SummaSource
at AUBURN MONTGOMERY

Solutions That Drive Success

Final Report

Analysis of the Financial Impact of the Alabama Accountability Act

January, 2017

This report, commissioned by the American Federation for Children (AFC), is an analysis of the financial savings to the State of Alabama from the implementation of the Alabama Accountability Act (AAA). The report:

1. Documents the AAA's financial contributions in calendar years 2014 and 2015; and
2. Provides a forecast of the AAA's potential financial contributions to the state under several potential future scenarios.

The report focuses specifically on the AAA's net fiscal impact on the state of Alabama, not on the merits of the program, itself.

Background

The Alabama Accountability Act (AAA), passed by the Alabama legislature in 2013 and amended in 2015, established a scholarship program for low income students to attend public or private schools. Tax-deductible donations from individuals and organizations for scholarships are managed by Scholarship Granting Organizations (SGOs), which must comply with standards set forth in the Act. The Act places some restrictions on who can receive scholarships based on family income and school zoning. All students receiving scholarships must meet family income eligibility requirements, with priority given to students who are zoned to attend a public school that is failing according to the Alabama State Department of Education (ALSDE) designation; however, students from non-failing public schools may receive scholarships if they meet the income eligibility requirements and additional funds are available. Scholarships are awarded from the SGO to the student to attend a particular school that must meet additional standards set forth in the act. Scholarships may cover all or part of students' tuition and mandatory fees for one academic year. In 2015, the legislature amended the Act to place limits on the amount that could be awarded depending on the grade level (elementary, middle, or high school). The Alabama State Department of Revenue oversees implementation of the Act.

As of October, 2016, similar programs were in place in seventeen (17) other states. Established in 1997, Arizona's program is the oldest. Programs in Alabama, South Carolina, and Kansas are the newest. In Alabama, as in the other states with tax incentives for K-12 education scholarships, the program is expected to provide a net fiscal benefit for the state because spending for students who receive scholarships are expected to be less than the state's allocations per student for public schools. The literature from programs in other states bears this out. A recent study, of ten (10) of the programs large states found that:

1. The programs have generated cumulative net savings worth between $1.7 billion and $3.4 billion to-date.
2. The savings represented between $1,650 and $3,000 per scholarship student.
3. Total cumulative savings from the 10 programs grew every year as the programs expanded
4. The three largest programs (Arizona's Original Individual Tax Credit Scholarship Program, the Florida Tax Credit Scholarship Program, and Pennsylvania's Educational Improvement Tax Credit Program) generated roughly three quarters of all cumulative savings.
5. In the last year of the analysis (SY 2013– 14), the 10 programs generated combined savings worth between $320 million and $580 million.[i]

Methodology

SummaSource's researchers gathered data from several sources to assess the fiscal impact of the AAA program. Specifically:

Data	Source
1. The number of students receiving scholarships under the AAA program in the 2014-2015 school year	Alabama Department of Revenue[ii]
2. The number of public school students in Alabama in 2014 and 2015	Alabama Department of Education[iii]
3. Funding per student for public education in Alabama in 2014 and 2015	Governing.com[iv]
4. The value of tax incentives taken by individuals and corporations in Alabama in 2014 and 2015	Alabama Department of Revenue[v]

Findings

1. **AAA Program Financial Impact-2014 and 2015 (Table 1)**

    a. The AAA program provided scholarships to 5792 students in 2014 and 4110 students in 2015. Of those students, 76.9% of 2014's scholarship recipients (4451) had attended public schools the previous school year. Not being able to determine the actual percentage of 2015's scholarship recipients who attended public schools the previous school year, SummaSource researchers assumed that 75% of 2015's scholarship recipients (3083) attended public schools the previous year.

    b. Net savings to the State from the AAA program were $26.8 million and $3.1 million in 2014 and 2015, respectively. Net savings were calculated by subtracting the public funds the state would have spent for the scholarship recipients who would have attended public schools *from* the taxes the state did not collect because of the tax credits individuals and businesses directed toward scholarships.

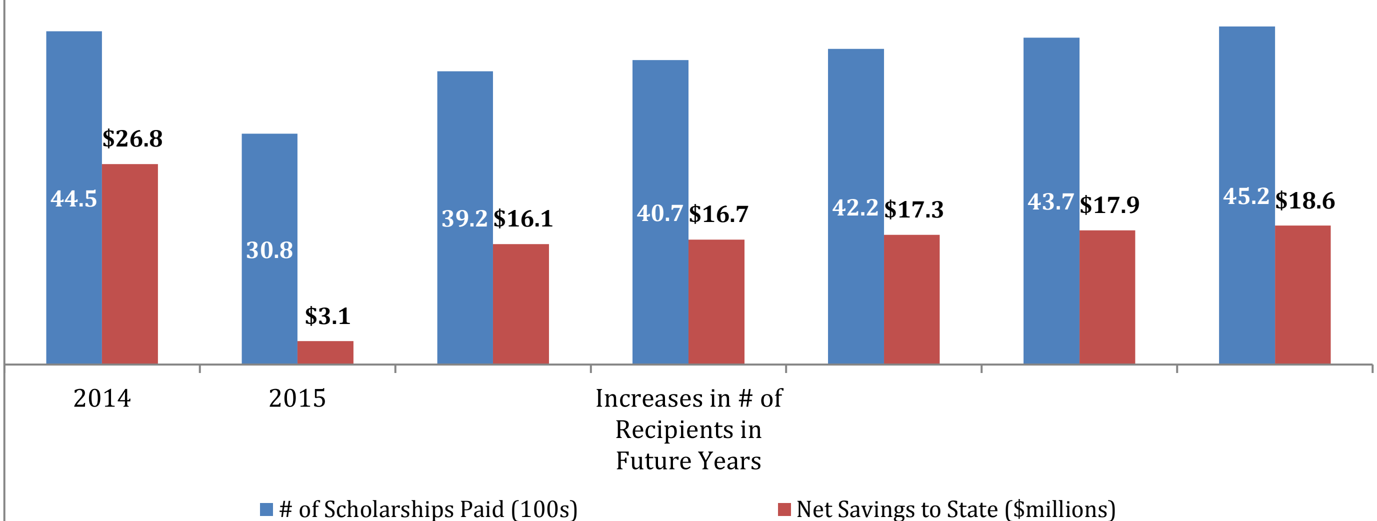
    c. The ratio of public education savings to lost tax revenue was 3.00 and 1.12 in 2014 and 2015, respectively. The ratio is an indicator of the return on the state's investment in the program, that is, the tax revenue the state did not collect as a result of the AAA-directed tax credits versus the tax dollars the state did not spend for AAA scholarship recipients who otherwise would have attended public schools.

Table 1-Enrollment in and Financial Performance of AAA Program in 2014 and 2015		
	2014	2015
# of AAA Scholarship Recipients	5792	4110
# of AAA Scholarship Recipients Who Would Have Attended Public Schools	4451	3083
Net $ Savings to State	$ 26,771,490	$ 3,117,574
Ratio of Public Education Cost Savings to Forgone Tax Revenue	3.00	1.12

2. **Impact of increasing the number of students who receive scholarships in the future (Figure A)**

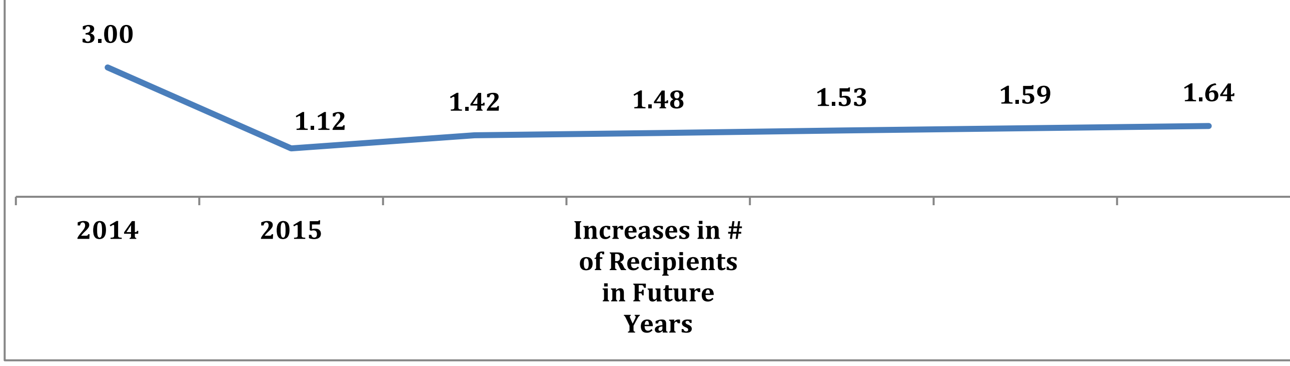
   a. Modest increases in the number of scholarships will increase net savings to the state. Figure A displays the effect on net savings to the state of increasing the number of students receiving scholarships in increments of 150. Each addition of 150 scholarship recipients over the average number of scholarship recipients in 2014 and 2015 increases net savings to the state by approximately $600 thousand per year.

Figure A: Number of AAA Scholarships and Net Savings to the State in 2014, 2015, and with Incremental Increases in the Number of Scholarship Recipients in Future Years



   b. The ratio of tax credit savings to loss of tax revenue yielded 3:1 and 1.1:1 returns on investment in 2014 and 2015, respectively. The returns on the State's investment would improve as the number of students who receive scholarships increases. Increases in the number of scholarship recipients in five increments of 150 from the average number of scholarship recipients in 2014 and 2015 would improve the ratio of public education spending to forgone tax revenue from AAA-directed Tax Credits from 1.12 in 2015 to 1.64. (Figure B).

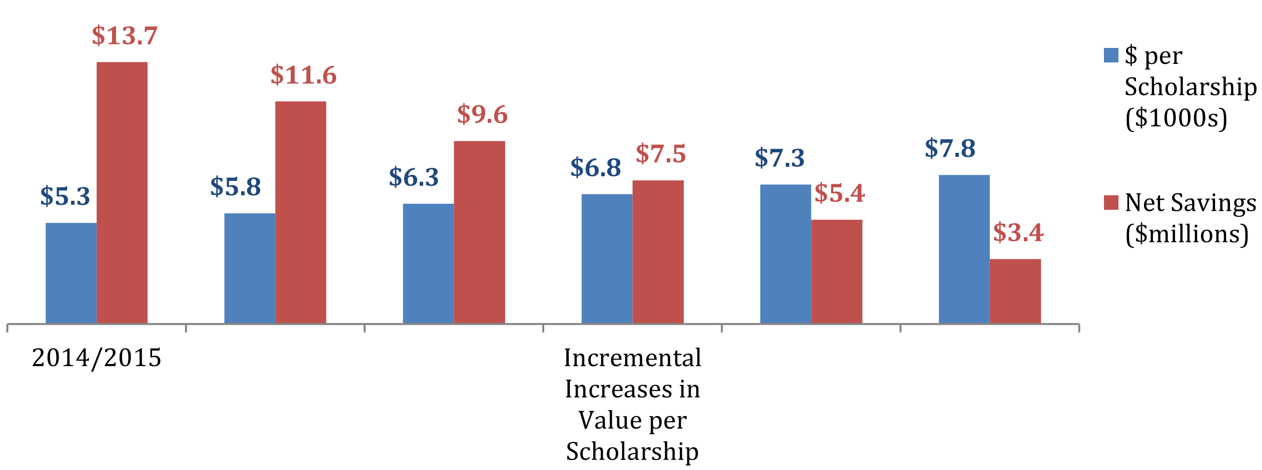
Figure B: Ratio of Tax Credit Savings to Loss of Tax Revenue in 2014, 2015, and with Incremental Increases in the Number of Scholarship Recipients in the Future



3. **Impact of increasing the average value of scholarships per recipient on the State's return on investment**

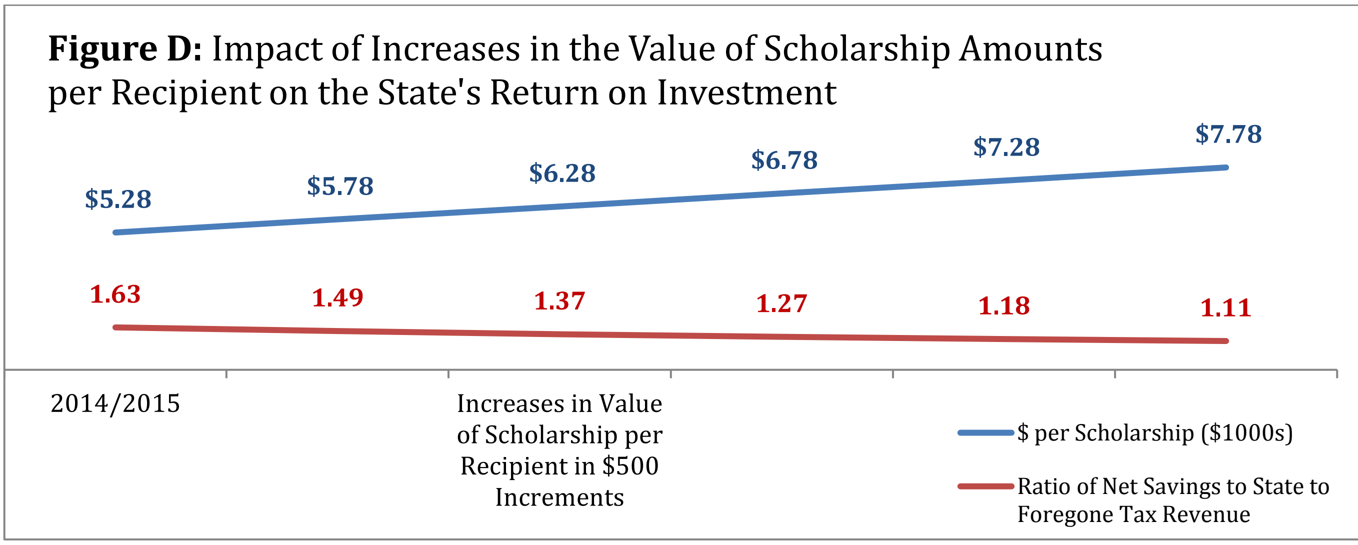
   a. The net savings to the State would decrease if the average value of an AAA scholarship increased from the average amount in 2014 and 2015 of $5,278. Figure C, below, displays the reduction in the State's return on investment for each $500 increase in the value of a scholarship compared to the average value from 2014 and 2015.

Figure C: Impact of Increases in Value of an AAA Scholarship on Savings to the State



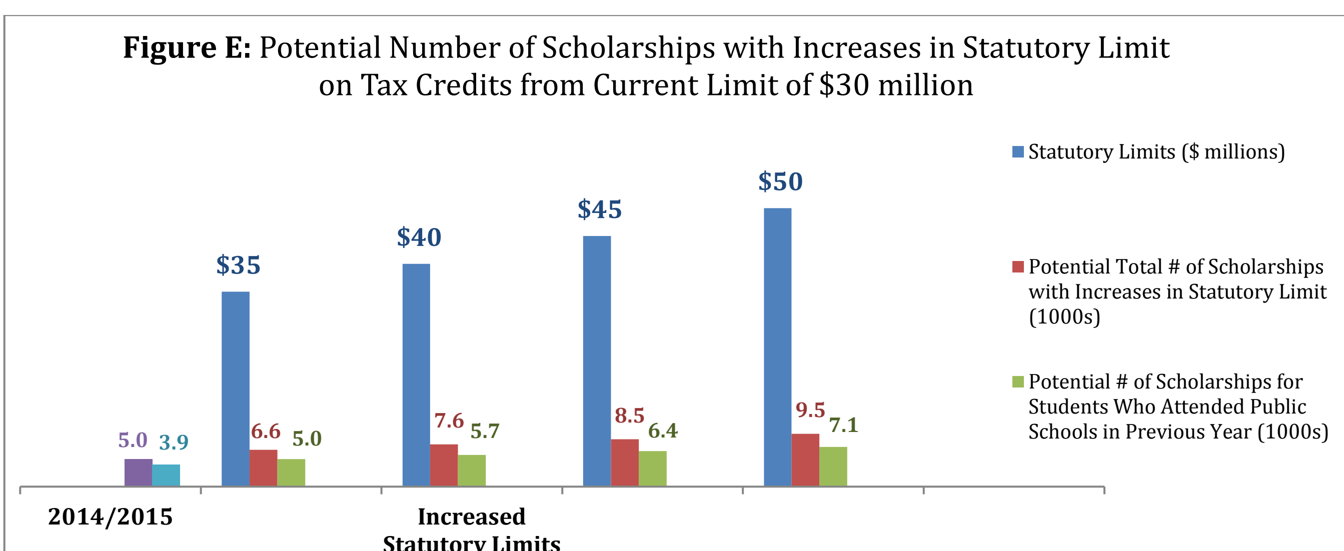
   b. Increases in average value of an AAA scholarship would reduce the return on the State's investment in the AAA scholarship program (the ratio of public education spending avoided to the loss of tax revenue due to AAA tax credits) from its average ratio value in 2014 and 2015 of

1.63:1. Figure D, below, displays this reduced return on investment for each $500 increase in the value of a scholarship compared to the average value from 2014 and 2015.



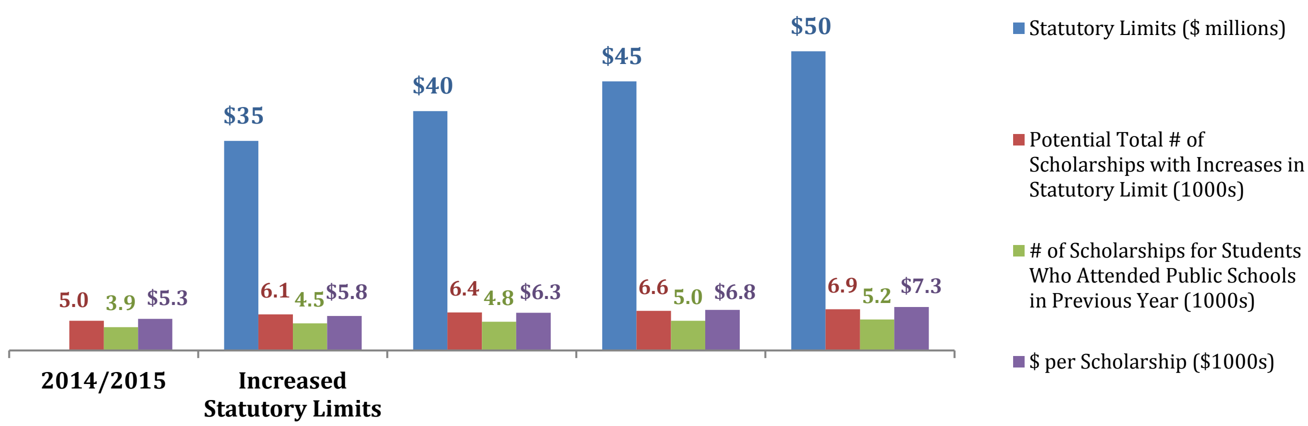
4. Impact of increasing the current million tax credit limit of $30 million

a. If the value of a scholarship remained at 2014/2015's average amount and if the statutory tax credit limit was increased from $30 million to $50 million, the program could fund up to 9474 total scholarships, 7105 of which would go to students who attended public schools in the previous year (Figure E).



b. If the value of a scholarship increased from 2014/2015's average amount of $5,278 to $7,280 and if the statutory tax credit limit was increased from $30 million to $50 million, the program could fund up to 6,870 total scholarships, 5,153 of which would go to students who attended public schools in the previous year (Figure F).

Figure F: Potential Number of Scholarships with Increases in Statutory Limit on Tax Credits from Current Limit of $30 million



c. If the total value of scholarships awarded reached the statutory limit and if the average value of an AAA scholarship remained at its 2014/2015 level, the state would save an additional $3 million for each $5 million increase in the statutory limit (Figure G).

Figure G: Net Savings to the State as the Statutory Limit on Tax Credits Increases

Conclusions

1. In 2014 and 2015:
    a. Nine thousand nine hundred and two (9902) students received scholarships under the Alabama Accountability Act (AAA). Seventy-six percent (76%) of AAA scholarship recipients had attended public schools in the previous year.
    b. The difference between the amount of public funding that these students would have required if they had attended public school and the foregone tax revenue from AAA-directed tax credits generated savings of $29.9 million for the State over the two year period.
    c. The State realized a 63% return on its AAA investment, that is, on the tax credits it granted for AAA-directed scholarships, in 2014 and 2015.
2. Modest increases the number of scholarship recipients would increase the savings to the State by $600 thousand and its return on investment by 5.5% for every 150 additional scholarship recipients.
3. Each $500 increase in the value of the average AAA scholarship amount would reduce the State's net savings by slightly more than $2 million and its return on investment by 8%.
4. An Increase in the $30 million limit on tax credits to $50 million would enable the program to fund nearly 4,000 more total scholarships than the current statutory limit can fund, 3,000 of which could go to students who attended public schools in the previous year, presuming the average value of a scholarship remained at the 2014/2015 level.
5. Increases in the $30 million limit on tax credits to $50 million and in the value of the average scholarship amount by $2,000 from $5,278 to $7,278 would enable the program to fund nearly 1,200 more scholarships than the current statutory limit can fund, 900 of which could go to students who attended public schools in the previous year.
6. Increases in the limit on tax credits from $30 million to $50 million would increase the net savings to the State from $16.1 million to $29.1 million per year.

[i] *Evaluation of the Alabama Accountability Act:*
Academic Achievement Test Outcomes of Scholarship Recipients 2014-2015
The Institute for Social Science Research, University of Alabama, Joan M. Barth and Garrett Quenneville, September 1, 2016

[ii] http://revenue.alabama.gov/accountability/quarterly_public_report_info-SGO.cfm

[iii] https://www.alsde.edu/sec/comm/Quick%20Facts/QF-2016-ONLINE.pdf

[iv] http://www.governing.com/gov-data/education-data/state-education-spending-per-pupil-data.html

[v] AL Department of Revenue-email from Craig Davis (AL Department of Revenue) to Jeff Blancett (SummaSource) 11-8-16