

Student Opportunity Scholarships: Policy Overview

Student Opportunity Scholarships would give families of K-12 students access to tax-credit scholarship funds. This would enable them to meet their children's unique academic needs with instruction, materials, and services which are, in some cases, not available to them in the public system.

How would accounts be funded?

Individuals and companies make donations to scholarship-granting organizations that are subject to state oversight. Those organizations, in turn, distribute scholarships on behalf of children, with families controlling funds in their child's account. Donors to the scholarship organizations receive a dollar-for-dollar credit on Michigan's individual or corporate income tax.

How would eligibility for scholarships be determined?

- Scholarship organizations give the first priority to free or reduced lunch students, children in foster care, or students with disabilities eligible for an individualized education program; these students are also eligible for the highest scholarship amounts.
- Other students are eligible for smaller scholarships, with eligibility based on a sliding scale according to household income. A household would qualify as long as its income is no more than 200% of

the reduced lunch qualification threshold (\$98,000 for a family of 4).

How would the accounts work, and how could families use them?

- There is a wide array of possible uses: tuition; tutoring; online courses; dual enrollment; curriculum materials; alternative education, summer school, and after-school programs; occupational, behavioral, or speech-language therapies; mental health services; career counseling and training; education-related transportation; AP and college prep testing fees; athletic and extracurricular activities.
- All student accounts are subject to a maximum contribution cap each year — \$500 for public school students, \$1,100 for students with disabilities. For families paying tuition or providing at-home instruction, accounts are capped at 90% of the state's K-12 school funding formula).

How would the state ensure organizations properly administer funds?

- Organizations must prove their 501(c)3 status to the Michigan Department of Treasury to launch; this means they must supply their articles of incorporation and provide full documentation of their IRS status and audited financial statements to qualify and then renew their approval.

- Organizations are required to provide parent-friendly information and scholarship application processes, and must spend at least 90% of the available funds on scholarships.
- Contributions to the organizations cannot be designated to benefit individual students, nor can an administering organization give scholarships to the children of its board members, staffers or anyone else affiliated with the organization

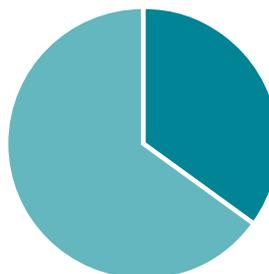
How would the state further guarantee oversight and accountability of the scholarship funds?

- The Department of Treasury retains standard procedures for approving tax-credit donations and scholarship-granting organizations.
- The department provides annual reports to the Legislature on how money from the program is used and what it accomplishes.

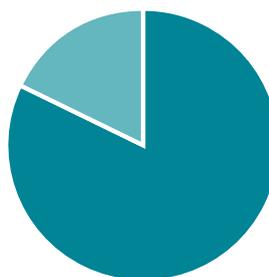
What would schools and other education service providers have to do in order to receive funds?

- There are no new state regulations beyond what is needed to oversee the program.
- The program does not establish new state accountability or testing requirements.
- Schools and other education providers cannot be forced to alter their creed or policies.

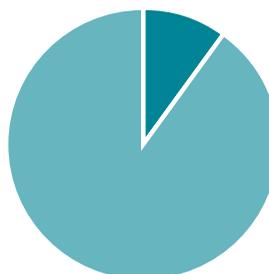
Student Eligibility



■ Low-income students
■ All other students



■ Students with disabilities
■ All other students



■ Public school students
■ Nonpublic / homeschooled students

Student Opportunity Scholarships: FAQs

Isn't this just another voucher scheme like the one Michigan has rejected before?

No. The program is funded through tax credits given to encourage donors to underwrite scholarships through nonprofit organizations. A statewide total of \$500 million in credits is available, allowing money to flow to the scholarship-granting organizations instead of the state treasury. Also, voucher programs typically pay only for tuition. By contrast, students and families can use funds in their Student Opportunity Scholarship accounts to pay for a host of different education expenses, not just tuition.

How many students would be eligible for scholarship accounts? Would there be enough funding for them all?

More than 1 million public school students would be eligible for supplemental accounts, including all children with disabilities and children in the foster care system. Many other students can also use larger scholarships (up to 90% of the state's public school foundation allowance) to fund tuition and at-home learning expenses.

The initial \$500 million tax credit cap would not cover every eligible student, but it could conceivably help hundreds of thousands with aid for either tuition or supplemental learning costs. The law would give priority to low-income and special-needs students. If other students

apply for more funds than a scholarship-granting organization has received in donations, the organization would use a random lottery to determine who receives aid.

Don't Michigan families already have school choice?

Yes, but there's not enough choice to go around. Michigan is a leader in providing access to public school options outside the district where a student lives. That includes both brick-and-mortar and online charter schools. While these education options benefit some students, they are not uniformly available across the state. Further, the COVID experience with remote and intermittent hybrid learning showed that access to other districts often does not provide what parents are looking for. And some students want to stay enrolled in their own public school but just need extra support to help pay for opportunities and expenses the district may not offer.

Won't this take money away from public schools that need it?

These scholarships represent a different way of funding education, which gives priority to students, and has a minimal impact on current K-12 funding streams. The COVID-19 pandemic brought a total of more than \$6 billion in federal aid to be spent over the next several years, on top of a record state school aid budget for 2021-22. (In the year before the pandemic started,

the federal government spent \$1.95 billion on K-12 education in Michigan.) These figures supplement the \$15,000 per student that the system previously took in. The \$500 million scholarship cap makes up a tiny fraction of the total annual revenues in Michigan's K-12 public school system.

Doesn't this plan violate the Michigan Constitution?

Article VIII, Section 2 of the Michigan Constitution, adopted in 1970, represents what is arguably the nation's most restrictive provision against aiding nonpublic schools. But the U.S. Supreme Court's 2020 *Espinoza* ruling struck down many state barriers to such aid programs. In response, the Mackinac Center Legal Foundation filed a federal lawsuit, arguing that Michigan's bar on aid to nonpublic schools violates the U.S. Constitution's free exercise clause.

The part of the Michigan Constitution that effectively restricts families' ability to choose private religious education is striking in light of the section that precedes it. It reads: "Religion, morality and knowledge being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged."

These funds could be abused; doesn't this mean that this is a bad idea?

No. The legislation sets up standards and procedures to ensure that scholarship-granting organizations use funds properly. The organizations are subject to review by the

Treasury Department, and they can use no more than 10% of tax-credit funds on their own expenses. This is a stringent requirement, as the watchdog group Charity Navigator lets organizations spend up to 15% of their funds on overhead costs and still receive its highest rating.

Parents who receive scholarship accounts are required to sign an agreement that they will use funds only as allowed by law, and there is technology to help ensure they use them accordingly. Arizona is the pioneer of education savings accounts — which closely resemble the accounts envisioned in this proposal — and abuse there has been vanishingly rare. Michigan can also draw on lessons from other states to use the best practices available to preserve fiscal integrity in the program.

Do Michigan parents and other voters really support this idea?

A 2020 statewide survey found that 67% of Michigan voters favored repealing the state's constitutional ban on nonpublic aid. They agreed to this to ensure that vulnerable students (including those who have special needs, are in foster care, or have been bullied) can receive scholarships to access private education.

More recent surveys by the nonprofit organization EdChoice found that 65% of Michigan voters and 73% of Michigan parents favor the kind of education savings accounts proposed as Student Opportunity Scholarships. More recently, 80% of Michigan voters expressed support for education savings accounts that families can use to support their children's learning.



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Additional information about the Mackinac Center and its mission to improve the quality of life in Michigan through sound public policy can be found at www.mackinac.org.