

A Failed Experiment

*Georgia's
Tax Credit
Scholarships for
Private Schools*

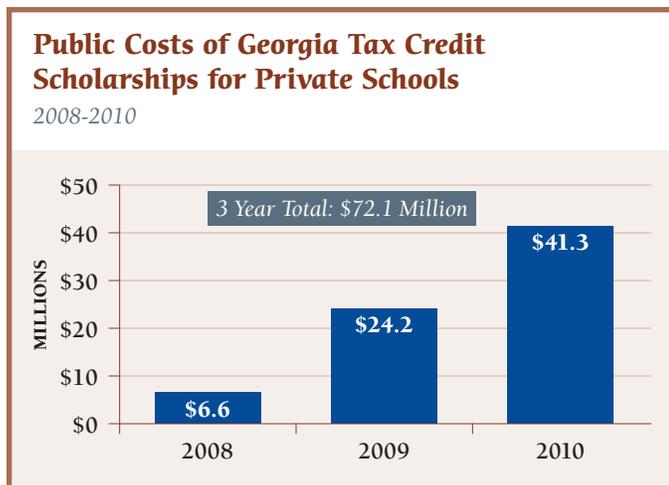


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Introduction

Georgia is one of seven states that currently allow tax credits for scholarships to private schools.¹ The law permits individual taxpayers in Georgia to reduce annual state taxes up to \$2,500 for joint returns when they divert funds to a student scholarship organization (SSO). A corporation may reduce its Georgia taxes by as much as 75 percent whenever it uses state credits to divert taxes to an SSO, which provides tuition grants for private school students. The SSO tax credit permits a Georgia taxpayer to reduce state taxes (and state revenues) by one dollar for every dollar diverted to an SSO.

During the last three years (July 2008 through 2010), a total of \$72.1 million was diverted from Georgia's state revenues due to tax credits for tuition grants to private schools. The current law limits the total amount of tax funds diverted to private school scholarships to \$50 million per year.



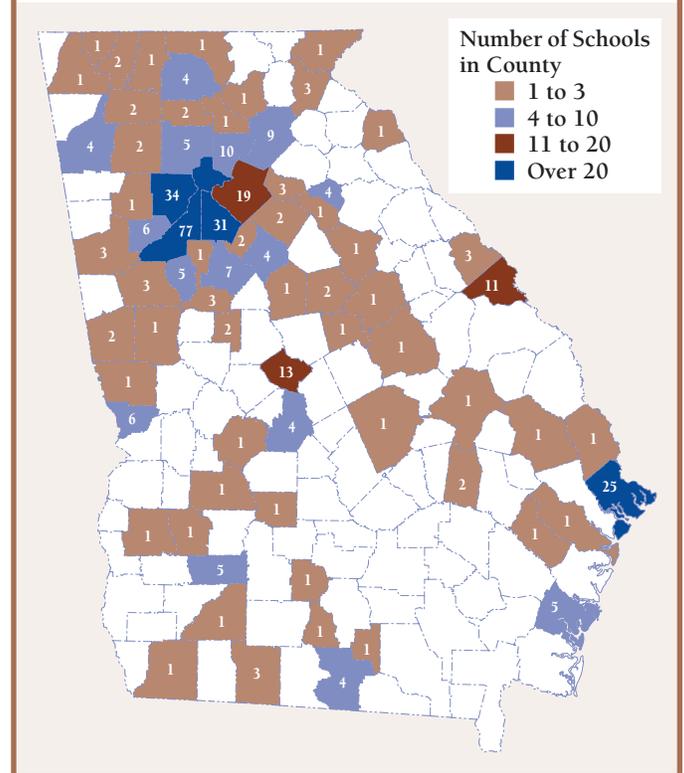
Source: Georgia Department of Revenue & SSOs

Approximately 370 private schools were affiliated with one or more SSOs at the end of 2010. More than half of these SSO-affiliated private schools were located in only five Georgia counties: Fulton, Cobb, DeKalb, Chatham, and Gwinnett. Two thirds of private schools eligible to receive tax credit scholarships by the end of 2010 were located in only nine of Georgia's 159 counties. Across the state, almost 199,000 students attended private schools in 2009—one out of every 10 schoolchildren in Georgia.

Georgia's tax credit scholarships for private schools were established with the passage of House Bill 1133 in 2008

Number of SSO-Affiliated Private Schools in Georgia

December 2010



Source: SEF Research

to help parents who can't afford private education transfer their children from low performing public schools to private schools for a better education. The law was amended in May 2011 primarily to institute automatic cost-of-living increases of the annual limit on the total amount of tax funds that can be diverted to private schools in future years.

Based on all available evidence, it is clear that the state's investment in private schools through SSOs has failed to achieve its primary aim. Instead of providing the state's neediest children attending troubled public schools with new, affordable opportunities for a good education, the law has been carried out, in large part, as a means to publicly finance the attendance of relatively well-to-do students, many of whom are already in private schools. Instead of saving tax funds, each of the private school scholarships financed by Georgia's tax credits has cost the state government more than twice what it would spend to send a child to public schools.

¹The other six states are Arizona, Pennsylvania, Florida, Rhode Island, Iowa, and Indiana (in order of adoption).

The law providing tax credit scholarships for private schools has significantly failed Georgia taxpayers and school children in the following ways:

Lacks Public Accountability and Allows Widespread Abuses

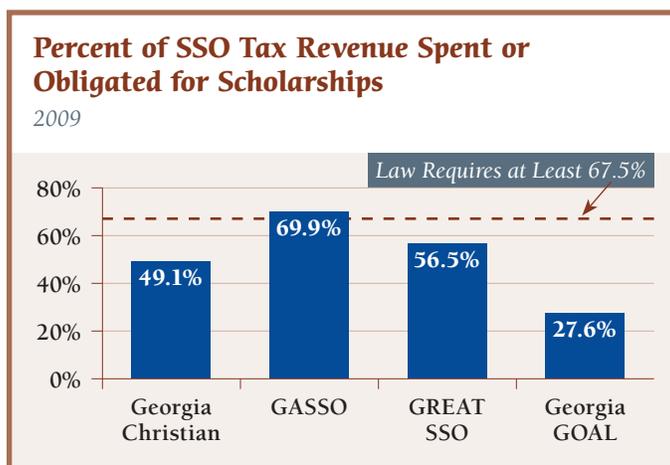
The law provides for very little reporting of vital information by SSOs and no reporting by private schools benefitting from tax-supported scholarships. Amendments to the law in 2011 do very little to advance transparency and even criminalize public disclosure of some information submitted to the state department of revenue. As a result of this near-total lack of disclosure, there apparently have been widespread violations and evasions of state law:

Several SSOs and private schools have awarded scholarships to students who did not attend or transfer from a public school as intended by state law:

- Some SSOs and private schools have engaged in a deliberate deception by registering students to attend public schools to become eligible for a scholarship, as the law requires, but never actually attending a public school. This deception has involved at least one state legislator who sponsored the SSO law.

The conditions of one out of every nine SSO-affiliated “schools” raise questions about whether they are clearly eligible to receive funding:

- Three SSO-affiliated “schools” were unaccredited child care or pre-school programs.
- Twenty-eight programs were accredited only as “non-traditional educational centers”—not as accredited



Source: IRS Form 990

primary or secondary private schools. Nine of these appear to fail to meet the state law’s definition of a private primary or secondary school.

- Twelve SSO-affiliated institutions were not accredited as a primary or secondary school but only as “educational agencies with a special purpose.” Six of the 12 do not appear to meet the legal definition of a private school.

SSOs have failed to meet state requirements in funding scholarships:

- Georgia’s law requires SSOs to distribute at least 67.5 percent of each year’s tax credits for scholarships, but available records show that the SSOs raising much of the tax-diverted funds in 2008 and 2009 failed to meet this requirement. Three out of the four such SSOs failed in 2009 to meet the state law’s requirements.

Some SSOs have failed to comply with other provisions of state law:

- One SSO expressly limits scholarships to students based on national origin contrary to state and federal law.
- One SSO apparently operates to support scholarships at only one school in violation of state law which requires an SSO to avoid becoming the captive of only one school.

Lacks Accountability for Tax-Funded Education Performance

Georgia law fails to provide for any assessment of student performance funded by tax-diverted grants to private schools. Georgia’s K-12 public schools must administer more than 85 state-mandated tests, all reported publicly by grade, school and student characteristics. Georgia private schools receiving tax-diverted funds to educate students report nothing—not even how much money they receive in tax-diverted funds. There is no reasonable basis for this failure to assess and report the educational performance of students in private schools whose attendance is financed by tax-funded scholarships.

Private schools have performed no better—in fact, even worse—than public schools in educating students with similar backgrounds and characteristics:

- No study has compared the performance of Georgia’s public and private schools in educating students with similar backgrounds and characteristics, but national

Georgia's Tax Credit Scholarship Law Ignores Lessons of Other States

Georgia's private school scholarship law has unique shortcomings among the seven states with tax credit scholarships for private schools.

First, Georgia is the only state that criminalizes public disclosure of information. It also is the only state that does not track—in some way—who is receiving scholarships under the program. All other states require reporting

that tracks and measures donor funding and scholarships. Three states (Arizona, Indiana, and Florida) go a step further to assure accountability by requiring private schools to measure student achievement with standardized testing or reports of student progress. Georgia is also the only state that does not consider family income in awarding tax-funded scholarships to private schools. In addition, four states limit eligibility for scholarships to public school students, but Georgia is the only state among them that has not enforced actual prior attendance in a public school to receive a tax-funded scholarship. Georgia also is one of only three states that allow a dollar-for-dollar tax reduction for contributions, which now have an automatic increase of the ceiling on the total amount of funds that can be diverted annually.

studies demonstrate that most private schools under-perform public schools when comparing test scores for similar students. The latest comprehensive study shows that conservative Christian schools, the largest segment of private schools in Georgia, score lowest when comparing national test scores for similar students.

Tax-funded scholarships are probably going to students least likely to be in or near the worst failing public high schools in Georgia:

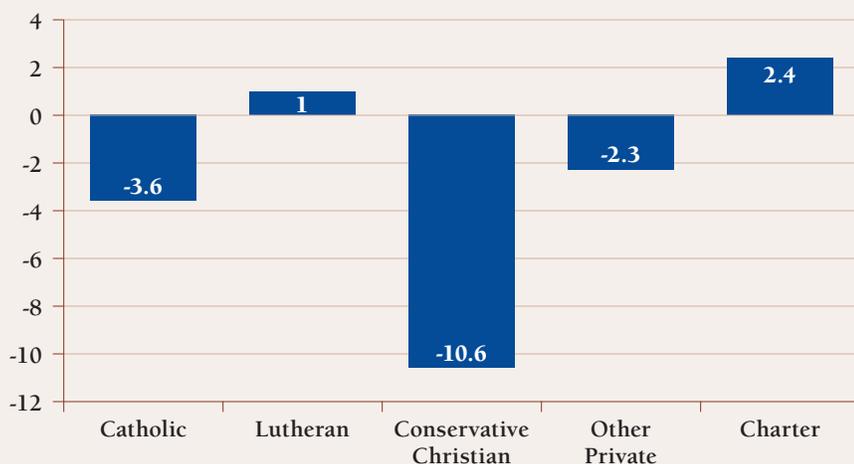
- ◆ With three times more low income students, public schools in Georgia lag behind both independent and religiously affiliated private schools in average SAT scores.

But, in 2010 there were 34 public high schools that scored above Georgia's SAT average for religiously-affiliated private schools, and 16 public schools that exceeded the independent high school's average—without considering student characteristics.

- ◆ All of these high-performing public high schools were located in the counties that have the largest numbers of private schools eligible to receive tax-funded scholarships. Therefore, from available information, it appears that Georgia may be providing tax-funded scholarships to students least likely to be in or near the state's most under-performing public high schools.

Most Private Schools Under-Perform Public Schools in Average Achievement Scores

Adjusted to Compare Similar 8th Grade Students National NAEP Scores in Math: 2003



Source: Lubienski & Lubienski Study

Fails To Increase Low Income Students Attending Private Schools

Despite the law's promise to help low income students in low-performing public schools, there is little or no evidence that SSOs in Georgia have used tax-funded scholarships primarily to aid low income students during the last three years. Georgia's private schools are already primarily populated with students from high income households, and all available data indicates that the tax credit scholarships have helped mostly children in higher income families attend private schools.

Georgia law, SSOs, and affiliated private schools make little or no effort to award scholarships to low income students:

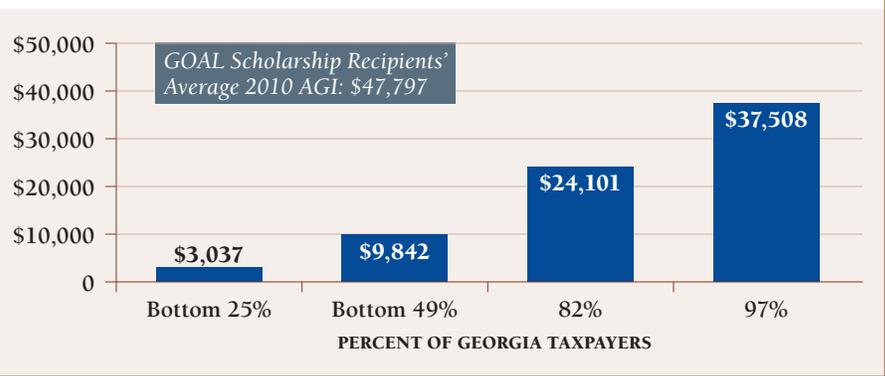
- ♦ Georgia households with children (between the ages of six and 16) attending private schools had twice the median income of those households with children attending public schools in 2007. The Georgia law, however, fails to set income limits for eligibility—a fact that makes Georgia today the only state in the nation with tax-credit scholarships that does not limit at least some tax credit scholarships to students with real financial need.
- ♦ Georgia GOAL was the only SSO operating since the first year of the law, 2008, that recommended private schools distribute tax-funded scholarships to low income students. But, the SSO did not require schools to distribute any funds for low income students' scholarships.

Available data indicates that most tax-funded scholarships go to higher-income students:

- ♦ As the only SSO since 2008 with an expressed concern for low income students, Georgia GOAL also was the only SSO to publish any data on recipients of SSO scholarships by family income. Based on its data, the average adjusted gross income (AGI) of GOAL scholarship families was \$44,633 in 2009 and \$47,797 in 2010—income that was \$7,000 to \$10,000 higher than the average AGI for 97 percent of all Georgia taxpayers in 2007, the last year for AGI data reported by the Internal Revenue Service. Even more striking, the average AGI of families receiving a GOAL tax-funded grant was more than \$35,000 above the average AGI of roughly half (49 percent) of all Georgia taxpayers.
- ♦ There is no scholarship data available for other SSOs, but one in five SSO-affiliated private schools (but unaffiliated with Georgia GOAL) was located in a zip code where the average AGI in 2007 was more than \$100,000—a rate four and a half times greater than the percentage of higher income zip codes in Georgia. A private school's location in a higher-income neighborhood does not exclude low income students from attending, but it often reflects the school's primary student population and presents added costs that become barriers to attendance for low income children.

Average Adjusted Gross Income for Groups of Georgia Taxpayers

2007



Source: Internal Revenue Service & GOAL Statistical Report

Supports Racial Isolation and Segregation in Private Schools

Georgia's private schools eligible for tax-funded scholarships are significantly more segregated by race and ethnicity than the state's public schools, and, while there is hardly any data on how SSO scholarships are being awarded, it appears that the tax credit scholarships have done little more than support white students to attend schools that are already racially isolated.

Private schools have been a primary means to resist school desegregation in Georgia:

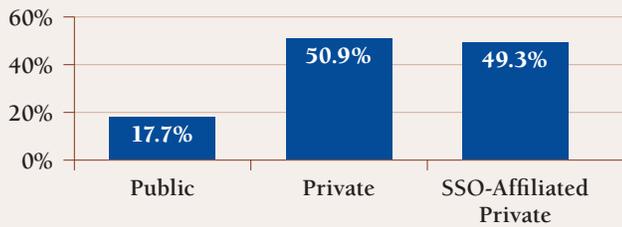
- ♦ In Georgia, private schools have been instrumental in public and private efforts to resist racial desegregation of the state's public schools. In 1961, for example, a primary method for resisting school desegregation was the enactment of a law to provide tax-funded scholarships and grants for students to attend non-sectarian private schools. This is not merely a matter of history. In 2007, 74 Georgia school districts remained under federal courts' jurisdiction for desegregation.
- ♦ According to recent scholarly studies, private schools as a sector have continued to be a significant, contributing factor for preserving segregated education in Georgia.

Georgia's SSO-affiliated private schools are largely segregated by race and ethnicity:

- ♦ Approximately half of the state's private school students, including those attending SSO-affiliated schools, attended schools that are "virtually" segregated—where one race

Georgia Students in Virtual Segregation

Percent in Schools with 90 to 100% Enrollment With Only One Race/Ethnicity; by School Type: 2007-08



Source: National Center for Education Statistics & SEF Research

or another constituted from 90 to 100 percent of the school's student population in the school year of 2007-08. A student in an SSO-affiliated private school is nearly three times more likely than a public school student to attend a school virtually segregated by race or ethnicity.

Relatively few tax-funded scholarships appear to be supporting African American or Hispanic students to attend SSO-affiliated schools:

- ◆ None of the SSOs or SSO-affiliated schools has established public guidelines for actually using tax credit scholarships specifically to diversify by race or ethnicity Georgia's highly segregated private schools.
- ◆ A significant number of tax credit tuition grants apparently have gone to students already attending private schools. So, it is likely that the scholarships have been distributed to students in rough proportion to their numbers already in private schools—primarily to white students.
- ◆ Most of the tax credit scholarships appear to have gone to higher income students in Georgia. Since white students are four times more likely to be in the top income brackets

than African American or Hispanic students, it is also likely that most of those scholarship recipients were white—not African American or Hispanic.

Violates State Constitution's Ban on Aid to Religious Groups

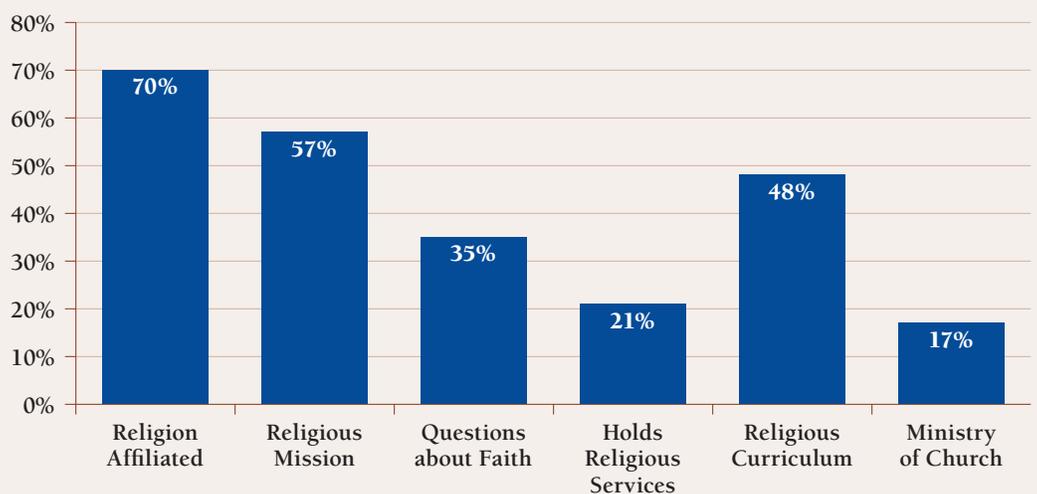
Most of Georgia's private schools eligible for tax-funded scholarships promote a religious sect or denomination, and often students and parents must comply with religious requirements to be admitted and become eligible for a tax-supported scholarship. These practices openly violate the Georgia Constitution, which provides: "No money shall ever be taken from the public treasury, directly or indirectly, in aid of any church, sect, cult, or religious denomination or of any sectarian institution."

Most SSO-affiliated schools in Georgia are religious in nature:

- ◆ Approximately 70 percent of the SSO-affiliated schools across the state are religious in their purpose and/or operations. Almost 60 percent of the SSO-affiliated schools in Georgia have a religious mission. Almost one in four requires parents and children to agree to a specific statement of religious doctrine as a requirement for admission.

Georgia SSO Schools with Selected Religious Features

2010



Source: SEF Research

Georgia has enforced the prohibition against state funding of religious schools:

- ♦ The Attorneys General of Georgia—both Democratic and Republican—have consistently held that any direct or indirect public financial support for K-12 education in private, religious schools is prohibited. (The Georgia Supreme Court has not ruled on the issue.)
- ♦ Even the 1961 private school voucher law, passed to evade federally-mandated desegregation, limited funding to only a “nonsectarian private school.” At that time, the Georgia Board of Education enforced the Georgia Constitution and disqualified applications for tax-supported scholarships for students from at least 27 private schools which were deemed religious in nature.

Religious schools affiliated with SSOs promote segregation by religion and race:

- ♦ By publicly financing scholarships to schools that admit and teach students according to different religious doctrines, Georgia’s SSO law promotes what a Christian school headmaster calls religious “self-imposed segregation.”
- ♦ Strongly religious private schools also have the highest rates of racial segregation in enrollment among Georgia’s SSO-affiliated schools.

Saves No Tax Funds and Costs Millions of Extra State Dollars

Despite promises of tax savings by its sponsors and supporters, Georgia’s private school scholarship law is costing state taxpayers millions of extra dollars annually and so far has supported a per pupil expenditure that is more than double the amount spent in the public schools. Also, Georgia’s private schools eligible to receive tax-funded tuition grants have nearly \$3 billion in assets and more than \$1 billion in annual income for which they already receive federal and state tax exemptions.

Many private school students receiving tax credit scholarships are not transfers from public schools and have cost added tax funds in education:

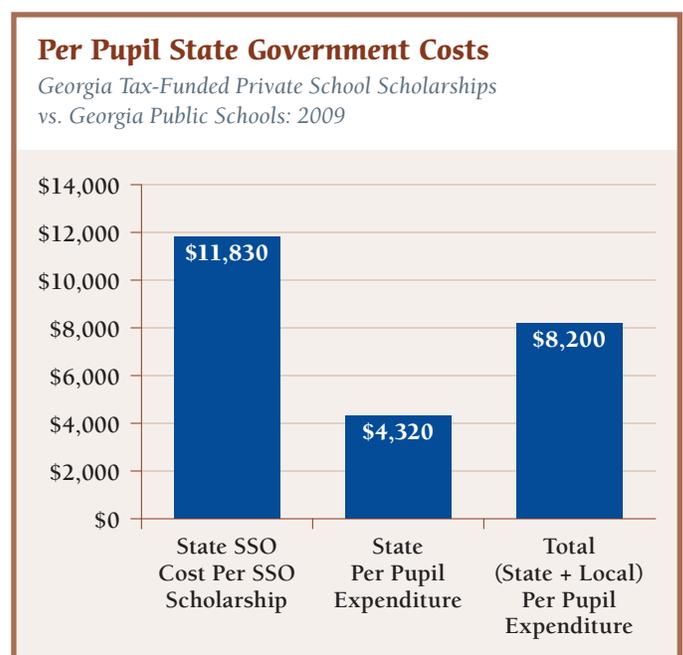
- ♦ The current law covers scholarships for any child entering a private school’s pre-kindergarten or kindergarten class—even those children whose parents never intended

to send their children to a public school. Also, there may be a significant number of public school students whose parents already plan to send their children to a private school at a certain grade level. Scholarships to these students add extra state costs.

- ♦ At least four SSOs and several SSO-affiliated private schools have been dodging the requirement that tax-funded scholarships go only to students who transfer from public schools. As a result, the cost of these students already in private schools does not reduce state costs in public schools but involves added costs.
- ♦ Statistical evidence supports the conclusion that tax-funded scholarships have failed to involve a significant number of students transferring from public to private schools at SSO-affiliated schools in Georgia. From 2007 to 2009, the growth of private school enrollment in Georgia was small but considerably larger in counties where there was the smallest number of SSO-affiliated private schools.

Per pupil costs for each private school scholarship reported in 2009 exceeded state per pupil expenditures in public schools:

- ♦ Based upon IRS documents, five SSOs reported that 1,047 private school scholarships were awarded during the year in which they raised combined revenue of almost \$12,385,688—almost half of all funds diverted from the state treasury for scholarships in 2009. As a result, these



Source: IRS 990 Forms & Georgia Department of Education

SSO scholarships cost the state government \$11,830 per student in 2009.

Tax-funded scholarships for private schools have failed to create any new local funding for Georgia's public schools despite earlier claims by SSO sponsors:

- ◆ Since 2007, three-fourths of all local school districts in Georgia have had a decline in local per pupil revenues in at least one year.
- ◆ From 2007 to 2009, Georgia's local school districts' share of total per pupil revenues expanded by two-and-a-half percentage points and meant that local revenues had to increase by nearly \$560 million in order to make up for some of the cuts in the state government's education budget.

SSO-affiliated private schools in Georgia already have significant assets and income in part due to federal and state support through existing tax exemptions:

- ◆ Donations to most private schools in Georgia already receive a tax deduction and most private schools are exempt from both federal and state income taxes and from local property taxes.
- ◆ Georgia's SSO-affiliated schools in the most recent, available IRS database showed assets of almost \$2.8 billion and annual revenues of \$1.35 billion. Were these private

schools taxed at the same rate as for-profit entities for income and property, state and local governments in Georgia might reasonably realize as much as \$50 to \$75 million in added annual revenue.

A Failed Experiment: End it or Mend it

Georgia's law providing tax credits for private school tuition grants or scholarships has operated amid hard economic times on the public promise that this tax-funded experiment will help the state's neediest students who are trapped in low-performing public schools and, at the same time, save the Georgia taxpayers money. Based on all available evidence, it is clear that the state's investment in private schools has failed to achieve its aims. In fact, the Georgia program appears to be more about doling out tax dollars to SSOs and far less about improving the educational choices for needy students in public schools. Nothing in the recent amendments to the law will alter this pattern.

Georgia's tax-credit program for private choice has failed the state's children and Georgia taxpayers. It is time to end—or vastly mend—Georgia's failed experiment in tax credit scholarships for private schools.

The Southern Education Foundation (SEF) has origins in 1867 when George Peabody established a fund to advance the education of all children in the Southern states in the aftermath of the Civil War. Today, SEF continues today as a public charity working to advance fairness and excellence in education.

A copy of the full research report from which this summary was developed is available free of charge on SEF's web site (www.southerneducation.org) in the "What's New" or "Publications" sections.



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