

Charter Schools & Tax Credits

CHARTER SCHOOLS

Charter schools allow groups of parents, educators, and community members to create publicly funded schools that are free of many, but not all, state and local regulations and labor-management agreements. Like other forms of school choice, charter schools have the goal of increasing educational options available to students and ceding increased authority over enrollment decisions to students and their parents.

Oregon's current charter school laws are considered to be fairly strong, meaning that they tend to foster, rather than stifle charter school activity. Oregon ranks 16 out of 41 states and receives a "B" from the Center for Education Reform on its state-by-state report card of the strength of charter school laws. Notwithstanding the strength of Oregon's laws supporting for charter schools, supporters of charters argue that less than full funding of charter schools hobbles school success; on the other hand, charter school critics contend that the schools perform no better—and sometimes worse—in typical measures of student achievement.

FUNDING

Oregon charter schools do not receive the same level of funding as non-charter public schools. In contrast, as shown in the appendix, most states with charter schools provide for full funding per student of charter schools. Oregon law specifies that funds flow to the charter school sponsor (usually a school district) which then forwards 80-95 percent to the charter. The two main reasons usually offered for provided less than full funding to charter schools is (1) the sponsor incurs costs in overseeing the charter school, and (2) charter schools in Oregon are not obligated to provide transportation for all their students.

Student transportation represents approximately five percent of per-student current expenditures. As noted in *Improving Quality and Strengthening Accountability in Oregon's Schools* (2005), policymakers justified providing schools with less than full funding as a way to compensate the district for transportation costs. This justification is somewhat questionable because of the size of the shortfall in funding cannot fully be explained by transportation costs. Moreover, charters themselves must defray many real estate costs not charged to traditional public school operating budgets. In many cases, such costs are greater than the costs associated with a transportation obligation. Indeed, some of those involved in the discussion of the current laws have noted that the formulas for funding

charter schools have no cost basis and were simply compromises necessary to enact charter legislation into law.

ACHIEVEMENT

The *Oregonian* reviewed various measures of student performance at charter schools and concluded that the state's charter elementary and middle schools are largely outperforming regular schools but most charter high schools are underperforming.¹ The newspaper reviewed two years of reading, writing and math achievement scores, attendance and dropout rates at 45 charters, reviewing one year of data for new schools. The data were compared with regular schools that have similar student populations.

The *Oregonian* concluded that students attending charter elementary and middle schools are, on average, outperforming their counterparts (i.e., have higher test scores and attendance rates and lower dropout rates) in regular schools, including schools with similar levels of student poverty, mobility and limited English. Conversely, the newspaper concluded that charter higher school students' achievement, attendance and dropout rates underperform regular high schools, even those with similar demographics.

Figure 2 (at the end of this report) summarizes the data reviewed by the *Oregonian*. Of the seven elementary schools (e.g., K-5) for which data is available on charter and similar school performance, five charters performed as well as or better than schools with similar demographics in both reading and math. Of the eight primary schools (K-8), seven performed as well as or better than similar school in meeting state benchmarks. At the middle school level (e.g., 6-8), two of the four charters had better performance in meeting state benchmarks for reading and math.

At schools with high school students (e.g., 9-12), only three of eleven charter schools outperformed similar schools in reading and only one outperformed similar schools in math. This observation is supported by the regression results described in *Education Spending and Student Achievement* (2006). These statistical models evaluated the relationship between instructional spending per student and student test scores, measured by NRIT. To the extent possible, the regression models accounted for demographic differences across schools. The results showed a statistically significant negative relationship between charter schools and test scores on math. The average math test scores among tenth grade charter school students was approximately 4 points lower than regular schools.

The first charter school legislation was enacted in Minnesota in 1991. Consequently, much of the research on charter school performance is relatively inchoate. One of the most serious deficiencies in existing research is measurement of the school selection decision. Although demographics may help explain some differences in charter school performance, little research

¹ Carter, Steven. "Not All Charters Are Passing the Test." *Oregonian*. October 30, 2005.

exists that models the parent/guardian's choice to put a child in a charter school. For example, several elementary charter schools offer innovative approaches or supplemental programs—such as Montessori methods or a focus on arts or technology—that may appeal to parents/guardians. Parents/guardians who spend the time and effort to investigate various alternative programs have a tendency to be more involved in their child's learning once enrolled. This type of parental involvement would be reflected in better student performance.

At higher grade levels, charter schools have a tendency to focus on programs for students with difficulties in succeeding at regular schools. Parents/guardians who choose to send their children to these schools may do so because regular schools were not perceived to be adequately educating their children. These students likely were underperforming their peers at regular schools. Thus, charters at higher grade levels have a tendency to serve, and attract, lower-performing students. These household-level school choice decisions often cannot be adequately modeled by evaluating demographic differences across schools.

To the extent “underperforming” charter schools continue to attract students and remain open, their continuing operation indicates that parents/guardians are choosing the schools for reasons other than the achievement of state benchmarks. Charter schools that underperform by failing to meet parent/guardian expectations will face declining enrollment and ultimately close. In many cases, meeting state benchmarks may not be a priority for parents or guardians. The relatively low participation rates in the state's CIM/CAM programs indicate that many parent/guardians' educational objectives do not necessarily coincide with the state's measures of achievement. Continuing or increasing enrollment at a charter school may be a better indication of achievement in terms of meeting parent/guardian objectives than the percent of students meeting state benchmarks.

SCHOOLS TAX CREDIT

Many school choice reforms focus on vouchers or tuition tax credits. A criticism of such programs is that they would provide a windfall to the parents/guardians of students who are already attending private schools. Arizona developed two tax credit programs that were aimed at avoiding such criticism. One program provides a tax credit for contributions or fees paid to public schools. The other program provides a tax credit for contributions to organizations that provide non-discriminatory tuition scholarships to students attending private schools.

ARIZONA TAX CREDITS

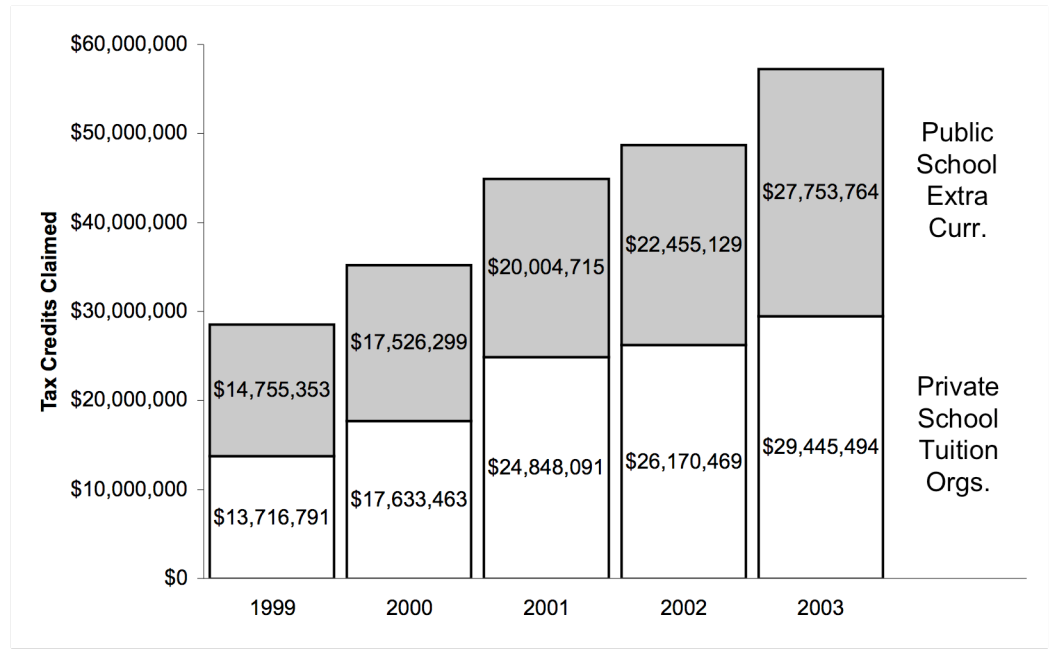
Arizona has a system of income tax credits whereby taxpayers can contribute to public schools or private school tuition support organizations. Credits are only available to individuals or married couples filing jointly. The taxpayer need not have a child in school. Credits cannot be used to generate a

refund to taxpayers, but may be used to reduce a tax liability to zero. Any unused amounts may be carried forward for up to five years. The taxpayer cannot claim the credit and an itemized deduction for education expenses. Contributions over the limit for the credit may be listed as an itemized deduction, though.

In the 2005 tax year, married taxpayers filing jointly may claim \$1,125 in tax credits (\$300 for contributions or fees to public schools and \$825 to tuition organizations). The growth in the number of taxpayers claiming the credits indicates that the programs are gaining popularity among taxpayers. Figure 1 shows the dollar amount of tax credits claimed under Arizona's programs since 1999.

The following sections provide an overview of Arizona's two programs. The third section provides an estimate of the impact on Oregon if it had program with similar participation as Arizona's.

Figure 1: Tax Credits Claimed Under Arizona's Programs, 1999-2003



Source: Arizona Department of Revenue

CREDIT FOR CONTRIBUTIONS MADE OR FEES PAID TO A PUBLIC SCHOOL

In the 2005 tax year, the state provides for a \$300 credit for married taxpayers filing jointly toward the support of public school extracurricular activities or character education programs. The amount increases to \$400 in the 2006 tax year.

Cash contributions or the payment of fees to a public school for support of extra curricular activities or for character education programs qualify for the credit.² Any educational or recreational activities that supplement the educational program of a school are considered to be qualifying extracurricular activities. Contributions and payments can be made to any public charter K-12 school in the state. Contributions to private schools, preschools, community colleges, and universities do not qualify. Schools may establish central funds to pay for extracurricular activities; contributions or payments into such a fund would qualify for the credit. Contributions or payments made to an organization such as a school foundation or parent-teacher organization do not qualify. Schools must submit a report once a year showing the dollar amount of contribution and fee payments received and spent.

CREDIT FOR CONTRIBUTIONS MADE TO PRIVATE SCHOOL TUITION ORGANIZATION

In the 2005 tax year, the state provides for a \$825 credit for married taxpayers filing jointly toward cash contributions to tuition organizations that provide scholarships or grants. The amount increases to \$1,000 in the 2006 tax year.

Cash contributions to tuition organizations that provide scholarships or grants to qualified schools are eligible for the credit. A tuition organization is a tax-exempt organization that allocates at least 90 percent of its annual revenues to scholarships or grants and makes the scholarships or grants available to one or more qualified schools. A qualified school is a non-government (e.g., private) primary or secondary school in the state.³

Tuition organizations must award scholarships or grants to students; they cannot block grant funds to schools. Tuition organizations must be willing to provide scholarships or grants to more than one school's students. The tax credit program, however, does not require tuition organizations to provide any scholarships to students based on financial need or previous inability to attend a private school. Tuition organizations must submit a report once a year showing the total contributions received and scholarships or grants distributed.

Contributions in which the taxpayer specifies that the contribution must benefit his or her dependent are not eligible for the credit. However, a taxpayer is able to specify other specific individuals as recipients. It has been reported that some parents will contribute on other's behalf who then

² Character education programs are defined by statute and developed by districts. They must include instruction in the definition and application of at least six of the following character traits: (1) truthfulness, (2) responsibility, (3) compassion, (4) diligence, (5) sincerity, (6) trustworthiness, (7) respect, (8) attentiveness, (9) obedience, (10) orderliness, (11) forgiveness, and (12) virtue.

³ Non-government preschools for handicapped students are also considered qualified schools.

reciprocate. This “loophole” could be readily remedied by disallowing taxpayers to specify any specific recipient for scholarships or grants.

Some critics of the private school tuition program is that it benefits only those who are already sending their children to private schools. Research is anecdotal and contradictory. For example the Cato Institutes indicates that most tuition scholarship organizations use financial need as the primary criterion for allocating scholarships to eligible students.⁴ They estimate that 15 to 30 percent of the scholarships were awarded to students that would have otherwise attended public schools. In 2004, 21,160 scholarships were awarded.⁵ If the Cato Institute’s estimates are accurate and applicable for 2004, then between 3,000 and 6,000 students in the private school system would have otherwise been enrolled in public schools. People for the American Way, on the other hand, reports that many tuition organizations give priority to students already enrolled in religious schools that reflect the organization’s religious mission or goals.⁶ They conclude that those who gain from tax credit program are generally those who have already had their children in private schools.

FISCAL IMPACT OF ARIZONA-TYPE TAX CREDITS ON OREGON

Over year for which information is available (2000-2002), approximately 2 percent of Arizona taxpayers claimed an average of \$500 in tax credits for contributions to private school tuition organizations (Table 1). Approximately 7 percent claimed an average of \$130 in tax credits for contributions or fees to public schools.

If such a program were in place today and assuming similar participation rates and levels in Oregon, Table 1 shows that approximately \$17 million in credits would be claimed for contributions to private school tuition organizations and \$18 million for contributions and fees associated with public school extracurricular activities.

⁴ Lips, Carrie and Jennifer Jacoby. “The Arizona Scholarship Tax Credit: Giving Parents Choices, Saving Taxpayers Money.” *Policy Analysis*. September 17, 2001.

⁵ Arizona Department of Revenue. “Individual Income Tax Credit for Donations to Private School Tuition Organizations: Reporting for 2004 Executive Summary.” Undated.

⁶ People for the American Way. “A Model to Avoid: Arizona's Tuition Tax Credit Law.” Undated. <http://www.pfaw.org/pfaw/general/default.aspx?oid=1401>, accessed January 12, 2006.

Table 1: Oregon Estimated Tax Credits Under Arizona-Type Program

Year	Private School					Public School			
	Total Filers	Claimants	% of Total Filers	Credit	Average Credit Per Claimant	Claimants	% of Total Filers	Credit	Average Credit Per Claimant
1999		31,892		\$13,716,791	\$430	109,748		\$14,755,353	\$134
2000	2,166,916	38,084	1.8%	17,633,463	463	149,215	6.9%	17,526,299	117
2001	2,132,413	46,605	2.2%	24,848,091	533	166,468	7.8%	20,004,715	120
2002	2,174,333	52,139	2.4%	26,170,469	502	143,697	6.6%	22,455,129	156
2003		58,122		29,445,494	507	201,407		27,753,764	138
Average			2.1%				7.1%		
Oregon Estimate									
2002	1,616,700	32,334	2.0%	\$16,229,616	\$502	113,169	7.0%	\$17,684,604	\$156
2003	1,611,785	32,236	2.0%	16,331,099	507	112,825	7.0%	15,547,211	138
Estimated 2005				\$17,000,000				\$18,000,000	

Source: Arizona Department of Revenue; Oregon Department of Revenue

Table 2 shows the estimated fiscal impact on the State of Oregon's general fund. The total net impact of \$16.9 million represents a net decline of 0.3 percent in budgeted general fund expenditures and 0.1 percent (\$2.3 million) in education expenditures. The estimates provided in Table 2 assume that all the contributions to public school represent "new" funds flowing to schools. Thus to the extent a tax credit program shifts funds from already tax deductible contributions to credit-eligible contributions, then the fiscal impact on the state would be larger than provided here. Therefore, rather than focusing on a single number, the estimates in Table 2 represent a range of fiscal impacts between \$2.3 million and \$20.3 million.

To the extent the contributions to private school tuition organizations increase demand for private school education, the tax credit program will reduce enrollment and, in turn, reduce total current education expenditures. For example, if current expenditures are approximately \$7,750 per student, then 300 students would represent approximately \$2.3 million in current education expenditures. If the tax program could divert 300 students from the public school system, then the tax credit program would have no net impact on per student general fund expenditures.

Table 2: Oregon Estimated Fiscal Impacts of Tax Credits Under Arizona-Type Program

General Fund	2003-05 Average Annual Budget	Percent of Total	Impact on Budget	Less Contributions	Net Impact on Budget
Education	\$2,955,200,000	58.0%	\$20,300,000	\$18,000,000	\$2,300,000
Human Resources	1,142,800,000	22.4%	7,800,000	-	7,800,000
Public Safety	606,750,000	11.9%	4,200,000	-	4,200,000
Ec & Com Dev; Con & Bus Svs	14,500,000	0.3%	100,000	-	100,000
Natural Resources	56,450,000	1.1%	400,000	-	400,000
Transportation	1,950,000	0.0%	-	-	-
Administration	64,600,000	1.3%	400,000	-	400,000
Legislature	29,350,000	0.6%	200,000	-	200,000
Judicial	194,600,000	3.8%	1,300,000	-	1,300,000
Misc	29,350,000	0.6%	200,000	-	200,000
Total	\$5,095,550,000	100.0%	\$34,900,000	\$18,000,000	\$16,900,000

Source: Oregon Department of Revenue and Legislative Revenue Office

Figure 2: Student Achievement at Charter Schools and Similar Schools, 2005

School	District	Opened	Grades	Reading			Math			Writing		
				This School	Similar School Average	Diff.	This School	Similar School Average	Diff.	This School	Similar School Average	Diff.
Elementary Schools												
Mosier Community School	North Wasco	2002	K-5,6	95	87	8	79	88	(9)	85	71	14
Emerson School	Portland	2003	K-5	95	88	7	94	88	6	56		
Lighthouse School	North Bend	2002	K-5	91	87	4	91	88	3	73		
Optimum Learning Environment	Salem-Keizer	2002	1-5	95	94	1	95	95	-	50		
CM2 Opal School	Portland	2001	Pre-K/K4	95	95	-	95	95	-	83	79	4
Arthur Academy	David Douglas	2002	K-4	90	95	(5)	90	95	(5)			
Multisensory Learning Academy	Reynolds	2001	K-5	82	90	(8)	93	90	3	94	79	15
Number Outperforming						5			5			3
Number Underperforming						2			2			-
Primary Schools												
Siletz Valley School	Lincoln	2003	K-8	91	70	21	89	71	18	52	58	(6)
Lourdes	Scio	1999	K-8	93	80	13	86	81	5	95	81	14
Bethany Charter School	Silver Falls	2004	K-8	90	83	7	90	84	6	78	66	12
MITCH	Tigard-Tualatin	2001	K-8	95	88	7	95	89	6	95	75	20
Ridgeline Montessori	Eugene	2000	K-7	89	84	5	85	85	-	82	79	3
Kings Valley Charter	Philomath	2001	K-8	88	87	1	88	87	1		79	
Village School	Eugene	2000	K-8	86	86	-	93	86	7	74	74	-
Luckiamute Valley (Pedee)	Dallas	2001	K-8	71	80	(9)	69	80	(11)	60	73	(13)
Number Outperforming						7			7			5
Number Underperforming						1			1			2
Middle Schools												
Jane Goodall Environmental Middle	Salem-Keizer	2004	6-8	79	67	12	82	69	13	82	73	9
Three Rivers Charter	West Linn	2001	4-8	95	86	9	95	87	8	95	81	14
Howard Street Charter	Salem-Keizer	2002	6-8	78	79	(1)	57	80	(23)	86	83	3
REALMS (Rimrock Academy)	Bend-LaPine	2001	6-8	39	52	(13)	39	52	(13)	43	58	(15)
Number Outperforming						2			2			3
Number Underperforming						2			2			1
Secondary/High Schools												
Oregon Coast Technology School	North Bend	2003	6-11	84	73	11	77	71	6	76	85	(9)
Days Creek Charter School	Douglas Co.	2005	6-12	68	59	9	32	55	(23)	91	73	18
Lincoln City Career Technical High	Lincoln	2002	9-12	47	45	2	35	39	(4)	67	73	(6)
Network Charter	Eugene	2003	6-12	45	48	(3)	41	44	(3)	65	65	-
Morrison	Dallas	2003	10-12	32	44	(12)	11	38	(27)	41	72	(31)
New Urban High School	No. Clackamas	2003	9-12	29	43	(14)	25	37	(12)	74	71	3
Nixyaawi Community School	Pendleton	2004	9-12	31	50	(19)	5	43	(38)	25	74	(49)
West Lane Technology Learning Ctr.	Fern Ridge	2003	9-12	32	53	(21)	23	42	(19)	41	76	(35)
Willamette Leadership Academy	Fern Ridge	2003	6-12	27	49	(22)	20	45	(25)	17	65	(48)
Columbia County Education Campus	St. Helens	2002	7-12	20	52	(32)	17	49	(32)	44	68	(24)
Armadillo Technical Institute	Phoenix-Talent	2000	6-12	15	50	(35)	25	47	(22)		65	
Number Outperforming						3			1			3
Number Underperforming						8			10			7

Note: Figures represent percent of students meeting or exceeding state benchmarks.
 Source: ECONorthwest analysis of *Oregonian* data.

Appendix: Charter School Funding by State

State Description of Charter School Funding

AK	100% of state and district operations funding follows students, based on average district per-pupil revenue, minus a portion for administrative costs (determined by applying an indirect cost rate approved by the department of education).
AR	Specified in charter
AZ	For charter schools authorized by local school boards, funding may be negotiated and is specified in the charter; for other charter schools, funding is determined by the same base support level formula used for all district schools.
CA	100% of state and district operations funding follows students, based on average district per-pupil revenue for classroom-based charters. For non-classroom based charters, the state Department of Education makes the decision based on the schools' ability to make API over a sustained period of time.
CO	A minimum of 95% of average per pupil revenue follows the student. Charter schools may seek bonds at a public rate. In districts of 500 or fewer, at least 85% of district per-pupil revenue is guaranteed.
CT	Local charter schools receive funding from the school district. State charter schools receive funding from the state. For local charter schools, the amount of funding is specified in the charter. For state charter schools, 110% of state and school district operations funding follows students, based on average school district per-pupil revenue.
DC	100% of operations funding follows students, based on D.C. per-pupil formula.
DE	100% of computed state funding based on state unit funding formula and 100% of local funding based on previous year per-pupil expenditure (in students' district of residence) follows students.
FL	100% of state and district operations funding follows students, based on average district per-pupil revenue; fees for administrative services may not exceed 5% of total funding.
GA	The local board and state board shall treat the charter school no less favorably than other local schools in the school district with respect to the provision of funds for instructional and school administration and, where feasible, transportation, food services, and building programs.
HI	Based on budget request by state's charter school administrative office based on per-pupil funding but all federal and other financial support for charter schools shall be no less than for all other public schools.
ID	Same schedule of payments as other public schools.
IL	Negotiated with sponsor school district and specified in charter, but not less than 75% or more than 125% of per-capita student tuition of school district in which charter school is located.
IN	100% of the per-pupil funding that traditional schools receive.
IA	100% of state and district funding follows the students, based on average district per-pupil revenue.
KS	Funding for charter schools is at the discretion of the school district.
LA	For charters approved by the local board, 100% of state and district operations funding follows students, based on average district per-pupil revenue; for charters approved by the state board, schools receive 100% of funding, in the amount of the average per-pupil revenue of their resident district, directly from the state (state-approved charters receive no district funds).
MA	100%; Horace Mann charter school's budget allocation shall be consistent with the allocation of other public schools in the district.
MD	Fair per-pupil foundation grant that is at least equal to the calculated operating costs for educating the like kind of students in existing public schools within that jurisdiction.

State Description of Charter School Funding

MI	100% of state and district operations funding follows students, based on average district per-pupil revenue, not to exceed a certain amount that rises from year to year based on state aid formula.
MN	Charter schools are funded by the State of Minnesota on a per-pupil basis. In addition, charter schools receive state support for their facilities expenses because they cannot issue bonds or raise taxes through levies like other school districts.
MO	100% of state and district operations funding follows students, based on average district per-pupil revenue.
MS	Eligible for the same funding as regular schools.
NC	100% of state and district operations funding follows students, based on average district per-pupil revenue; special needs funding also follows the student.
NH	80% (minimum) of district's prior year average cost per pupil, as determined by department of education, follows students to school; in addition, special education funding also follows students
NJ	90% of the lesser of a) state and district operations funding based on average per district per-pupil revenue or b) state-mandated minimum per pupil spending. District also pays categorical aid.
NM	98% (minimum) of state and district operations funding follows students, based on average district per-pupil revenue.
NV	100% of per-pupil funding
NY	Formula results in about 2/3 to 4/5 of traditional school's per pupil allotment.
OH	100% of the funds equal to the community school's base formula amount (about \$6,100), as adjusted by the cost-of-doing-business factor of the school district in which the student is entitled to attend school.
OK	At least 95% of average daily expenditure
OR	At least 80% of the district's average expenditure for K-8; 95% for 9-12. For schools through state board: 90% for K-8 and 95% for 9-12
PA	Funding follows students, based on average district per-pupil budgeted expenditure of the previous year (depending on the district, charter funding will be 70%-82% of district's per-pupil revenue); for regional charters and non-resident students, funds come from the district of student's residence; charters receive additional funding for special needs students, or may request the intermediate unit to assist in providing special-needs services at the same cost as provided to district schools
RI	100% of state and district operations funding follows students, based on average district per-pupil revenue minus 5% of the state share which the district retains for administration and impact; charter school and district negotiate cost of services school wants district to provide.
SC	100% of state and district operations funding is supposed to follow students, based on average district per-pupil revenue.
TN	100% of state and local funds calculated on per pupil expenditure from the previous year
TX	State funds are guaranteed; local revenue is restricted by certain formulas cited in law. Starting 2003-2004 school year, the state will start to phase-in a new formula that will eventually base all allotments according to the statewide average, rather than what's available in the districts.
UT	On average, 75% of per pupil funding follows the child. The school district in which a charter school student resides shall pay to the host district 1/2 of the amount by which the resident district's per student expenditure exceeds the value of the state funding. Qualified students receive all their federal moneys.
VA	Basic funding not addressed; charters treated as public school with fees negotiated
WI	Negotiated with sponsor district and specified in charter; district is permitted to spend more on charter schools than regular public schools.
WY	95% of the district per pupil amount.