

EDCHOICE

FISCAL IMPACT STATEMENT

KENTUCKY 2018-2019 REGULAR SESSION

Note Prepared: December 10, 2018

Subject: HB/SB **TBD**, a bill to establish a tax-credit scholarship program in Kentucky

Impact: State, Local Taxpayers, and School Districts

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FISCAL SUMMARY

Summary of Estimated Fiscal Impacts of Kentucky Tax-Credit Scholarship Program, School Year 2018-19

	SY 2018-19
Total Number of Students in Kentucky Eligible for Tax-Credit Scholarships	437,495
Average Scholarship Amount	\$3,340
Number of Scholarships Funded	7,091
Number of Scholarship Students Redirected From District Schools	6,382
Total state expenditures on tax-credit scholarship program	(\$25,000,000)
State Aid (SEEK) Expenditure Savings From Redirected Students	\$26,300,110
Net State Impact	\$1,300,110
Reduction in State Aid Revenue to School Districts for redirected scholarship Students	(\$26,300,110)
Average Variable Educational Cost per Student	\$6,487
Total Cost Burden Relief to School Districts for redirected Students	\$41,399,473
Net School District Savings	\$15,099,362
Combined Net State, Local Taxpayer, and School District Impact	\$16,399,473
State Break-Even Switcher Rate	81%

Notes: () denotes a decrease/negative value

Sources: Kentucky Department of Education; U.S. Census Bureau; National Center for Education Statistics, U.S. Dept. of Education; Catholic Education Foundation of Louisville and School Choice Scholarships

MEASURE'S PURPOSE: This bill, if enacted, creates a nonrefundable tax credit which may be applied against the individual income tax, corporation income tax, the limited liability entity tax, or the bank franchise tax.

The scholarship tax credit would be available to taxpayers who make donations of tax or personal property during a taxable year to one (1) or more qualified scholarship granting organizations who provide scholarships to students in kindergarten through twelfth grade to attend a nonpublic kindergarten, elementary, or secondary school located within the State, or to receive therapy services. Students may participate in the program if their household income is below 200 percent of the income requirement for the federal reduced price lunch program (370 percent of the federal poverty limit), has an IEP, or has been diagnosed with certain conditions.

The tax credit would be equal to the lesser of ninety-five percent (95%) of the total donations of cash or personal property made to qualified scholarship granting organizations during the taxable year, or one million dollars (\$1,000,000) per taxpayer, per taxable year. The scholarship credit would be capped at twenty-five million dollars (\$25,000,000). If the aggregate value of all credits awarded during the prior fiscal year equals at least ninety percent (90%) of the credit cap available for that year, the credit cap for the next fiscal year shall be increased by twenty-five percent (25%) over the credit cap amount established for the prior year. Scholarship organizations can keep 10 percent of donations for administration.

FISCAL EXPLANATION: This proposal, if enacted, will have a positive estimated net impact of \$1.3 million on the state General Fund and a positive estimated net impact of \$15.1 million on school district revenue for FY 2018-2019. There will be no impact on local property taxes. The net combined impact would be positive, equal to **\$16.4 million**.

Based on data obtained from two scholarship organizations in Kentucky (Catholic Education Foundation of Louisville and School Choice Scholarships), the average scholarship amount awarded in 2017 based on demonstrated need was \$3,340.¹

An average award amount of \$3,340 would fund 7,091 scholarships for students.² Of this group, 6,382 students would be “switchers” from public schools.³

State impact: The state would experience a decline in revenue of \$25.0 million (the maximum credit allowed under this bill). This would be offset by \$26.3 million in reduced state aid (SEEK) expenditures.⁴ After factoring this savings, we estimate there will be a net positive state impact of **\$1.3 million**.

Impact on local property taxes: There will likely be no impact on property taxes, at least in the short run, because they are set locally and independent of enrollment. In the long run, districts that experience significant enrollment change may choose to adjust property tax rates.

School district impact: Local public school districts would experience \$26.3 million in reduced SEEK revenue from the state. This reduction would be completely offset by \$41.4 million in cost burden relief for students who switch from public schools to independent schools.⁵ Thus, there will be a net positive local impact of **\$15.1 million**.⁶

Break-even switcher rate: Switcher is defined as a student who would otherwise enroll in a district school if the tax-credit scholarship program is not in place as opposed to enrolling in private school, home school, or other non-public school settings. Switchers represent fiscal savings for the state and district schools. For the program to be fiscally neutral to the state, 81 percent of program participants would need to be switchers.

Note that students with special needs are also eligible to receive a scholarship. Educational costs for these students are approximately twice the costs for students without special needs.⁷ To the extent that students with special needs leave public schools and participate in the program, the savings would likely be greater than estimated in the current analysis. If the cost of a scholarship for a student with special needs who switches from a district school is below the state’s cost for that student and the district’s variable costs, then the student would generate savings for the state and school district.

DATA SOURCES: Kentucky State Department of Education; National Center for Education Statistics (U.S. Department of Education); U.S. Census Bureau, American Community Survey; U.S. Department of Agriculture; EdChoice; Catholic Education Foundation of Louisville and School Choice Scholarships

DISCLAIMER: EdChoice is committed to research that adheres to high scientific standards, and matters of methodology and transparency are taken seriously at all levels of the organization. We are committed to providing high-quality information in a transparent and efficient manner. We welcome any and all questions related to methods and findings.

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¹ The weighted average for scholarship amounts in other states with tax-credit scholarship programs was \$3,671. This national average is close to the experience of the two Kentucky scholarship organizations.

“School Choice in America,” *EdChoice*, last modified June 26, 2018 <http://www.edchoice.org/school-choice/school-choice-in-america> (accessed 12/10/2018).

² Under the proposed program, \$25.0 million in tax credits would generate \$26.3 million in donations to scholarship organizations. If scholarship organizations keep the maximum amount allowed for administrative costs, then they will have \$23.7 million for awarding scholarships.

³ This analysis assumes that 90 percent of participating scholarship students will be “switchers.” Because scholarship organizations are likely to prefer awarding scholarships to public school students than students already enrolled in private schools, our estimates are likely cautious (Lueken, 2018). Please note that this assumption is in line with Costrell (2010), who showed that the switcher rate for the Milwaukee Parental Choice Program was 90 percent. Costrell, R. M. (2010). *The Fiscal Impact of the Milwaukee Parental Choice Program: 2010-2011 Update and Policy Options*. SCDP Milwaukee Evaluation. Report# 22. *School Choice Demonstration Project, University of Arkansas*.

Lueken, M. F. (2018). The fiscal effects of tax-credit scholarship programs in the United States. *Journal of School Choice*, 12(2), 181-215.

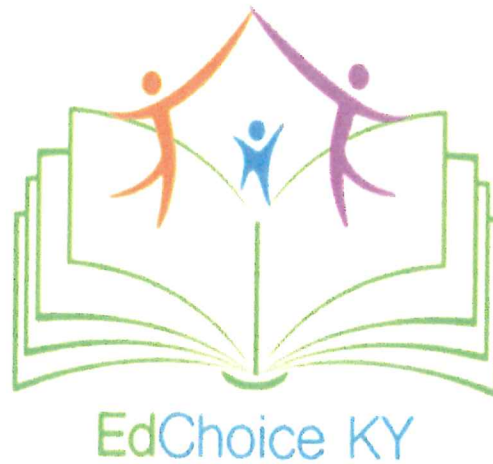
⁴ This impact estimate is based on per-student savings of \$4,121, which is the FY 2019 SEEK Forecast Calculations obtained from the KY Department of Education.

⁵ Based on data from the National Center for Education Statistics at the U.S. Department of Education, we estimate that the average variable cost per student is \$6,382. This is based on expenditures for Instruction, Student Support Services, and Instruction Support Services and excludes all other costs such as capital, debt services, food services, and transportation. Two studies on education costs suggest that variable costs are even higher than what is estimated in this fiscal note (Scafidì, 2012; Bifulco & Rebeck, 2014). Thus, savings for Kentucky from the tax-credit scholarship program will likely be higher.

⁶ To be clear, this \$15.1 million net savings represents a \$41.4 million reduction in cumulative school variable cost burden, which significantly outweighs the \$26.3 million cumulative net revenue reduction for 6,382 students estimated to switch from public schools to private schools. It is not a direct

reduction in school expenditures. The public schools will still have to make decisions to cut costs as enrollment declines. However, they now have \$41.4 million in available cost burden relief from which to find at least \$26.3 million in spending reductions to match their net revenue reduction.

⁷ This cost differential is based on the Special Education Expenditures Project, conducted by the American Institutes for Research. Although the project ended in 2004, it provides the best and most comprehensive information to date about expenditures related to special education. <http://www.csef-air.org/>. Excluding expenditures on school facilities, the ratio of current operating expenditures on the typical special education student is 2.08 times that expended on the typical regular education student with no special needs. Doubling the short run variable costs for Kentucky public schools implies that the average short-run variable cost for students with special needs is \$12,974.



Expanding Opportunities in Education

Proposed Scholarship Tax Credit Legislation

Favored by a Vast Majority of Kentucky Voters

January 2019

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Letter from the President of EdChoice Kentucky

Improving educational opportunities for all Kentuckians is a goal shared by every citizen in the Commonwealth. Adopting policies that create individualized learning opportunities for students is a major component of achieving this goal. School choice has revolutionized the educational landscape in our country and has driven success for students in both public and non-public schools.¹ It is time for Kentucky to join the majority of states that have adopted programs that empower families when it comes to their children's education.

For this reason EdChoice KY advocates for Scholarship Tax Credits as a way to ensure that every child has access to the classroom that works best for them. Although public schools will always have an important role in providing educational services; families should be the ultimate decision makers about what is best for their child. Above all else, this is a matter of fairness. A child's future should not be determined by their ZIP Code or family's income.

Not only will the proposed Scholarship Tax Credit program give thousands of students an opportunity to succeed by allowing them to choose the opportunity that fits their needs, but it will also do so in a manner that saves taxpayer money. Scholarship Tax Credit legislation incentivizes private individuals and businesses to directly invest in students. Further, it allows more non-public schools to share in the cost of educating Kentucky students. Numerous studies have found that Scholarship Tax Credit programs result in net savings to the states that adopt them.²

EdChoice KY proposes a Scholarship Tax Credit program that includes the very best policies from across the United States. The legislation accomplishes the following goals:

- It expands choice to an estimated 7,100 students while at the same time prioritizing Kentucky's most needy students, including foster children, students with developmental disabilities and students are members of low income families;
- It shifts the cost of educating students who need a choice from the Commonwealth to non-public schools;
- It strikes the appropriate balance between accountability and providing Kentucky's non-profit scholarship granting organizations and non-public schools with flexibility to meet each student's unique educational need.
- It is favored by **62% of Kentucky voters on a bipartisan** basis as a tool for education choice.

The following document provides in-depth analysis of EdChoice KY's Scholarship Tax Credit proposal and answers many of the most frequently asked questions. An overview of the proposed legislation is included as an **Exhibit H** in this document.

On behalf of EdChoice KY, thank you for your attention to this very important issue.

Charles H. Leis
President

¹ *A Win-Win Solution*, Greg Forster, Ph.D. <https://www.edchoice.org/research/win-win-solution/>

² *The Tax-Credit Scholarship Audit*, Martin Lueken, Ph.D. <https://www.edchoice.org/research/tax-credit-scholarship-audit/>

Participant Eligibility and Prioritization

The proposed Bill balances providing a large number of families with more educational options while at the same time prioritizing those families who are most in need.

Income Threshold – Need Based

Families are eligible to participate in the need based scholarship program if their family's income is no more than 200% above the federal reduced lunch program income threshold of \$46,435 for a family of four in 2018–19. A Scholarship Granting Organization must distribute its scholarships in a manner that is consistent with the population of public school students who are eligible for free and reduced lunch. Under the current student population demographics, approximately **60% of scholarships must go to families whose income does not exceed \$46,435**. A Scholarship Granting Organization can also satisfy this requirement by serving foster children and/or students with special needs. The remaining 40% of students may be above the 100% income threshold but not more than 200% above the threshold.

If eligible, a family must then objectively demonstrate financial need which is verified by a third party approved by the Commonwealth. Foster children automatically qualify for full tuition aid.

The 200% maximum income threshold accomplishes the following goals:

- Provides choice to both low income and lower middle income families who have a demonstrated financial need;
- Ensures that financial eligibility accounts for regional differences relative to the cost of living;
- Makes Kentucky an attractive place for families as we compete with states like IN, TN, OH and IL which already have education choice programs that serve families within this income threshold.

Guardian Status – Foster Care

As referenced above, eligibility is automatically granted to children in foster care. This provision is included in the legislation in recognition of the special circumstances surrounding these children and the outreach Kentucky families have to meet the societal needs. We believe that it is very important that prospective foster families are not put in a position in which the cost of education is a disincentive for caring for our neediest children, notwithstanding it can also provide stability in the foster child's life.

Special Needs

Students with special needs are eligible based on their income in the same manner as other students. However, their scholarships can be used for non-public school tuition and/or educational services such as speech-language therapy, physical therapy, or occupational therapy.

Key Takeaways: Participant Eligibility and Prioritization

- **The 200% income threshold coupled with the distribution requirement based on reduced lunch eligibility results in a prioritization of assisting the families with the most need.**
- **Lower middle-income families will be eligible to receive some financial aid through the scholarship tax credit program if they also demonstrate financial need and if the resources are available.**
- **Vulnerable students, like those in the foster care system, are automatically prioritized for eligibility by the proposed law.**
- **Students with special needs are prioritized in this legislation to allow for a scholarship to meet their unique needs and create opportunities for some to attend non-public schools with specialized programs.**

Need for Financial Aid - \$25,000,000 Maximum Credit

The primary goal of the Scholarship Tax Credit proposal is to allow families the choice of attending a school that best fits their child's needs. We propose a \$25,000,000 program as a starting point with allowance for annual adjustments until supply and demand equalize.

There are currently two Scholarship Granting Organizations operating in Kentucky; the Catholic Education Foundation of Louisville and School Choice Scholarships also located in Louisville. Both of these organizations were willing to share their 2018 financial aid application statistics to give interested parties insight into the likely demand for financial aid in Kentucky. As illustrated on the charts in **Exhibits A & B** the combined demonstrated financial need for approximately 6,500 students was nearly \$21,000,000.

Extrapolating those statistics to the entire state indicates the demand will far exceed \$25,000,000. It should also be noted that the current scholarship granting organizations have a very limited marketing budget so current applicants often seek them out. As more families understand these scholarships are available, it is also likely that applications for scholarships will increase significantly.

Most recently a Kentucky Non-Public School Survey showed the financial aid gap for just 89 of the 206 certified schools aggregated approximately \$19 million; another indicator that \$25 million is a justified and appropriate starting point. **See Exhibit I.**

Furthermore, Kentucky needs a major investment in educational choice to be competitive with other states. By comparison Florida's Scholarship Tax Credit program is at \$850,000,000, Georgia's is at \$100,000,000 and Illinois at \$75,000,000.

So why not more than \$25,000,000? For the credits to be granted, Scholarship Granting Organizations must secured donations of \$26.3 million and that will may take some time to educate the populace.

Key Takeaways: Demand for Financial Aid - \$25,000,000 Maximum Credit

- \$25,000,000 is an appropriate and recommended starting point for the program,
- The Commonwealth is protected with the maximum credit permitted,
- It is a meaningful amount to the families needing the aid and to the organizations gearing up to serve low income families,
- It will make Commonwealth competitive with other states that have similar programs,
- Insofar as Scholarship Tax Credits and non-public schools in general produce net savings of more than \$2 million to the Commonwealth, the \$25,000,000 is a very prudent and appropriate starting point,
- **Lastly, there is overwhelming public support for the program; 62% of voters favor Scholarship Tax Credits as a tool for education opportunities.**

Understand this credit is unlike any other tax credit, that is, it has **NO NET COST to the Commonwealth, regardless of scale.** Donors fund the tuition scholarships and the Commonwealth is relieved from paying the cost of educating children who receive the scholarships; a net savings to the Commonwealth.

95% Tax Credit Incentive

Focus on the Children

Kentucky's children deserve a robust school choice program with a reliable source of funding. In order to ensure adequate funding over time, we encourage the General Assembly to adopt a program with a tax credit percentage of 95% or higher. This position is based on research and the opinions of leading experts in tax and education policy.

Leadership and National Support

The proposed tax credit rate is comparable with the policies enacted in other states. Of a total of 18 Scholarship Tax Credit states, ten states have a tax credit rate of 90% or greater; eight are at 100%.

Further, the leading national advocacy groups all believe that a high tax credit rate is necessary in order to meaningfully expand choice over the long term. In fact, it is such a critical part of a successful program that some groups will only support proposals with tax credit rates between 90% and 100%. The fear is that without a high tax credit rate, programs will lack consistent funding and will not be in a position to grow over time as demand increases.

This position is supported by the experience of other states with scholarship tax credit programs. **See Exhibit F.**

A Challenging Task

Raising \$25 million will be a challenge. As it will become evident after reviewing the data below, it will require a dramatic change in philanthropic attitude and practices to rally individuals and businesses to make the required private investments in education. Identifying those with the ability and willingness to invest is key to making this initiative successful. The onus will be on the SGOs to ensure this effort is successful but we must begin with a policy that sufficiently prioritizes scholarship tax credits.

Ability to Invest

Kentucky Population	4.4 Million - ranks 26 th in the U.S.
Households	1.7 Million
Median Income	\$47,000 - ranks 46 th in the U.S.

Only 67% of the Kentucky households have a profile of making charitable donations and those that do, average approximately 2.2% of their income. Given the financial profile of Kentucky residents and the design of the scholarship tax credit incentive, the vast majority of financial support will have to come from the top tiers of families in the Commonwealth.

Target Donors

Top 5%

Number of Households	84,750
Median income	\$251,000

Top 20%

Number of Households	339,000
Median income	\$146,000

Kentucky is not a wealthy state and many of its citizens could not make meaningful donations to Scholarship Granting Organizations ("SGO") even if they desired. With median income at approximately \$47,000, nearly 50% of the households would not be targeted donors but rather would qualify for assistance under the Scholarship Tax Credit bill.

In fact, looking at the 80th household income percentile, the median household income is less than 200% of the reduced lunch income thresholds which is the upper limit to receive financial assistance. The take away from these facts is that it will be a challenge to raise the funds without a very robust incentive to increase the giving level from those who have the ability to invest.

The above information is derived from the U.S. Census Bureau as presented on [Statistical Atlas.com](https://data.atlas.com/)

Willingness to Invest

Kentucky's top 5% households would be considered high net worth ("HNW") households as defined by many of the research firms who study and report on philanthropy.

A few years back **Bank of America and the Center of Philanthropy at Indiana University** published a report that gives good insight into giving patterns, amounts and priority of high net worth households. The following analysis applied the finding of the study to Kentucky statistics for the top 5% and top 20% of households.

Derived from Bank of America & Indiana University Study		
	Top 5%	Top 20%
Number of High Net Worth households (HNW)	84750	339000
Percent of HNW who donate something	95%	95%
Potential number of HNW donors	80513	322050
Percent of HNW who donate to education	79%	79%
Likely potential HNW donors to education	63605	254420
Percentage of total income donated	9%	9%
Median HNW income	\$251,000	\$146,000
Likely HNW total donations	\$22,590	\$13,140
Percent of donations to education	19%	19%
Likely total education donation amount	\$4,292	\$2,497
Scholarship Tax Credit potential -5% of total	<u>\$215</u>	<u>\$125</u>
Pre STC donation to the SGO	\$4,292	\$2,497
Scholarship Tax Credit - 95%	(4,077)	(2,372)
After Scholarship Tax Credit donation	<u>\$215</u>	<u>\$125</u>

To achieve the \$25,000,000 financial aid goal would require the SGOs to leverage the 95% credit to demonstrate the ability to donate approximately the same (only plus 5%) amount from approximately **6,800 households!** Donors are not going to abandon the educational institutions they have been supporting in the past therefore a strong incentive to leverage their incremental investment is necessary to both expand their donations and/or get donors to share some of what they are doing for their existing causes.

High-middle income families will likely also participate at much lower levels and corporations will need to donate as has been the case in other states that have Scholarship Tax Credits.

The fundraising plan/goal with HNW households, high middle income households and corporations will be as follows:

Target HNW households for donation	2.00%
Number of HNW households - top 20%	6780
Pre Scholarship Tax Credit donation	\$2,500
From HNW households	\$16.9 M
From next 30% of households (\$250 avg)	10170
From middle income households	\$2.5 M
From corporations	\$5.6 M

To make this plan a possibility, the **95% tax credit is absolutely critical**. Kentucky simply does not have the wealth to go to large numbers for small donations, accordingly high net worth households must be the target donors. The 95% credit rate will give SGOs at least the opportunity to expand the donation base and encourage Kentucky citizens to invest in education. The above plan is asking the potential donors to increase their donations by approximately 15% - 20%. Remember, the taxpayer may not take a federal tax contribution deduction if the credit is received.

The idea of leveraging state assistance with private investment is not a new concept. However, this time if the leverage is stretched by lowering the tax credit percentage the risk is loss of a productive life of a child; a risk we need not and should not take.

Impact on the Donor

The policy of providing opportunities for children through the scholarship tax credit process is sound. If properly presented to those who have the financial ability, it will compel them to action for the right reason. Notwithstanding what some critics say, this is neither a motivation nor a process for the wealthy to “make money”. See Exhibit C for analysis of the tax implication of the proposed legislation.

Nevertheless there are those who continue to reference large gifts without understanding the magnitude of financial resources required to make such gifts. For example, a gift of \$200,000 requires annual taxable income of \$4 million; 20 times the amount of the gift; without this income level the tax credit is of no value because the taxpayer does not have a tax liability sufficient to utilize the credit. A very limited group of individuals in Kentucky could even make this type of gift. It is anticipated the average donation would be in the \$2,000 - \$2,500 range

The bottom line is that this type of conversation by the opponents of scholarship tax credits is very sensational but it is not reflective of potential donors.

Fiscal Responsibility

The **95% credit rate has no effect on the state’s budget**, the \$25,000,000 maximum aggregate credits and the savings from higher non-public school enrollment are the controlling issues for budget considerations.

Key Takeaways

- **Scholarship Tax Credits are proven means for providing families with options, improving academic achievement and saving the taxpayer money;**
- **The 95% tax credit rate has no impact on the Commonwealth’s budget;**
- **A tax credit rate of 95% will allow the SGO to more efficiently raise funds and ensure their time and resources are used to help families wanting to utilize the program;**
- **The consequential human risk of lowering the tax credit rate is too great.**

Fiscal Considerations

Scholarship Tax Credits are that type of legislation and will serve the citizens of Kentucky without a negative fiscal impact.

Significant and differentiating attributes of the proposed STC bill are:

- **Fixed maximum credit** - the amount of the credit is fixed at a maximum \$25,000,000 as opposed to other credits or exemptions that are unlimited; subsequent years may increase if certain performance thresholds are achieved.
- **Neutral to positive financial impact** – creditable analyses show that STC will likely have a neutral to positive fiscal effect on the Commonwealth’s budget by virtue of lower SEEK expenditures if students attend non-public schools because of having received approved STC.
- **High accountability** – the proposal contains specific criteria for receiving benefits under the program. Annual reports must be filed to assure compliance.
- **Measurable impact** – currently the Commonwealth saves approximately \$287,000,000 annually in SEEK payments because 72,000 students attend non-public schools; the trend in non-public school enrollment has been declining over the last 20 years and has accelerated after the great recession. Either stabilizing or growing non-public school enrollment has a positive fiscal impact on the Commonwealth.
- **Leverages the Commonwealth’s investment** – STC incentivizes private investment in education by granting a donor a tax credit equal to 95% of a donation made to a Scholarship Granting Organization (“SGO”); the remaining 5% immediately injects **\$1.3 million** incremental private investment into education.
- **Leverage beyond the state level** – Kentucky’s largest school districts receive the largest portion of funding from local tax dollars. This source of funding is not based on enrollment and remains within the school district even if students utilize the Scholarship Tax Credit program to switch to a non-public school. Thus, these school districts would have more funds for the students that remain within their school system.

The differentiating attributes clearly show how Scholarship Tax Credits are truly unique in that the net effect on the Commonwealth’s budget is both negligible and controllable as designed. In fact, all studies of programs from other states have indicated that Scholarship Tax Credits save taxpayer money or are at least fiscally neutral.³

The most common argument against Scholarship Tax Credits is that these programs take funds away from public education. Naturally, with the non-public schools assuming the cost of educating redirected students, less SEEK funds are sent to the local school districts as there are fewer students. The school districts would continue to receive all local and federal funding that is not based on enrollment and thereby increase the needed spending per student.

Predicting the net fiscal impact of the legislation on the Commonwealth is quantifiable. Naturally all projections are based on assumptions of probable events. Please see **Exhibits D and G** for the most significant assumptions.

³ *The Tax-Credit Scholarship Audit*, Martin Lueken, Ph.D. <https://www.edchoice.org/research/tax-credit-scholarship-audit/>

As illustrated to the right, assuming donations to Scholarship Granting Organizations were made to level of maximizing the Scholarship Tax Credits at \$25,000,000, the Commonwealth's SEEK payments to local districts are lower because of fewer students attending the schools. The bill design requires that scholarships be distributed in a way that reflects the free and reduced lunch population in public schools. Under current enrollment numbers,

approximately 60% of the students must be from families whose income is at or below the free and reduced lunch income threshold.

COMPREHENSIVE FISCAL ANALYSIS	
Maximum "qualified" donations to a SGO	<u>\$26,315,789</u>
Reduction in SEEK expenditures for students who are recipients of scholarships	\$26,300,110
Less maximum tax credits to donors	<u>(25,000,000)</u>
Net reduction in the Commonwealth's cost	1,300,110
Increase in tax revenues resulting from reduction in contribution deductions on Kentucky income tax return	<u>\$1,250,000</u>
NET SAVINGS AND POSITIVE CASH FLOW	<u>\$2,550,110</u>

Referencing the philanthropic profile of Kentucky citizens as discussed in the previous section, getting Kentucky citizens to donate \$25,000,000 will be a transformative but an achievable event. As discussed in the previous section, success will depend on the solicitors' ability to have donors expand their giving base through the tax credit incentive. Considering the donations equal to the credit will not be tax deductible for Kentucky income tax purposes, it is **creditable to add back the tax effect of eliminated deductions** in making a comprehensive decision on the impact of the bill.

This is too good to be true! That is always the first reaction to the analysis. However, there has yet to be a study that shows that these types of tax credit programs cost the state. Instead, the vast majority of studies show savings and a few show the programs to be fiscally neutral. Hence, taken together with EdChoice KY's own fiscal projections, it is clear that this program is a good investment for the Commonwealth.

Cumulative Effect for Many Years

It is well established and accepted that Kentucky's non-public schools save the Commonwealth money. With an enrollment of 72,000, these schools currently save the Commonwealth in excess of \$287,000,000 each year. Unfortunately, enrollment in non-public schools has declined significantly over the past 20 years due largely to the lagging economy resulting in increasing the SEEK budget by approximately \$52,000,000 annually – **See Exhibit E**. A Scholarship Tax Credit program **will reverse this trend** and thereby save the Commonwealth additional SEEK funding. All studies of Scholarship Tax Credit programs have found that they either save taxpayer money or are fiscally neutral; the same is true for Kentucky.

Key Takeaways: Fiscal Considerations

- **This is a high reward program with a very low fiscal risk to the Commonwealth of Kentucky;**
- **The bill has high accountability and is measurable annually;**
- **The 72,000 students currently in non-public schools already save the state approximately \$287,000,000 in SEEK payments annually;**
- **Enrolling more students in non-public schools would increase the amount of savings to the Commonwealth;**
- **Scholarship Tax Credits are the right thing to do for the citizens of Kentucky and it can be accomplished without expending net budget resources.**

Exhibits A & B

Catholic Education Foundation

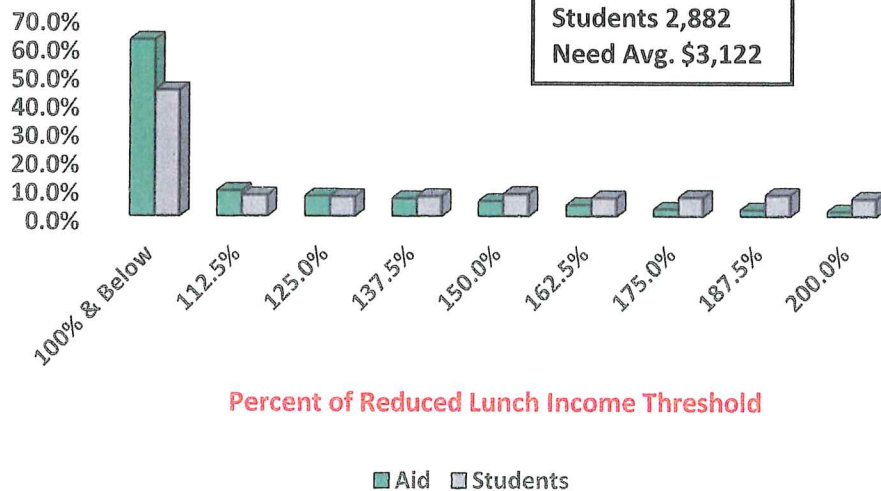
2017 Demonstrated Need Statistical Data

Exhibit A

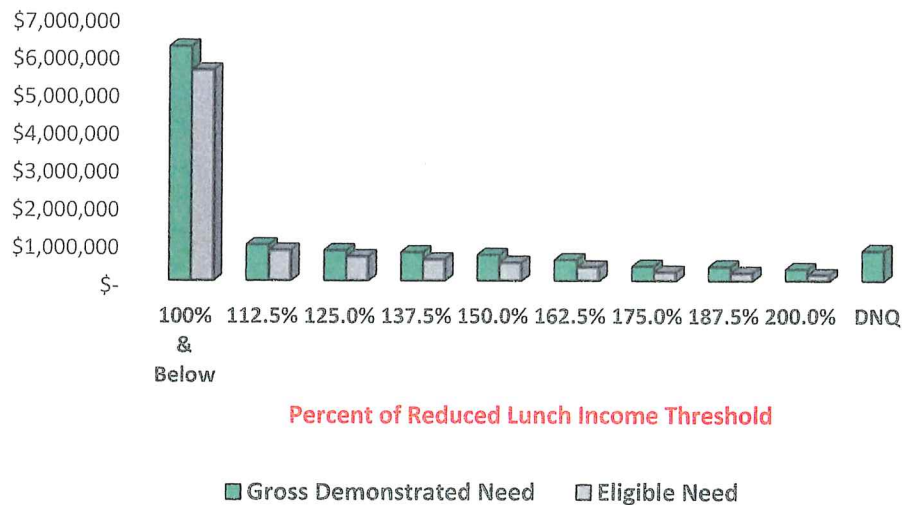
Distribution of Aid & Students Under Proposal - CEF

K-8

Aid \$9,000,000
Students 2,882
Need Avg. \$3,122



Concentration of Financial Need/Aid CEF 2017 K-8



Total applicants
Qualified

3,854
2,882

Did not qualify
Non qualified need

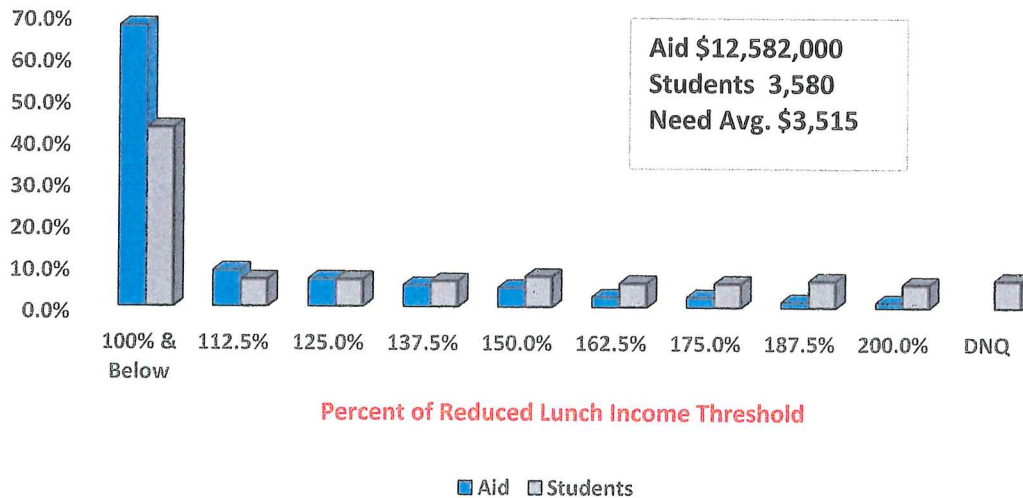
972
\$790,000

School Choice Scholarships

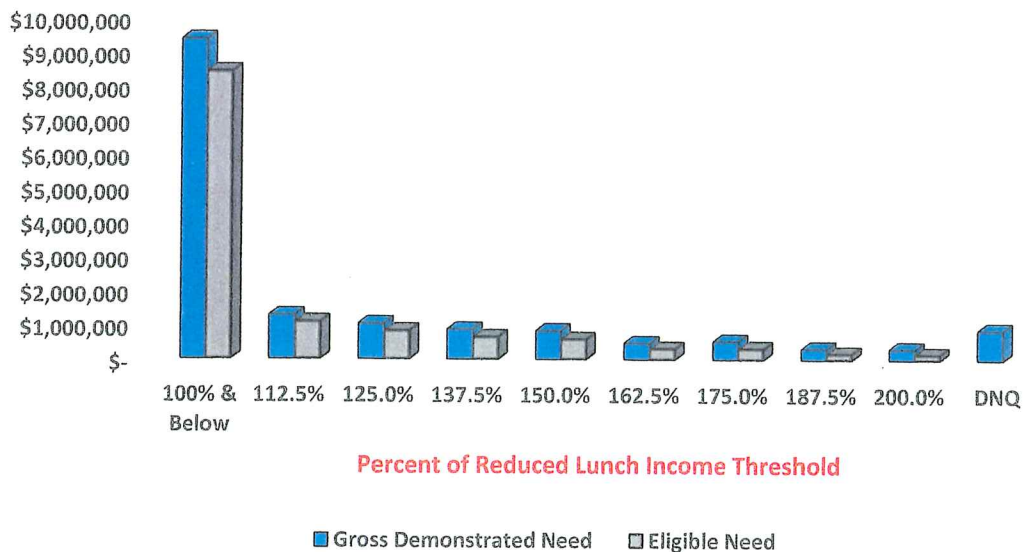
2017 Demonstrated Need Statistical Data

Exhibit B

**Distribution of Aid & Students Under Proposal
SCS 2017 K-8**



Concentration of Financial Need/Aid SCS 2017 K-8



Total applicants
Qualified

4,880
3,580

Did not qualify
Non qualified need

1,300
\$872,000

Illustration of After Tax Effect of a Donation

Assumption - a taxpayer makes a \$15,000 donation to a qualified scholarship granting organization and pays sufficient Kentucky income taxes to fully utilize the 95% Kentucky scholarship tax credit.

	<u>Rate</u>	<u>Cash Flow In (Out)</u>	
		<u>Individual</u>	<u>Business</u>
Cash donation to a qualified SGO		\$ (15,000)	\$ (15,000)
Kentucky Scholarship Tax Credit	95.0%	14,250	14,250
Kentucky tax savings from 5% of the donation	5.0%	38	-
Federal tax savings from the 5% of the donation	24.0%	180	-
Federal tax savings from the entire donation	21.0%	-	3,150
Federal tax increase from lower KY taxes	21.0%	-	(2,993)
Net donor cash flow after tax considerations		<u>\$ (533)</u>	<u>\$ (593)</u>

The above analysis reflects the tax provisions of the Federal Tax Cut and Job Act enacted in December 2018. Because of the SALT limitations, donation deductions are treated differently for individuals and corporate taxpayers.

EDCHOICE
FISCAL IMPACT STATEMENT
KENTUCKY 2018-2019 REGULAR SESSION

Note Prepared: December 10, 2018

Subject: HB/SB **TBD**, a bill to establish a tax-credit scholarship program in Kentucky

Impact: State, Local Taxpayers, and School Districts

Prepared by: Martin F. Lueken, Ph.D., Director of Fiscal Policy and Analysis

FISCAL SUMMARY

Summary of Estimated Fiscal Impacts of Kentucky Tax-Credit Scholarship Program, School Year 2018-19

	SY 2018-19
Total Number of Students in Kentucky Eligible for Tax-Credit Scholarships	437,495
Average Scholarship Amount	\$3,340
Number of Scholarships Funded	7,091
Number of Scholarship Students Redirected From District Schools	6,382
Total state expenditures on tax-credit scholarship program	(\$25,000,000)
State Aid (SEEK) Expenditure Savings From Redirected Students	\$26,300,110
Net State Impact	\$1,300,110
Reduction in State Aid Revenue to School Districts for redirected scholarship Students	(\$26,300,110)
Average Variable Educational Cost per Student	\$6,487
Total Cost Burden Relief to School Districts for redirected Students	\$41,399,473
Net School District Savings	\$15,099,362
Combined Net State, Local Taxpayer, and School District Impact	\$16,399,473
State Break-Even Switcher Rate	81%

Notes: () denotes a decrease/negative value

Sources: Kentucky Department of Education; U.S. Census Bureau; National Center for Education Statistics, U.S. Dept. of Education; Catholic Education Foundation of Louisville and School Choice Scholarships

MEASURE'S PURPOSE: This bill, if enacted, creates a nonrefundable tax credit which may be applied against the individual income tax, corporation income tax, the limited liability entity tax, or the bank franchise tax.

The scholarship tax credit would be available to taxpayers who make donations of tax or personal property during a taxable year to one (1) or more qualified scholarship granting organizations who provide scholarships to students in kindergarten through twelfth grade to attend a nonpublic kindergarten, elementary, or secondary school located within the State, or to receive therapy services. Students may participate in the program if their household income is below 200 percent of the income requirement for the federal reduced price lunch program (370 percent of the federal poverty limit), has an IEP, or has been diagnosed with certain conditions.

The tax credit would be equal to the lesser of ninety-five percent (95%) of the total donations of cash or personal property made to qualified scholarship granting organizations during the taxable year, or one million dollars (\$1,000,000) per taxpayer, per taxable year. The scholarship credit would be capped at twenty-five million dollars (\$25,000,000). If the aggregate value of all credits awarded during the prior fiscal year equals at least ninety percent (90%) of the credit cap available for that year, the credit cap for the next fiscal year shall be increased by twenty-five percent (25%) over the credit cap amount established for the prior year. Scholarship organizations can keep 10 percent of donations for administration.

FISCAL EXPLANATION: This proposal, if enacted, will have a positive estimated net impact of \$1.3 million on the state General Fund and a positive estimated net impact of \$15.1 million on school district revenue for FY 2018-2019. There will be no impact on local property taxes. The net combined impact would be positive, equal to **\$16.4 million**.

Based on data obtained from two scholarship organizations in Kentucky (Catholic Education Foundation of Louisville and School Choice Scholarships), the average scholarship amount awarded in 2017 based on demonstrated need was \$3,340.¹ An average award amount of \$3,340 would fund 7,091 scholarships for students.² Of this group, 6,382 students would be “switchers” from public schools.³

State impact: The state would experience a decline in revenue of \$25.0 million (the maximum credit allowed under this bill). This would be offset by \$26.3 million in reduced state aid (SEEK) expenditures.⁴ After factoring this savings, we estimate there will be a net positive state impact of **\$1.3 million**.

Impact on local property taxes: There will likely be no impact on property taxes, at least in the short run, because they are set locally and independent of enrollment. In the long run, districts that experience significant enrollment change may choose to adjust property tax rates.

School district impact: Local public school districts would experience \$26.3 million in reduced SEEK revenue from the state. This reduction would be completely offset by \$41.4 million in cost burden relief for students who switch from public schools to independent schools.⁵ Thus, there will be a net positive local impact of **\$15.1 million**.⁶

Break-even switcher rate: Switcher is defined as a student who would otherwise enroll in a district school if the tax-credit scholarship program is not in place as opposed to enrolling in private school, home school, or other non-public school settings. Switchers represent fiscal savings for the state and district schools. For the program to be fiscally neutral to the state, 81 percent of program participants would need to be switchers.

Note that students with special needs are also eligible to receive a scholarship. Educational costs for these students are approximately twice the costs for students without special needs.⁷ To the extent that students with special needs leave public schools and participate in the program, the savings would likely be greater than estimated in the current analysis. If the cost of a scholarship for a student with special needs who switches from a district school is below the state’s cost for that student and the district’s variable costs, then the student would generate savings for the state and school district.

DATA SOURCES: Kentucky State Department of Education; National Center for Education Statistics (U.S. Department of Education); U.S. Census Bureau, American Community Survey; U.S. Department of Agriculture; EdChoice; Catholic Education Foundation of Louisville and School Choice Scholarships

DISCLAIMER: EdChoice is committed to research that adheres to high scientific standards, and matters of methodology and transparency are taken seriously at all levels of the organization. We are committed to providing high-quality information in a transparent and efficient manner. We welcome any and all questions related to methods and findings.

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PREPARER: Martin F. Lueken, Ph.D., Director of Fiscal Policy & Analysis

¹ The weighted average for scholarship amounts in other states with tax-credit scholarship programs was \$3,671. This national average is close to the experience of the two Kentucky scholarship organizations.

“School Choice in America,” *EdChoice*, last modified June 26, 2018 <http://www.edchoice.org/school-choice/school-choice-in-america> (accessed 12/10/2018).

² Under the proposed program, \$25.0 million in tax credits would generate \$26.3 million in donations to scholarship organizations. If scholarship organizations keep the maximum amount allowed for administrative costs, then they will have \$23.7 million for awarding scholarships.

³ This analysis assumes that 90 percent of participating scholarship students will be “switchers.” Because scholarship organizations are likely to prefer awarding scholarships to public school students than students already enrolled in private schools, our estimates are likely cautious (Lueken, 2018). Please note that this assumption is in line with Costrell (2010), who showed that the switcher rate for the Milwaukee Parental Choice Program was 90 percent. Costrell, R. M. (2010). *The Fiscal Impact of the Milwaukee Parental Choice Program: 2010-2011 Update and Policy Options*. SCDP Milwaukee Evaluation. Report# 22. *School Choice Demonstration Project, University of Arkansas*.

Lueken, M. F. (2018). The fiscal effects of tax-credit scholarship programs in the United States. *Journal of School Choice*, 12(2), 181-215.

⁴ This impact estimate is based on per-student savings of \$4,121, which is the FY 2019 SEEK Forecast Calculations obtained from the KY Department of Education.

⁵ Based on data from the National Center for Education Statistics at the U.S. Department of Education, we estimate that the average variable cost per student is \$6,382. This is based on expenditures for Instruction, Student Support Services, and Instruction Support Services and excludes all other costs such as capital, debt services, food services, and transportation. Two studies on education costs suggest that variable costs are even higher than what is

estimated in this fiscal note (Scafidi, 2012; Bifulco & Rebeck, 2014). Thus, savings for Kentucky from the tax-credit scholarship program will likely be higher.

⁶ To be clear, this \$15.1 million net savings represents a \$41.4 million reduction in cumulative school variable cost burden, which significantly outweighs the \$26.3 million cumulative net revenue reduction for 6,382 students estimated to switch from public schools to private schools. It is not a direct reduction in school expenditures. The public schools will still have to make decisions to cut costs as enrollment declines. However, they now have \$41.4 million in available cost burden relief from which to find at least \$26.3 million in spending reductions to match their net revenue reduction.

⁷ This cost differential is based on the Special Education Expenditures Project, conducted by the American Institutes for Research. Although the project ended in 2004, it provides the best and most comprehensive information to date about expenditures related to special education. <http://www.csef-air.org/>. Excluding expenditures on school facilities, the ratio of current operating expenditures on the typical special education student is 2.08 times that expended on the typical regular education student with no special needs. Doubling the short run variable costs for Kentucky public schools implies that the average short-run variable cost for students with special needs is \$12,974.

Comprehensive Four Year Fiscal Impact of Scholarship Tax Credits

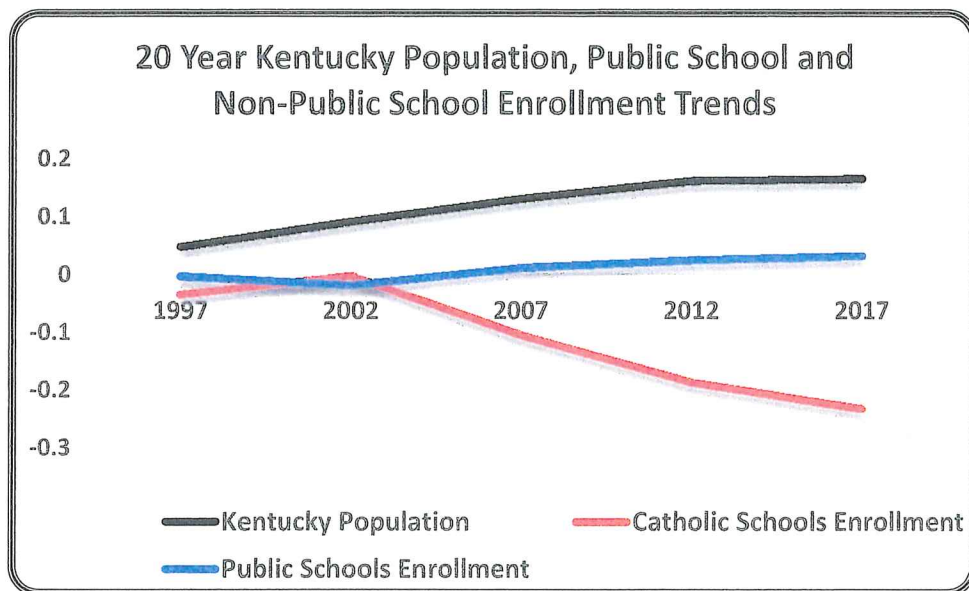
	Commonwealth's Fiscal Year		
	2019-2020	2020-2021	2021-2022
Maximum Qualified Donations to SGO	\$ 26,315,789	\$ 32,894,737	\$ 41,118,421
LRC Fiscal Impact Note Methodology			
Maximum Credits	\$ (25,000,000)	\$ (31,250,000)	\$ (39,062,500)
Dynamic Scoring Offset			
Commonwealths' portion of education cost assumed by non-public schools	26,300,110	32,875,138	41,093,922
Net Positive Impact on Kentucky	\$ 1,300,110	\$ 1,625,138	\$ 2,031,422
Cumulative Positive Impact	\$ 1,300,110	\$ 2,925,248	\$ 4,956,669
Likely Students Assisted	6,382	7,977	9,972
			12,465

The above analysis illustrates the full impact of the Scholarship Tax Credits over the next four years; not simply the Commonwealth's revenue impact. There are several totally unique attributes of this legislation that differentiates it from any other tax credit legislation. First, the credits are contingent upon private investment in education by donors; no donations/no credits. Second, the legislation produces net savings to the Commonwealth regardless of scale, that is, as donations grow and assists more students, non-public schools assumes greater responsibility for the Commonwealth's portion of educating the K-12 students. Lastly, there will come a point of equilibrium where the maximum donations will level-off (* estimated at \$50 million based on Kentucky's demographics) and the related tax credits will automatically cease to increase. The legislation is well designed to achieve the intended results and no more.

* * The Commonwealth's cost reduction actually occurs on a one year delay basis because of the process of basing appropriation estimates on the enrollment on the last day of school for the previous school year.

Prepared by
Charles H. Leis
EdChoice Kentucky

Enrollment Trends - Fiscal Implications



Trend Fiscal Impact

Facts

- * Kentucky's population has increased 16.47% since 1997.
- * Catholic school enrollment has decreased 23.3% since 1997.
- * 72,000 student are currently enrolled in non-public schools.

\$286,632,000 2017-2018 estimated SEEK savings.

Hypothesis

If Catholic school trends in Kentucky are reflective of all non-public Kentucky schools, the percentage of children attending non-public schools was nearly 14% of the total K-12 enrollment 20 years ago. Without non-public school enrollment rate declines and at today's total K-12 enrollment, non-public schools enrollment could be approximately 94,000 students resulting in saving the Commonwealth nearly \$374,000,000 annually.

Conclusion

There was no legislation or strategy that caused this trend; it was simply the economic situation of Kentucky residents. However, by not realizing the underlying fiscal impact of the trend, the Commonwealth inadvertently assumed greater fiscal responsibility (\$52,000,000 annually) than would have been the case if non-public school trends were the same as public school trends. Scholarship Tax Credits which have been available in other states since 1997, will reverse the non-public enrollment trend and significantly lessen the financial burden on the Commonwealth.

Exhibit F

Scholarship Tax Credit Comparison to Other States

The following chart was prepared by Mr. Jason Bedrick at EdChoice (the national advocacy group). The data is useful in considering the need for a 95% tax credit for Kentucky. It's only anecdotal, not an actual study, but we see that states with 100% credits consistently hit their caps while states with lower credit values often struggle.

Except for Alabama, every state with a 100% tax credit hit their cap (AZ, FL, GA, NV, and SC). Those with a 95% (LA) or 90% (PA, RI) credit also hit their caps. (Note that PA and RI are 90% for two-year donations, but single-year donations are 75%)

Below 90%, some states hit their caps (OK, IA, IN) and some states didn't (NH, SD, KS, VA). But there are other factors as well, including the credit value and strength of the school choice coalition. OK hitting a \$3.5 million cap isn't particularly difficult. NH couldn't hit a \$5.1M cap with an 85% credit, nor did SD hit their \$2M cap with an 80% credit.

An effective program depends on consistent and reliable funding. This is particularly important for low income families who will rely most heavily on this program. This is another reason that we believe that a 95% tax credit is essential to making a Kentucky program successful, especially if it is to grow over time.

Chart on next page

Exhibit F

State Program	Tax Credit %	Tax Credit Cap	Cap Reached?	Time Required
Alabama	100%	\$30M	No	N/A
Arizona - Ind	100%	No Cap	N/A	N/A
Arizona - Corp	100%	\$61.9 M	Yes	3 days
Arizona - Lexie's	100%	\$5M	Yes	5 days
Florida	100%	\$698.9M	Yes	12 months
Georgia	100%	\$58M	Yes	1 day
Montana	100%	\$3M	New	N/A
Nevada	100%	\$5.5M	Yes	1 day
South Carolina	100%	\$10M	Yes	9 months
Louisiana	95%	No Cap	N/A	N/A
Pennsylvania - EITC	75% 1 year, 90% 2 years	\$125M	Yes	?
Pennsylvania - OSTC	75% 1 year, 90% 2 years	\$50M	Yes	?
Rhode Island	75% 1 year, 90% 2 years	\$1.5M	Yes	?
New Hampshire	85%	\$5.1M	No	N/A
South Dakota	80%	\$2M	No	N/A
Illinois	75%	\$75M	New	N/A
Oklahoma	50% 1 year, 75% 2 years	\$3.5M	Yes	12 months
Kansas	70%	\$10M	No	N/A
Iowa	65%	\$12M	Yes	12 months
Virginia	65%	\$25M	No	N/A
Indiana	50%	\$12.5M	Yes	6 months

Significant Facts and Assumptions

Following are facts and assumptions pertinent to the discussions in this document.

Participant Prioritization

The demographics of the 8,700 financial aid applicants to the Catholic Education Foundation and to School Choice Scholarships (Exhibits A and B) are representative of likely applicants throughout the Commonwealth of Kentucky.

Financial Aid Demand

The demonstrated financial aid \$21,582,000 (Exhibits A and B) of the central Kentucky area is representative of the aid throughout the Commonwealth in proportion to the population in the respective areas.

No long-term upper limit on credits is needed as the bill design will produce an equilibrium between supply and demand by not increasing the limit if the tax credits are not full subscribed.

Fiscal Considerations

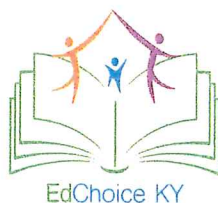
The average scholarship grant used in the fiscal analysis is \$3,340. The average demonstrated need of the 6,500 qualified applicants in Exhibits A and B was \$3,350 and ranged from a high of nearly \$5,000 at the 100% income threshold to a low of \$750 at the 200% income threshold.

The 200% income threshold eligibility is necessary for balance with the number of low income applicants to assist in making the program more financially feasible for the Commonwealth. To the extent a student can transfer from a public school with financial assistance less than the SEEK payment it benefits the Commonwealth; the effect on the Commonwealth is negative if the aid is greater than the SEEK payment.

EdChoice's (formerly Freidman Foundation) Fiscal Impact Statement as prepared by Martin F Lueken, Ph.D. contains additional assumptions as set forth in Exhibit D.

The Kentucky income tax recapture of \$1,3 million is predicated upon the Scholarship Tax Credit incentive changing donations that were otherwise deductible to donations to qualified SGOs in which case the donations is no longer deductible for Kentucky income tax purposes.

Exhibit H



2019 Scholarship Tax Credit Legislation Proposal

EdChoice KY supports creation of a tax credit program which would allow individuals and businesses to donate to scholarship granting organizations ("SGO") and in return receive a non-refundable tax credit. The SGOs then award need-based scholarships for students to attend the non-public school that best fits their needs.

EdChoice KY supports the following provision for SGOs, non-public schools and recipients:

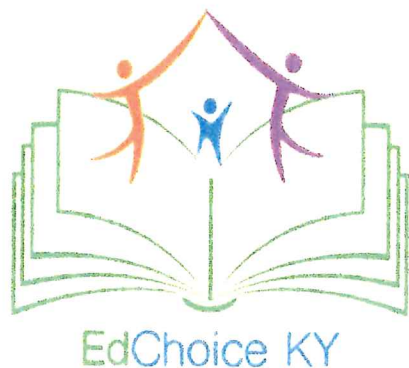
- SGO must be a 501(c)(3) which distributes at least 90% of its annual receipts to scholarship programs;
- SGO must provide scholarships to more than one school and is prohibited from accepting donations designated to a particular student but may accept donations designated to a particular school;
- Eligibility is limited to students whose family income is not more than 200% of the federal reduced lunch ("FRL") income threshold (\$91,020 for a family of four);
- Foster children are automatically eligible for a scholarship;
- Students whose household income is at 100% or less of the FRL threshold (\$45,510 for a family of four) are prioritized in receiving aid;
- Students with special needs can use scholarship funds for tuition or educational services such as occupational therapy, physical therapy, or speech-language therapy.
- Scholarship awards are based on demonstrated financial need and may not exceed the lesser of the need or the tuition charged to all other students at their school;
- Participating schools must be certified non-public schools under Kentucky law or in the process of obtaining such certification.

EdChoice KY supports the following provisions relative to donors:

- A \$25 million tax credit program with the ability to grow over time if additional demand is demonstrated through reaching the cap;
- Donors receive a nonrefundable 90% tax credit up to a maximum of \$1 million per donor;
- Unused credits may be carried forward for five years;
- The Kentucky Department of Revenue monitors the program, approves and tracks the issuance of tax credits.

Exhibit I

September 2018

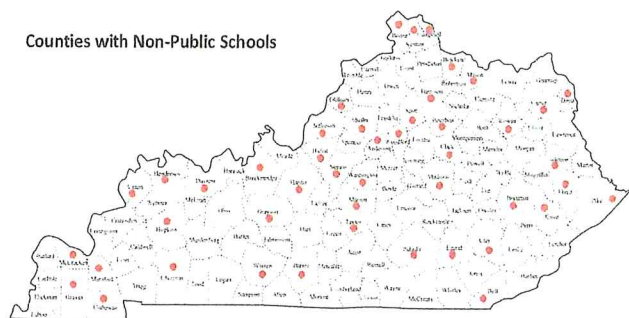


SURVEY OF KENTUCKY'S NON-PUBLIC SCHOOLS

This brief overview of Kentucky's non-public schools is based upon a survey conducted during the month of September 2018 by EdChoice Ky. One of the objectives of the survey was to better understand and quantify significant characteristics of schools as they function today.

The Bluegrass State has a long history and tradition of education diversity with non-public schools working alongside public schools to serve students. A couple of schools have been operating for 200 years or more; ten years before the first public school was authorized by the General Assembly on February 13, 1828.

Counties with Non-Public Schools



KEY OBSERVATIONS

- * Non-public schools in Kentucky have at least 7,700 open seats with a projected estimate closer to 21,000 open seats for K-12 students.
- * More than one-third of students receive financial aid for tuition however resources fall far short of demonstrated need. Only 55% of the demonstrated need is funded.
- * 82% of non-public schools serve students with special needs.
- * Practically 100% of the schools offer some type of financial assistance.
- * While non-public schools currently do a great deal to serve high need students, the need far exceeds available funding. All of the responding schools expressed an interest in participating in a Scholarship Tax Credit program so that they can serve more students.

The survey was administered to the Commonwealth's 203 Certified Non-Public Schools². Eighty-nine (89) schools completed the survey and the results are tabulated throughout this brief. The respondents are well diversified geographically, and by mission. Respondents include schools focused on special needs, faith based and non-faith based schools; K-12 schools, high schools only and elementary schools. The 44% response provides meaningful insight into Kentucky's non-public schools.

Enrollment and Cost

According to Private School Review¹ nearly 72,000 students are enrolled in non-public schools in Kentucky. The non-public school enrollment amounts to about 10% of the total K-12 students in Kentucky. Although the Commonwealth's population has increased nearly 16.5% over the last 20 years the non-public school enrollment has declined nearly 23%. Why? It is usually attributed to tuition cost.

Kentucky Non-Public School Survey				
	#	Enrollment	Percent of Capacity	Avg. Tuition
Survey Respondents				
Kindergarten	70	2,053	75.1%	\$4,946
Elementary Schools	70	9,953	75.7%	\$5,104
Middle Schools	68	6,576	74.2%	\$4,887
High Schools	27	7,958	83.9%	\$7,757
Total Responding Schools	89	26,540	77.6%	\$6,280
	44%			
Total Non-Public Certified Schools	203	72,000		
Estimated Seats Available		20,832		
<i>Source of data</i>				
Kentucky Non-Public School Commission				
Kentucky School Review				
Responding Schools				
September 2018				

In analyzing tuition costs, facilities and capacity should be included as these factors may be as much as 18% of the underlying tuition fee. The adjacent table sets forth in detail the current tuition costs throughout the state and the capacity of schools to serve additional students with existing facilities.

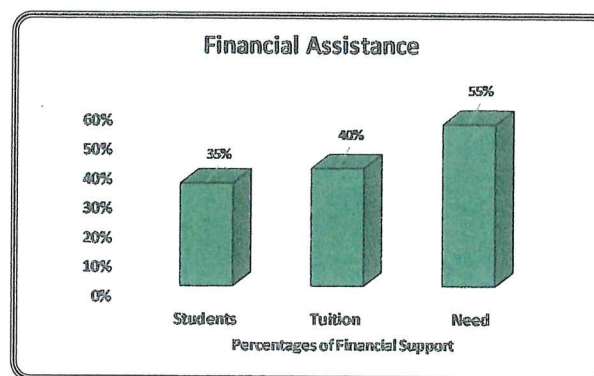
Of particular note is:

- There appears to be meaningful capacity to accept new students without expanding the facilities and,
- The average tuition is on the lower end of experiences nationally.

Financial Need and Assistance

Virtually all the respondents reported they provide some type of need-based financial assistance to families. As illustrated on the chart, the schools cannot generate sufficient resources to fund the demonstrated need for assistance.

- **"Students"** is the percentage of students who receive tuition assistance;
- **"Tuition"** reflects the average (may range from 5% to 99%) percentage of the tuition the financial aid typically covers;
- **"Need"** reflects how much of the families demonstrated need is met on average after considering the families ability to pay, which is typically assessed by a third party such as FACTS.



As illustrated on the above chart, the schools cannot generate sufficient resources to fund the demonstrated need for assistance to meaningfully expand education choice in Kentucky without a change in current law.

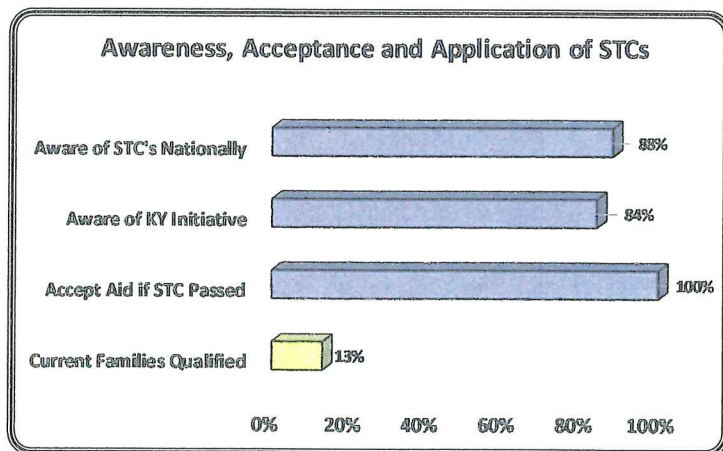
The responding schools have 26,540 students with average tuition of \$6,280 and 35% of the students receiving aid equal to 40% of the tuition. In total the respondents are granting aid of nearly \$23,000,000 either in the form of volunteer time, discounted tuition or funding from donors. Even after that tremendous effort the schools were unable to fulfill 45% of the need indicating another \$19,000,000 gap for demonstrated need. As discussed later, the schools view Scholarship Tax Credits as a means to expand their mission to even lower income families who may need substantially 100% assistance.

Of note, the financial needs would be far greater were it not for the efficient and economical operation of Kentucky's non-public schools; the average tuition is below the national comparisons because of parental engagement, many volunteers and the sacrifice of many teachers and administrators in the schools.

Scholarship Tax Credits

The survey also focused on learning about the awareness, acceptance and application of Scholarship Tax Credits for non-public schools. In view of recent efforts to pass a Scholarship Tax Credit program in Kentucky, respondents were questioned about their awareness of such programs and their inclination to accept students if such a program became a reality.

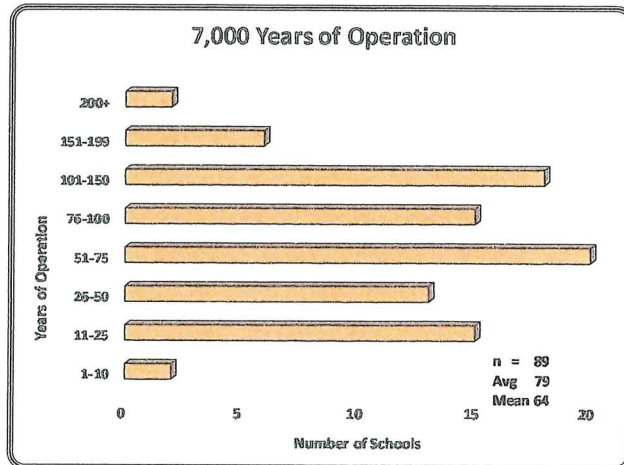
Eighty-eight (88%) percent of the schools were aware of the 18 other states that have Scholarship Tax Credits while eighty-four (84%) percent were aware Kentucky was attempting to pass such legislation. All (100%) of the schools responded that they would accept students who utilize Scholarship Tax Credit if it were available even though the vast majority (87%) of existing students would not qualify for STC funds because of family income thresholds.



Through STCs the schools would have access to greater resources to serve many additional low income families who have greater per family/student need. Under the proposed legislation it is a requirement that the majority of scholarship awards must go to high need students, including students from families whose income is below the federal free & reduced lunch income threshold, special needs students and foster care students.

Trusted and Experienced Schools

Kentucky's non-public schools have a rich and trusted tradition of working along-side public schools in serving the education needs of its K-12 citizens. The chart below illustrates the commitment over time to the students of Kentucky.



Kentucky is fortunate to have long standing and experienced non-public schools as an option for families.

Of the 89 schools that responded, there is cumulative years of operation of nearly 7,000 years and the schools have outstanding academic records.

EdChoice KY Commentary

All Kentucky families should have options when it comes to their children's education. The data collected above reflects that our non-public schools are striving to make this a reality with limited resources. A Scholarship Tax Credit program would provide Kentucky families with more options and more resources to access the school that best meets their children's needs.

Charles H. Leis
President
EdChoice KY
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Frankfort, KY 40601

¹ Private School Review, New York, NY www.privateschoolreview.com

² Kentucky Non-Public School Commission www.kynpsc.org

Exhibit J

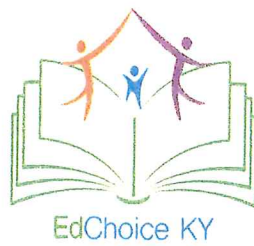
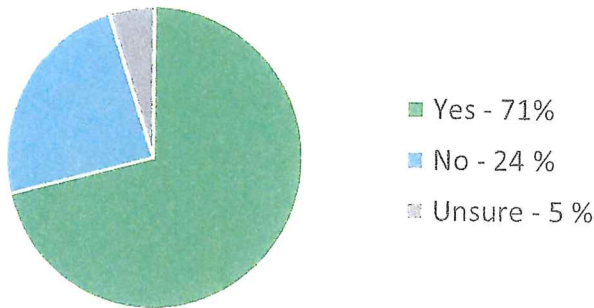


Exhibit J

Education Sentiment Polling Preview

Across the Board, Voters Favor School Choice, Scholarship Tax Credits

Does the KY Education System Need Significant Change?



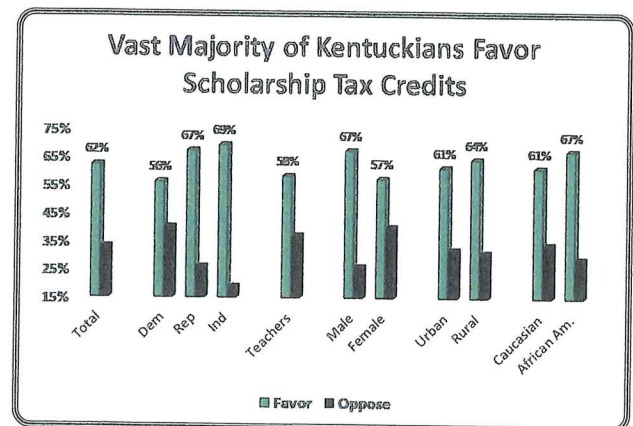
EdChoice KY conducted a poll of likely voters from across the Commonwealth on education issues and the initial findings are stunning.

More than 70 percent of voters believe our education system needs significant changes, with **65 percent of voters in support of bringing school choice programs to Kentucky.**

Among school choice options, Scholarship Tax Credits (STC) saw majority support in the poll.

62 percent of respondents favor the proposal—including:

- **69% of Independents**
- **67% of Republicans**
- **56% of Democrats**
- **58% of teachers**
- **64% of rural households.**



Key Messaging About Scholarship Tax Credits

Polling shows the following are important points for voters to hear from policymakers:

- The proposal provides every student, from every family, regardless of socioeconomic standing, the opportunity to access the education that best meets their needs.
- Scholarships are funded by donations from individuals/businesses—no public money is taken from public schools or given to private schools.
- A Scholarship Tax Credit program could save Kentucky as much as \$2 million without cutting a single penny from the state's education budget.

Learn more about us on the web:



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www.edchoiceky.com



@EdChoiceKY

Scholarship Tax Credits/Public School funding

Myth:

Scholarship Tax Credits take money away from the public schools.

Truth:

Scholarship Tax Credit programs are funded through private charitable donations to nonprofit organizations that provide families with need based tuition assistance. No public money is appropriated by the General Assembly to a non-public school under this program.

Detailed Analysis:

Appropriations for public education funding is authorized by the General Assembly independent of any particular revenue source; in other words it is an appropriation of the General Fund similar to other appropriations.

Under a Scholarship Tax Credit program, there is not an appropriation of public funds and accordingly it cannot divert funds from public schools. Instead, it is a revenue issue.

Scholarship Tax Credits programs is a revenue issue insofar as it is an incentive for the taxpayers to donate their private resources in a specific manner to assist families with demonstrated financial need in having choice in sending their child to a non-public school that fits their children's needs.

The tax credit is a diversion of potential revenue (maximum of \$25 million) from the General Fund. However, the amount of savings from the program exceed the costs. Today, Kentucky non-public schools serve over 70,000 students and save the Commonwealth hundreds of millions of dollars every year. If these schools did not exist, the cost of operating Kentucky's public schools would increase by at least the educational cost of \$6,500 per student or \$455,000,000 per year, likely more.

Because the average amount of financial assistance per student in the non-public school is \$3,300 as compared to the Commonwealth's average SEEK funding of approximately \$4,100, the Commonwealth would experience a net savings of approximately \$1,300,000 if the credits were fully utilized. In addition, the donor taxpayer is not allowed to take a charitable contribution tax deduction on its Kentucky tax return for the contributions made; thereby increasing the General Fund revenue by approximately another \$1,250,000.

Together savings and incremental revenue amount to \$2,550,000 which additional resources the General Assembly may appropriate as it deems fitting. **This type of additional net resources has been experienced by all 18 of the other states that have a Scholarship Tax Credit program in effect!**