used for tuition and fees at a private school in Florida.² The dollar amount of scholarships awarded has been less than the amount of tax credits approved each fiscal year. As shown in Exhibit 1, over the past three years, the scholarships have equaled about 72% of the program’s cap on tax credits, but reached 87% of the cap in Fiscal Year 2007-08.

**Exhibit 1
Dollar Amount of Scholarships Funded Through the Program Has Been Less Than Approved Credits**

Fiscal Year	Program Cap	Tax Credits Approved	Dollar Amount of Scholarships
2007-08	\$88 m	\$85,611,140	\$76,708,207
2006-07	88 m	87,123,000	67,189,437
2005-06	88 m	80,323,071	46,894,354

Source: The *Florida Statutes*, Department of Revenue, and Step Up for Students.

There are two reasons why scholarships have been lower than the amount of tax credits approved. First, there is a timing gap between when tax credits are approved and when scholarships are funded. The Department of Revenue approves tax credits for a state fiscal year. Since corporate fiscal years are often different from the state’s fiscal year, some corporations make scholarship contributions in a different state fiscal year than the one for which their tax credits have been approved. For example, a company applied for and the Department of Revenue approved part of the 2007-08 allocation of tax credits for the scholarship program. The company’s 2007-08 fiscal year is from October 2007 through September 2008.

² This amount represents a \$200 increase from the maximum scholarship amount of \$3,750 in previous fiscal years.

It can make contributions to scholarship funding organizations as late as September 2008, which falls in state Fiscal Year 2008-09. In this example, the state incurred a revenue loss in Fiscal Year 2007-08, the fiscal year for which the tax credits were approved, but gained part of the savings in Fiscal Year 2008-09, when state school spending would be lower as students switched from public to private schools. Recognizing this delay, scholarship funding organizations are authorized to carry forward 25% of the contributions they receive from one year to the next.³

A second reason why scholarship awards have been lower than approved tax credits is that the amount of these credits is based on expected corporate taxes due. When a company applies to the Department of Revenue for corporate tax credits, it estimates its tax liability based on the amount of profits it expects to earn in its fiscal year. In some cases, actual profits at the end of the corporation’s fiscal year are lower than estimated, and the company may reduce the tax credit it claims and the level of contributions it makes to scholarship funding organizations. In other cases, the company may carry forward the unused credit to its next fiscal year.

Currently three scholarship funding organizations administer the application process and award scholarships: Florida P.R.I.D.E., Children First Florida, and the Carrie Meek Foundation, Inc. Step Up for Students is responsible for raising the scholarship and operating dollars for the scholarship funding organizations. Step Up for Students and Florida P.R.I.D.E. are both trade names of The Florida School Choice Fund, Inc. Until July 2008 the operations of Step Up for Students and the scholarship funding organizations were funded by private donations. The 2008 Legislature authorized the scholarship funding organizations to use 3% of their scholarship contributions for administrative purposes.⁴

³ Section 220.187, *F.S.*, requires scholarship funding organizations to return to the state treasury the net eligible contributions remaining on June 30 of each year that are in excess of the 25% that may be carried forward.

⁴ Chapter 2008-241, *Laws of Florida*.

The Department of Education’s Office of Independent Education and Parental Choice oversees the program. It provides lists of approved private schools and scholarship funding organizations and publishes quarterly reports.

In Fiscal Year 2007-08 the program awarded scholarships to 21,493 students. Students are eligible for a scholarship if they qualify for free or reduced lunch and have either attended public school the previous year, received a scholarship the previous year, or are entering kindergarten or first grade.⁵ Chapter 2008-241, *Laws of Florida*, extends eligibility to students in foster care and siblings of current scholarship recipients. Students are eligible to renew their scholarship and siblings are eligible to join the program as long as their household income does not exceed 200% of the federal poverty level. The number of students receiving scholarships has nearly doubled over the past five years as shown in Exhibit 2. This growth has been accompanied by increases in the cap on tax credits.

Exhibit 2
The Number of Scholarship Recipients Has Increased Over Time

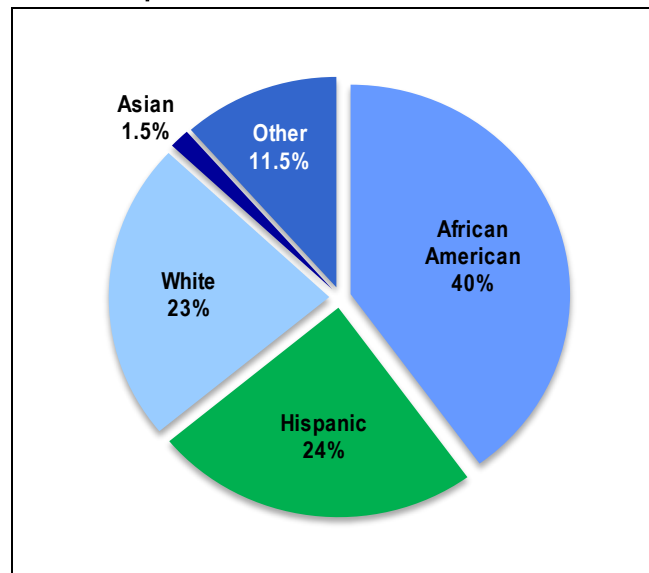
Fiscal Year	Number of Students	Number of Private Schools
2007-08	21,493	933
2006-07	17,819	948
2005-06	15,123	895
2004-05	10,549	973
2003-04	11,550	924

Source: Department of Education.

The program serves a diverse student population (see Exhibit 3). In 2007-08, 40% of scholarship recipients were African-American, while Hispanic and white students were each about a quarter. The remaining students were Asian or other ethnicities.

⁵ A student is eligible for free lunch if household income does not exceed 130% of the federal poverty level and a student is eligible for reduced lunch if household income does not exceed 185% of federal poverty level. For 2007-08, the federal poverty level for a four-person household was \$20,650 annual income. This equates to a household income of less than \$26,845 to qualify for free lunch and a household income of less than \$38,203 to qualify for reduced lunch.

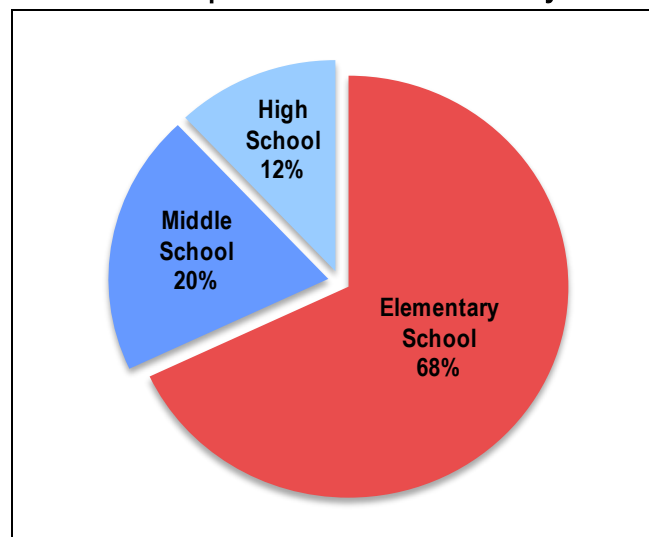
Exhibit 3
The Scholarship Program Serves a Diverse Student Population



Source: OPPAGA analysis of Step Up for Students data.

As shown in Exhibit 4, over two-thirds of the scholarship students were in elementary school, while a fifth were in middle school, and the remaining 12% were in high school. The typical student comes from a household with an annual income of \$24,543 and four persons. In 2007-08, most (61%) students received the maximum scholarship amount of \$3,750. The average scholarship amount was \$3,412.

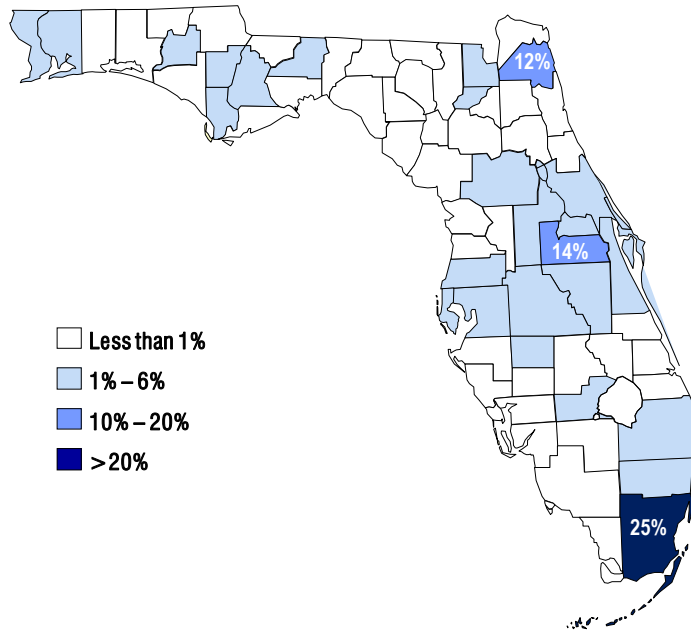
Exhibit 4
Most Scholarship Students Are in Elementary School



Source: OPPAGA analysis of Step Up for Students data.

In Fiscal Year 2007-08, scholarship students attended private schools in 58 out of 67 school districts (see Exhibit 5). Over half of these students attended schools in three counties—Miami-Dade (25%), Orange (14%), and Duval (12%).

**Exhibit 5
Distribution of Scholarship Students**



Source: OPPAGA analysis.

The program currently serves slightly less than 2% of low income children in Florida. The Department of Education reports that there were 1.2 million low income students eligible for free and reduced priced lunches in 2007-08, while the program served 21,493 such students in the school year.

Questions and Answers —

Our review of the Corporate Income Tax Credit Scholarship Program addressed three questions.

- What is the fiscal impact of the program?
- What would be the effect of using insurance premium tax credits as an additional source of program funding?
- Are there strategies that would encourage private schools that accept scholarship recipients to participate in the Florida Comprehensive Assessment Test (FCAT)?

To address these questions we analyzed financial and student records provided by the scholarship funding organizations, consulted with tax experts at the Department of Revenue, and conducted focus groups with representatives of private schools accepting scholarship recipients. While there is a local component to education funding, the fiscal analyses presented in this report represent the impact on state funds only. Appendix A provides details on our fiscal analyses.

What is the fiscal impact of the Corporate Income Tax Credit Scholarship Program?

The scholarship program produces a net savings to the state. While the program reduces the amount of corporate tax revenues received by the state, it produces a net fiscal benefit. This occurs because state education spending for students who receive scholarships is reduced by more than the amount of revenue lost.

The precise amount saved is difficult to estimate. Education funding is set by the Legislature in the annual appropriations act, which establishes the total per-student funding, the proportion paid by state funds, and the proportion paid through local property taxes. The Department of Education allocates the state portion of these funds through complicated formulas, based on student counts and other factors, to school districts through the Florida Education Finance Program (FEFP). As discussed in Appendix A, FEFP allocations include a base student allocation plus a declining enrollment supplement, exceptional student education allocation, supplemental academic instruction allocation, and several other adjustments.

As shown in Exhibit 6, we estimate that in Fiscal Year 2007-08, the state saved \$1.49 in education funding for every dollar loss in corporate income tax revenue due to scholarship contributions. The scholarship funding organizations collected \$79.2 million in contributions and provided scholarships to 21,493 students. We estimate that 90% of these students would have attended public school if not for the scholarship. The state avoided \$118.1 million in education spending for these students, resulting in net savings of \$38.9 million taking into account foregone corporate tax revenue.

**Exhibit 6
Corporate Income Tax Scholarship Program Saves
the State Money Spent on Education**

Fiscal Year 2007-08	Amount
Education Savings	
Number of scholarship recipients	21,493
90% of recipients who would have attended public school	19,344
Savings per recipient	x \$6,106
Total education savings	\$118.1 million
Revenue Lost	
Pledges for current year	\$81.0
Uncollectible pledges from current year	(4.6)
Outstanding pledges beginning of the year	35.0
Outstanding pledges end of the year	+ (32.1)
Forgone corporate income tax	\$79.2 million
Ratio (Saves \$1.49 for each \$1.00 spent)	1.49
Net Savings	\$38.9 million

Source: OPPAGA analysis of financial data provided by Step Up for Students.

Beginning in Fiscal Year 2008-09, state educational savings may decline, as the 2008 Legislature authorized scholarship funding organizations to withhold up to 3% of contributions to cover their administrative expenses. As a result, the amount of contributions available for scholarships will decline and fewer students may switch from public to private schools.

Although increasing the cap on tax credits can produce greater savings for the state, other program changes can reduce savings. In recent years, the Legislature has made changes to the scholarship program, twice increasing the program’s cap on tax credits and, last year, increasing the scholarship amount as well as allowing the scholarship funding organizations to use contributions for administrative expenses.

Raising the cap on tax credits increases savings in the state budget because state education spending is reduced by more than the loss in state corporate tax revenue. However, not all of the increase in savings may occur in the first year. As discussed previously, there can be a lag between when contributions are made to the scholarship fund, which reduce state corporate tax collections, and when these contributions are used by students who otherwise would attend public schools, reducing state educational expenses.

While increasing the cap on tax credits can increase savings, other changes to the program such as increasing the scholarship amount or the percentage of contributions that can be used for administrative expenses tend to decrease program savings. These changes reduce the number of scholarships that can be awarded for a given level of contributions, and thus the level of savings achieved.

Exhibit 7 provides a hypothetical analysis that shows the relative effect of individual program changes on the state budget.⁶ This analysis shows the savings achieved for new scholarship students with four scenarios—(1) no change in the program cap and scholarship amount and administrative expenses are not allowed; (2) a \$30 million increase in the program cap, which results in an incremental increase in the number of students served; (3) increasing the administrative expenses that scholarship funding organizations are allowed to retain by 3%; and (4) increasing the level of scholarship awards by \$200. The exhibit shows that raising the cap on tax credits increases state savings, with savings growing over time as more scholarship students attend private school. In contrast, increasing the level of administrative fees retained by funding organizations and increasing the scholarship amount reduces the program’s savings to the state.⁷

Additional factors can affect the timing and the amount of the savings. These include

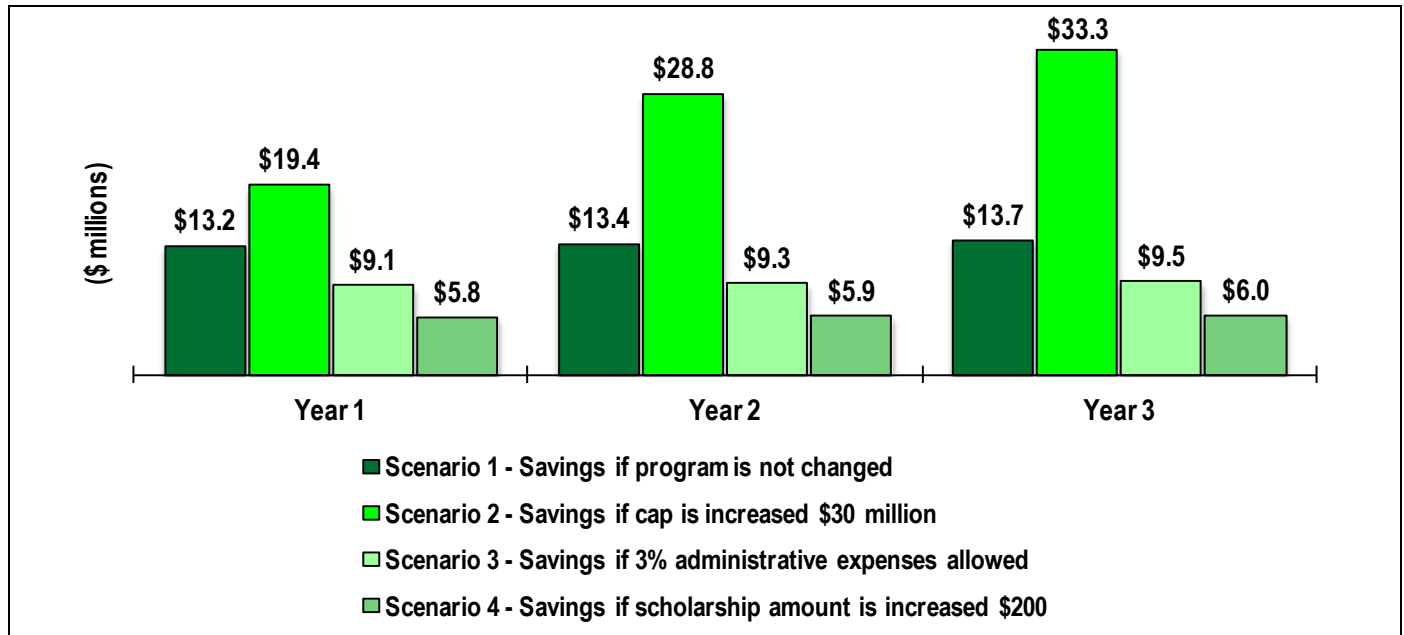
- the number of students seeking scholarships, and
- the amount of reserves scholarship funding organizations have available to spend each year.

⁶ Due to the poor economy, contributions to the program have not increased as expected. Using expected contributions for the current year in our analysis would not provide information that would be representative of a more typical year.

⁷ To determine how program changes would affect the state budget we considered the effect of the net change in scholarships from the previous year to each successive year of implementation. In this analysis only new scholarship students are considered because continuing scholarship students are already out of the base education budget. This approach is different from the one used in the previous section (Exhibit 6) estimating the program’s total savings in Fiscal Year 2007-08. In that estimate both new and continuing scholarship students are considered.

Exhibit 7

Increasing the Cap on Tax Credits Can Increase Program Savings While Changing Other Factors Reduces Savings



Source: OPPAGA analysis.

Changes in the number of students who seek scholarships to attend private schools can affect how quickly students use scholarships to shift from public to private schools. In addition, if scholarship funding organizations have adequate reserves, they can use these funds to meet or increase their commitments to students for the current year even when contributions fall short of expectations. If this occurs, the level of state savings is maintained or increased because the revenue loss from tax credits would be lower while the number of scholarships and, therefore, the level of education savings, is maintained or increased.

The Legislature may wish to consider several questions before further increasing the program’s funding cap. As directed by the Legislature, we identified criteria that could be used to determine if and when future increases should be made to the cap on corporate tax credits.

- Has at least 95% of the cap been approved for tax credits during the two prior fiscal years?
- How many qualified students would participate at the current amount if additional funds were available?

These criteria would help ensure that there is sufficient demand for additional program scholarships and that the drop in tax revenues would be matched with corresponding future reductions in state public school expenditures. Reaching a 95% utilization level of the cap is a reasonable threshold indicating corporate interest in making scholarship contributions, and this level had been met in both prior instances when the Legislature increased the program’s cap on tax credits. The Legislature’s Office of Economic and Demographic Research, which manages the state’s Revenue Estimating Conferences, can provide the Legislature with estimates of the net fiscal impact of increasing the cap in specific fiscal years. The number of unfunded qualified student applicants that would participate at the current scholarship amount is a good indicator of unmet demand for program scholarships. For example, if there were 5,000 qualified applicants who did not receive a scholarship in the prior year, the cap on tax credits could be raised by enough to meet this demand at the current scholarship amount. The scholarship funding organizations would need to track the number of qualified applicants not funded each year that would participate at the current scholarship amount.

What would be the effect of authorizing insurance premium tax credits as an additional source of scholarship program funding?

Allowing insurance premium tax credits to be included in the scholarship program would broaden the base of companies likely to participate and increase the chance that higher caps set by the Legislature would be met. Currently, not all insurance companies in the state have an incentive to participate in the program.

Some insurance companies have no incentive to participate in the program. Currently, the ability of an insurance company to reduce their tax liability by participating in the program depends on their financial situation. Insurance companies must have a net corporate income tax liability greater than 65% of their insurance premium tax liability in order to reduce their tax liability by contributing to the scholarship program.⁸

⁸ Section 624.509(4)-(6), F.S., provides that corporate income taxes can be credited against insurance premium taxes, not to exceed 65% of insurance premium tax liability.

Companies that do not have such a corporate income tax liability may contribute to the program, but would not receive a reduction in tax liability for doing so.

For example, as illustrated in Exhibit 8, Insurance Company A would reduce its tax liability by participating in the program and taking a corporate income tax credit for scholarship contributions made. This company would have an initial corporate tax liability of \$8 million and a net insurance premium tax liability of \$2 million. By contributing \$500,000 to the scholarship program, the company would reduce its total tax liability from \$10 million to \$9.5 million. In contrast, Insurance Company B, with a \$2 million corporate tax liability and an \$8 million net insurance premium tax liability, would not reduce its tax liability if it contributed to the program, because its corporate income tax liability is not greater than 65% of its insurance premium tax liability. This company’s total payments would be greater than its initial tax liability if it made a contribution to a scholarship funding organization.

**Exhibit 8
Broadening the Program to Allow Insurance Premium Tax Credits Could Encourage Additional Companies to Participate**

	Insurance Company A	Insurance Company B	
	Has Incentive to Participate in Current Program	Does Not Have Incentive to Participate in Current Program	Would Have Incentive to Participate in an Amended Program
NOT Participating in Scholarship Program			
Total Tax Liability – NOT participating	\$10.0 m	\$10.0 m	\$10.0 m
Participating in Scholarship Program			
Corporate Tax Liability	\$ 8.0 m	\$ 2.0 m	\$ 2.0 m
Scholarship Contribution	(0.5 m)	(0.5 m)	
Net Corporate Tax Liability	\$ 7.5 m	\$ 1.5 m	\$ 2.0 m
Insurance Premium Liability	\$ 5.7 m	\$ 10.0 m	\$10.0 m
Insurance Premium Credit for Corporate Taxes Paid	(3.7 m)	(1.5 m)	(2.0 m)
Scholarship Contribution			(0.5 m)
Net Insurance Premium Liability	\$ 2.0 m¹	\$ 8.5 m	\$ 7.5 m
Total Tax Liability – Participating	\$ 9.5 m	\$10.0 m	\$ 9.5 m

¹Corporate income tax liability can be credited against the insurance premium tax liability for an amount up to 65% of the insurance premium tax liability. Because Company A’s corporate tax liability exceeds 65% of its insurance premium tax liability, the entire \$7.5 million could not be credited.

Source: OPPAGA analysis.

Additional insurance companies would likely contribute to the program if the Legislature authorized them to claim a tax credit on their insurance premium tax liability for scholarship contributions. As shown in the exhibit, if this change were made, Insurance Company B would be able to reduce its tax liability by contributing \$500,000 to the program and receiving a matching insurance premium tax credit. Such a change would broaden the program's financial base but would not necessarily affect its overall fiscal impact, as the Legislature could continue to control the program's growth through the cap on total tax credits.

If the Legislature allowed insurance premium tax credits to be included in the scholarship program, insurance company participation would depend on several factors. These include the companies' profitability and tax liabilities on an annual basis. Such a change may increase the likelihood that the program would generate the maximum level of contributions by broadening the range of businesses that would receive a reduction in tax liability from participating.

Insurance companies are assessed several inter-related taxes—corporate income taxes, insurance premium taxes, and, in some cases, retaliatory taxes. For each of these taxes, varying rates apply as well as different rules governing how one tax liability can be credited against another.

If the Legislature chooses to allow insurance premium tax credits to be used for the scholarship program, it should consider three questions. First, should insurance companies be given flexibility in receiving tax credits against either their corporate income taxes or their insurance premium taxes? Allowing insurance companies this flexibility would maximize the number of companies that would make contributions to scholarship funding organizations, but would also complicate tax administration.

Second, should out-of-state insurance companies be held harmless from increased Florida retaliatory taxes if they participate in the program? All insurance companies, regardless of location, pay insurance premium taxes to Florida

on premiums sold in Florida. Retaliatory taxes are sometimes imposed on insurance companies located in other states that are doing business in Florida. Out-of-state companies are required to pay retaliatory taxes to Florida under certain circumstances. This would occur if the company's insurance premium tax burden would have been higher if they conducted the same business they conducted in Florida in their home state. Likewise, Florida companies may be required to pay retaliatory taxes to other states. Retaliatory taxes help ensure a level playing field by preventing companies from choosing to locate in one state in order to lower their insurance premium taxes. Unless otherwise provided, out-of-state insurance companies could face increased retaliatory taxes if they lowered their Florida insurance premium tax liability by taking credits for scholarship contributions. Establishing a provision that exempts these insurance companies from additional retaliatory taxes in Florida would help ensure that they have an incentive to participate in the program.⁹

Finally, should an insurance premium tax credit for scholarship contributions be in addition to or included in the 65% credit limitation? As discussed earlier, the corporate income taxes paid by an insurance company can be credited against insurance premium taxes. In addition, an employee salary credit is allowed against insurance premium tax equal to 15% of the amount of salaries paid by insurance companies to employees located in Florida.¹⁰ These two credits combined may not exceed 65% of insurance premium taxes due.¹¹ All other insurance premium tax credits may be granted in addition to the 65% credit limitation. Allowing the insurance premium tax credit for scholarship contributions to exceed the 65% credit limitation would provide more opportunity for companies to receive tax benefits than if it were included in the 65% credit limitation. However, including the scholarship

⁹ If a Florida company does business in another state and takes an insurance premium tax credit in Florida, its retaliatory taxes due in the other state may be affected depending on the other state's retaliatory tax law.

¹⁰ Section 624.509(5), *F.S.*

¹¹ Section 624.509(6), *F.S.*

credit in the 65% credit limitation would limit the tax revenue loss to the state.

Two other state programs allow insurance companies to claim an insurance premium tax credit for specified activities. The Capital Investment Tax Credit Program allows businesses that locate in targeted areas and create new jobs to receive tax credits for a percentage of capital investments made in the state.¹² Participating insurance companies may choose to apply these credits to either their corporate income or insurance premium taxes.¹³ Insurance companies participating in this program do not pay additional retaliatory taxes if they take program credits against their insurance premium taxes. Similarly, the Community Contribution Tax Credit Program allows a business to receive tax credits in an amount equal to 50% of an approved community contribution, such as an affordable housing project. Participating insurance companies may take credits against their insurance premium taxes and are not assessed additional retaliatory taxes.¹⁴ Both the Capital Investment and Community Contribution tax credits are authorized to exceed the 65% credit limitation.

Are there strategies to encourage private schools that accept scholarship students to participate in the Florida Comprehensive Assessment Test (FCAT)?

Unlike public school students funded with public funds, students who attend private schools using corporate income tax scholarships are not required to take the Florida Comprehensive Assessment Test (FCAT). Private school representatives we contacted indicated that incentives would not encourage their institutions to require that their scholarship students participate in the FCAT.¹⁵

¹² Businesses must locate in targeted areas in Florida, create at least 100 new high-wage jobs, and invest at least \$25 million in the state.

¹³ Section 220.191, *F.S.*

¹⁴ Sections 212.08(5)(p), 220.183, and 624.5105, *F.S.*

¹⁵ We conducted four focus groups with representatives from private schools that serve scholarship recipients. Three groups were composed of representative from individual private schools and one focus group was composed of representatives of the different private school associations.

Representatives from private schools cited several concerns related to FCAT testing. None of the private school representatives who participated in our focus groups supported adopting the FCAT, and they asserted that their schools would not accept financial incentives to have their scholarship students take the FCAT. Further, if required to use the FCAT, some school representatives indicated that their institutions would likely stop accepting scholarship students. The representatives cited several objections to using the FCAT.

- The FCAT does not test students' mastery of private school curricula. The FCAT is designed to measure students' mastery of the Sunshine State Standards for public schools.
- Parents who select private schools for their children do so in part because the schools offer different curricula than public schools. Thus, changing their curriculum would be counterproductive.
- At many private schools, scholarship recipients are only a small part of the student body—on average, there are 23 scholarship recipients at each private school. FCAT scores of scholarship students would not be representative of the overall academic achievement of the school's population.
- Testing only scholarship students with the FCAT would single them out, alerting others that they are low-income students.
- Private schools typically use other nationally norm-referenced tests approved by the Department of Education that are diagnostic and allow for comparison of academic performance to students nationwide. In the future, the FCAT will no longer have a norm-referenced component.

The focus group participants also noted that state law requires private schools that accept corporate tax credit scholarship students to participate in an accountability system. Florida statutes require participating private schools to annually administer or make provisions for scholarship students to take one of the nationally norm-referenced tests approved by the Department of

Education.¹⁶ The schools must report scores to an independent research organization, and the research organization reports aggregate information on year-to-year changes in test scores to the Department of Education. The Department is to conduct an analysis of matched students from public schools and calculate control group learning gains that the independent research organization can use as a comparison in its evaluation of student performance for the scholarship program. However, now that the FCAT will no longer include a norm referenced component this analysis will be more difficult because it cannot be done with current information. A concordance analysis would need to be conducted to compare the scores on the different tests.

¹⁶ Section 220.187, *F.S.*

Appendix A

Methodology Used to Calculate the Fiscal Impact of the Corporate Income Tax Scholarship Program

We calculated the program's overall fiscal impact by comparing savings in education funding and losses in corporate income tax revenue. We also created a set of scenarios to demonstrate the potential fiscal impact on the state budget of increasing the cap on tax credits for the scholarship program, increasing the scholarship amount, and increasing the allowable administrative expenses funded by contributions.

Estimating the overall fiscal impact

We estimate that the state achieved a savings of \$1.49 in education funding for each dollar loss in state corporate income tax revenue in Fiscal Year 2007-08. Table A-1 shows the calculations for this estimate. This estimate was calculated by (1) identifying the loss of tax revenue incurred during the year as the result of the program's corporate income tax credits awarded; (2) estimating the number of scholarship recipients who otherwise would have attended public schools (estimated to be 90% of the 21,493 scholarship recipients); (3) estimating the educational expenditures the state would have incurred for these students if they had attended public schools (\$6,106 each based on the Florida Educational Finance Program per student funding); and (4) dividing the amount of these savings by the level of forgone state tax revenue. In addition, net savings were calculated as the amount of total savings minus the amount of foregone corporate income tax revenue.

Table A-1
Corporate Income Tax Scholarship Program Saves the State Money Spent on Education

Fiscal Year 2007-08	Amount
Education Savings	
Number of scholarship recipients	21,493
90% of recipients who would have attended public school	19,344
Savings per recipient	x \$6,106
Total education savings	\$118.1 million
Revenue Lost	
Pledges for current year	\$81.0
Uncollectible pledges from current year	(4.6)
Outstanding pledges beginning of the year	35.0
Outstanding pledges end of the year	+ (32.1)
Forgone corporate income tax	\$79.2 million
Ratio (Saves \$1.49 for each \$1.00 spent)	1.49
Net Savings	\$38.9 million

¹ Outstanding pledges are approved tax credits for which companies have not made contributions yet. The net of outstanding pledges at the beginning and the end of the year is the amount of contributions from pledges from the prior year.

Source: OPPAGA analysis of financial data provided by Step Up for Students.

We estimated that 90% of the scholarship recipients would have attended public school if they had not received a scholarship through the program. This assumption was used by the Legislature's Office of Economic and Demographic Research in estimating the fiscal impact of the cap increase for the 2008 Legislature. It is reasonable to assume a high percentage of low income students would not be able to afford private school without a scholarship, and therefore, would attend public school in absence of the program. However, because private schools provide scholarships to a number of low income children, regardless of the program, we did not want to

assume 100% of the scholarship recipients would have attended public school in absence of the program. Because we had no information from which to estimate this percentage we applied different percentages to see how much our results changed. If 100% of the scholarship students would have attended public school in absence of the scholarship program then our estimate of the savings would have increased from \$1.49 to \$1.66 for every dollar of lost state corporate income tax revenue. Assuming 60% reduces the savings to the break-even point.

We estimated the savings per scholarship recipient for Fiscal Year 2007-08 as the per-student funding provided through the Florida Education Finance Program (FEFP). The FEFP is the state funding formula which allocates funds to districts based on the educational programs of students. We included components that fund education services to the general student population on a per student basis, such as grade level (K-3, 4-8, and 9-12), exceptional student education, English for speakers of other languages, and career education. We did not include components of the formula that have a narrow application such as discretionary funding for lab schools, supplemental funding for students at Department of Juvenile Justice facilities, the Safe schools program, the School Recognition program, or the Teachers Lead program. In addition, we did not include components, such as the declining enrollment supplement or sparsity supplement, that provide funding to only some districts to help with the increased per student costs due to declining and small enrollments. Table A-2 shows what components of the FEFP we included.

We used the fourth calculation of the FEFP for Fiscal Year 2007-08 provided to us by the Department of Education. In order to calculate base student funding for scholarship recipients, we used information about student grade level in 2007-08 and their most recent program participation in public school. If they had not previously been in a public school we assigned them based solely on their grade level in 2007-08. For the other components of the FEFP, we calculated a per-student funding amount and multiplied this by the number of scholarship recipients. For two components, the exceptional student education (ESE) guaranteed allocation and the student transportation component; we adjusted for the number of scholarship recipients in ESE categories and an estimated percentage of scholarship recipients who would have used transportation services. We did all calculations at the district level and aggregated the results to the state level.

We used funding formula worksheets and data provided by the Florida Department of Education. Step Up for Students, the entity responsible for raising the scholarship and operating dollars for the scholarship funding organizations, provided financial and student information for Fiscal Year 2007-08.

**Table A-2
Estimated Per-Student Funding Saved in Fiscal Year 2007-08**

		Per Student Funding
FEFP COMPONENTS		
	Base student funding	\$4,275.12
	0.25 mills discretionary equalization	1.88
	0.51 mills discretionary compression	51.60
	Exceptional student education guaranteed allocation	115.30
	Supplemental academic instruction	293.61
	Reading allocation	42.81
STATE DISCRETIONARY LOTTERY FUNDS		\$ 49.09
STATE CATEGORICAL FUNDS		
	Instructional materials	\$ 100.64
	Student transportation	167.13
	Class size reduction allocation	1,009.24
TOTAL STATE FUNDING (Does not include discretionary local effort funding)		\$6,106.42

Source: OPPAGA.

Demonstrating the potential fiscal impact of increasing the program’s cap on tax credits, scholarship amount, and allowable administrative expenses

We used several hypothetical scenarios to demonstrate what program changes have the greatest potential fiscal impact on the state budget. While these scenarios are based on historical program information and model the changes the 2008 Legislature made to the program, these scenarios are not intended as projections of future savings based on these recent program changes. It is problematic to project the impacts of the 2008 changes because the increase in the cap has not yet resulted in increased contributions as expected due to the current poor economic conditions. Our scenarios consider the effect of the net change in scholarships from a base year to the first, second, and third year of implementation of the change being modeled. Only new scholarships are considered for the impact on the state budget because continuing scholarships are already out of the base education budget. This approach is different from the one used for Table A-2, which estimates the program’s total savings in Fiscal Year 2007-08. That table estimates actual state savings and includes both new and continuing scholarship students.

We modeled four scenarios—(1) savings if the program cap and scholarship amount are the same as the year before and administrative expenses are not allowed; (2) a \$30 million increase in the cap that results in an incremental increase in the number of students served; (3) allowing 3% for administrative expenses that results in reducing the amount of contributions used for scholarships; and (4) a \$200 increase in the scholarship amount that results in reducing the number of scholarships awarded. Table A-3 lists our assumptions for the four scenarios. Tables A-4 through A-7 show results.

**Table A-3
Comparison of Scenario Assumptions**

Assumptions	Scenario			
	1	2	3	4
No program changes	X			
Increase in cap on tax credits of \$30 million		X		
Increase in administrative expenses from 0% to 3%			X	
Increase in average scholarship award of \$200				X
Contributions for a cap year as percentage of cap (based on historical information)				
83% in first year of change		X		
93% in other years	X	X	X	X
Distribution of contributions for a cap year (based on historical information)				
2% in fiscal year prior to cap year				
80% in fiscal year of cap year				
18% in fiscal year after cap year	X	X	X	X
Percentage of scholarship students who would have attended public school – 90%	X	X	X	X
State savings per scholarship in base year - \$6,106	X	X	X	X
Annual increase in state funding per student FTE – 2%	X	X	X	X

Source: OPPAGA.

Table A-4
Scenario 1 – Estimated State Savings Assuming No Program Changes

Cap Year	Cap	Contributions	Distribution of Contributions by Year			
			Base Year	Year 1	Year 2	Year 3
Base Year	\$88.0	\$81.6		\$14.3		
Year 1	88.0	81.6		65.4	\$14.3	
Year 2	88.0	81.6		1.9	65.4	\$14.3
Year 3	88.0	81.6			1.9	65.4
Year 4	88.0	81.6				1.9
Estimated total contributions				\$81.6	\$81.6	\$81.6
Average scholarship award			\$3,422	\$3,422	\$3,422	\$3,422
Estimated number of scholarships			21,493	23,840	23,840	23,840
90% of scholarships			19,344	21,456	21,456	21,456
Additional students over base year				2,112	2,112	2,112
Additional state savings per student			\$6,106	\$6,228	\$6,353	\$6,480
Total additional state education savings				\$13.2	\$13.4	\$13.7
Additional corporate tax revenue loss				\$0	\$0	\$0
Net state education savings				\$13.2	\$13.4	\$13.7

Source: OPPAGA analysis.

Table A-5
Scenario 2 – Estimated State Savings Assuming \$30 Million Increase in Cap on Tax Credits

Cap Year	Cap	Contributions	Distribution of Contributions by Year			
			Base Year	Year 1	Year 2	Year 3
Base Year	\$ 88.0	\$ 81.6		\$14.3		
Year 1	118.0	98.1		78.6	\$17.2	
Year 2	118.0	109.4		2.5	87.7	\$19.1
Year 3	118.0	109.4			2.5	87.7
Year 4	118.0	109.4				2.5
Estimated total contributions				\$95.4	\$107.4	\$109.4
Average scholarship award			\$3,422	\$3,422	\$3,422	\$3,422
Estimated number of scholarships			21,493	27,889	31,387	31,967
90% of scholarships			19,344	25,100	28,248	28,770
Additional students over base year				5,756	8,905	9,426
Additional state savings per student			\$6,106	\$6,228	\$6,353	\$6,480
Total additional state education savings				\$35.8	\$56.6	\$61.1
Additional corporate tax revenue loss				\$16.5	\$27.8	\$27.8
Net state education savings				\$19.4	\$28.8	\$33.3

Source: OPPAGA analysis.

Table A-6
Scenario 3 – Estimated State Savings Assuming Allowing Three Percent Administrative Expenses

Cap Year	Cap	Contributions	Distribution of Contributions by Year			
			Base Year	Year 1	Year 2	Year 3
Base Year	\$88.0	\$81.6		\$14.3		
Year 1	88.0	81.6		65.4	\$14.3	
Year 2	88.0	81.6		1.9	65.4	\$14.3
Year 3	88.0	81.6			1.9	65.4
Year 4	88.0	81.6				1.9
Estimated total contributions				\$81.6	\$81.6	\$81.6
Contributions used for scholarships (97%)				\$79.1	\$79.1	\$79.1
Average scholarship award			\$3,422	\$3,422	\$3,422	\$3,422
Estimated number of scholarships			21,493	23,125	23,125	23,125
90% of scholarships			19,344	20,813	20,813	20,813
Additional students over base year				1,469	1,469	1,469
Additional state savings per student			\$6,106	\$6,228	\$6,353	\$6,480
Total additional state education savings				\$9.1	\$9.3	\$9.5
Additional corporate tax revenue loss				\$0	\$0	\$0
Net state education savings				\$9.1	\$9.3	\$9.5

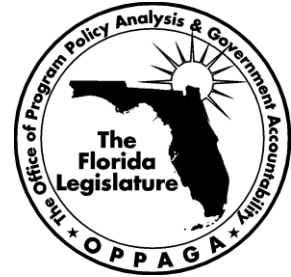
Source: OPPAGA analysis.

Table A-7
Scenario 4 – Estimated State Savings Assuming a \$200 Increase in the Scholarship Amount

Cap Year	Cap	Contributions	Distribution of Contributions by Year			
			Base Year	Year 1	Year 2	Year 3
Base Year	\$88.0	\$81.6		\$14.3		
Year 1	88.0	81.6		65.4	\$14.3	
Year 2	88.0	81.6		1.9	65.4	\$14.3
Year 3	88.0	81.6			1.9	65.4
Year 4	88.0	81.6				1.9
Estimated total contributions				\$81.6	\$81.6	\$81.6
Average scholarship award			\$3,422	\$3,622	\$3,622	\$3,622
Estimated number of scholarships			21,493	22,523	22,523	23,523
90% of scholarships			19,344	20,271	20,271	20,271
Additional students over base year				927	927	927
Additional state savings per student			\$6,106	\$6,228	\$6,353	\$6,480
Total additional state education savings				\$5.8	\$5.9	\$6.0
Additional corporate tax revenue loss				\$0	\$0	\$0
Net state education savings				\$5.8	\$5.9	\$6.0

Source: OPPAGA analysis.

The Florida Legislature
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