Choices Matter: Creating Education Options for Low-Income Students

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Imagine not having the opportunity for your child to attend the school that you want, and in some cases, need for them to attend, whether it is to support your child's current needs or to position them for success later in life. Before 2001, across our nation, most economically-disadvantaged students had no viable alternative to their zoned public schools. That was until three words: "Parental School Choice."

A BRIEF HISTORY OF STATE TAX CREDIT SCHOLARSHIPS

Parental school choice allows education funding to follow students to the schools that best meet their learning needs despite their zone of residency. In 2001, Florida and Pennsylvania enacted the first corporate tax credit scholarship programs, creating a unique opportunity for companies to partner with nonprofit organizations and families in an effort to create expanded educational opportunities for economically-disadvantaged K-12 school-children.

State corporate tax credit scholarship programs allow companies who pay corporate and other types of taxes to receive a tax credit if they redirect their state tax liability to a state-approved 501(c)(3) nonprofit scholarship granting organization (SGO), such as the AAA Scholarship Foundation. The SGO then uses these redirected tax dollars to fund scholarships for low-income, disabled and/or displaced-children to attend the school (up to grade 12) that best meets their unique learning needs.

Because the first two programs in Florida and Pennsylvania proved so effective, as of 2017, there are now corporate tax credit scholarship programs in 17 states. Of course, each corporate tax credit scholarship program varies from state to state. Some states offer a dollar-for-dollar tax credit (Alabama, Arizona, Florida, Georgia and Nevada) to participating corporations, while others offer between 50 to 90 percent tax credit for the corporation's tax redirection. Additionally, while most of the programs limit scholarship eligibility based on certain income levels or other attributes of the applicants or families, many do not. States that do limit student participation by income include Arizona, Alabama, Florida and Nevada.

The majority of these programs also place requirements and restrictions on the SGOs. Most common are requirements that a certain portion of donations must be used for scholarships, which usually allow for a modest portion to cover administrative costs. Other typical scholarship organization requirements relate to data reporting, how scholarship decisions are made, certification, employee background checks, student testing and financial auditing. Because a corporation's tax redirection is such a gift to the children it serves, it is crucial that the corporation chooses the right SGO to be a good steward of their funds. Due diligence is advised before participating in any state corporate tax credit scholarship program.

THE AAA SCHOLARSHIP FOUNDATION APPROACH

Currently, the AAA Scholarship Foundation is the only state approved scholarship organization in the United States that is approved to manage state corporate tax credit scholarship programs in six states exclusively serving low-income and/or disabled or displaced children.

At AAA Scholarship Foundation, we only participate in state programs that offer a high-yield tax credit opportunity for donors: Alabama, Arizona, Florida, Georgia and Nevada, which provide corporate donors with a dollar-for-dollar tax credit; and Pennsylvania, which provides up to a 90 percent tax credit. We only award scholarships to low-income, disabled and/or displaced children, even if the state program allows for higher-income scholarship recipients or does not have income restrictions, such as in Georgia. We are committed to ensuring that our AAA scholarships are awarded to those students in greatest financial need.

AAA provides companies with the convenience and efficiency of a single solution for participating in multiple state tax credit scholarship programs, enabling companies to meet their tax and philanthropic goals in one or more states. There are many other aspects that set the AAA Scholarship Foundation apart from other SGOs. For example, the AAA Scholarship Foundation:

- Has been awarded the prestigious GuideStar Platinum Seal, demonstrating the highest level of transparency practices in a nonprofit organization;
- Awards scholarships directly to families – not schools;
- Awards scholarships solely to qualifying low-income, disabled and/or displaced students;
- Awards scholarships for at least a 3-year term in states that allow multi-year commitments – we believe that the continuity of an educational setting is important for children to succeed;
- Is managed by the nation's leading state corporate tax credit scholarship program professionals with over 15 years of experience successfully administering programs;
- Has a CPA on staff to ensure that company's tax questions are answered correctly and to ensure timely and accurate reporting; and
- Limits overhead costs to 4.14 percent for administrative funding (3 percent in Florida).

WHY PARENTAL SCHOOL CHOICE MATTERS

Since 2001, state corporate tax credit scholarship programs have proven to be a beneficial opportunity for corporations, families and communities as a whole. The programs are extremely popular with the families they serve, as well as the companies that participate, because they give at-risk students an increased chance at a brighter future and give companies the satisfaction that they are utilizing their tax dollars toward building a better educated workforce.

Many children who participate in these programs are either performing at below grade level, failing at their previous school or both when they receive a corporate tax credit scholarship. Parents who find their children in these circumstances and care about their future look for viable options. They seek an atmosphere that challenges their child and will reverse inadequate learning, social patterns and the potential lifelong negative impact. They wish to change their child's learning environment, acquaintances and the unfortunate, predictable outcomes associated with school failure. For low-income children, who are often several grade levels behind their peers, these programs are a lifeline for paving a pathway out of poverty. By simply redirecting their taxes, companies make a life-changing difference for a child.

Initially, states implemented state corporate tax credit scholarship programs as a tool to increase overall graduation rates in areas of high poverty. Poverty has been shown to play a key role in lowering graduation rates. Early proponents of tax credit scholarship programs sought to provide additional educational opportunities for low-income children in an effort to change that dynamic, but they found that this was just one of the benefits. The wider impact that these programs provide is why they have been duplicated in multiple states.

Studies have found that the state corporate tax credit scholarship programs:

- Incur significant tax savings for states where they are implemented. Typically, the scholarship awarded to the student to attend a school of their choice is significantly lower than the cost to educate the same child in their district assigned school. In 2014, a study showed that Pennsylvania saved closed to $800 million through its tax credit scholarship program annually[1], and in Florida, the Office of Program Policy Analysis Government Accountability found that the tax credit scholarship program saved taxpayers $1.49 for every dollar redirected[2];
- Lower crime rates. A 2016 working paper by DeAgelis and Wolf concluded that parental school choice reduces the proclivity of students to commit crimes[3]; and
- Increase the performance of all schools. In 2010, a report written by Northwestern University economics and social policy professor David Figlio found that the creation of the Florida Tax Credit Scholarship Program led immediately to academic improvement in the public schools as well.[4]

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[1] Andrew LeFevre, "Ten Thousand Lifeboats: Improving Students' Educational Features via Pennsylvania's Scholarship Tax Credit Programs," Policy Brief from the Commonwealth Foundation, Vol 26, No. 1, September 2014 available at http://www.commonwealthfoundation.org/docLib/20140912_PBEITCFinal.pdf

[2] Florida Legislature Office of Program Policy and Analysis and Government Accountability, "Florida Tax Credit Scholarship Program Fiscal Year 2008-09 Fiscal Impact," Research Memorandum, March 1, 2010, available at http://www.fldoe.org/core/fileparse.php/5423/urlt/OPPAGA_March_2010_Report.pdf

[3] Corey A. DeAngelis and Patrick J. Wolf, "The School Choice Voucher: A 'Get Out of Jail' Card?" SSRN.com, March 8, 2016, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2743541

Anecdotally, we have found in our 15+ years of managing these programs that they:

- Empower not just the student who receives the scholarship, but the entire family. We have heard so many stories of parents who go back and get their GED or college diploma. Many scholarship recipients are the first in their family to go on to college, inspiring siblings who do the same;
- Provide a well-trained workforce for the economy. We are able to work with companies to ascertain what skills they need and then share this information with our students so they can start to acquire the necessary skills; and
- Build successful public-private partnerships. Because of the direct engagement of businesses in the educational process, where businesses fund scholarships in exchange for state tax credits, these programs are tremendously successful public-private partnerships, oftentimes helping families directly in the communities where the donor companies operate their businesses. Employees are proud to be a part of these programs, realizing that the work that they do often leads to providing a scholarship to a child in their community.

STATE TAX CREDIT SCHOLARSHIP PROGRAMS AS CRA INVESTMENTS

In addition to having a say in where their tax dollars are spent, corporations including banks also enjoy the advantage of an increase in their philanthropic budget without an increase in spending. For financial institutions, there is an added benefit to participating in the state corporate tax credit scholarship program, as examiners at the bank regulatory agencies have approved dollars transferred to fund scholarships through these programs to qualify for positive consideration under the CRA investment test.

Before participating with any SGO, financial institutions need to clarify that the SGO only serves low-income children and compare the scholarship family's income to the median income to determine whether it's at or below 30 percent (extremely low), 50 percent (low) or 80 percent (moderate) of the Area Median Income. The AAA Scholarship Foundation's typical scholarship student is an ethnic minority living with a struggling single parent/caregiver in a high-crime community. More than 85 percent of AAA scholarships are distributed to children at or below 185 percent of poverty.

Although these state corporate state scholarship programs have made significant progress since their inception, a great need still remains. According to the 2016 Annual Grad Report by Civic Enterprises and Everyone Graduates Center at the School of Education at Johns Hopkins University, only 74.6 percent of all low-income students graduated compared to 89 percent of non-low-income students. However, through innovated education initiatives like corporate tax credit scholarship programs, those numbers are getting closer and closer to being equalized.

As we look at the CRA on its milestone 40th anniversary, we are excited to be making a major impact in the lives of low-income students throughout the country. Knowing that banks can empower the immediate and future success of so many students, while still meeting their CRA obligations, is rewarding for everyone involved.

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[1] David N. Figlio and Cassandra M.D. Hart, "Competitive Effects of Means-Tested School Vouchers," National Bureau of Economic Research Working Paper No. 16056, June 2010, available at http://www.nber.org/papers/w16056

ABOUT THE AUTHOR

KERRI VAUGHAN has been working in the fundraising arena for more than 20 years. She currently serves as Managing Director for the AAA Scholarship Foundation. AAA is a 501(c)(3) nonprofit organization and approved Scholarship Organization exclusively serving low-income children through Scholarship Tax Credit Programs in six states – Alabama, Arizona, Florida, Georgia, Nevada and Pennsylvania. An exceptional leader, who builds, manages and inspires high-performing teams, she formerly oversaw the development efforts of Step Up For Students and raised more than $1 billion in state tax credit and philanthropic contributions to fuel tax credit scholarship programs in Florida. She is recognized nationally for her fundraising expertise and success, and served on the boards of the Miami-Dade Industrial Development Authority and Consumer Debt Counselors.

ABOUT THE BOOK

This article first appeared in **CRA at 40: Views on the Present and Future of Community Reinvestment**, published by findCRA in November 2017. The book was created in celebration of the 40th anniversary of the Community Reinvestment Act. It tells the stories of community development, from the perspective of those working in our communities who bring their knowledge and passion to bear every day in confronting the most critical problems facing communities in need. The book is about real-world experiences told in plain language by those who live them to provide a lens for readers to see CRA at work, ideas for its future and most importantly, what it means in people's lives. To access the full text or order copies of the book, please visit www.findCRA.com/CRAat40.