

## Projecting the Fiscal Impact of SB 539—Arkansas Tax Credit Scholarship Act<sup>1</sup>

### Overview

- The bill would create a tax credit for contributions to eligible student support organizations (SSOs) that provide scholarships.
- The credit is non-refundable and unused credits can be carried forward for up to 5 years.
- The student support organizations award scholarships up to the foundation funding amount for the year.
- Students receiving scholarships attend a non-public school for the academic year.
- **Eligible students include low-middle income households transferring from public schools, students with IEPs, dependents of military service members, and students in foster care.**
- If not all applicants can be funded, the bill requires scholarships to be awarded in the order in which the applications are received.
- The tax credit is limited to \$3 million annually.

### Key Points

- Arkansas' school funding formula guarantees each district has at least an adequate amount per pupil. This amount was \$6,713 for the 2017-2018 school year, and is \$6,781 for the 2018-2019 school year.
- Each district generates revenue for schools with a 25 mil local property tax. This revenue fluctuates with the local tax base, but does not change with the number of students. The state is effectively the funder of last resort, providing whatever funding is needed to get to the foundation amount when combined with local revenue.
- The state also provides categorical funding for compensatory poverty spending, professional development, alternative learning environments, and other needs. These categorical funds are not included in the scholarship amount and represent potential savings to the state because they are provided to public school districts based on their enrollment counts.
- The costs of SB 539 are very simple and straightforward to estimate. A tax credit of \$3 million is anticipated to reduce state revenue by \$3 million. If we assume all SSOs utilize the maximum allowed administration expense and provide the maximum allowed scholarship amount, the revenue cost per scholarship is **\$7,459**. These assumptions provide the largest possible revenue cost per scholarship. At this rate, a \$3 million tax credit will fund 402 scholarships.
- Students using the scholarships to attend non-public schools also reduce the school funding obligations as private schools now have the obligation to provide all educational resources rather than state funded schools. These savings from reduced funding obligations are not directly observed and must be calculated based on the education funding formula applied to the financial and demographic data of each district.
- Because the state funding formula makes adjustments for districts that are experiencing increasing and declining enrollment, the effects in the first year of the program can be quite different than in subsequent years. Since more districts are experiencing increasing enrollment than declining, the state savings are higher in the first year when looking at the state average.
- Assuming all students are equally likely to use the scholarship and take the demographic characteristics of the "average" student in their district the state saves an average of **\$7,577** per scholarship user. SB 539 generates a projected net savings to the state of **\$45,954** per year after the first year, with higher savings expected in the first year.

### **Fiscal Effects of SB 539**

<b>Education Funding Savings</b>	\$3,045,954
402 scholarships* \$7,577	
<b>Tax Credit Revenue Costs</b>	<u>-\$3,000,000</u>
<b>Net Savings</b>	\$45,954

---

<sup>1</sup> All financial figures are based on the 2018 Annual Statistics Report found at [http://www.arkansased.gov/divisions/fiscal-and-administrative-services/publication-and-reports/report\\_categories/annual-statistical-reports](http://www.arkansased.gov/divisions/fiscal-and-administrative-services/publication-and-reports/report_categories/annual-statistical-reports). This is the most recent report currently available.

The table below shows the average and median projections for education funding savings for Arkansas districts based on size for the first year and long-term.

<b>Education Funding Savings (per student)</b>	<b>First Year</b>		<b>Long Term</b>	
	<b>Average</b>	<b>Median</b>	<b>Average</b>	<b>Median</b>
<b>Small Districts (enrollment &lt; 775)</b> 89 Districts/ 48,772 students	\$8,223	\$13,873	\$7,309	\$7,345
<b>Mid-Size Districts (enrollment 775 - 1725)</b> 79 Districts/ 90,308 students	\$7,929	\$8,113	\$7,500	\$7,705
<b>Large Districts (enrollment 1725 - 8000)</b> 56 Districts/ 171,453 students	\$8,527	\$11,292	\$7,559	\$7,381
<b>Metro Districts (enrollment &gt; 8000)</b> 11 Districts/ 149,447 students	\$7,629	\$8,353	\$7,629	\$7,738
<b>State Total</b>				
District Average	\$8,140	\$11,392	\$7,445	\$7,441
Student Weighted Average	\$8,085		\$7,577	

- It is noteworthy that the metro districts generate the highest savings per student and these districts are located in areas with higher population density and the largest concentration of private schools in which scholarship users are likely to enroll. To the degree that scholarship users disproportionately leave the largest districts, the savings generated by SB 539 will be larger.
- SSOs that operate on less than the maximum allowable administrative expense or offer less than the maximum scholarship amount will also generate larger savings without increasing the revenue cost of the bill.