EARNING FULL CREDIT

Learning from and Improving Indiana's School Scholarship Tax Credit Law

JASON **BEDRICK**, M.P.P.

JUNE **2015**

The Friedman Foundation
for Educational Choice
edchoice.org

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Executive Summary

Indiana is a national leader in school choice. The Hoosier state has two sizable and rapidly growing school choice programs that help families enroll their children in the schools that work best for them. During the 2013–14 school year, more than 11,000 students received tax-credit scholarships to attend the school of their family's choice, and nearly 30,000 students received school vouchers—up from fewer than 3,000 scholarships and 4,000 vouchers two years earlier. This report examines the fiscal and social impact of Indiana's School Scholarship Tax Credit, offers suggestions for how it might be improved, and raises the bar for current and future tax-credit scholarship laws across the country.

Section I describes Indiana's School Scholarship Tax Credit and similar tax-credit scholarship (TCS) laws nationwide. This section explains the key features of TCS laws, how they differ across states, and the benefits and potential drawbacks of different policy designs. For example, raising the tax credit value may increase donations to scholarship-granting organizations so that they can aid more families, but it would also reduce the state savings associated with each student who leaves his or her assigned district school to attend a private school with a scholarship. Policymakers must think carefully about the likely consequences and potential tradeoffs of numerous policy designs.

Tax-credit scholarship laws, the frameworks in which nonprofit scholarship-granting organizations operate, vary in terms of student eligibility, the structure of the tax credit, and administrative regulations. Indiana's law avoids unnecessary regulations, but it also has the lowest credit value among all the TCS laws in the United States (50 percent of each contribution, compared to 100 percent in six states) and a relatively low total tax credit cap. Both of these provisions limit the number of students who can receive scholarships.

Section II explains how Indiana's public school funding formula works and describes the fiscal impact of the School Scholarship Tax Credit program on the state. Indiana's school funding formula is based primarily on enrollment, so the state saves money for each student who leaves her assigned district school. Even after accounting for the students who likely would have attended a private school without a scholarship, during the 2014–15 school year, the School Scholarship Tax Credit program saved the state of Indiana an estimated $23.2 million.

Section III outlines four proposed changes to Indiana's School Scholarship Tax Credit law that would expand educational opportunities for tens of thousands of low- and middle-income children while still saving the state money. The proposed changes include:

- Expanding uses of tax-credit scholarship funds to include tutoring, textbooks, online classes, homeschool curricula, standardized tests, educational therapy, etc.

- Increasing the total amount of tax credits available from $7.5 million to $15 million in 2015–16.

- Raising the credit value from 50 percent of contributions to 75 percent in order to incentivize corporate and individual citizens to contribute more to scholarship-granting organizations.

- Adding an "escalator clause" that would automatically raise the tax credit cap by 25 percent each year.

Expanding the uses of the scholarship funds would allow parents to better tailor their child's education to meet his or her needs. The last three proposals would increase the amount of tax-credit funds available, thereby helping more families enroll their children in the schools of their choice.

If Indiana were to adopt the proposed changes, there would be enough tax-credit funds to support scholarships for more than 14,400 students in 2015–16 and the state would save an estimated $23.8 million. By 2024–25, there would be enough tax-credit funds to support scholarships for approximately 45,000 students and the state would save at least $137 million cumulatively over the next decade.

1. Introduction

1.1 The Indiana School Scholarship Tax Credit

In 2009, Indiana became the seventh state to enact a tax-credit scholarship (TCS) law, which brings together businesses, taxpayers, and nonprofits to expand educational choice and opportunity. The Indiana School Scholarship Tax Credit grants tax credits to individuals and corporations worth 50 percent of their contributions to approved scholarship-granting organizations (SGOs), which help low- and middle-income families send their children to the schools of their choice.[1] Families can use the scholarships at any accredited school, including religious or secular private schools and out-of-district public schools. The total amount of available tax credits to SGO donors is capped at $7.5 million annually.

The TCS law is targeted to aid low- and middle-income families. Eligibility is limited to families earning up to 200 percent of the income eligibility guidelines for the federal government's free and reduced-price lunch program (185 percent of the federal poverty line). In 2014–15, a family of four was eligible for a free or reduced-price school lunch with an annual household income up to $44,123.[2] To be eligible for a tax-credit scholarship in Indiana, a family of four could have an annual household income of up to $88,246. At least three-fifths of Indiana families are eligible to receive tax-credit scholarships.[3]

In the first year after the law was enacted, four SGOs granted a total of 559 scholarships worth $1,018 each on average. By the 2013–14 school year, the number of scholarships had grown nearly twentyfold to 11,067 and the average scholarship size increased 5 percent to $1,064 (see Table 1). Scholarship students account for approximately 10 percent of the 111,872 students attending 969 private schools in Indiana.[4] There are more than one million district school students in Indiana.[5]

The average tuition at private schools in Indiana is about half as much as the average district school expenditure per pupil. In 2014–15, the average tuition at Indiana private schools was $6,032 (an average of $4,357 for private elementary schools and $9,039 for private high schools).[6] According to the most recent data from the Indiana Department of Local Government Finance, Indiana district schools spent an average of $11,749 per pupil in 2012–13, ranging from $8,743 per pupil in Blue River Valley to $24,818 per pupil in DeKalb County's Eastern Community School District.[7]

Four SGOs currently operate in Indiana: the Institute for Quality Education (formerly the Educational Choice Charitable Trust), the Lutheran Scholarship Granting Organization of Indiana, the Sagamore Institute Scholarships for Education Choice, and the School Scholarship Granting Organization of Northeast Indiana. A fifth SGO, the Tuition Assistance Fund of Southwestern Indiana, closed in February 2013.[8]

TABLE 1 Indiana School Scholarship Tax Credit Program Growth

IN TCS	2010–11	2011–12	2012–13	2013–14
Scholarships	559	2,890	4,638	11,067
SGOs	4	4	5	4
Avg. Scholarship	$1,018	$880	$1,017	$1,064
Total Scholarship Funds	$569,328	$2,542,324	$4,716,426	$11,770,024

Sources: Author's calculations; The Friedman Foundation for Educational Choice, National Catalogue of School Choice Programs; Ind. Dept. of Education, *Indiana School Scholarship Tax Credit Program Report*, last modified Aug. 25, 2014, www.doe.in.gov/sites/default/files/choice/sgo-report-data-2011-2012-2012-2013-and-2013-2014.pdf.

Indiana's tax-credit scholarship law has the support of a solid majority of Hoosiers. In a 2011 Friedman Foundation for Educational Choice survey of Indiana voters, 63 percent of respondents stated they favored tax-credit scholarships while only 22 percent were opposed.[9] Indiana citizens clearly recognize the benefits of empowering parents to choose the schools that work best for their children.

Support is even higher among parents of scholarship students. In a 2013 survey of Indiana families by the Friedman Foundation, 99 percent of respondents receiving a tax-credit scholarship or voucher stated that they were satisfied with their chosen private school, including 90 percent who reported being "very satisfied."[10] By contrast, nearly six in 10 respondents reported being dissatisfied with their previous district school.[11]

Respondents reported that the primary reasons they chose a private school for their child were "better academics" (78 percent), "morals/character/values instruction" (73 percent), and "religious environment/instruction" (67 percent).[12]

Vouchers and Scholarship Tax Credits

Indiana's school voucher law, known as the Choice Scholarship Program, and its School Scholarship Tax Credit share a similar mission: providing families greater educational opportunity. However, they also differ in a few key respects, including how they are administered, how they are funded, and which testing requirements are placed on participating private schools.

Indiana's school voucher program is administered by the Indiana Department of Education and funded with tax revenues. The monetary value of each voucher is established in law based on the grade level and household income of the recipients.

By contrast, the School Scholarship Tax Credit is privately administered by nonprofit SGOs and funded through the voluntary contributions of individual and corporate taxpayers. The SGOs have the prerogative to determine the monetary value of each scholarship based on the financial needs of each family, and they often work with the private schools when deciding how to allocate scholarship funds. The SGOs help build relationships among donors, scholarship recipients, and their chosen schools.

According to a recent Friedman Foundation study, fewer than one-third of the 969 private schools in Indiana accept vouchers.[13] Although it is not clear exactly why each of the 652 schools chooses not to participate in the voucher program, evidence from surveys of private school leaders suggest that the regulatory burden is a significant factor.[14]

A 2013 report by the Fordham Institute found that as a school choice program's regulatory burden increased, private school participation decreased.[15] The difference in private school participation rates between the most- and least-regulated school choice programs was about nine percentage points. The same report found that Indiana's voucher program has one of the heaviest regulatory burdens in the nation, particularly because it mandates that participating private schools follow the state academic content standards, administer the state achievement test, known as the ISTEP+, and report the results. More than a quarter of non-participating schools nationwide stated that one of their top three reasons for not participating was that they were "not willing to comply with program regulations."[16]

A 2015 study by the American Enterprise Institute found that concerns about excessive regulations played a significant role in the decision of private schools to avoid participating in the voucher program. Among the leaders of non-participating private schools, 62 percent reported that concerns about "future regulations that might come with participation" played a "major role" in their decision not to participate, and another 19 percent said that it played a "minor role." In particular, 68 percent cited "concerns about testing requirements," including 41 percent who said they played a "major role" in their decision not to participate, and another 27 percent stated that they played a "minor role."[17] When given the opportunity to give open-ended responses, the study's authors report "a number of schools noted that they did not feel comfortable administering the ISTEP+, as it does not reflect their own curriculum goals or curricular philosophy."[18]

In contrast to Indiana's voucher program, the School Scholarship Tax Credit law permits participating accredited private schools to administer either the ISTEP+ or a nationally norm-referenced test, such as the Stanford Achievement Test. By doing so, the School Scholarship Tax Credit law expands choices for those parents who specifically seek out private schools that offer an alternative to the state achievement test and corresponding curriculum.

Moreover, research suggests that parents participating in choice programs do not consider test scores to be one of the most important factors when selecting a school. In a 2013 Friedman Foundation survey of Georgia parents receiving tax-credit scholarships, only 10 percent of respondents listed "higher standardized scores" as one of their top five reasons for choosing a particular private school.[19] Parents were most concerned with the school's learning environment, class sizes, student discipline, student safety, and the level of individual attention children received from faculty and staff.

1.2 Tax-Credit Scholarship Laws in the United States

During the 2013–14 school year, SGOs awarded more than 184,000 scholarships through 17 tax-credit scholarship laws in 13 states, including Alabama, Arizona,[20] Florida, Georgia, Indiana, Iowa, Louisiana, New Hampshire, Oklahoma, Pennsylvania,[21] Rhode Island, South Carolina (special needs only), and Virginia.[22] Three additional states—Kansas, Nevada, and Montana—have since enacted tax-credit scholarship laws.

Under each state's tax-credit scholarship law, taxpayers receive tax credits in return for donations to SGOs. However, the TCS laws vary significantly in their details. As described below, the laws differ in terms of student eligibility, the structure of the tax credit, and administrative regulations. Tables 2, 3, and 4, summarize those differences.

Student Eligibility Rules

Most TCS laws limit eligibility to particular categories of students in an effort to ensure that limited resources reach the students with the greatest need. South Carolina's TCS law and one of Arizona's four TCS laws ("Lexie's Law") limit tax-credit scholarships only to students with special needs. Of the remaining TCS laws, all but two (Georgia's and Arizona's individual-donor TCS laws) limit scholarships to students from families earning below a certain household income threshold. Laws in four states give priority or restrict scholarships to students who are zoned to "failing" district schools. Seven states restrict some or all scholarships to students who attended a district school in the previous year.[23]

Means-testing

Among the tax-credit scholarship laws that require means-testing, most of the income caps are pegged to some percentage of either the federal poverty line or the federal free and reduced-price lunch (FRL) program's "reduced lunch" income threshold, which is 185 percent of the federal poverty line ($44,123 for a family of four in 2014–15). Tax-credit scholarship income limits range from eligibility for a "free lunch" under the FRL program (130 percent of the federal poverty line, or $31,005 for a family of four in 2014–15) in Kansas to Pennsylvania's limit of $75,000 plus $15,000 per child, or $105,000 for a household with two children. Indiana allows participating families to earn up to twice the FRL limit ($88,246 for a family of four in 2014–15).[24] In Virginia, families with children with special needs are subject to a higher income cap.

Means-testing provisions that are too restrictive have the potential to shut out families whose real financial need is not reflected in their tax returns. Families with children with special needs, that have a member battling an expensive illness, or who recently lost a job may not qualify under some states' eligibility guidelines. Moreover, if a family's income were to outgrow the cap, the loss of the scholarship(s) may be greater than the increase in income. To avoid this, Florida allows the household income of families that initially qualify to grow from 185 percent of the poverty line to 230 percent before they lose eligibility.

Research indicates that restrictive means-testing provisions are unnecessary because scholarship organizations generally conduct their own means-testing beyond what the law requires. For example, though Arizona's tax credit law for individual donations does not have any income-based eligibility criteria, a 2011 study found that more than two-thirds of participating families had incomes below the FRL income cap.[25] New Hampshire's TCS law has an income limit of 300 percent of the poverty line with 40 percent of scholarship funds reserved for students who would qualify for FRL, yet 91 percent of scholarship recipients in 2013-14 had household incomes below the FRL income cap.[26] Likewise, Florida's income cap is 85 percentage points above the poverty line, yet scholarship recipients' average household income was only $24,067 in 2014–15, which is about 4.5 percentage points above the poverty line.[27]

Like other nonprofits, SGOs generally focus resources toward those who are most in need. Overly-restrictive means-testing provisions reduce the flexibility that SGOs need to consider factors beyond what is recorded on tax returns.

Students with Special Needs

Two TCS laws limit scholarships only to students with disabilities or, in Arizona's case, who are displaced. Under South Carolina's stand-alone TCS law for students with special needs, a student qualifies for tax-credit scholarship if he or she would be eligible for services in the district school system under the federal Individuals with Disabilities Education Act or he or she has been:

> …diagnosed within the last three years by a licensed speech-language pathologist, psychiatrist, or medical, mental health, psycho-educational, or other comparable licensed healthcare provider as having a neurodevelopmental disorder; a substantial sensory or physical impairment (such as deaf, blind, or orthopedic disability); or some other disability or acute or chronic condition that significantly impedes the student's ability to learn and succeed in school without specialized instructional and associated supports and services tailored to the child's unique needs.[28]

One of Arizona's four TCS laws, known as "Lexie's Law," is limited to students who are "disabled or displaced." To qualify, a student must have a current or expired Individualized Education Plan, Multidisciplinary Team report, or "504 plan" (for disabilities that "substantially limit a major life activity"); or the student must have been placed in Arizona's foster care system.[29]

In addition, some states have different rules for students with special needs. TCS laws in New Hampshire, Oklahoma, and Pennsylvania all have higher caps on scholarship sizes for students with special needs. Oklahoma also exempts students with special needs from its means-testing requirements. In Virginia, the income eligibility cap for students with special needs is four times the federal poverty line, although it is three times the poverty line for everyone else.

"Failing Schools"

TCS laws in two states limit scholarships to students zoned to "failing" district schools. In Kansas, first-time scholarship recipients must have attended a "Title I Focus School" or "Title I Priority School," which are the categories of schools with the lowest levels of achievement.[30] One of Pennsylvania's TCS laws, the Opportunity Scholarship Tax Credit, is limited to students zoned to a school that scored in the bottom 15 percent on the state's achievement test in the previous year.

Two other states give priority to students zoned to "failing schools." In Alabama, all scholarship funds are initially reserved for students zoned to "failing schools," but if there are any funds remaining after all eligible applicants have received scholarships, then SGOs may grant scholarships to low-income students in any district. In Louisiana, School Tuition Organizations (as SGOs are known there) are required to "adequately advertise the availability of scholarships to the public, with an emphasis on advertising to families with students in 'D' and 'F' schools."[31]

The intent of the "failing schools" restriction is to ensure that limited resources reach those who are most in need. However, the restriction excludes many low-income students who attend schools that perform well on average but are not working for them. Even a high-performing school might not be the right fit for a particular child, whether because of academic or other issues, such as bullying.

Prior Public School Enrollment

Nine TCS laws require SGOs to reserve some or all scholarships to students who attended their assigned district school in the previous year or, in some cases, students who are entering kindergarten or first grade or who just moved to the state. This requirement is intended to ensure fiscal savings, since the state only saves money when students switch out of district schools, thereby relieving the state of its obligation to fund them. (The fiscal impact is discussed in greater detail in Section IV.)

However, it may not be fair to exclude low-income families who would otherwise qualify for the scholarships based solely on the fiscal implications. Some low-income families make great sacrifices to enroll their children in private schools, and they often receive financial aid from those schools or other charitable organizations. To balance these competing interests, states like New Hampshire require that a certain portion of scholarship recipients be switchers, but allows SGOs to grant the remainder to any qualifying low-income family. One of Arizona's four TCS laws is restricted to switchers.

Indiana does not make attending one's assigned district school a requirement for scholarship eligibility.

TABLE 2 Student Eligibility Rules

State	Means-Testing	Special Needs	Failing Schools	Prior Public
Alabama	Lesser of 150% AL median income or 200% Poverty	No limit	Priority for students zoned to failing schools	75% of initial scholarships reserved for students not previously enrolled in private school
Arizona (Individual)	No, but SGOs must consider financial need	No limit	No limit	No
Arizona (Lexie's Law)	No	Limited to students with special needs or currently or previously in Arizona foster care	No limit	Yes, or enrolled in private school kindergarten, enrolled in a private preschool program for students with disabilities, or dependent of active-duty member of military stationed in Arizona
Arizona ("Switcher")	No, but SGOs must consider financial need	No limit	No limit	Yes, or preschool enrollee identified by the school district as having a disability under IDEA or Section 504 of the Rehabilitation Act*
Florida	FRL (185% Poverty) / Can grow to 230% Poverty	No limit	No limit	No
Georgia	No	No limit	No limit	Yes, unless entering pre-K through grade 1
Indiana	200% FRL (370% Poverty)	No limit	No limit	No

TABLE 2 Student Eligibility Rules *(Continued)*

State	Means-Testing	Special Needs	Failing Schools	Prior Public
Iowa	300% Poverty	No limit	No limit	No
Kansas	300% Poverty	No limit	Limited to students zoned to failing schools	Yes, unless student is less than six years of age
Louisiana	250% Poverty	No limit	Priority for students zoned to failing schools if a lottery is conducted for oversubscription	Yes, or entering kindergarten
New Hampshire	300% Poverty (40% of scholarships reserved for FRL, 185% Poverty)	No limit	No limit	70% reserved for prior public school students
Oklahoma	300% FRL (555% Poverty) or zoned to failing school district or special needs	No limit	No limit	No
Pennsylvania (EITC)	$75,000 household income + $15,000/child in family; inflation adjustment allowed	No limit	No limit	No
Pennsylvania (OSTC)	$75,000 household income + $15,000/child in family; inflation adjustment allowed	No limit	Limited to students zoned to failing schools	No
Rhode Island	250% Poverty	No limit	No limit	No
South Carolina	No	Limited to students with special needs	No limit	No
Virginia	300% Poverty (400% Poverty for students with special needs)	No limit	No limit	Yes, or entering K-1 or new resident

*Students who are in kindergarten, children of active military members stationed in Arizona, and previous recipients of Corporate or "Switcher" scholarships who have remained in private school are also eligible.

Source: The Friedman Foundation for Educational Choice, *The ABCs of School Choice: The Comprehensive Guide to Every Private School Choice Program in America*, 2015 ed. (Indianapolis: Friedman Foundation for Educational Choice, 2015), http://www.edchoice.org/ABCs.

Tax Credit Rules

Each state structures its tax credit laws differently. Tax-credit scholarship laws vary in terms of the value of the tax credit, who is eligible to receive a tax credit, and the maximum amount of tax credits available to each donor and in total. Many of these rules directly affect the number of students who can receive scholarships and the program's fiscal impact.

Credit Value

Under the existing TCS laws, the value of the tax credits varies from 50 percent of contributions in Indiana and Oklahoma to 100 percent of contributions in half of the 18 TCS laws. Three TCS laws—two in Pennsylvania plus Rhode Island's—offer tax credits worth between 75 percent for a single-year contribution and a higher rate of 90 percent for donors that commit to making a contribution in the following year worth at least as much as the original contribution (or at least 80 percent of it, in Rhode Island). In the remaining four states, tax credit values range from 65 percent to 85 percent.

Higher credit values will be more appealing to potential donors, making it easier for SGOs to raise more funds to support more children. On the other hand, higher credit values can reduce the savings to the state, holding all else constant. Policymakers must balance the goals of saving money and aiding the greatest number of students.

Donor Types

In nine states, both individual and corporate taxpayers can receive tax credits for donating to SGOs. Five states—Florida, Kansas, New Hampshire, Pennsylvania, and Rhode Island—limit tax credits to corporate donors. Of those, Florida and New Hampshire do not have a state income tax on individuals (though the latter taxes dividends). The types of corporations eligible for tax credits also vary by state. In Indiana, both individual and corporate donors are eligible to receive tax credits.

Donation Caps, Total Credit Caps, and Program Growth

Except for Louisiana, every state caps either the amount of tax credits that each donor can claim or the total amount of tax credits available each year or both. Twelve TCS laws include caps on the amount of credits each donor can claim, and all but three impose a cap on the total amount of tax credits available. Indiana caps the total amount of tax credits at $7.5 million annually but does not cap the amount of credits each donor can claim.

These caps are meant to ensure that the fiscal impact is more predictable. Total credit caps limit the reduction of expected state tax revenue. However, credit caps also limit the amount of funds available to provide scholarships to students. Moreover, due to inflation, fixed caps actually reduce the amount of real dollars available for scholarships over time. States that limit the total number of available tax credits should tie the cap to inflation or include "escalator" clauses like Arizona, Florida, and New Hampshire so that the amount of available credits grows over time to meet demand.

Caps on the amount of credits each donor can claim can prevent dependency on one large donor or a small group of large donors, especially when corporate donors may experience large swings in their tax liabilities from year to year. On the other hand, such caps make it harder for SGOs to raise funds for scholarships, because they have to seek out a larger number of donors making smaller donations.

Additional Regulations

Allowed Uses

Most TCS laws restrict the use of tax-credit scholarships to cover tuition at private schools or, in some states (including Indiana), out-of-district public schools.

New Hampshire was the first TCS law to allow homeschoolers to use tax-credit scholarship funds to cover a broad range of educational expenses such as textbooks, tutoring, homeschool curricula, online courses, and more. Based in part on Arizona's education savings account program, New Hampshire's TCS program allows parents to tailor their child's education to meet his or her particular needs.

A few other states permit the use of scholarship funds to cover education expenses beyond tuition. In Oklahoma, parents can use tax-credit scholarship funds for transportation to private school while in Florida the only transportation that the funds may cover is to out-of-district public schools. South Carolina's new special-needs TCS allows parents to use the funds for textbooks and school-related transportation. In Virginia, tax-credit scholarships can cover "school-related tuition and instructional fees, including textbooks, workbooks, and supplies used solely for school-related work."[32]

Scholarship Value Caps

In order to ensure fiscal savings, most states cap the total value of each scholarship. Florida, Georgia, Louisiana, Oklahoma, and Virginia peg the maximum scholarship value to a certain percentage of the state's funding formula for district schools.

Several states impose fixed scholarship value caps. These caps are problematic because they actually reduce the relative purchasing power of the scholarships over time. To avoid this, some states have tied their scholarship value caps to inflation (New Hampshire) or automatically raise the cap by a certain amount each year (Arizona).

TABLE 3 Tax Credit Rules

State	Credit Value	Donor Types	Credits Per Donor Cap	Total Credit Cap	Program Growth
Alabama	100%	Individual and corporate	50% tax liability (maximum $7,500 for individuals)	$25 million	None
Arizona (Individual)	100%	Individual	$535 ($1,070 married), adjusted annually for inflation	None	N/A
Arizona (Corporate)	100%	Corporate	None	$43 million	20% annual increase
Arizona (Lexie's Law)	100%	Corporate	None	$5 million	None
Arizona ("Switcher")	100%	Individual	$523 ($1,064 married) after donating maximum for Original Individual Income Tax Credit	None	N/A
Florida	100%	Corporate	50% to 100% of tax liability, depending on the tax	$357.8 million	25% increase if 90% reached
Georgia	100%	Individual and corporate	Individual: $1,000 ($2,500 married) / LLC, S-corporation, partnership: $10,000 / C-corporation: up to 75% of total corporate tax liability	$58 million	None
Indiana	50%	Individual and corporate	None	$7.5 million	None
Iowa	65%	Individual and corporate	None	$12 million (up to 25% corporate)*	None
Kansas	70%	Corporate	None	$10 million	None
Louisiana	100%†	Individual and corporate	None	None	N/A
New Hampshire	85%	Corporate	No corporation can receive more than 10% of total credits	$5.1 million	25% increase if 80% reached
Oklahoma	50% (75% for two years)	Individual and corporate	Individual: $1,000 ($2,000 married) / Corporate: $100,000	$3.5 million	None
Pennsylvania (EITC)	75% (90% for two years)	Corporate	$750,000‡	$100 million	None
Pennsylvania (OSTC)	75% (90% two years)	Corporate	$750,000	$50 million	None
Rhode Island	75% (90% two-years§)	Corporate	$100,000	$1.5 million	None
South Carolina	100%	Individual and corporate	60% of tax liability#	$8 million	None
Virginia	65%	Individual and corporate	Corporations: None / Individuals: Minimum $500; Maximum $125,000	$25 million	None

*The total amount of tax credits each SGO can grant is equal to its "share" of the statewide limit based on the enrollment of the schools it serves.
†Louisiana offers a 100 percent tax rebate for donations to SGOs, rather than a tax credit.
‡Cap is lifted from Oct. 1 through Nov. 30 if credits go unclaimed.
§The tax credit is worth 90 percent so long as the donation in the second year is worth at least 80 percent of the first year's donation.
#Married couples filing separate returns may claim only half of the tax credit allowed had they filed jointly.

Source: The Friedman Foundation for Educational Choice, *The ABCs of School Choice: The Comprehensive Guide to Every Private School Choice Program in America*, 2015 ed. (Indianapolis: Friedman Foundation for Educational Choice, 2015), http://www.edchoice.org/ABCs; Fla. Stat. § 1002.395(5)(b); *Education Tax Credit*, N.H. Rev. Stat., Title V, §§77-G:3 (2012); Pa. Tax Reform Code of 1971, Article XVII-G.1 §§ 1701-F.1:A.1.

Scholarship value caps that are too low can limit the ability of the neediest families to afford private school tuition. New Hampshire policymakers attempted to balance the need for fiscal neutrality (or savings) with the goal of aiding the neediest families.[33] Rather than a cap on the *total* value of each scholarship, New Hampshire imposed a cap on the *average* value of all scholarships that a given SGO grants in a given year. That gives SGOs greater flexibility to tailor scholarship values to the financial needs of particular families.

Indiana does not impose a cap on scholarship values.

Administrative Allowance

Every TCS law requires that SGOs disburse most of the tax-credit eligible contributions that they receive in the form of scholarships, allowing SGOs to use only a small fraction of the funds for administrative purposes, such as salaries or advertising. Most states require that SGOs disburse at least 90 percent of the tax-credit eligible contributions they receive as scholarships, with up to 10 percent allowed for administrative purposes.

The most restrictive state is Florida, which requires that 100 percent of tax-credit eligible contributions be issued as scholarships for the first three years of an SGO's operation. After that, the SGO may use up to three percent for administrative purposes.[34] This restriction is likely why there have been so few SGOs operating in Florida for most of the law's duration, relative to other states. Presently, there are only two active SGOs, or "scholarship funding organizations" as they are known in Florida: Step Up for Students and AAA Scholarships.[35] The second most restrictive administrative allowances are in Alabama, Louisiana, and South Carolina, which offer an allowance of 5 percent.

The least restrictive state is Pennsylvania, which allows a 20 percent administrative allowance. Perhaps unsurprisingly, with 271 SGOs in 2014–15, Pennsylvania has by far the most SGOs, even when considering the relative size of its population.[36] However, while the larger administrative allowance may be helpful for new SGOs facing startup costs, a 2010 report by the Pennsylvania Legislative Budget and Finance Committee found that SGOs only use about eight percent of their tax-credit eligible donations for administrative expenditures, on average.[37] In a 2015 survey of SGOs by the Cato Institute, 57 percent of Pennsylvania SGOs reported that they did not spend any money on administrative expenses, while only 15 percent reported spending more than 10 percent of their funds on administrative expenses.[38]

Georgia has the most complicated and nuanced administrative allowance provision. Georgia permits the standard allowance of 10 percent on the first $1.5 million in tax-credit eligible donations, but gradually reduces the allowance as the amount of donations grows. The administrative allowance is seven percent for contributions between $1.5 million and $10 million, six percent for contributions between $10 million and $20 million, and five percent for contributions above $20 million.[39]

Testing Mandates

While most states do not impose any testing mandate as a part of their TCS laws, six states require private schools to administer achievement tests to tax-credit scholarship recipients. Louisiana requires schools to administer the state achievement test, while Alabama, Florida, Indiana, South Carolina, and Virginia give schools the option of administering one of several nationally norm-referenced tests, such as the Iowa Test of Basic Skills, the Stanford Achievement Test, or TerraNova. Indiana also gives the option of fulfilling the testing requirement with the state achievement test (ISTEP), but it is not required.

Policymakers sometimes impose a testing mandate to ensure accountability. However, school choice programs already ensure that schools are held directly accountable to parents, who have the ability to leave a school that fails to meet their needs.

State achievement tests can drive curriculum. By testing particular concepts in particular grades in particular ways, the tests can dictate what is taught in the classroom, when it is taught, and even how it is

TABLE 4 Additional Regulations

State	Allowed Uses	Admin Allowance	Scholarship Value Cap	Testing Mandate
Alabama	Private or out-of-district public school tuition	5%	Full tuition	State achievement or nationally norm-referenced tests
Arizona (Individual)	Private school tuition	10%	None	None
Arizona (Corporate)	Private school tuition	10%	$5,000 (K-8); $6,300 (9-12); caps increase by $100 annually	None
Arizona (Lexie's Law)	Private school tuition	10%	Lesser of full tuition or 90% of state per pupil formula funding	None
Arizona ("Switcher")	Private school tuition	10%	None	None
Florida	Private school tuition or transportation to out-of-district public school	Years 1-3: 0% / Year 4+: 3%	Lesser of 80% of state public school funding formula ($5,272 in 2014-15) or full tuition; $500 for transportation grants	Nationally norm-referenced tests
Georgia	Private school tuition	Sliding scale: 5% - 10%	Total average state and local expenditures per pupil ($9,247 in 2014-15)	None
Indiana	Private or out-of-district public school tuition	10%	Full tuition	State achievement or nationally norm-referenced tests
Iowa	Private school tuition	10%	Full tuition	
Kansas	Private school tuition, fees, expenses, and costs of transportation	10%	$8,000	None
Louisiana	Private school tuition	5%	Lesser of full tuition or 80% (K-8) / 90% (9-12) of state per pupil formula funding	State achievement test
New Hampshire	Private school tuition, out-of-district public schools, or homeschooling expenses	10%	$2,541 maximum average ($635 homeschool); minimum $4,447 special ed; all adjusted annually for inflation	None
Oklahoma	Private school tuition, fees, and transportation	10%	Greater of $5,000 ($25,000 special needs) or 80% of average per pupil expenditures in assigned district school	None
Pennsylvania (EITC)	Private or out-of district public school tuition and fees	20%	Full tuition	None
Pennsylvania (OSTC)	Private or out-of district public school tuition and fees	20%	$8,500 ($15,000 special needs)	None
Rhode Island	Private school tuition	10%	None	None
South Carolina	Private school tuition, transportation, and textbooks	5%	$10,000	State achievement or nationally norm-referenced tests
Virginia	Private school tuition and instructional fees / materials (textbooks, workbooks, and supplies used solely for school-related work)	10%	Lesser of full tuition or 100% of state per pupil formula funding	Nationally norm-referenced tests

Source: The Friedman Foundation for Educational Choice, *The ABCs of School Choice: The Comprehensive Guide to Every Private School Choice Program in America*, 2015 ed. (Indianapolis: Friedman Foundation for Educational Choice, 2015), http://www.edchoice.org/ABCs; Ala. Code §§ 16-6D-1, 810-3-60-.01; Fla. Code, Chapter 1002.395(j)1; Ga. Code Title 20, Section 20-2A-2 (2013); Ind. Code 20-51-1-6; N.H. Rev. Stat., Title V, §§ 77-G:1:, VI and 77-G:2, I; Okla. Rev. Stat. § 68-2357.206; Code of Va. §§ 58.1-439.25.

taught. Mandating the state achievement test can therefore induce "teach-to-the-test" conformity and stifle the innovation and diversity that give parental choice its value. Allowing schools to choose among nationally norm-referenced tests, as Indiana does, avoids inducing conformity and gives schools and parents greater freedom to educate children as they see fit.

Even still, mandating nationally norm-referenced tests deprives parents who are legitimately frustrated with a culture of over-testing of the ability to choose a school that eschews standardized tests. Tests are not the only way, or even necessarily the best way, to measure academic progress. Some schools are now using "portfolio-based assessments" that show a student's progress over time. Others rely on written evaluations by teachers. Another method is the "performance-based assessment." The 27 schools in the New York Performance Standards Consortium require their students to pass four performance-based assessment tasks including an analytic literature essay, a social studies research paper, an original science experiment, and an applied mathematics problem.[40]

In a 2013 Friedman Foundation survey of the parents of tax-credit scholarship recipients in Georgia, only one in 10 parents listed standardized test scores among their top five reasons for choosing a particular school.[41] Parents for whom test scores are important can and should hold schools accountable for administering standardized tests and publishing their results. But an education system that truly offers educational choice would respect the wishes of parents who want to choose schools that do not administer such tests.

2. Fiscal Impact

2.1 Fiscal Impact of Tax-Credit Scholarship Programs

The fiscal impact of a tax-credit scholarship program depends both on how it was designed and how the state funds public education. In states where funding is tied to student enrollment, well-designed TCS programs produce savings when the reduction in state expenditures resulting from students switching from their assigned district schools to private schools is greater than the total reduction in tax revenue. The main factors that determine a TCS program's fiscal impact include the value of the credit, average scholarship size, administrative allowance, number of switchers, and percentage of switchers who qualified for additional state aid (e.g. – students qualifying for the federal free and reduced-price lunch program, English language learners, and students with disabilities).

Researchers have calculated the fiscal impact of the three longest-running and largest TCS programs in Arizona, Florida, and Pennsylvania, and determined that they produce savings for each state.[42]

In a 2009 study, economist Charles North estimated that Arizona's individual-donor TCS program reduced state expenditures between $99.8 million and $241.5 million. Since the state had forgone only $55.3 million in tax revenue as a result of the tax credits, Arizona taxpayers saved between about $2.00 to $4.50 for each $1.00 in forgone revenue.[43]

In a 2011 report, the Commonwealth Foundation estimated that Pennsylvania's Education Improvement Tax Credit program saved the state and districts about $512 million each year while reducing state tax revenue by only about $40 million.[44] Commonwealth did not account for the fiscal impact of non-switchers, but Pennsylvania's savings are likely to be substantial since the average scholarship at the time (2010–11) was only $1,040,[45] which is less than 7.8 percent of the then $13,467 average cost-per-child in Pennsylvania district schools.[46] The average scholarship size for 2013–14 is $1,587.[47] Moreover, a large majority of scholarship recipients in Pennsylvania come from low-income households. The average household income for scholarship families was only $29,000 in 2010–11, well below the federal free and reduced-price lunch program's eligibility threshold ($40,793 for a family of four in 2010-11).[48] Students who qualify for the free and reduced-price lunch program cost the state more and are less likely to attend private schools without financial assistance.

In 2010, the Florida legislature's nonpartisan Office of Program Policy Analysis and Government Accountability (OPPAGA) estimated that Florida's TCS program saved the state $32.6 million in fiscal year 2008–09, which is approximately $1.44 in state education funding for every $1.00 reduction in tax revenue.[49] Though there have not yet been any formal evaluations of the fiscal impact of other TCS programs, the impact of Florida's program suggests that savings are likely. Florida's TCS law offers the maximum possible tax credit (100 percent) and has both the largest average scholarship size ($3,666 at the time of the OPPAGA study in 2009–10, $4,949 in 2014–15)[50] and the highest ratio of scholarship size to average district school per pupil expenditures (35.6 percent in 2009–10).[51] As noted in the previous section, TCS laws in seven of the other 13 states offer only partial credits, as low as 50 percent in Indiana and Oklahoma.

2.2 Fiscal Impact of Indiana's School Scholarship Tax Credit

A tax-credit scholarship program generates savings for a state when the reduction in revenue resulting from the tax credits is less than the reduction in state expenditures resulting from students who migrated out of the district school system.

As noted in the last section, a tax-credit scholarship program's fiscal impact depends on numerous factors, including the value of the credit, average scholarship size, administrative allowance, number of switchers, and percentage of switchers who qualified for additional state aid.

Indiana's tax credit is worth 50 percent of contributions to qualified SGOs. In the 2013–14 school year, four SGOs issued a total of $11,770,024 in scholarship funds to 11,067 students, so the average scholarship size was $1,064. The maximum allowed overhead is 10 percent of total contributions. Conservative estimates for the percentage of scholarship recipients who migrated out of the district school system ("switchers") and the percentage of those switchers who qualified for additional state aid are offered in the subsections below.

TABLE 5 School Scholarship Tax Credit Program SY 2013–14

Tax Credit Value	50%
Max. Admin. Overhead Allowance for SGOs	10%
Scholarships Granted	11,067
Avg. Scholarship Award	$1,064

Sources: The Friedman Foundation for Educational Choice, *The ABCs of School Choice: The Comprehensive Guide to Every Private School Choice Program in America*, 2015 ed. (Indianapolis: Friedman Foundation for Educational Choice, 2015), p. 36

Based on these figures and highly conservative estimates of the percentage of scholarship students who would have otherwise attended their assigned district school, it is estimated that the Indiana School Scholarship Tax Credit produced at least $23.2 million in net savings to the state of Indiana in the 2013–14 school year.

This estimate pertains solely to the Indiana School Scholarship Tax Credit, and does not include the fiscal impact of scholarship students who may also be receiving a voucher under the Indiana Choice Scholarship Program. The number of students receiving both a tax-credit scholarship and a voucher is presently unknown.

Likewise, this estimate does not include any positive fiscal impact resulting from the increased high school graduation and college matriculation rates produced by the TCS program. For example, in a recent study published in the peer-reviewed journal Education Finance and Policy, researchers Patrick J. Wolf and Michael Q. McShane found that Washington, D.C.'s Opportunity Scholarship Program (OSP) produced $2.62 in benefits for every dollar spent on scholarships. Students who won a voucher in the OSP lottery were 12 percentage points more likely to graduate from high school than students who applied for but did not receive a voucher.[52] For every additional student who graduated high school as a result of the OSP, Washington, D.C. saved nearly $90,000 because high-school graduates "pay more in taxes, commit fewer crimes, and rely less on social services than high-school dropouts."[53] Numerous studies have found that students who receive scholarships or vouchers to attend private schools are more likely to graduate from high school and attend college.[54]

However, those additional fiscal benefits are beyond the scope of this report. This estimate includes only the direct fiscal impact of students who leave their assigned district schools to accept tax-credit scholarships to attend private schools.

Reduction in Revenue Per Scholarship

Calculating the amount that each scholarship reduces expected state tax revenue is more complicated than it might seem. Simply dividing the total number of tax credits claimed by the total number of scholarships in a given year does not capture the true fiscal impact because SGOs can carry over some unspent funds into future years. The per-scholarship fiscal impact must also consider the SGOs' overhead allowance.

As noted previously, the maximum administrative overhead allowance is 10 percent of contributions received. However, according to survey data, the actual amount of contributions that SGOs spent on administrative costs in 2013–14 ranged from 6 percent to 10 percent, with two of the four SGOs spending as little as 6 percent and only one spending up to 10 percent.[55] Nevertheless, for purposes of this estimate, it has been conservatively assumed that all SGOs use the maximum administrative overhead allowance.

With a 50 percent tax credit and a 10 percent administrative overhead allowance, the tax revenue reduction rate is 55.55 percent of each donation. This means that for every $1.00 granted in scholarships, expected state tax revenues will decrease by about $0.56.

Here is a simple explanation of the relationship between scholarship awards and the reduction in tax revenue under Indiana's TCS law:

If a taxpayer donates $1,000 to an SGO, the donor receives a $500 tax credit. The SGO may withhold up to $100 for administrative costs. The remaining $900 must be dispersed as scholarships. Thus, $500 in tax credits yields $900 in scholarship funds. Dividing the $500 of tax credits by the $900 of scholarships equals $0.56 of forgone state tax revenue for every $1.00 in scholarships. Therefore, the amount of forgone tax revenue is 55.56 percent of total scholarship awards, assuming the maximum 10 percent administrative overhead allowance.

The average scholarship in 2013–14 was $1,064, so the maximum amount of forgone state tax revenue per scholarship was $591.11. Because SGOs granted 11,067 scholarships in 2013–14, the maximum total reduction in state tax revenues associated with those scholarships was no more than $6,541,814. Because three of the four scholarships organizations used less than the maximum administrative expenses allowance, this estimate overstates the actual reduction in state revenues, and therefore underestimates the potential savings.

Savings from Reduced Expenditures

While each scholarship reduces state tax revenue, it also reduces state expenditures when students migrate out of district schools because the state funds district schools based on enrollment. Calculating these savings requires having reasonable estimates for the percentage of scholarship students who would otherwise have attended a district school ("switchers"), and the percentage of switchers who would have qualified for additional aid beyond the state's base per-pupil funding.

Sector Switchers

It is not possible to determine the precise number of scholarship recipients who would have otherwise attended a district school. However, evidence from other states can help produce a reasonable estimate.

In a 2010 analysis, Florida's nonpartisan Office of Program Policy Analysis and Government Accountability (OPPAGA) relied on U.S. Census Bureau data to estimate that 95 percent of tax-credit scholarship students would have attended a district school without the scholarships. At the time of the report, scholarship applicants had to have attended their district school in the previous year if they were entering grades 6–12, but not if they were entering grades 1–5. Florida's tax-credit scholarship eligibility is tied to the federal free and reduced-price lunch program, so all scholarship recipients are from families earning no more than 185 percent of the federal poverty line. OPPAGA assumed that only 5 percent of tax-credit scholarship recipients would have otherwise attended private schools based on data from the U.S. Census Bureau's 2000 Integrated Public Use Microdata Series, which found that only 5 percent of school-aged children living in households in that income range attended private schools. However, since the families seeking out a scholarship are not necessarily representative of the general population of families in that income range, this estimate might be high.[56]

In a 2012 survey, 74 percent of tax-credit scholarship recipients in New Hampshire reported that they "would have been unable [to send their child to] the school of his or her choice without the education tax credit program."[57] Though the law capped income eligibility at 300 percent of the federal poverty line, more than 90 percent of New Hampshire scholarship recipients qualified for the federal free and reduced-price lunch program (185 percent of the federal poverty line). New Hampshire provides a particularly apt comparison because the average tax-credit scholarship size in New Hampshire was $1,246 in 2011–12 and $1,316 in 2013–14, which is only slightly larger than the $1,064 average in Indiana.[58]

While it is impossible to pinpoint the exact percentage of scholarship recipients who are switchers, it is reasonable to estimate that approximately three out of four low-income scholarship recipients would have attended their assigned district school without the scholarship.

Indiana's District School Funding

The cornerstone of Indiana's school funding formula is the Foundation Grant, which is the base amount of funding the state provides to district schools for every enrolled student. The state also provides funding beyond the Foundation Grant based on the individual characteristics of each student (e.g. poverty; special needs; career or technical education; or academic honors). The most common additional aid is the Complexity Grant, which is granted to district schools for each student from a family earning up to 185 percent of the federal poverty line, plus an additional amount for schools that have an especially high percentage of students in poverty.

The Foundation Grant was $4,569 in 2013–14 and increased to $4,587 for 2014–15.[59] In 2013–14, the Complexity Grant was equal to one-third of the Foundation Grant, so a district school would receive $6,076.77 for each low-income student. Additionally, schools with high concentrations of low-income students receive extra funding. However, since it is not possible to determine how many scholarship students would have attended district schools in high-poverty areas, this category of additional funding was omitted from the estimate. Because it is likely that a considerable number of low-income scholarship students live in high-poverty areas, this omission will understate the potential savings.

Indiana's funding formula includes several additional components, including grants for students with special needs, students who received an academic honors diploma, students enrolled in career and technical education programs, etc., as well as temporary "Transition to Foundation Grants" for districts whose level of state funding was greater under the previous funding formula. Since it is not possible to determine how many scholarship students fall into these categories, those categories of additional funding are excluded from this estimate, thereby further underestimating the potential savings.

In 2013–14, 5,919 of the 11,067 scholarship students (53.5 percent) belonged to low-income families whose district schools would have received Complexity Grants had they enrolled there. The Institute for Quality Education issued 2,387 of their 5,694 scholarships (42 percent) to low-income students.[60] The Sagamore Institute issued 1,066 of their 2,134 scholarships (50 percent) to low-income students.[61] The Lutheran SGO of Indiana issued 650 of their 1,327 scholarships (49 percent) to low-income students.[62] The SGO of Northeast Indiana issued 1,816 of their 1,912 scholarships (95 percent) to low-income students.[63]

Estimating Scholarship Savings

The fiscal impact of the tax-credit scholarship tax credit program on the state of Indiana is the difference between the reduced expenditures from each scholarship and the reduced revenue. Earlier, this report calculated that each dollar in scholarships reduced state tax revenue by $0.56, conservatively assuming the maximum allowance for SGO administrative expenses. The reduction in state expenditures equals the Foundation Grant multiplied by the number of "switchers" plus the Complexity Grant multiplied by the number of low-income "switchers."

Based on data from the SGOs, 53.5 percent of scholarship students in 2013–14 came from low-income households. Since low-income families are less likely to enroll their children in private schools, the prevalence of low-income families among the switchers is likely to be even higher than that. Thus, even under the extremely conservative estimate that only 50 percent of scholarship students would have enrolled in their assigned district school if they had not received a scholarship, the tax-credit scholarship program saved the state of Indiana more than $23.2 million in the 2013–14 school year. The estimated fiscal impact for a broad possible range of switching rates is reported in Appendix 1.

As noted above, this estimate understates the potential savings by assuming that none of the students would have attended district schools in very high-poverty areas and that none of the students would have qualified for additional funds because of their special needs, honors achievements, etc. In reality, it is likely that many scholarship students live in very high-poverty areas and would have qualified for additional state funding. Moreover, this estimate assumes that all SGOs use the maximum allowance, even though in reality they spend less than the full allowance, which further understates the savings.

3. Improving Indiana's School Scholarship Tax Credit

The goal of America's education system should be to ensure that every child has access to the education that best meets his or her individual learning needs. Educational choice programs like Indiana's School Scholarship Tax Credit further that goal by empowering parents to choose the education that works best for their children. However, the TCS law is limited in the manner and number of children that it can help. In order to achieve greater educational choice while continuing to save money for Indiana taxpayers, the author recommends expanding the allowed uses for scholarship funds, increasing the tax credit cap, increasing the value of the tax credits, and adding an "escalator" clause to automatically raise the cap over time.

1) Expand the Allowed Uses of Scholarship Funds

Society has an interest in ensuring that every child has access to a quality education, but that education need not take place entirely or primarily in a school. As Milton Friedman wondered in a 2003 interview, "Why is it sensible for a child to get all his or her schooling in one brick building?"[64]

Increasingly, parents are finding ways to tailor their children's education to their needs through online courses, blended learning, tutoring, homeschooling, or some combination of these and more. The education system should reflect this new reality. Rather than restrict scholarship funds to a certain type of education-provider called "schools," Indiana should amend its TCS law to allow scholarships to cover a broad range of educational expenses, including:

- textbooks and workbooks;
- private online learning courses;

- Advanced Placement (AP) exams, norm-referenced achievement tests, and college admission exams;
- tutoring;
- homeschool curricula;
- individual district school classes and programs; or
- education therapy services and aides for students with special needs

All these categories and more are approved expenses under Arizona's education savings account (ESA) law. The Arizona Department of Education maintains a list of approved providers from whom parents can purchase educational products and services with ESA funds.[65] New Hampshire's TCS law broadly authorizes the use of tax-credit scholarship funds for "educational expenses" for homeschoolers—excluding fees or expenses related to athletics, transportation, or the cost of a parent's time—but grants discretion to the SGOs to approve purchases.[66] Parents are required to give the SGOs copies of their receipts for educational expenses covered by scholarship funds.[67]

Broadening the scope of approved expenses will give parents greater flexibility to customize their child's education. It will also expand the market for new and innovative approaches to delivering education, which is likely to spur education entrepreneurs to meet that demand. By focusing education funding on students' learning needs rather than institutions, Indiana can lead the way toward a more innovative and student-centered education system.

2) Increase the Tax Credit Cap

In order for SGOs to provide enough scholarships to meet demand, the legislature will have to increase the tax credit cap.

Calculating the demand for scholarships first requires determining the total number of eligible students. There are approximately 1,120,000 students in Indiana, including 111,872 who currently attend private school.[68] At least three-fifths of Hoosiers, or about 672,000 students, meet the income-eligibility requirements to receive a tax-credit scholarship, assuming a roughly equal distribution of children across income quintiles.

According to a 2011 Friedman Foundation survey, 41 percent of Indiana parents would choose a private school if they could afford it.[69] That means the parents of an estimated 285,360 students who are eligible for tax-credit scholarships desire a private school education. That number is likely even higher because low-income families are more likely to desire alternatives to their assigned district school than higher-income families.

However, even if sufficient scholarship funds were available for all interested students, there are a limited number of available seats at private schools. According to a 2014 report by the Friedman Foundation, there were approximately 22,000 open seats in the one-third of Indiana private schools that accept vouchers in 2013–14.[70] The remaining two-thirds of schools that do not accept vouchers might nevertheless accept tax-credit scholarships. While it is not known exactly how many open seats these schools have, estimates based on projections put the total number of empty seats in privates schools in the state at close to 62,000 in 2013–14.[71] The subsequent increase in the number of voucher students may have reduced the number of open seats in 2014–15 by 9,340 seats to about 52,660 open seats. In the long term, the supply of seats is very likely to rise with demand, as has happened in countries like Chile and the Netherlands after the introduction of school choice laws.[72] In the short term, however, the number of available seats is not likely to increase dramatically.

There are currently 11,067 students receiving scholarships worth $1,064 on average. Providing an additional 52,660 scholarships at the present average scholarship value would require a total of about $56 million. However, the present average scholarship size may not be enough for the poorest families. In Florida, where the average household income of tax-credit scholarship recipients is only 4.5 percent above the poverty line, the average scholarship size is over $4,500.[73]

As noted above, Indiana's average private school tuition is $6,032 (an average of $4,357 for elementary schools and $9,039 for high schools). If scholarships averaged $2,500, they would cover more than two-fifths of the average tuition, leaving low-income families to cover about $290 per month. The larger scholarship size would also be more likely to induce private schools to expand the number of seats or open new schools. Providing $2,500 scholarships to 73,000 students would require $182.5 million. That is barely 1.5 percent of the approximately $11.5 billion spent on public education in Indiana, including district and charter schools.

At present, the tax credit cap is $7.5 million, which equals 0.06 percent of Indiana's total public school spending. The tax credit value is currently 50 percent, allowing for a total of $15 million in scholarship funds (including up to $1.5 million in administrative expenditures). The legislature is unlikely to increase the tax credit cap enough to meet demand in a single year, therefore the author proposes doubling the tax credit cap to $15 million for 2015–16, and allowing the cap to increase automatically over time to meet demand.

3) Increase the Credit Value

Providing enough scholarships to meet demand will require sufficient contributions from taxpayers. However, along with Oklahoma, Indiana currently offers the lowest credit of any TCS law: 50 percent of tax-credit eligible contributions. One way to increase the amount of contributions is to increase the credit value—though that would reduce the savings from each dollar donated. Raising the tax credit value from a 50 percent to a 75 percent tax credit should spur additional contributions.[74]

Assuming that 50 percent of the projected 14,400 scholarship students in 2015–16 are switchers, and that the average scholarship amount is $1,250 (slightly higher than the $1,173 in 2013–14), a 75 percent tax credit value would yield at least $23.8 million in savings for the state of Indiana. The estimated impact for a range of credit values is reported in Appendix 2.

If donors still do not claim all the tax credits, legislators should consider raising the tax credit value even higher. A 100 percent tax credit would still yield a savings of about $14.1 million in 2015–16. Appendix 2 also reports the fiscal impact of a range of tax credit values assuming a higher average scholarship of $2,500. Under that scenario, a 75 percent tax credit value would yield a state savings of about $4.4 million in 2015–16.

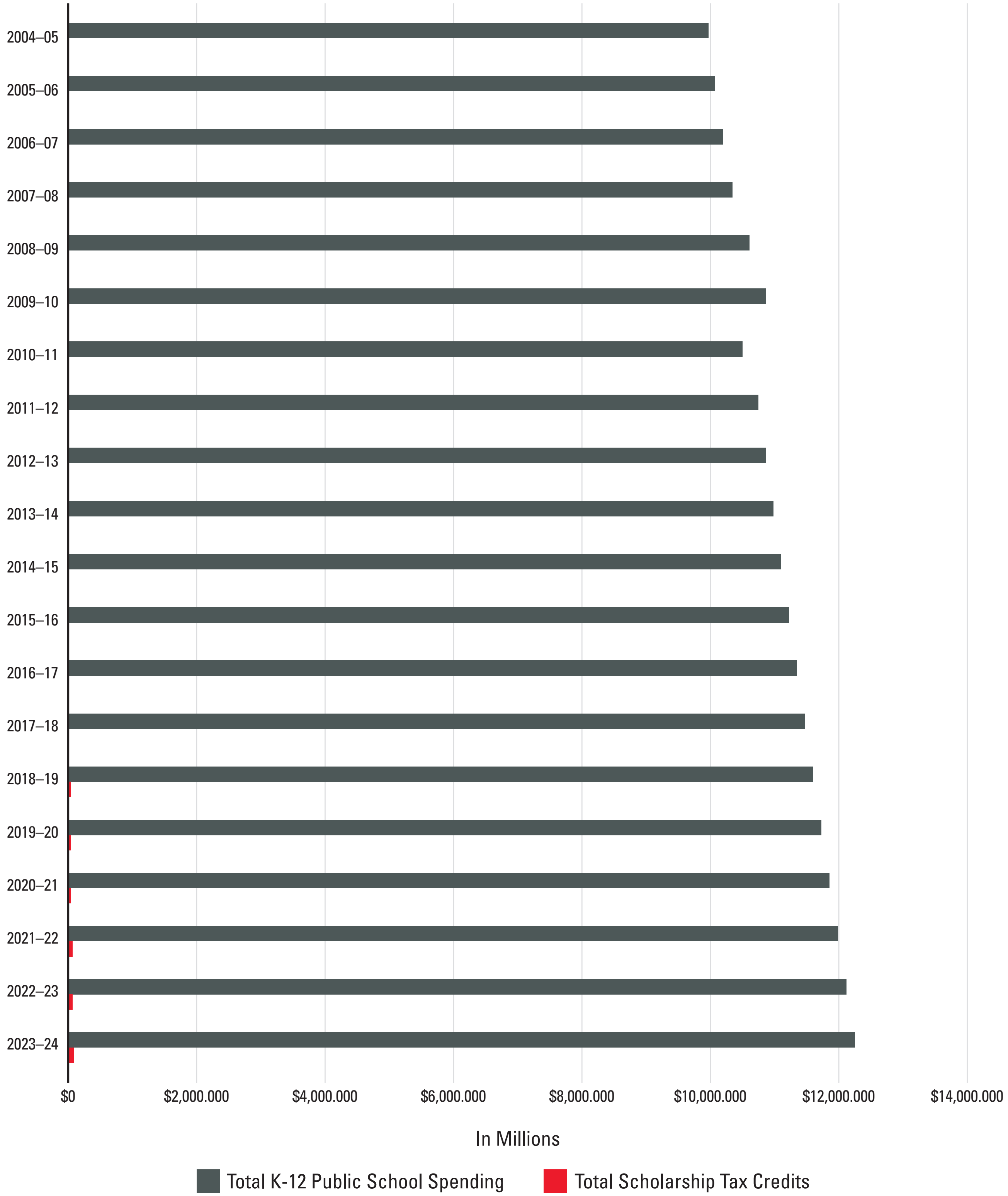
4) Add an Escalator Clause

The TCS laws in both Florida and New Hampshire contain "escalator clauses" that automatically increase the tax credit cap by 25 percent whenever the total amount of credits claimed reaches at least 90 percent of the cap. In Arizona, the cap increases by 20 percent each year without any contingency.

Beginning with a $15 million tax credit cap in 2015–16, a 25 percent escalator clause would lift the cap to nearly $112 million after a decade. As illustrated in Figure Q, that is about one percent of the more than $10 billion currently spent on Indiana's public school system. With a 75 percent credit value, the proposed tax credit growth would generate $149 million in scholarship funds by 2024–25, assuming donors claim the maximum amount of the credits and that SGOs use the maximum administrative expense allowance.

If the average scholarships were $2,500 in 2015–16 and increased by 2 percent each year, then SGOs could grant scholarships for nearly 45,000 students by 2024–25. Assuming maximum tax credit utilization and no major changes in Indiana's district school funding formula but for an average 1.75 percent growth in per-pupil funding, the TCS program would save approximately $137 million cumulatively through 2024-25. This fiscal projection is detailed in Appendix 3.

FIGURE 1 Total K–12 Public School Spending vs. Total Scholarship Tax Credits, Actual and Projected



Note: For simplicity, total public school spending figures in years 2012-13 and onward are projected based on the average rate of change (1.1 percent) over the previous eight years. Projected tax credits are based on the maximum possible growth under the proposed tax credit cap and escalator clause outlined in this section.

Source: Authors calculations; "Public Elementary-Secondary Education Finance Data," US Census Bureau, accessed Mar. 27, 2015, http://www.census.gov/govs/school/index.html.

4. Conclusion: Expanding Educational Choice in Indiana

Educational choice policies like tax-credit scholarships promise to expand opportunities for those whose options are limited. Indiana's School Scholarship Tax Credit has helped more than 10,000 students attend the schools of their choice. In the process, the tax-credit scholarship law has saved money for Hoosier taxpayers, including at least $23.2 million in the 2013–14 school year.

However, the law has yet to live up to its full potential. The proposed changes outlined in this report would greatly expand the number of students who could benefit from tax-credit scholarships and empower parents to tailor their children's education to better meet their particular needs. These proposed changes include:

- Expanding uses of tax-credit scholarship funds to include tutoring, textbooks, online classes, homeschool curricula, standardized tests, educational therapy, etc.

- Increasing the total amount of tax credits available from $7.5 million to $15 million in 2015–16.

- Raising the credit value from 50 percent of contributions to 75 percent in order to incentivize more contributions to scholarship granting organizations.

- Adding an "escalator clause" that would automatically raise the tax credit cap by 25 percent each year.

If Indiana were to adopt the last three of the proposed changes, there would be enough tax-credit funds to support scholarships for about 14,400 students in 2015–16 and about 45,000 students in 2024–25. It is estimated that the state would save at least $23.8 million in 2015–16, and at least $137 million cumulatively through the 2024–25 school year, assuming the maximum utilization of available tax credits.

Indiana is already a national leader in school choice, but by adopting the first proposal, Indiana would become a national leader in educational choice. Expanding the allowed uses of the tax-credit scholarships would recognize the reality that not all formal education takes place in buildings called "schools." Moreover, it is impossible to predict how students will be educated in the Information Age. States that desire their students to have access to the full range of possibilities just over the horizon must begin rethinking their antiquated funding mechanisms. As those possibilities become realities, expanded-use tax-credit scholarships would empower parents to make use of those innovations—along with more traditional forms of instruction—to customize their children's education. Indiana should lead the way.

Appendix 1: Fiscal Impact Estimate, 2013–14

The following table calculates the fiscal impact of Indiana's School Scholarship Tax Credit for the 2013–14 school year. The table presents the fiscal impact of a range of potential values for the percentage of scholarship recipients who are "switchers," i.e. – students who would have otherwise attended their assigned district school but for the tax-credit scholarships. The fiscal impact is discussed in greater detail in Section 2.2. This fiscal analysis makes several conservative assumptions, including:

- Assuming that all scholarship-granting organizations use the maximum administrative overhead allowance of 10 percent. In reality, at least three of the four SGOs spend between 6 percent and 8 percent of tax-credit eligible contributions on overhead.

- Assuming that no scholarship recipients would have qualified their district schools for additional grants for special needs, academic honors, or vocational education, and that none of the students would have attended districts that qualified for additional "Transition to Foundation" grants. In reality, while the precise number of scholarship recipients who would have qualified their schools for additional funding cannot be determined, it is certainly above zero.

- Assuming that none of the low-income scholarship students were assigned to district schools that had high concentrations of poverty, which would have made the school eligible for additional state funding. In reality, while the precise number of scholarship recipients who would have qualified their schools for additional funding cannot be determined, it is certainly above zero and likely to be quite high.

- Assuming that a proportionate number of switchers and non-switchers are from low-income families. In reality, switchers are more likely to be low-income than non-switchers.

The total fiscal impact is the fiscal savings minus the total reduction in revenue calculated in Section 2.2 ($6,541,814). To calculate the fiscal savings, we multiply the number of non-poor scholarship recipients by the 2013–14 Foundation Grant ($4,569) and add that figure to the number of low-income students multiplied by the Complexity Grant ($6,076.77). The sum of these two figures is then multiplied by the percentage of scholarship students who are switchers. The breakeven point is just under 11 percent switchers.

TABLE 1.1 Fiscal Impact of Indiana TCS by Percentage of "Switcher" Scholarship Recipients (2013–14)

% Switchers	Fiscal Impact
100%	$52,950,581.10
95%	$49,975,961.32
90%	$47,001,341.55
85%	$44,026,721.78
80%	$41,052,102.00
75%	$38,077,482.23
70%	$35,102,862.46
65%	$32,128,242.68
60%	$29,153,622.91
55%	$26,179,003.14
50%	$23,204,383.36
45%	$20,229,763.59
40%	$17,255,143.82
35%	$14,280,524.04
30%	$11,305,904.27
25%	$8,331,284.50
20%	$5,356,664.72
15%	$2,382,044.95
10%	-$592,574.82
5%	-$3,567,194.60
0%	-$6,541,814.37

*Jason Bedrick, "Survey of Scholarship Granting Organizations," (unpublished manuscript, Mar. 24, 2015) Microsoft Word file.
†Ind. Dept. of Education, Office of School Finance, An Overview of Fiscal Year 2014 State Tuition Support,
(Indianapolis: Ind. Dept. of Education, 2013), p. 5, http://www.in.gov/icsb/files/An_Overview_of_FY14_State_Tuition_Support.pdf.

Appendix 2: Fiscal Impact Estimate With Various Tax Credit Values

Table 2.2 calculates the fiscal impact of Indiana's School Scholarship Tax Credit for the 2015–16 school year under a range of potential tax credit values. Higher values are intended to encourage more contributions. In 2015–16, the Foundation Grant is worth $4,587 per pupil and the Complexity Grant is worth $1,605.45 per low-income pupil (0.35 times the Foundation Grant, rather than 0.33) for a total of $6,192.45 per low-income pupil. The table relies on the following assumptions:

- The average scholarship size will increase to $1,250. This figure is greater than the expected scholarship size ($1,173) based on the five percent growth in scholarship size from 2012–13 to 2013–14.
- The percentage of scholarship students who are low-income will be 50 percent (slightly lower than the 53.5 percent in 2013–14).
- The percentage of switchers will remain constant.

The figures in Table 2.1 were used to calculate the fiscal estimates in Table 2.2. These estimates assume that donors claim the maximum amount of credits. In reality, in each of the first three years that the scholarship tax credits were available, donors did not reach the credit cap. The table also assumes that donors claim the maximum amount of tax credits in each scenario in order to show the maximum possible fiscal impact. However, a higher credit value is more likely to encourage contributions to SGOs than a lower credit value. From the enactment of the TCS law through 2013–14, donors never claimed all of the tax credits available in a given year.

Table 2.1 assumes that Indiana makes $15 million in tax credits available in 2015–16, as proposed in Section 3. If donors claimed the maximum number of tax credits, a 75 percent tax credit value would yield $20 million in donations. Assuming that SGOs use the maximum administrative expenses allowance (10 percent, or $2 million), there would be $18 million in available scholarship funds, which could provide scholarships worth $1,250 to 14,400 students.

TABLE 2.1 Scholarships Worth $1,250 on Average

Credit Value	50%	65%	75%	85%	100%
Credits	$15,000,000	$15,000,000	$15,000,000	$15,000,000	$15,000,000
Donations	$30,000,000	$23,076,923	$20,000,000	$17,647,059	$15,000,000
Overhead	$3,000,000	$2,307,692	$2,000,000	$1,764,706	$1,500,000
Scholarship $	$27,000,000	$20,769,231	$18,000,000	$15,882,353	$13,500,000
Scholarships	21,600	16,615	14,400	12,706	10,800

*Ind. Dept. of Education, Office of School Finance, An Overview of Fiscal Year 2014 State Tuition Support, (Indianapolis: Ind. Dept. of Education, 2013), p. 5, http://www.in.gov/icsb/files/An_Overview_of_FY14_State_Tuition_Support.pdf.

TABLE 2.2 2015–16 Total Savings from the Indiana School Scholarship Tax Credit with an Average Scholarship of $1,250

	CREDIT VALUE				
% Switchers	50%	65%	75%	85%	100%
100%	$101,418,060	$74,552,354	$62,612,040	$53,481,212	$43,209,030
95%	$95,597,157	$70,074,736	$58,731,438	$50,057,151	$40,298,579
90%	$89,776,254	$65,597,118	$54,850,836	$46,633,091	$37,388,127
85%	$83,955,351	$61,119,501	$50,970,234	$43,209,030	$34,477,676
80%	$78,134,448	$56,641,883	$47,089,632	$39,784,969	$31,567,224
75%	$72,313,545	$52,164,265	$43,209,030	$36,360,909	$28,656,773
70%	$66,492,642	$47,686,648	$39,328,428	$32,936,848	$25,746,321
65%	$60,671,739	$43,209,030	$35,447,826	$29,512,788	$22,835,870
60%	$54,850,836	$38,731,412	$31,567,224	$26,088,727	$19,925,418
55%	$49,029,933	$34,253,795	$27,686,622	$22,664,666	$17,014,967
50%	$43,209,030	$29,776,177	$23,806,020	$19,240,606	$14,104,515
45%	$37,388,127	$25,298,559	$19,925,418	$15,816,545	$11,194,064
40%	$31,567,224	$20,820,942	$16,044,816	$12,392,485	$8,283,612
35%	$25,746,321	$16,343,324	$12,164,214	$8,968,424	$5,373,160
30%	$19,925,418	$11,865,706	$8,283,612	$5,544,364	$2,462,709
25%	$14,104,515	$7,388,088	$4,403,010	$2,120,303	-$447,743
20%	$8,283,612	$2,910,471	$522,408	-$1,303,758	-$3,358,194
15%	$2,462,709	-$1,567,147	-$3,358,194	-$4,727,818	-$6,268,646
10%	-$3,358,194	-$6,044,765	-$7,238,796	-$8,151,879	-$9,179,097
5%	-$9,179,097	-$10,522,382	-$11,119,398	-$11,575,939	-$12,089,549
0%	-$15,000,000	-$15,000,000	-$15,000,000	-$15,000,000	-$15,000,000

TABLE 2.3 Scholarships Worth $2,500 on Average

Credit Value	50%	65%	75%	85%	100%
Credits	$15,000,000	$15,000,000	$15,000,000	$15,000,000	$15,000,000
Donations	$30,000,000	$23,076,923	$20,000,000	$17,647,059	$15,000,000
Overhead	$3,000,000	$2,307,692	$2,000,000	$1,764,706	$1,500,000
Scholarship $	$27,000,000	$20,769,231	$18,000,000	$15,882,353	$13,500,000
Scholarships	10,800	8,308	7,200	6,353	5,400

As shown in Table 2.2, if Indiana were to raise the tax credit value to 75 percent and SGOs issued scholarships worth $1,250 on average, a switcher rate of 50 percent would yield more than $23.8 million in total savings.

Like Table 2.2, Table 2.4 calculates the fiscal impact of Indiana's School Scholarship Tax Credit for the 2015–16 school year under a range of potential tax credit values. The only difference is that Table 2.4 assumes that the average scholarship size will be $2,500. The figures in Table 2.3 were used to calculate the fiscal estimates in Table 2.4. As above, these estimates assume that donors claim the maximum amount of credits.

Like Table 2.1, Table 2.3 assumes that Indiana makes $15 million in tax credits available in 2015-16, as proposed in Section 3. If donors claimed the maximum number of tax credits, a 75 percent tax credit value would yield $20 million in donations. Assuming that SGOs use the maximum administrative expenses allowance (10 percent, or $2 million), there would be $18 million in available scholarship funds, which could provide scholarships worth $2,500 to 7,200 students.

As shown in Table 2.4, if Indiana were to raise the tax credit value to 75 percent and SGOs issued scholarships worth $2,500 on average, a switcher rate of 50 percent would yield more than $4.4 million in total savings.

TABLE 2.4 2015–16 Total Savings from the Indiana School Scholarship Tax Credit with an Average Scholarship of $2,500

	CREDIT VALUE				
% Switchers	50%	65%	75%	85%	100%
100%	$43,209,030	$29,776,177	$23,806,020	$19,240,606	$14,104,515
95%	$40,298,579	$27,537,368	$21,865,719	$17,528,576	$12,649,289
90%	$37,388,127	$25,298,559	$19,925,418	$15,816,545	$11,194,064
85%	$34,477,676	$23,059,750	$17,985,117	$14,104,515	$9,738,838
80%	$31,567,224	$20,820,942	$16,044,816	$12,392,485	$8,283,612
75%	$28,656,773	$18,582,133	$14,104,515	$10,680,454	$6,828,386
70%	$25,746,321	$16,343,324	$12,164,214	$8,968,424	$5,373,160
65%	$22,835,870	$14,104,515	$10,223,913	$7,256,394	$3,917,935
60%	$19,925,418	$11,865,706	$8,283,612	$5,544,364	$2,462,709
55%	$17,014,967	$9,626,897	$6,343,311	$3,832,333	$1,007,483
50%	$14,104,515	$7,388,088	$4,403,010	$2,120,303	-$447,743
45%	$11,194,064	$5,149,280	$2,462,709	$408,273	-$1,902,968
40%	$8,283,612	$2,910,471	$522,408	-$1,303,758	-$3,358,194
35%	$5,373,160	$671,662	-$1,417,893	-$3,015,788	-$4,813,420
30%	$2,462,709	-$1,567,147	-$3,358,194	-$4,727,818	-$6,268,646
25%	-$447,743	-$3,805,956	-$5,298,495	-$6,439,849	-$7,723,871
20%	-$3,358,194	-$6,044,765	-$7,238,796	-$8,151,879	-$9,179,097
15%	-$6,268,646	-$8,283,573	-$9,179,097	-$9,863,909	-$10,634,323
10%	-$9,179,097	-$10,522,382	-$11,119,398	-$11,575,939	-$12,089,549
5%	-$12,089,549	-$12,761,191	-$13,059,699	-$13,287,970	-$13,544,774
0%	-$15,000,000	-$15,000,000	-$15,000,000	-$15,000,000	-$15,000,000

Appendix 3: Fiscal Impact Estimate, 2015–16 and Beyond

Tables 9 and 10 calculate the fiscal impact of Indiana's School Scholarship Tax Credit for the 2015–16 through 2024–25 school years. The tables rely on the following assumptions:

- A 75 percent tax credit value;
- Maximum utilization of available tax credits, which automatically increase by 25 percent each year;
- An average $2,500 scholarship in 2015–16 that increases by 2 percent each year;
- The percentage of scholarship students who are low-income will remain constant at 50 percent (slightly lower than the 53.5 percent in 2013–14).
- The percentage of switchers will remain constant at 50 percent.
- Indiana's district school funding formula does not change, except for the size of the per-pupil grants.
- The Foundation Grant and Complexity Grant each grow by 1.75 percent annually, which is the average rate of change for Indiana's total education spending over the last 10 years.

Under the conservative assumptions outlined above, were Indiana to adopt the proposed changes to the School Scholarship Tax Credit law, the state of Indiana would save about $137 million cumulatively through 2024–25.

TABLE 3.1 Projected Savings Per Switcher, 2015–16 through 2024–25

School Year	Avg. Scholarship	Foundation Grant	Complexity Grant	Savings Per Switcher	Savings Per Low-Income Switcher
2015-16	$2,500	$4,587	$1,605.45	$2,087	$3,692.45
2016-17	$2,550	$4,667	$1,633.55	$2,117	$3,750.82
2017-18	$2,601	$4,749	$1,662.13	$2,148	$3,810.08
2018-19	$2,653	$4,832	$1,691.22	$2,179	$3,870.26
2019-20	$2,706	$4,917	$1,720.82	$2,211	$3,931.35
2020-21	$2,760	$5,003	$1,750.93	$2,242	$3,993.39
2021-22	$2,815	$5,090	$1,781.57	$2,275	$4,056.37
2022-23	$2,872	$5,179	$1,812.75	$2,308	$4,120.32
2023-24	$2,929	$5,270	$1,844.47	$2,341	$4,185.24
2024-25	$2,988	$5,362	$1,876.75	$2,374	$4,251.16

TABLE 3.2 Total Projected Savings, 2015–16 through 2024–25

School Year	Total Credits	Total Donations	Max. Admin Allowance	Projected Scholarships	Projected Savings
2015-16	$15,000,000	$20,000,000	$2,000,000	7,200	$4,403,010
2016-17	$18,750,000	$25,000,000	$2,500,000	8,824	$5,444,317
2017-18	$23,437,500	$31,250,000	$3,125,000	10,813	$6,731,272
2018-19	$29,296,875	$39,062,500	$3,906,250	13,251	$8,321,661
2019-20	$36,621,094	$48,828,125	$4,882,813	16,239	$10,286,823
2020-21	$45,776,367	$61,035,156	$6,103,516	19,901	$12,714,816
2021-22	$57,220,459	$76,293,945	$7,629,395	24,389	$15,714,319
2022-23	$71,525,574	$95,367,432	$9,536,743	29,888	$19,419,446
2023-24	$89,406,967	$119,209,290	$11,920,929	36,628	$23,995,677
2024-25	$111,758,709	$149,011,612	$14,901,161	44,887	$29,647,162

Notes

1. In other states, the nonprofit organizations that grant tax-credit scholarships are variously referred to as "scholarship funding organizations," "school tuition organizations," or simply "scholarship organizations." For the sake of simplicity, this paper will use the acronym "SGO" to refer to all of them.

2. US Dept. of Agriculture, "Child Nutrition Programs—Income Eligibility Guidelines," *Federal Register* 79, no. 43 (Mar. 2014), p. 12467, http://www.fns.usda.gov/sites/default/files/2014-04788.pdf.

3. According to the most recent data available, the second highest household income quartile in Indiana in 2013 earned between $57,144 and $88,587. A single parent with a single dependent would qualify for a tax-credit scholarship with an income of up to $58,202. "Assets and Opportunity Scorecard: State Income Quintiles," Corporation for Enterprise Development, accessed Dec. 21, 2014, http://scorecard.assetsandopportunity.org/2013/measure/state-income-quintiles-acs.

4. Author's calculations; Andrew D. Catt, *Exploring Indiana's Private Education Sector*, School Survey Series, (Indianapolis: Friedman Foundation for Educational Choice, 2014), p. 2, http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/1074/Exploring-Indianas-Private-Education-Sector.pdf.

5. Author's calculations; "Find School and Corporation Data Reports," Ind. Dept. of Education, last modified Mar. 2, 2015, http://www.doe.in.gov/accountability/find-school-and-corporation-data-reports.

6. "Indiana Private Schools," Private School Review, accessed Dec. 19, 2014, http://www.privateschoolreview.com/state_private_schools/stateid/IN.

7. "Report on Expenditures per Capita," Ind. Dept. of Local Government Finance, last modified May 1, 2014, http://www.in.gov/dlgf/files/2013_Expenditure_Per_Capita_Report_%28Published_2014%29.pdf.

8. "School Scholarship Tax Credit Program Approved Scholarship Granting Organizations," Ind. Dept. of Education, last modified July 10, 2014, http://www.doe.in.gov/sites/default/files/choice/2014-07-10-participating-sgos-july-2014.pdf.

9. Paul DiPerna, *Indiana K-12 and School Choice Survey*, Polling Paper 2 (Indianapolis: Friedman Foundation for Educational Choice, 2011), p. 18, http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/664/Indiana-K-12---School-Choice-Survey.pdf.

10. DiPerna, *Why Indiana Voucher Parents Choose Private Schools*, (Indianapolis: Friedman Foundation for Educational Choice, 2014), p. 4, http://www.edchoice.org/Research/Reports/Why-Indiana-Voucher-Parents-Choose-Private-Schools.aspx.

11. Ibid., p. 2.

12. See note 10 above.

13. Catt, *Exploring Indiana's Private Education Sector*, p. 5.

14. Approximately 200 of the non-participating private schools are Amish schools. These schools are not interested in participating in either Indiana's School Scholarship Tax Credit or Choice Scholarship Program.

15. David A. Stuit and Sy Doan, *School Choice Regulations: Red Tape or Red Herring?* (Washington, DC: Thomas B. Fordham Institute, 2013), p. 18, http://edex.s3-us-west-2.amazonaws.com/publication/pdfs/20130129-School-Choice-Regulations-Red-Tape-or-Red-Herring-FINAL_7.pdf.

16. Ibid., p. 24.

17. Brian Kisida, Patrick J. Wolf, and Evan Rhinesmith, *Views from Private Schools: Attitudes about School Choice Programs in Three States*, (Washington, DC: American Enterprise Institute, 2015), figure 17, p. 18, http://www.aei.org/wp-content/uploads/2015/01/Views-from-Private-Schools-7.pdf.

18. Ibid., p. 16.

19. James P. Kelly III and Benjamin Scafidi, *More Than Scores: An Analysis of Why and How Parents Choose Private Schools* (Indianapolis: Friedman Foundation for Educational Choice, 2013), p. 1, http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/1031/More-Than-Scores.pdf.

20. Arizona has four TCS programs: a means-tested program in which only corporate taxpayers are eligible to receive tax credits; a non-means-tested program in which only individual taxpayers are eligible to receive tax credits; a supplemental tax credit to the previous two with funds designated to "switchers" who attend a private school instead of their assigned district school; and a non-means-tested program in which only students with disabilities and foster children are eligible to receive scholarships.

21. Pennsylvania has two TCS programs: one in which all low-income students are eligible and another in which eligibility is limited to students who are assigned to failing public schools.

22. The Friedman Foundation for Educational Choice, National Catalogue of School Choice Programs, accessed Mar. 23, 2015.

23. For all program design and participation specifics not directly cited hereafter, see Friedman Foundation, *The ABCs of School Choice: The Comprehensive Guide to Every Private School Choice Program in America*, 2015 ed. (Indianapolis: Friedman Foundation for Educational Choice, 2015), http://www.edchoice.org/ABCs; Friedman Foundation, National Catalogue of School Choice Programs.

24. See note 2 above.

25. Vicki E. Murray, "An Analysis of Arizona Individual Income Tax-Credit Scholarship Recipients' Family Income, 2009-10" (PEPG Working Paper 10-18, Program on Education Policy and Governance, Harvard Kennedy School, Harvard University, Cambridge, MA, 2011), http://www.hks.harvard.edu/pepg/PDF/Papers/PEPG10-18_Murray.pdf.

26. Jason Bedrick, *Live Free and Learn: A Case Study of New Hampshire's Scholarship Tax Credit Program*, Case Study 19 (St. Louis: Show-Me Institute, 2014), p. 10, http://showmeinstitute.org/document-repository/doc_view/461-live-free-and-learn-a-case-study-of-new-hampshires-scholarship-tax-credit-program.html.

27. "A Few Facts about the Florida Tax Credit Scholarship," Step Up for Students, accessed Mar. 24, 2015, http://www.stepupforstudents.org/newsroom/basic-program-facts.

28. "Proviso 1.80 of the 2014-15 General Appropriation Act as Ratified," S.C. Education Oversight Committee, accessed Mar. 23, 2015, http://www.eoc.sc.gov/educredit4exceptionalneeds/Pages/Proviso185.aspx.

29. Ariz. Dept. of Revenue, Office of Economic Research and Analysis, *Manual For School Tuition Organizations*, last modified July 7, 2014, http://www.azdor.gov/LinkClick.aspx?fileticket=0xEYgFt2NkU%3D&tabid=114.

30. Kans. Stat. Ann. § 72-99a02, accessed Mar. 23, 2015, http://ksrevisor.org/statutes/chapters/ch72/072_099a_0002.html.

31. Louisiana Believes, "Frequently Asked Questions: Tuition Donation Rebate Program," p. 4, accessed Dec. 19, 2014, http://www.louisianabelieves.com/docs/school-choice/faq---tuition-donation-rebate-program.pdf?sfvrsn=6.

32. Code of Va. § 58.1-439.25, accessed Dec. 19, 2014, https://leg1.state.va.us/cgi-bin/legp504.exe?000+cod+58.1-439.25.

33. Bedrick, *Live Free and Learn*, p. 8.

34. *Florida Tax Credit Scholarship Program*, Fla. Code, Chapter 1002.395(j)1, http://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=1000-1099/1002/Sections/1002.395.html

35. "Scholarship Funding Organizations," Fla. Dept. of Education, accessed Mar. 24, 2015, http://www.fldoe.org/schools/school-choice/k-12-scholarship-programs/sfo.

36. Pa. Dept. of Education, "List of Scholarship Organizations (Effective 07/01/2014 – 06/30/2015)," last modified Mar. 25, 2015, http://www.newpa.com/sites/default/files/uploads/business/Business%20Financing/EITC-SO-List.pdf.

37. Pa. Legislative Budget and Finance Committee, *Pennsylvania's Tax Credit Programs* (Harrisburg: Pennsylvania General Assembly, Legislative Budget and Finance Committee, 2010), p. 33, http://lbfc.legis.state.pa.us/Resources/Documents/Reports/382.pdf.

38. Jason Bedrick, "Survey of Scholarship Granting Organizations," (unpublished manuscript, Mar. 24, 2015) Microsoft Word file.

39. *Student Scholarship Organizations*, Ga. Code Title 20, Section 20-2A-2 (2013).

40. "Member High Schools," PerformanceAssessment.org, accessed Mar. 23, 2015, http://performanceassessment.org/consortium/cmember.html; "Components," PerformanceAssessment.org, accessed Dec. 22, 2014, http://performanceassessment.org/performance/pcomponents.html.

41. Kelly and Scafidi, *More Than Scores*, p. 1.

42. The fiscal analyses employed different methodologies, so anyone attempting to compare the findings should exercise caution.

43. Charles M. North, *Estimating the Savings to Arizona Taxpayers of the Private School Tuition Tax Credit* (Waco, TX: Baylor Univ., 2009), http://acsto.org/_media/uploaded/e/0e1832055_estimating-the-savings.pdf.

44. Andrew LeFevre, *A Decade of Success: Pennsylvania's Education Improvement Tax Credit*, Policy Brief, vol. 23, no. 8 (Harrisburg, PA: Commonwealth Foundation, 2011), http://www.commonwealthfoundation.org/docLib/20110817_PB2308EITC.pdf.

45. The size of the scholarships may appear small, but they are intended to make up the difference between what the families can afford and the schools' own need-based tuition-breaks. The poorest families often have only small co-payments even though the scholarship by itself is small.

46. Author's calculations; Mark Dixon, *Public Education Finances: 2011*, G11-ASPEF (Washington, DC: Government Printing Office, 2013), table 2.4, p. 8, http://www2.census.gov/govs/school/11f33pub.pdf.

47. Friedman Foundation, *The ABCs of School Choice*, p. 85.

48. Pa. Legislative Budget and Finance Committee, *Pennsylvania's Tax Credit Programs*, p. 31.

49. Author's calculations; Fla. Legislature, Office of Program Policy Analysis and Government Accountability, *Florida Tax Credit Scholarship Program: Fiscal Year 2008-09 Fiscal Impact* (Tallahassee: Office of Program Policy Analysis and Government Accountability, 2010), p. 1. http://www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/0868_1rpt.pdf.

50. Author's calculations; Fla. Dept. of Education, *Florida Tax Credit Scholarship Program: February 2015 Quarterly Report* (Tallahassee: Fla. Dept. of Education, 2015), http://www.fldoe.org/core/fileparse.php/7558/urlt/FTC-Quarterly-Report-Feb-2015.pdf.

51. Bedrick, *Live Free and Learn*, p. 5.

52. Patrick J. Wolf and Michael Q. McShane, "Is the Juice Worth the Squeeze? A Benefit/Cost Analysis of the District of Columbia Opportunity Scholarship Program," *Education Finance and Policy* 8, no. 1 (Winter 2013), pp. 74-99, doi:10.1162/EDFP_a_0083.

53. McShane, "Helping School Choice Work," *National Affairs* 20 (Summer 2014), http://www.nationalaffairs.com/publications/detail/helping-school-choice-work.

54. Greg Forster, *A Win-Win Solution: The Empirical Evidence on School Choice* (Indianapolis: Friedman Foundation for Educational Choice, 2013), http://www.edchoice.org/Research/Reports/A-Win-Win-Solution--The-Empirical-Evidence-on-School-Choice.aspx.

55. See note 38 above. In a 2014 survey of scholarship organizations nationwide, two of the Indiana SGOs reported spending between 6.1 percent and 7 percent of their received contributions on administrative expenses. One reported spending between 8.1 and 9 percent, and another reported spending between 9.1 percent and 10 percent.

56. Office of Program Policy Analysis and Government Accountability, *Florida Tax Credit Scholarship Program*, p. 1.

57. Bedrick, *Live Free and Learn*, p. 14. New Hampshire's scholarship tax credit program also mandates that scholarship organizations grant 70 percent of scholarship funds to students who were switchers. Nevertheless, the number of families reported that they would have been unable to afford to send their children to the school of their choice exceeded this minimum threshold.

58. Ibid., p. 5; Friedman Foundation, *The ABCs of School Choice*, p. 65.

59. Ind. Dept. of Education, Office of School Finance, *An Overview of Fiscal Year 2014 State Tuition Support* (Indianapolis: Ind. Dept. of Education, 2013), p. 5, http://www.in.gov/icsb/files/An_Overview_of_FY14_State_Tuition_Support.pdf.

60. Michael Lindell (executive director, Institute for Quality Education), e-mail message to author, Mar. 4, 2015.

61. Laurel Christensen (director of scholarships for education choice, Sagamore Institute), e-mail message to author, Mar. 3, 2015.

62. Jon Dize (coordinator, Lutheran SGO of Indiana), e-mail message to author, Mar. 4, 2015.

63. Jeffery Boetticher (diocesan director of financial assistance programs, SGO of Northeast Indiana), e-mail message to author, Mar. 13, 2015.

64. Pearl Rock Kane, "Choice and Freedom: Milton Friedman on Education," *EducationNext* 3, no. 1 (Winter 2003), p. 58, http://educationnext.org/files/ednext20031_57.pdf.

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