The Florida Corporate Income Tax Credit Scholarship Program:  
A Preliminary Analysis  

_Monday, April 1, 2002_

**Introduction**

The State of Florida launched a new education program at the beginning of 2002 to provide limited tax credits, under the State’s corporate income tax system, to business taxpayers who contribute to scholarship funds that assist the families of low-income children make choices about the elementary and secondary schools their children attend. This preliminary analysis by the Collins Center for Public Policy, Inc., is based on limited experience with the new program and is focused on determining whether the new tax credit program diverts money away from K-12 public schools, as some critics claim, or whether it is a economical means of improving the choices low-income families can make about their children’s education, as the program’s proponents claim.

**Purpose and Description**

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

The program gives business taxpayers, on a first-come, first-served basis, limited credits against their Florida corporate income taxes for contributions to “eligible nonprofit scholarship-funding organizations.” The legislation now limits each contributor to a maximum of $5 million in Florida corporate tax credits per “eligible nonprofit scholarship funding organization” with an aggregate tax credit limit for the entire state of $50 million. The credit cannot exceed 75% of the corporate taxes due by taxpayer after applying all other tax credits available to the taxpayer. Five percent of the credits are set aside for small businesses taxpayers.\(^2\)

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\(^1\) Florida Statutes Section 220.187.  
\(^2\) The Statute provides for additional limitations, such as a reduction of the credit by any Federal tax benefits that the credit causes. As of the date of this analysis, regulations to govern the administration of the credit were not available.  
F.S. §220.187 (3).
The “eligible nonprofit scholarship-funding organizations” who receive these contributions use the donated money to provide scholarships to families with a “qualified child” who is eligible for free or reduced-price school lunches under the National School Lunch Act, and was counted as a full-time equivalent student during the previous state fiscal year for purposes of state per-student funding or received such a scholarship the previous year. These scholarships must be used for the child to attend (1) any “eligible nonpublic school” or (2) another public school of choice outside the child’s current public school district.

Eligible low-income families may apply to the “eligible nonprofit scholarship-funding organizations” to receive the scholarships. A qualified child may receive a scholarship up to $3,500 per year for tuition, textbook or transportation costs of attending an eligible nonpublic school or up to $500 per year to attend an out-of-district public school.

**Guiding Philosophy: School Choice**

The “Florida Corporate Income Tax Credit Scholarship Program” is part of an effort to increase the numbers of school choices available to parents.

“School choice” is a strategy for reform of the State’s system of K-12 public education endorsed by the Legislature, the Governor, a number of Constitutionally-independent school districts, and some business and civic leaders for years. It is based on the belief that families want what is best for their children, know the needs of their individual children better than anyone else, and should be able to make decisions about the type of education their children should receive. To some proponents, a family’s choice of schools is regarded as “a basic parental liberty”.

Other supporters view school choice as a market-driven process that encourages competition and will result in the improvement of public schools. The general public appears to support more school choice as a way of improving academic “basics” and of maintaining the

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3 An “eligible nonprofit scholarship-funding organization” is a charitable organization that is exempt from Federal income tax, complies with statutory rules for administering the scholarship program, submits an annual financial and compliance audit to the State, and meets other standards that may be established by rule by the Florida Department of Education. See F.S. §220.187 (2)(a), (4), (6)(e). It cannot spend any of the donated money for administrative expenses, F.S. §220.187 (4)(e), and it must spend all of the eligible contributions made each year for scholarships during that year, F.S. §220.187 (4) (e).

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

5 An “eligible nonpublic school” must demonstrate fiscal soundness as defined by the Statute, comply with antidiscrimination laws, meet state and local health and safety laws and codes and comply with all state laws relating to the general regulation of nonpublic schools. F.S. §220.187 (5).

6 At least 75% of the scholarship funding for nonpublic private schools must be used for tuition. F.S. §220.187 (4)(a)(1).


discipline needed for a good learning environment. Parents often perceive private schools as being better than public schools on both counts.

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

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

Many public schools in Florida also offer other choices that are open to students from all income levels: magnet schools, charter schools, deregulated schools, schools-within-schools (such as the International Baccalaureate Program and career academies), alternative schools, year-round schools, dual enrollment and controlled open enrollment. These public school choices have increased substantially over the last decade.

The Florida Legislature also has added three recent choice options for parents who seek nonpublic schools for children in special circumstances:

**Opportunity Scholarships.** The Legislature enacted Florida’s “A+ Plan” in 1999 to focus on rigorous statewide student achievement standards, full implementation of a statewide testing program called the Florida Comprehensive Achievement Test (FCAT) and public reporting of school progress. Part of the “A+ Plan” is to provide “Opportunity Scholarships” to students who attend a public school that fails to make specified improvements within a certain

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10 Ibid., p. 29.
14 F.S. §229.0537
time period. These “Opportunity Scholarships” permit students in these failed schools to attend public or private schools of their choice. To date, only two of Florida’s over 3,300 public schools have failed to make the improvements required under State law and generated “Opportunity Scholarships” for their students.

**McKay Scholarships.** The McKay Scholarship Program for Students with Disabilities was created by the Florida Legislature in 1999 and subsequently piloted in Sarasota County. During the 2000 Session of the Legislature, the program was expanded statewide for the 2000-2001 school year. It provides that parents of a student with disabilities may request and receive a scholarship for their child to attend private schools if the parents are dissatisfied with progress in public school. Currently 3,979 students are in the program and hundreds of private schools are approved to participate.

**Corporate Income Tax Credit Scholarship Program.** This program, described earlier in this document, is expected to assist over 14,000 low-income children each year. Several private school sources estimate that about 1,000 students are participating or will participate during the first half of 2002, about 8,000 during the 2002-03 school year, and approximately 14,000 will participate during the 2003-04 school year.

The “Florida Corporate Income Tax Credit Scholarship Program” is not a “stand-alone” program but part of other efforts to increase choices available to parents about schools.

**Impact of Corporate Income Tax Credit Scholarship Program On Public School Funding in Florida**

Does the “Florida Corporate Income Tax Credit Scholarship Program” reduce total state revenues and result in reduced funding for public schools? Does the scholarship program result in statewide revenues that can be used to increase per student expenditures for public schools? What is the fiscal impact of the program likely to be?

The program is too new to use actual program data to prove results. The long-term impact may depend on facts that cannot yet be determined, such as the future size of the program and the reaction of public schools to the increased competition offered by this and other choice programs. An analysis today must be based on likely effects on major revenue of the school financing system, cannot account for unanticipated changes in the future and must, of necessity, be preliminary. More analysis in the future, based on actual experience, can provide more reliable conclusions.

The debate centers on whether statewide revenues will be lost to public education because of the Corporate Income Tax Credit Scholarship program. As a result, this analysis uses revenues per student rather than expenditures per student as the relevant data source. Revenues per student can be tracked because they come from identifiable sources and are publicly reported.

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15 F.S. §220.187.
by the Department of Education and expended by local school districts each year. Expenditures per student are more difficult to track because the federal government, the state legislature, and local school boards use different spending criteria on the revenues making it difficult to verify and track true costs. Because the public debate focuses on the effect of the scholarship program on revenues, this analysis of necessity focuses on revenues and not on expenditures for public education.

This analysis also focuses on the fiscal impact of the scholarship program at the state level and not at the local district level. The scholarship program may have a different effect from district to district depending upon use, legislative appropriations, and local district spending. Further analysis will have to be completed after the program is in effect for a few years.

Based on the preliminary analysis presented here, the Collins Center concludes that there will be slight declines in state tax collections caused by the $50 million “Corporate Income Tax Credit Scholarship Program,” but that these small declines will likely be offset by increases in the amount of statewide revenue available for education or other state purposes. Using a conservative growth rate of 1.9% for future education revenues, the increases in statewide net revenues could accumulate to more than $600 million over the next ten years as low-income students leave the public schools to participate in the scholarship program. The average annual net revenue increases that result from the “Corporate Income Tax Credit Scholarship Program,” could be used to increase per pupil spending an average of approximately $20 per child over the next ten years or to increase state spending for other purposes.

The following analysis of the fiscal impact of the “Corporate Income Tax Credit Scholarship Program” is based on a review of the revenue sources for the State and its public schools.

1. **Revenue for Public Schools in Florida.** Revenue to run Florida’s public schools comes from Florida and United States taxpayers generated by taxes collected at the federal, state and local levels. Based on the most recent Department of Education report on Florida’s school revenues (FY 1999-2000), federal funds provided 8.28% of the total, state funds provided 50.96% and local funds provided 40.76%. Private funds for public schools are negligible. Total revenues statewide during FY 1999-00 were $17,273,149,947 or $7,247 per public school student.17

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A. **Federal Revenues.** Federal tax revenues fund special programs for specific student populations. For example, federal funds are available to school districts with concentrations of low-income children or children who don’t speak English as their primary language; special education students who have emotional, educational or physical disabilities; and vocational students who are preparing for specific careers.

B. **State Revenues.** Florida’s General Revenue Fund is the primary source to fund state programs including public education and come from a variety of different taxes. The state provides funding for public schools from a several sources. The largest sources are the state sales and use tax, the corporate income tax and the documentary stamp tax which together accounted for the vast majority of the General Revenue Fund receipts collected by the Department of Revenue in 2000-2001. The sales and use tax alone accounted for the lion’s share at nearly 80% of the total.
C. **Local Revenues.** Florida’s school districts collected $7,040,326,697 for public schools during the 1999-2000 school year. Property taxes, interest earnings, rent income, course fees, gifts, grants and bequests received by local school boards are the primary sources of local revenue. The amount of local property taxes that school districts may levy is limited by the Florida Constitution and the state legislature.

2. **Impact of “Corporate Income Tax Credit Scholarship Program” on Revenues.** The Collins Center calculated the five-year average (1996-2000) for Florida corporate income tax collections at $1.32 billion per year.

<table>
<thead>
<tr>
<th></th>
<th>Corporate Income Tax Revenues During the Last 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions</td>
<td></td>
</tr>
<tr>
<td>FY 1996</td>
<td>$1,200</td>
</tr>
<tr>
<td>FY 1997</td>
<td>$1,250</td>
</tr>
<tr>
<td>FY 1998</td>
<td>$1,300</td>
</tr>
<tr>
<td>FY 1999</td>
<td>$1,350</td>
</tr>
<tr>
<td>FY 2000</td>
<td>$1,400</td>
</tr>
</tbody>
</table>

Source: Florida Department of Revenue 2001 Annual Report

If this projected five-year average (1996-2000) of $1.32 billion is used as a basis to calculate the effect of the $50 million tax credit, then - all other facts remaining constant - corporate income tax revenue would decline 4%. The impact of the “Corporate Income Tax Credit Scholarship Program” on the calculated five-year average of corporate income tax collections would equal a 4% decline in corporate income tax revenues.

Using the same methods, the total $50 million impact of the “Corporate Income Tax Credit Scholarship Program” on the most recent five-year average of $17,832,000,000 for total state general revenues collected by the Department of Revenue would equal less than 1/3 of 1% decline (0.28%).
If there is a decline in corporate income tax revenues and subsequently in state General Revenue Fund collections caused by the “Corporate Income Tax Credit Scholarship Program,” then what impact will that have on statewide funding for public schools? Opponents of the $50 million tax credit program claim that public education will suffer the most if not all of this revenue decline. To calculate the likely effect of a decline in corporate income tax revenues on public education revenues, it is necessary to determine what percentage of the General Revenue Fund goes to fund K-12 public education. That percentage is about 40% based upon a ten-year average dating back to the 1991 Fiscal Year. If public education funding absorbs all of the corporate income tax revenue decline, the direct effect is a $20 million revenue decrease for public education or a 0.26% decrease based upon the 2001-2002 revenues. This could be described as the “worst case scenario.” It is highly unlikely that the “worst case scenario” will occur given the historic funding patterns for education established by the Florida legislature. This “worst case scenario” does not account for the net impact of the scholarship program on statewide revenues described in the next section.

3. **Net Impact of Corporate Tax Credit Scholarship Program for a typical school year.**
What is the net impact of the Corporate Tax Credit Scholarship Program on school funding when historical revenue data is introduced? Will the scholarship program ultimately take funding away from public education as critics claim or will the scholarship program provide more discretionary revenue that could “neutralize” or exceed the expected revenue declines?

The scholarship program is too new to use actual program data to evaluate the impact, but it is reasonable to estimate the possible impact by clearly laying out assumptions and by using historical revenue and appropriation data to predict revenue increases or declines.
The Collins Center has used three probable assumptions. *First*, revenues for public education will increase at historic incremental levels. During the past 10 years beginning in the 1991 Fiscal Year, public education revenues had an average annual increase of 3.8%. However, for this analysis the Collins Center will use a more conservative growth rate of 1.9% or one-half of the annual ten year average. *Second*, the cost of an individual low-income student’s scholarship of $3,500 will stay the same or remain well below the cost of the state’s per pupil revenues of $7,247 in 1999-2001. *Third*, all federal revenues are removed from the model to isolate the impact upon state and local revenues which comprise over 90% of revenues that are provided to public schools.

Using these likely assumptions, the Collins Center developed a simple model to test the impact on public education funding questions: per pupil revenues (without federal funds) minus the $3,500 cost of the scholarship = statewide per pupil revenue that is available for educational or other purposes.

As an example, assume that in the 2003-2004 fiscal year the Florida legislature conservatively increases revenues for public schools by 1.9% (about one-half of the ten-year average annual increase.) Using this moderate historical incremental average, the expected revenue (excluding federal revenues) for the 2003-2004 fiscal year would be $7,384 per student. Assuming that each student in the scholarship program uses the maximum available amount of $3,500, the expected net revenue gained per low-income student who participated in the scholarship program for this typical school year would be $3,844 or $7,384 - $3,500 = $3,844.

To calculate the total net revenue gained for the state, then it is necessary to multiply the net revenue of $3,844 per pupil by the expected number of students that will receive the scholarships. Private school sources estimate that there will be 14,286 low-income students who will take advantage of the scholarship program by the 2003-2004 school year. If 14,286 low-income students left the public school system in 2003-2004 at net revenues of $3,444 per student, then the total statewide net revenues would be $3,844 x 14,286 = $55,485,080. Statewide net revenues of $55,485,080 could be realized even with federal funds excluded from the per student revenue equation.
**Projected Revenue per FTE versus Maximum Scholarship Value**

*(included state and local revenue only)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Ave. Revenue per FTE</th>
<th>Scholarship</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>2002-03</td>
<td>4,500</td>
<td>4,500</td>
</tr>
<tr>
<td>2003-04</td>
<td>4,000</td>
<td>4,000</td>
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<td>2004-05</td>
<td>3,500</td>
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<td>2005-06</td>
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<td>2006-07</td>
<td>2,500</td>
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<td>2007-08</td>
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<td>2008-09</td>
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<tr>
<td>2009-10</td>
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<tr>
<td>2010-11</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>2011-12</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Projection based on a 1.9% conservative historical growth trend

**Net Cumulative Revenues from the Corporate Income Tax Credit Scholarship Program for ten years.**

In the next decade, there could be substantial statewide net revenues available to the Florida legislature. Using the same net revenue model, the cumulative statewide net revenues are significant based on a conservative growth rate of 1.9% annual increase in funding for public education. The cumulative statewide net revenues could approach $606,810,000 by 2012.

As low-income students leave the public school system to participate in the scholarship program, the increase in statewide net revenues provide a number of options for the legislature. One option is to return the net revenues back to tax payers in the form of tax reductions. Another option is to re-invest the net revenues back in public education thereby increasing even more the total amount of public school funding. Or the legislature could use the net revenues to fund other important state programs such as public safety, Medicaid, or child welfare programs.

Claims that the Corporate Income Tax Scholarship Program will reduce public education revenues do not appear to be justified based on historical legislative funding patterns and the reasonable assumptions used in this model. It is more likely that there will be statewide net revenues realized possibly providing even more revenues for public schools.
Projected Cumulative Statewide Net Revenues Resulting from the Scholarship Program

The Net Revenues Accruing to the State are Projected to Grow as Public Education Funding Increases ($ in thousands)
**Possible Impact Upon Per Pupil Expenditures**

If the cumulative impact of the Corporate Tax Scholarship Program in this model is an increase in net revenues and the legislature decides to reinvest the net revenues into public education, then what would be the impact upon per pupil revenues? Using the annual net revenue gains and dividing them by the projected enrollment minus the scholarship participants, then an average annual increase in per pupil revenues could be calculated. The estimated average annual increase of per pupil net revenues over a ten year period is approximately $20 per pupil. The next chart illustrates this calculation:

<table>
<thead>
<tr>
<th>FY Year</th>
<th>Projected FTE</th>
<th>Annual Less scholar FTE</th>
<th>Net Revenues</th>
<th>Per FTE Net Revenues</th>
<th>Cumulative Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2001</td>
<td>2,453,636</td>
<td>$ 5,158,400.45</td>
<td>$ 2.10</td>
<td>$ 5,158,400.45</td>
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<tr>
<td>FY 2002</td>
<td>2,518,467</td>
<td>$ 26,758,083.45</td>
<td>$ 10.62</td>
<td>$ 31,916,483.90</td>
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<tr>
<td>FY 2003</td>
<td>2,573,842</td>
<td>$ 55,485,079.64</td>
<td>$ 21.56</td>
<td>$ 87,401,563.54</td>
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<tr>
<td>FY 2004</td>
<td>2,638,182</td>
<td>$ 57,491,441.78</td>
<td>$ 21.79</td>
<td>$ 144,893,005.32</td>
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<tr>
<td>FY 2005</td>
<td>2,695,715</td>
<td>$ 59,535,965.61</td>
<td>$ 22.09</td>
<td>$ 204,428,970.93</td>
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<td>FY 2006</td>
<td>2,746,521</td>
<td>$ 61,619,376.98</td>
<td>$ 22.44</td>
<td>$ 266,048,347.90</td>
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<tr>
<td>FY 2007</td>
<td>2,788,870</td>
<td>$ 63,742,415.54</td>
<td>$ 22.86</td>
<td>$ 329,790,763.44</td>
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<td>FY 2008</td>
<td>2,827,965</td>
<td>$ 65,905,835.02</td>
<td>$ 23.31</td>
<td>$ 395,696,598.47</td>
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<td>FY 2009</td>
<td>2,864,610</td>
<td>$ 68,110,403.48</td>
<td>$ 23.78</td>
<td>$ 463,807,001.94</td>
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<td>FY 2010</td>
<td>2,899,687</td>
<td>$ 70,356,903.57</td>
<td>$ 24.26</td>
<td>$ 534,163,905.52</td>
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<tr>
<td>FY 2011</td>
<td>2,934,054</td>
<td>$ 72,646,132.87</td>
<td>$ 24.76</td>
<td>$ 606,810,038.38</td>
<td></td>
</tr>
</tbody>
</table>

**Conclusion**

Based on the preliminary analysis presented here, the Collins Center concludes that there will be slight declines in state tax collections caused by the $50 million “Corporate Income Tax Credit Scholarship Program,” but that these small declines will likely be offset by increases in the amount of statewide revenue available for education or other state purposes. Using a conservative growth rate of 1.9% for future education revenues, the increases in statewide net revenues could accumulate to more than $600 million over the next ten years as low-income students leave the public schools to participate in the scholarship program. The average annual net revenue increases that result from the “Corporate Income Tax Credit Scholarship Program,” could be used to increase per pupil spending an average of approximately $20 per child over the next ten years or to increase state spending for other purposes.