

# A TIME FOR CHOOSING: TAX CREDIT SCHOLARSHIPS

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## **EXECUTIVE SUMMARY**

School-choice programs, whether in the form of vouchers, charter schools, or tax-credit scholarships, have been shown to increase educational achievement, especially among students from low-income households, by expanding the school options available to parents. While many states have embraced school choice as a means of improving outcomes for students from the worst socioeconomic backgrounds, Nebraska is one of six states that have yet to do so.

While the growing body of research on school-choice measures has still not reached consensus on their effects on different income groups, the one consistent theme is that charter schools, voucher programs, and tax-credit scholarship programs improve results among minority students from high-poverty households. My case-study analysis reveals that tax-credit programs that offer scholarships to students who qualify can narrow racial achievement gaps. This empirical regularity should be of particular interest in a state such as Nebraska, which is home to the nation's third-highest achievement gap between black and white students (Stanford CEPA 2016). To take a first step in the direction of greater educational equality, Nebraska should adopt a tax-credit scholarship program that builds on the experience of other states. In addition, a more comprehensive move toward greater school choice through charter schools and voucher programs should be seriously considered.

## INTRODUCTION

Proponents of school choice, from Milton Friedman<sup>1</sup> to Pope Francis,<sup>2</sup> have repeatedly enumerated its benefits for the family and the whole of society. They believe school choice returns to parents the opportunity to choose the schools their children will attend and flourish in, whether public, private, charter, parochial, or in the home. Presented with the reality that the US public education system steadily outspends and underperforms compared to other developed Western nations, which typically offer more school choice, the general public views school choice as an imperative way to educational success. In fact, Beck Research has found that nearly 70 percent of Americans support school choice (Beck Research LLC 2016). Field expert Caroline Hoxby (2003), an economics professor at Stanford, captures the urgency of increasing American school productivity through choice:

If Americans wish to continue enjoying a growing economy that is centered around human capital-intensive products, they cannot be indifferent about rapidly falling productivity in their schools ... the effect of choice on school productivity is not interesting simply because it could overwhelm the allocation effects of choice on achievement; it is interesting because it also has broad implications for the macroeconomy, for trade and for Americans' jobs.

Originally introduced through the school-voucher program, in which governments return tax money to parents to apply toward tuition at an accredited educational institute, school choice has also been propelled forward through the authorization of charter schools and similar tax-credit scholarship programs. The first school-choice measure was initiated in 1873 with a voucher program in Maine, and researchers have since been actively collecting information on it and reporting on the progress it has effected. Minnesota, Wisconsin, Florida, and Arizona have all emerged as useful case studies

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<sup>1</sup> "Public education funds should follow students to the schools or services that best fit their needs" ().

<sup>2</sup> "The State offers educational programmes in a subsidiary way, supporting the parents in their indeclinable role; parents themselves enjoy the right to choose freely the kind of education – accessible and of good quality – which they wish to give their children in accordance with their convictions" (Francis 2016, 66).

because their school-choice programs have had positive results for the participants and their communities. Studies have reported that school choice provides benefits ranging from increased disciplinary performance (through so-called No Excuses urban charter schools) to success in teaching the seven civic values (Wolf 2007).

This paper considers in particular the measures that seem to be most successful at raising the educational achievement of poor and minority students. Case studies from Florida and Arizona indicate that tax-credit scholarship programs fit that description. A comparison among Nebraska's neighboring states Iowa, South Dakota, Kansas, and Colorado, which have a student body comparable to Nebraska's, reveals that the structure of such a program is crucial. Nebraska is well positioned to identify and adopt current best practices in school choice to close the 35 percent achievement gap between black and white students and likely save taxpayers money.

## **LITERATURE REVIEW**

To implement a successful school-choice program in Nebraska, it is important to first understand what tools we have at our disposal. The three most popular policy options for state-level school-choice programs are vouchers, charter schools, and tax-credit scholarship programs. School vouchers return to parents all or a portion of the funding set aside for their child's public school education (currently \$12,773 in Nebraska) so they may use it for religious or nonreligious private school tuition. Vouchers raise the quality of public school education through increased competition. Charter school authorization bills, usually written by community members personally familiar with the situation, create an alternative to a local public school that might not be meeting the needs or expectations of current students. Tax-credit scholarships increase choice by allowing taxpayers to receive full or partial tax credits if they donate to a nonprofit organization that grants K-12 scholarships to children from low-income households who are interested in attending a school other than their local public school. A tax-credit scholarship program allows community members to help improve education outcomes for minorities within their community at a grassroots level. Existing programs typically have a tax-credit cap so that the availability and size of scholarships can be adjusted. All three of these measures return choice to parents to foster healthy competition among

schools and improve education quality. Stanford economist Carolyn Hoxby (2003, 288) goes so far as to say that school-choice measures that increase school productivity are “a tide that lifts all boats.” A quick survey of the empirical evidence regarding each program will help identify which solution would be the most fitting for Nebraska.

### ***Voucher Programs***

Figlio and Hart (2014) study the competitive effects of means-tested school vouchers within the Florida Tax Credit (FTC) Scholarship Program.<sup>3</sup> As I previously stated, theory predicts that increased competition that results from greater school choice generally leads to public schools altering their practices to become more productive. Additional theoretical predictions include a change in the composition of the student body (because low achievers are more likely to switch schools) and an increase in financial resources available per public school pupil (provided large numbers of students are not using the voucher). Figlio and Hart (2014) attempt to isolate the effect of the FTC tax-credit program on public schools within a flourishing private school environment that is most robust to the competitive shock from vouchers. They primarily focus on the number of private school options within five miles of a public school as a measure of competition and the average of standardized math and reading scores as a measure of student performance. The authors find immediate yet modest improvements in traditional public schools after the introduction of a school voucher, especially schools just above the mark to receive Title I funding and therefore have pronounced financial incentives to keep students. More specifically, their results suggest that for every standard-deviation increase in competition, test scores increase by 0.05 standard deviations.

Forster (2013) reports on research from a specific study of Milwaukee, one of the most racially segregated cities in America and home of the Milwaukee Parental Choice

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<sup>3</sup> Prior literature found null to modest effects of voucher programs on the public schools due to increased competition; examples can be found in Hoxby (1994; 2003), Jepsen (1999), Rouse et al. (2013), and Chad and McMillan (2009).

Program, which provides vouchers.<sup>4</sup> He finds that from 1994, when the Department of Education started to measure private school racial composition, to 2008, after the voucher program took full effect, Milwaukee private schools' student bodies shifted from 75 percent white to just 35 percent white. All six of the studies that measure the outcomes of Milwaukee's voucher program report positive effects on public schools. Forster also points out that Florida's voucher program improved the targeted underperforming public schools by the mere threat of introducing a voucher program.

### ***Charter Schools***

Angrist, Pathak, and Walters (2013) build upon evidence that charter schools can dramatically increase performance for minority students in high-poverty areas but have little effect for students attending charter schools outside of urban centers. Their study seeks to provide a theoretical framework to understand the particular student- and school-level variables that result in these differences in outcomes. In terms of student-level variables, urban public schools and charter schools have greater numbers of poor minority students. An important school-level variable concerns how two-thirds of urban schools utilize the No Excuses approach,<sup>5</sup> which includes high disciplinary standards, traditional approaches to reading and math, college preparation, and emphasis on teacher quality, while no non-urban charters in the sample directly adhere to that philosophy. After accounting for student demographics and differences within the schools, Angrist, Pathak, and Walters find that No Excuses urban charter schools generate math and English language arts gains of 0.21 and 0.15 standard deviations over regular charter schools. Their school-level-variable findings are consistent with research in New York, reported on by Dobbie and Fryer (2011), that points to high expectations, frequent teacher feedback, high-dosage tutoring, increased instruction time, and data-driven instruction as the five key components to charter school effectiveness. These are all characteristics of No Excuses, among which Angrist,

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<sup>4</sup> Losen et al. (2015) report that K–12 schools in Milwaukee suspend blacks at a higher rate than anywhere else in the country.

<sup>5</sup> The No Excuses approach specifically features uniforms, stringent discipline codes, video-recorded lessons for teacher feedback, and cold calls in the classroom (Angrist et al. 2013).

Pathak, and Walters find that discipline may be especially important. They conclude from their Massachusetts sample that No Excuses urban charter schools generate positive results, especially for poor minority students, while non–No Excuses schools in urban or rural settings do not.

### ***Tax-Credit Scholarships***

Tax-credit scholarship programs allow full or partial tax credits for taxpayers who donate to nonprofits that award K–12 private school scholarships. The size and number of these scholarships depends on the legally set cap for the amount of credits distributed in each state. Successful tax-credit scholarship programs take into account the number of students eligible for participation, motivate private donations, and motivate families to choose between their new school options. Each state has a few options for varying the structure of its program to achieve these different aims. Backstrom (2014) lists his characteristics of a successful program: individuals and businesses may donate and receive tax credits, there should be dollar-to-dollar tax credits, scholarships should be available to students from all backgrounds, scholarships should cover full private school tuition, private schools should be allowed to retain their autonomy, and automatic escalator clauses should be built in to meet the demand.

Florida is home to the largest tax-credit scholarship program in the nation (\$286.3 million in scholarships) and resides at or near the top of every tax-credit program ranking. The state therefore provides an excellent model. Besides researchers finding statistically significant improvements in Florida’s public schools as a result of the introduction of the state’s tax-credit scholarship program, Ladner and Burke (2010) report that Florida is the only state that has made significant progress in narrowing the educational achievement gap between white and minority students through a reform model with multiple school-choice measures. Specifically, their research finds that through a suite of school-choice reforms, “Florida’s Hispanic and black students outscore many statewide reading averages for all students.” A notable feature of Florida’s law is its demand-based automatic escalator clause, which allows the program to expand by 25 percent for the next year should 80 percent of scholarships be claimed in any given year. This is crucial since it allows the supply of funds from generous donors to meet the demand of parents excited to exercise school choice.

## BRINGING TAX-CREDIT SCHOLARSHIPS TO NEBRASKA

The Sunshine State is dissimilar in obvious ways to Nebraska, so it might be useful to look at what neighboring states, particularly Iowa, South Dakota, Colorado, and Kansas, have done in terms of school choice and what the consequences have been. Though the school-choice programs in the neighboring states are still fresh, their existence demonstrates significant support and interest in such measures to improve educational outcomes, such as K–12 achievement or narrowing the achievement gap. Table 1 provides a quick summary of the current landscape.

Kansas just implemented a tax-credit scholarship program in 2014. Unfortunately, the Kansas program does not allow for individual donations to receive tax credits, and its income-eligibility level is the second lowest in the nation. Therefore, many experts consider it a very weak program.

**Table 1: School choice, achievement rank, and black-white achievement gap of neighboring states**

State	Voucher system	Charter schools	Tax-credit scholarships	K-12 achievement rank	Black-white achievement gap
Colorado	X	X		11 <sup>th</sup>	-32%
Kansas		X	X	31 <sup>st</sup>	-26%
Iowa			X	34 <sup>th</sup>	-30%
<b>Nebraska</b>				<b>35<sup>th</sup></b>	<b>-35%</b>
South Dakota				43 <sup>rd</sup>	-25%

Note: The information displayed in this table was obtained from the National Assessment of Educational Progress (1992; 2015).

Iowa's tax-credit scholarship program ranks tenth out of fourteen programs offered in different states, though its full implementation has meant that every dollar available for scholarships has been distributed to students (Backstrom 2014). A few notable issues may limit the program's full potential: the threshold family eligibility is low, only 65 percent of the value of donations can be claimed as tax credit, and there is no automatic escalator clause. Nevertheless, with participation the fourth highest (2.6 percent of population aged 5–17), it demonstrates high demand from parents for increased school choice.

**Table 2: Fourth-grade math scores and black-white achievement gap for Nebraska vs. the national average (1992 and 2015)**

	All students 4th-grade math		White-black score gap	
	1992	2015	1992	2015
National average	218.58	239.85	34.76	24.20
<b>Nebraska</b>	<b>225.33</b>	<b>243.86</b>	<b>37.73</b>	<b>33.46</b>

Note: The information displayed in this table was obtained from the National Assessment of Educational Progress (1992; 2015).

The Cornhusker State was once known for its high educational achievement, but the state has fallen behind recently. As seen in the table above, students in Nebraska increased their National Assessment of Educational Progress (NAEP) fourth-grade math scores by eighteen points from 1992 to 2015, while the national average increased twenty-one points. Furthermore, the white-black score gap fell by ten points nationally but only four points in Nebraska. Currently, the most pressing problem in Nebraska education is that students from minority populations and low-income households do substantially worse than the typical white student. A tax-credit scholarship program in Nebraska could impact the 143,608 children who qualify, and, reasonably capped at \$20 million, would save the state \$9.8 million in education costs. This policy could correct the black-white achievement gap (as a similar voucher program did in Milwaukee) while reducing education spending (the state has the nation's eighteenth-

highest spending per pupil; US Census Bureau 2013). If Nebraska wants to avoid neighboring states' design problems, it should assess each element of the policy design against its chosen objectives.

## **CONCLUSION**

Nebraska is one of only six states that does not have school choice, though the reality that Nebraska spends the thirteenth most per pupil while ranking thirty-fifth in educational performance in public schools warrants that Nebraskans strongly consider such a program. The fact that the black-white achievement gap in Nebraska is the second highest in the nation for fourth-grade math (for example) shows a clear need for improvement. Reducing educational inequality would be a reasonable place to start when choosing the specific goals of a school-choice program in Nebraska.

This paper proposes that Nebraskans consider a tax-credit scholarship program to make a small step in the direction of alleviating this achievement gap and increasing school choice for low-income families in Nebraska. A recent successful example of such a program in another state is the Florida Tax Credit Scholarship Program, which gave 59,674 children the opportunity to attend the school of their choosing in 2014 alone. The Florida program has resulted in significant improvements in public school performance due to increased competition, and saves the state \$1.44 for every \$1 given away in tax credits.

Such a program in Nebraska, capped at \$20 million, could save the state \$9.8 million in education costs. Grass-roots support for school choice, as reported by Beck Research, continues to increase and is notably the strongest among Hispanics (76 percent), African Americans (also 76 percent) and Millennials (75 percent). In addition to theory, many years of experience in other states gives reason for confidence that a tax-credit scholarship program would have the above benefits. Although well-to-do families in Nebraska have many options available when it comes to their child's education, the large majority of low-income parents need vouchers or scholarships to access the school of their choice. Now is the time to choose.



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