

FISCAL IMPACT ANALYSIS OF THE OKLAHOMA EQUAL OPPORTUNITY SCHOLARSHIP TAX CREDIT

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Executive Summary

Established in 2011, the Oklahoma Equal Opportunity Education Scholarship Act offers state income tax credits to qualifying donations that provide private K -12 school opportunities to primarily low-income Oklahoma families. The purpose of the program is not to generate a fiscal return to the state, but rather to provide support to those Oklahoma families for whom modest scholarships tip the balance of opportunity and allow them to pursue what they judge to be a better education for their student. Any fiscal savings are secondary to, but a useful and important by-product of, the program's primary objective. This memo provides a brief overview of the program through its initial years as well as an estimate of the fiscal impact to taxpayers. Among the highlights of the report are:

- Oklahoma is one of seventeen states with a tax credit scholarship program
- The program is administered for the benefit of participating schools through state and IRS-recognized 501(c)(3) not-for-profit “scholarship granting organizations” (SGO)
- The program provides a tax credit for qualifying donations as follows:
 - A credit of 50% for one-time donations and 75% for donations that pledge the same amount for two years
 - Tax credits are capped at \$100,000 for qualified business donors, \$2,000 for taxpayers filing a joint tax return, and \$1,000 for individual tax filers
 - The program establishes a total tax credit ceiling of \$5,000,000 (recently changed from the original ceiling of \$3,500,000); if the program exceeds the ceiling, all tax credits are reduced proportionally and the donor is allowed to take the “suspended” credits in the next immediate tax year.
- Participating schools must be accredited by the Oklahoma State Board of Education or an accrediting association approved by the Board; schools must meet certain other statutory standards.

- Students must be a child of school age that is lawfully present in the United States, resides in the state of Oklahoma, and qualifies for scholarship dollars in one of three ways:
 - The most common qualifier is income – students who are members of an Oklahoma household with annual income below 300% of the free and reduced lunch eligibility guidelines, or
 - Students living in the attendance zone of a school designated by the State Department of Education as “in need of improvement”, or
 - Students attending public school with an individualized education program (IEP) or professionally identified learning disability
- A thorough review of the donations and scholarships awarded through the state’s three primary SGOs reveals the following:
 - Scholarships were first issued in school year 2013-2014 with 396 scholarships distributed at an average scholarship award of \$154; the program grew to 1,459 scholarships to be distributed in school year 2016-2017, at an average award of \$1,012
 - Catholic affiliated SGOs account for 29% of donations with 71% of donations to non-Catholic affiliated SGOs
 - Corporate donors account for 62% of all donations followed by taxpayers filing joint tax returns (33%) and individual tax filers (5%)
- The fiscal impact to the state is determined by comparing the tax revenue foregone through the credit with the tax expenditure as students move out of the public school system. This impact rests on these assumptions:
 - The probability that a scholarship recipient would have otherwise attended public school is 75%; this is markedly more conservative than the probability assumed in comparable analysis in other states
 - The state spends \$8,093 per pupil from all funding sources (federal, state, and local) with 48%, or \$3,885 per pupil, coming specifically from state sources.

- The fiscal return to the Oklahoma taxpayer is \$2.58 for every \$1.00 of tax credit issued, while the savings specific to the state's funding is \$1.24 for every \$1.00 of tax credit issued

Introduction

The Oklahoma Equal Opportunity Education Scholarship Act (the “Act”), enacted in 2011, provides private K -12 school opportunities to primarily low-income Oklahoma families from qualified donations to authorized scholarship granting organizations (SGO) that certify state income tax credits for Oklahoma individuals and qualified business entities. SGOs award grants, based on policies established by its member schools, for families whose children would be better served in an alternative educational environment. For many families, the scholarship received is often the gap funding necessary to allow a child to attend an accredited private K-12 school. For these children who would otherwise be attending public school, the state is exchanging foregone tax revenue in the form of income tax credits for foregone expenditures in the form of per pupil state funding. This study follows closely the approach of the Florida Legislature’s Office of Program Policy Analysis and Government Accountability in estimating the fiscal returns to Oklahoma from this tradeoff.¹

Background

The Act allows qualified donations to be credited against Oklahoma income tax. The tax credits are equal to 50% of the qualifying donation for a one-time donation and 75% of the qualifying donation for a donation commitment of the same amount for two years. Individual income tax credits are limited to \$1,000 for individual income tax filers, \$2,000 for taxpayers filing a joint income tax return, and \$100,000 for qualified business entities. The total tax credit program is currently capped at \$5,000,000 annually, recently changed from the original ceiling of \$3,500,000. All claimed credits are reduced proportionally if qualifying credits exceed the tax credit ceiling. However, the donor is allowed to take the “suspended” credits in the next immediate tax year when the tax credit ceiling is exceeded.

¹ The Florida report can be found here <http://www.oppaga.state.fl.us/reports/pdf/0868rpt.pdf>.

The Oklahoma tax credit program is administered through a handful of SGOs on behalf of qualified participating schools. These not-for-profit organizations are approved by the Oklahoma Tax Commission, the IRS, and the Office of the Secretary of State as designated to collect and direct donations to participating schools selected by the donor. The donor may direct donations to a specific school, but not to a specific student.

Students qualify for scholarship dollars in one of three ways.

- First, and most common, are students who are legal residents and are members of an Oklahoma household with annual income below 300% of the free and reduced lunch eligibility guidelines.
- Second, students qualify if they live in the attendance zone of a school designated by the State Board of Education as “in need of improvement.”
- Finally, students who attended a public school with an individualized education program (IEP) or have been identified through specific programs and/or clinical professionals as having significant disability that affects learning will qualify.

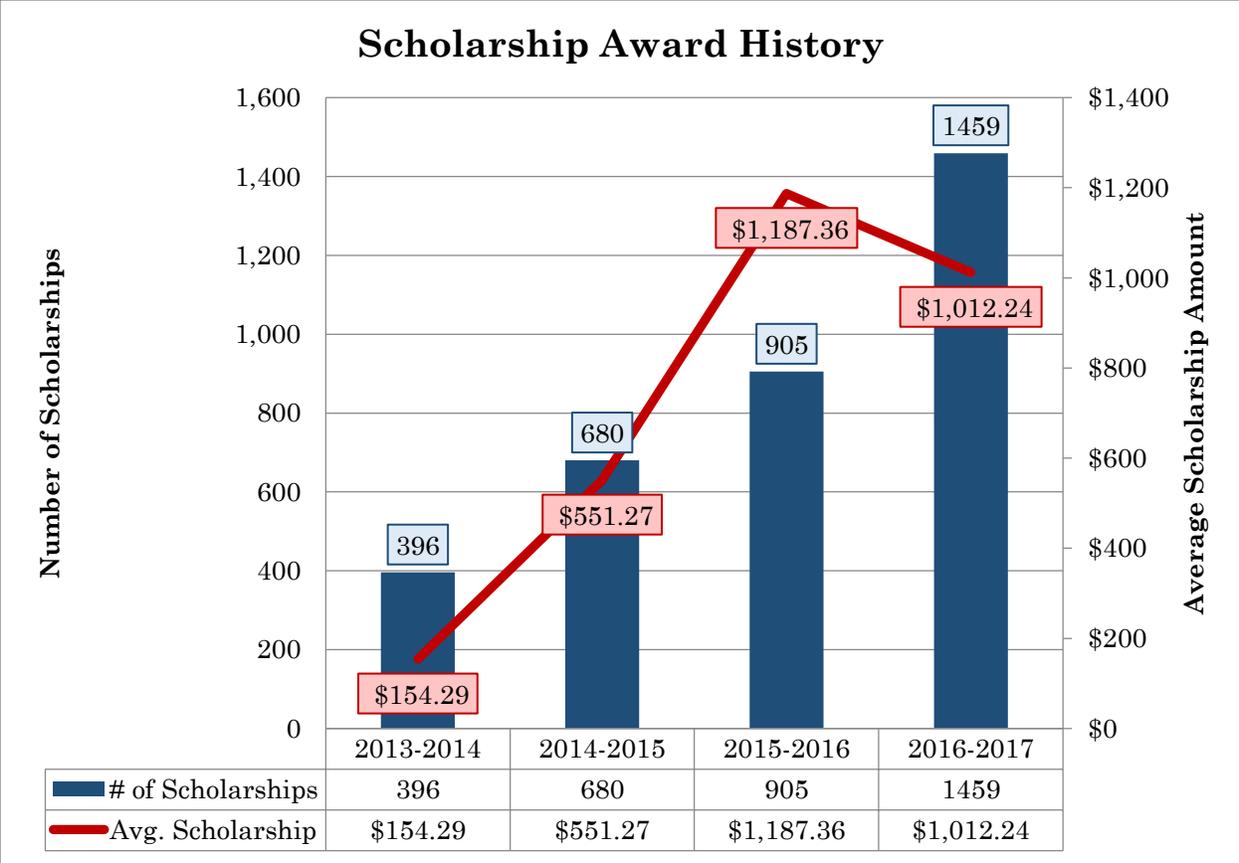
Having met the terms of admittance to an accredited private school of the family’s choice, the school works with the student’s parents to determine eligibility of financial assistance through this program. If a determination of eligibility is made and a grant for assistance recommended, the school forwards the application and its recommendations to the SGO for final review, approval and funding.

In order to participate in the program, a school must be accredited by the Oklahoma State Board of Education or an accrediting association approved by the Board. The private schools must also be in compliance with all applicable health and safety codes, have a stated policy against discrimination and ensure academic accountability through regular progress reports.

Private school enrollment in Oklahoma is approximately 36,000 students while public schools in the state enroll about 694,000 students. In other words, private schools account for approximately 5% of statewide enrollments. Oklahoma's share of private school enrollment is lower than the national average of 9% of all pre-k to 12th grade students being enrolled in private schools. Oklahoma's scholarship tax credit program, as currently constituted, is relatively modest in scope serving roughly 1,500 students in the 2016-2017 school year. For these students, small scholarships are often the meaningful dollars at the margin that allow for the family to bridge the affordability gap and choose an educational environment better suited for their child. Oklahoma is one of seventeen states with similar scholarship tax credit programs with a brief comparison between the programs of each state provided by the National Conference of State Legislatures.²

The Oklahoma scholarship program has grown from modest beginnings with the first scholarships awarded for the 2013-2014 school year to activity levels nearing a steady state. For the purposes of this report, data was collected from and reviewed for the state's three primary scholarship granting organizations covering nearly all of the scholarships awarded in the state. The individual level donation and scholarship data reveal 396 scholarships awarded in 2013-2014 with an average scholarship value of \$154. By the 2016-2017 school year the number of scholarships awarded had grown to 1,464 with an average scholarship amount of \$1,012.

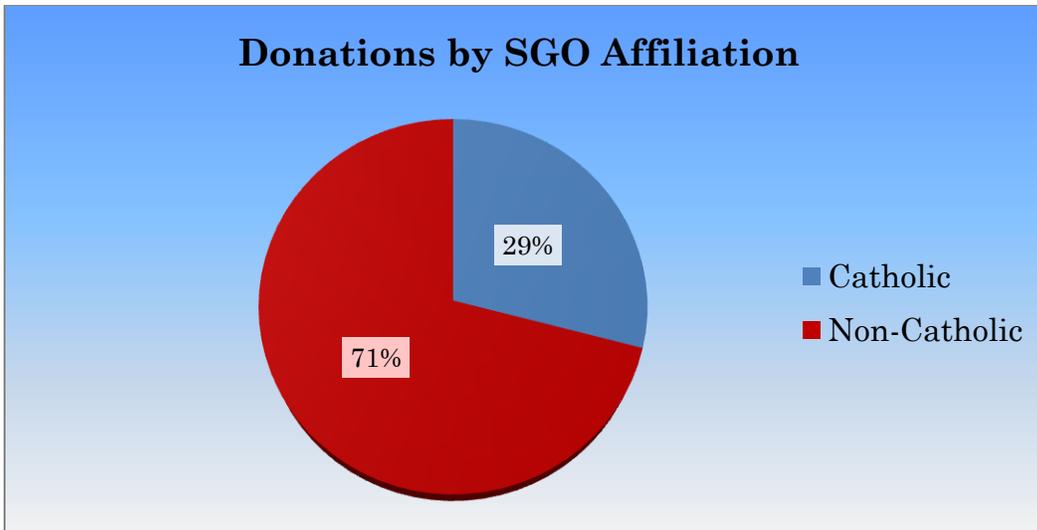
² A comparison can be found here: <http://www.ncsl.org/research/education/school-choice-scholarship-tax-credits.aspx>



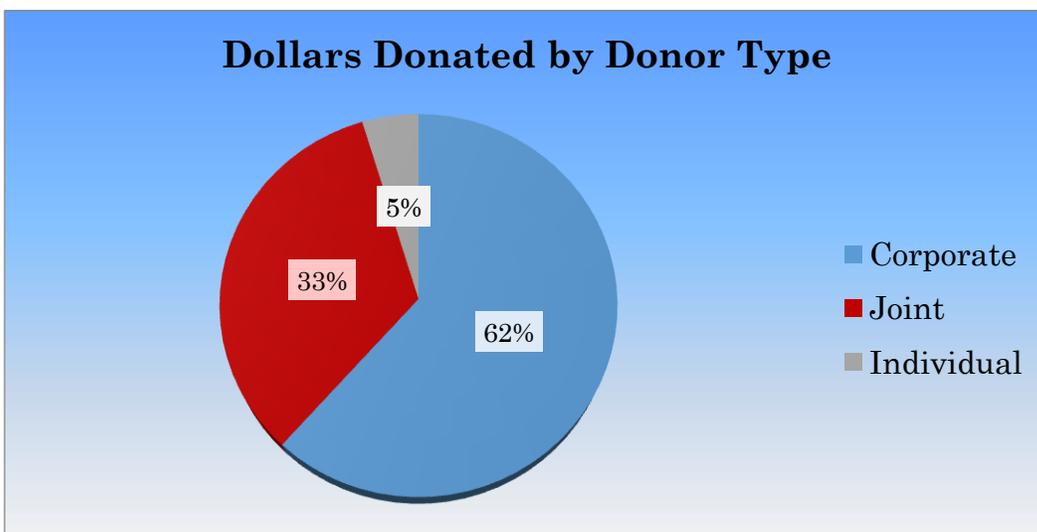
For the most recent calendar year (2016) reviewed in the data, total donations reached \$4,762,061 and are projected to provide 1,328 tax credits totaling \$3,426,674. The 2016-2017 school year operations reflect an average tax credit of \$2,580 and a program that is quickly approaching the original annual cap of \$3,500,000. In total, the data suggest an average effective tax credit of 72% reflective of the reality that many of the donations, and especially the larger donations from businesses, are two-year commitments.

The donations and scholarship data provided represent the state’s largest scholarship granting organization, the Opportunity Scholarship Fund as well as two smaller, Catholic-school specific funds in Oklahoma City and Tulsa.³ Donations to the Catholic affiliated SGOs accounted for 29% of all donations with non-Catholic affiliated donations accounting for 71% of the \$4,762,061 total.

³ For SGO specific information see: <https://goforcatholicschools.com/>; <http://osfkids.org/>; and <http://cfook.org/programsevents/catholic-schools-opportunity-scholarship-fund>



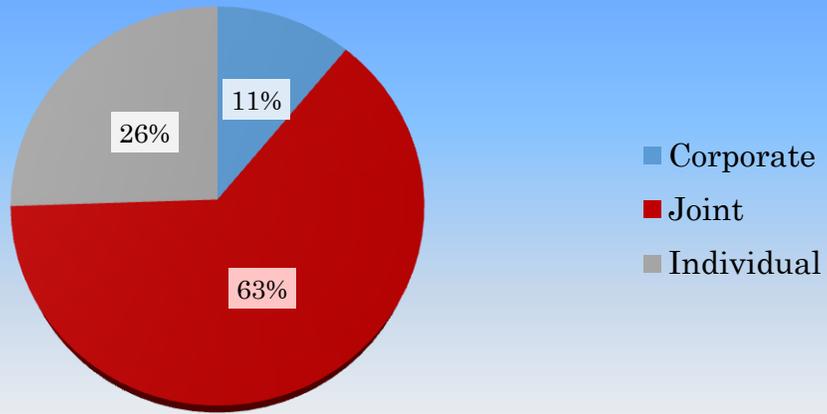
Of the \$4,762,061 in donations reviewed, 62% originated with corporate donors while 38% originated with individual or joint taxpayers.



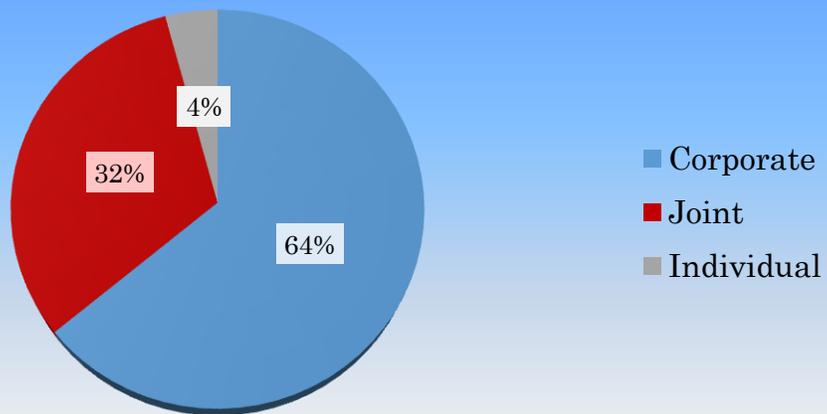
Corporate donors represent a relatively small share (11%) of the total donor pool but a relatively large share (62%) of total donations. This reality is to be expected given the contrast between the maximum corporate tax credit of \$100,000 and the maximum tax credit of \$2,000 for joint filers.

A similar pattern emerges in the tax credit claims. Corporations claim only 11% of the tax credits, but those claims represent 64% of the credit value.

Number of Tax Credits Claimed



Dollar Value of Tax Credits Claimed



The Fiscal Impact of Scholarship Tax Credits

The fiscal impact to the state is determined by the tradeoff of foregone tax revenue and foregone per pupil expenditures. It should be noted explicitly that the purpose of the program is not to avoid education expenditures. Rather, the purpose is to provide support to those Oklahoma families for whom small scholarships tip the balance of opportunity and allow them to pursue what they judge to be a better education for their student. Any fiscal savings are secondary to, but an important by-product of, the program's primary objective.

State fiscal savings are difficult to estimate precisely given the state's complex school funding formula and the mix of state, local, and federal funds that support per pupil expenditures. We use as our baseline measure of per pupil expenditures \$8,093 and estimate that approximately 48% of the funding originates with state sources. These assumptions are driven by, and consistent with, the state's publicly available data and recent work to review the state's funding formula.⁴

The fiscal impact of the program hinges on a few key parameters considered in turn below.

- First is the program cap. An increase in the program cap of \$5,000,000 would allow for the program to extend scholarships to more low-income or otherwise qualified students. Holding all other influences constant, this would extend the fiscal gains across a wider base and increase the net savings to the state.
- Second is the tax credit. An increase in the tax credit increases the foregone revenue to the state from the program. Holding all other influences constant, this would decrease the fiscal savings per student and lower the fiscal returns to the state.

⁴ For the per pupil expenditure baseline, see https://sdeweb01.sde.ok.gov/OCAS_Reporting/ and for a review of the state funding formula see Schlomach's 2015 primer found here <http://nebula.wsimg.com/8ba0eca558707fea11c13b77d204083d?AccessKeyId=CB55D82B5028ABD8BF94&disposition=0&alloworigin=1>.

- Third is the per pupil expenditure. An increase in the per pupil expenditure increases the foregone, or avoided, state expenditures and, holding all other influences constant, would increase the net fiscal returns to the state.
- Fourth is the number of scholarships awarded. An increase in the number of scholarships awarded provides opportunities for more Oklahoma families to exercise educational choice, which was the Legislature's purpose for enacting the Act in 2011. Holding all other influences constant this would increase the number of students removed from the state's funding mechanism and increase the net returns to the state.
- Fifth, the estimated fiscal returns are governed by the assumed probability that the student would not have attended private school in the absence of the scholarship. If a student would have attended private school regardless, the scholarship award reduces tax revenue by virtue of the credit but does not change the education expenditures as that student was already not included in the funding calculus. Holding all other factors constant, an increase in the probability that the student would have otherwise attended public school will increase the fiscal returns to the state.

Previous fiscal assessments have assumed that the scholarship pool is almost universally unserved by the existing private school systems. The Florida report that most closely resembles this analysis assumed 90% of the scholarship recipients would have otherwise attended public schools. An update to the original report found that only 5% of current students attending private schools would qualify for the scholarships under their program and increased to 95% the probability that a given scholarship recipient would have otherwise attended public school.⁵ Given the absence of additional information, we conservatively use 75% as our baseline estimate that a given scholarship recipient would have otherwise attended public school while the remaining 25% would have attended private schools regardless.

⁵ The updated 2010 memo can be found here http://www.fldoe.org/core/fileparse.php/5423/urlt/OPPAGA_March_2010_Report.pdf while the original 2008 analysis can be found here <http://www.oppaga.state.fl.us/reports/pdf/0868rpt.pdf>.

Fiscal savings are reported both on a net savings and on a fiscal return basis expressed as a ratio. The net savings in the table below reports the difference between the estimated tax expenditures avoided (1,459 scholarships awarded x 75% of the students that would have otherwise attended public school x the state's 48% portion of the per pupil expenditures, or \$4,251,161) and the tax revenue foregone (\$3,426,674 in tax credits). The fiscal return ratio measure is similar but divides the expenditures avoided by the revenue foregone giving the dollar returns to the state for every \$1 in foregone tax revenue. The net savings and fiscal return are reported for both the 48% of the state's share of funding and the full burden of per pupil expenditure by all Oklahoma taxpayers.

FISCAL SAVINGS FROM STATE FUNDING ONLY	
Education Savings - School Year 2016	Amount
Number of Scholarships ¹	1,459
% of Students who would have otherwise attended public school ²	75%
Savings per recipient ³	\$3,885
Total Educational Savings	\$4,251,161
Revenue Lost - Calendar Year 2016	Amount
Estimated Tax Credits ⁴	\$3,426,674
Ratio	\$1.24
Net Savings ⁵	\$824,487
FISCAL SAVINGS FROM ALL FUNDING SOURCES	
Education Savings - School Year 2016	Amount
Number of Scholarships ¹	1,459
% of Students who would have otherwise attended public school ²	75%
Savings per recipient ³	\$8,093
Total Educational Savings	\$8,855,765
Revenue Lost - Calendar Year 2016	Amount
Estimated Tax Credits ⁴	\$3,426,674
Ratio	\$2.58
Net Savings ⁵	\$5,429,091

1 - number of scholarships awarded by schools participating in the three primary scholarship granting organizations

2 - conservative baseline estimate of the share of scholarship recipients that would have attended public school but for the scholarship received

3 - estimated expenditure per pupil is \$8,093/student based Oklahoma Department of Education information. The state's portion of per pupil funding of this portion of expense is 48%, or \$3,885.

4 - estimated state income tax credits issued in 2016 based on donations received from the three primary scholarship granting organizations

5 - net savings equals total educational savings less tax credits issued

Using the full value of Oklahoma’s per pupil expenditures of \$8,093 yields a net public saving of \$5,429,091 – a return ratio of \$2.58 dollars saved for every \$1 in tax credits claimed. Applying this same formula only to the state’s share of per pupil expenditures of \$3,885 ($\$8,093 \times 48\%$), the fiscal return to the state is a net saving of \$824,487 for a return ratio of \$1.24 dollars saved for every \$1 in tax credits claimed. These findings are consistent both with previous efforts to estimate the fiscal impact of scholarship tax credit programs in other states and the best practice guidelines suggested by the National Conference of State Legislatures.⁶ The savings estimate will vary with assumptions made on the baseline state expenditures avoided and the probability that the student would have otherwise attended public school in the absence of the scholarship. The tables in appendix A illustrate the potential range of savings.

Conclusion

The SGOs established through the Oklahoma Equal Opportunity Scholarship Tax Credit Act issued their first scholarships for the 2013-2014 school year. During that inaugural year 396 scholarships were provided at an average scholarship value of \$154. The program has grown since the first year issuing 1,459 scholarships at an average value of \$1,012 in school year 2016-2017 and is rapidly approaching the original tax credit cap for the program of \$3,500,000.

The program’s primary intent is to help low-income students, special needs students, and students at underperforming public schools by providing scholarships to make alternative education options affordable. At the margin, these scholarship dollars often make the difference in allowing students to move to private schools offering educational environments more suited to the student’s needs.

⁶ See *Fiscal Impact of Vouchers and Scholarship Tax Credits*, <http://www.ncsl.org/research/education/fiscal-impact-of-school-vouchers-and-scholarship-tax-credits.aspx>.

An important secondary impact of the program is the fiscal savings to the state, as expenditures avoided more than offset the foregone tax streams from the tax credits. A careful review of the donations and scholarships provided through the state's three largest scholarship granting organizations suggests a fiscal saving of \$2.58 for every \$1 in claimed income tax credits when all funding sources are included. Fiscal savings solely to the state budget are estimated at \$1.24 for every \$1.00 of tax credit issued.

Appendix

The fiscal returns to the state vary with public school attendance probabilities and state education expenditures. Increases in state expenditures increase fiscal returns as do increases in the probability that the recipient would have otherwise attended public school. Previous work summarized by the National Conference of State Legislatures recommends an attendance school probability of 90% while recent work in Florida uses a value of 95%. This report uses a more conservative estimate of 75% suggesting the baseline fiscal returns provided may be understated.

Total Education Savings									
		Probability of Student Attending Public School							
		60%	65%	70%	75%	80%	85%	90%	95%
Expenditure per Student	\$4,000	\$74,926	\$366,726	\$658,526	\$950,326	\$1,242,126	\$1,533,926	\$1,825,726	\$2,117,526
	\$4,500	\$512,626	\$840,901	\$1,169,176	\$1,497,451	\$1,825,726	\$2,154,001	\$2,482,276	\$2,810,551
	\$5,000	\$950,326	\$1,315,076	\$1,679,826	\$2,044,576	\$2,409,326	\$2,774,076	\$3,138,826	\$3,503,576
	\$5,500	\$1,388,026	\$1,789,251	\$2,190,476	\$2,591,701	\$2,992,926	\$3,394,151	\$3,795,376	\$4,196,601
	\$6,000	\$1,825,726	\$2,263,426	\$2,701,126	\$3,138,826	\$3,576,526	\$4,014,226	\$4,451,926	\$4,889,626
	\$6,500	\$2,263,426	\$2,737,601	\$3,211,776	\$3,685,951	\$4,160,126	\$4,634,301	\$5,108,476	\$5,582,651
	\$7,000	\$2,701,126	\$3,211,776	\$3,722,426	\$4,233,076	\$4,743,726	\$5,254,376	\$5,765,026	\$6,275,676
	\$7,500	\$3,138,826	\$3,685,951	\$4,233,076	\$4,780,201	\$5,327,326	\$5,874,451	\$6,421,576	\$6,968,701
	\$8,000	\$3,576,526	\$4,160,126	\$4,743,726	\$5,327,326	\$5,910,926	\$6,494,526	\$7,078,126	\$7,661,726
Education Returns (savings per dollar spent)									
		Probability of Student Attending Public School							
		60%	65%	70%	75%	80%	85%	90%	95%
Expenditure per Student	\$4,000	\$1.02	\$1.11	\$1.19	\$1.28	\$1.36	\$1.45	\$1.53	\$1.62
	\$4,500	\$1.15	\$1.25	\$1.34	\$1.44	\$1.53	\$1.63	\$1.72	\$1.82
	\$5,000	\$1.28	\$1.38	\$1.49	\$1.60	\$1.70	\$1.81	\$1.92	\$2.02
	\$5,500	\$1.41	\$1.52	\$1.64	\$1.76	\$1.87	\$1.99	\$2.11	\$2.22
	\$6,000	\$1.53	\$1.66	\$1.79	\$1.92	\$2.04	\$2.17	\$2.30	\$2.43
	\$6,500	\$1.66	\$1.80	\$1.94	\$2.08	\$2.21	\$2.35	\$2.49	\$2.63
	\$7,000	\$1.79	\$1.94	\$2.09	\$2.24	\$2.38	\$2.53	\$2.68	\$2.83
	\$7,500	\$1.92	\$2.08	\$2.24	\$2.39	\$2.55	\$2.71	\$2.87	\$3.03
	\$8,000	\$2.04	\$2.21	\$2.38	\$2.55	\$2.72	\$2.90	\$3.07	\$3.24