



POLICY BRIEF

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IMPROVING THE MOSCHOLARS PROGRAM

By Susan Pendergrass

KEY TAKEAWAYS

- Because the MOScholars scholarship program has no public funding, it has yet to reach even 2,000 recipients. In 2022, only \$3.1 million in donations was received—not even close to the \$25 million limit.
- Shortcomings in the Missouri Foundation Funding formula resulted in \$175 million in state funds being directed to districts for students who were not enrolled there. A portion of these funds could be used to publicly fund the first \$25 million in MOScholars scholarships.
- If the program has a steady funding stream, eligibility should be expanded to all districts in the state, not just those in communities of 30,000 or more residents.
- A further expansion of the program should raise the income eligibility limit from 200 percent of the federal poverty line to 300 percent.
- In addition to the base Student Adequacy Target (SAT) amount received as a scholarship, low-income students and students with disabilities should receive the SAT weights that are used to calculate weighted average daily attendance (WADA) for the Foundation Funding formula.

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BACKGROUND

In 2021, the Missouri Legislature passed House Bill 349 and Senate Bill 86. These bills established the Missouri educational scholarship program, MOScholars. The program gives dollar-for-dollar tax credits to individuals and businesses that donate to one of six approved scholarship granting organizations, also known as Educational Assistance Organizations (EAOs). These EAOs can then give scholarships to qualified students who apply for them. To qualify, a student must live in one of five counties with a charter form of government or 10 cities in the state that have at least 30,000 residents. Students must also live in a family with a household income that is no more than 185 percent of the federal poverty line (the same threshold to qualify for free or reduced-price lunch) or be identified as having a disability. If scholarship funds are still available after all applications from these groups have been filled, then the income eligibility threshold rises to 200 percent of the federal poverty line.

While it is good that some Missouri students can access this program, limitations built into the law make it unlikely to reach many families. The major limitation is requiring EAOs to raise money for the scholarship funds. Although EAOs were able to raise over \$9 million in the first year of the program—which is not even close to the \$25 million limit—last year they had raised only \$3 million by the start of the school year, putting the program at risk. For the program to be financially secure, reliable government funding is needed. As is evident from the past two years, private donations can't always be counted on. This is especially true during economic downturns, when the need for scholarship assistance is greatest.

One source of funds that would be appropriate for this program is the hold-harmless provision in the foundation formula that protects districts with declining enrollment. Missouri has the most generous enrollment-related revenue protections of any state in the nation. By allowing districts to use the highest average daily attendance of the prior three years, the state knowingly sends foundation-formula funds to districts for students who are not enrolled there. If Missouri had just changed

this policy to the highest average daily attendance of the prior two years, rather than three, there would have been \$30 million available last year to publicly fund MOScholars scholarships.

Alternatively, Missouri could revise the program so that the tax credits are issued directly to the parents rather than requiring the involvement of EAOs. In Oklahoma's program, passed this year, families can take a refundable tax credit of at least \$5,000 and up to \$7,500 to cover private school tuition.

A second limitation is the exclusion of Missouri families who live in small towns or rural areas. It's not that there aren't schools in these areas to receive scholarship students. In 2020, more than half (53 percent) of Missouri's private schools were in small towns or rural areas. These schools enrolled over 20,000 students. It's also unlikely that there is no demand for this program outside of our largest communities. Iowa passed a publicly funded universal school choice program this year, and by August it had awarded scholarships to students in 96 of its 99 counties—virtually everywhere in the state.

A third limitation of the existing MOScholars program is that the income limit is too restrictive. The free and reduced-price lunch threshold is a family income of just \$46,000 for a family of three. The maximum family income for the MOScholars program is just \$49,000 for a family of three. While it would clearly be difficult for a family below these income limits to afford private school, it would also be difficult for families making under \$60,000. Several states have raised the limits on their scholarship program to a more reasonable household income for most families. New Hampshire raised its from 300 percent of the poverty limit to 350 percent. Indiana raised its limit this year to 400 percent—making it essentially universal for all but the wealthiest families.

What Does This Mean for Missouri?

There are many ways that the MOScholars program could be improved.

- First, Missouri should make a public funding commitment to this program rather than leaving the fundraising of \$25 million to just six nonprofit organizations. This could be done by redirecting foundation-formula funds from students who don't exist to families that need the funds by limiting foundation average daily attendance to the higher of the prior two years. Minimally, the state could use this redirected money to fund the first \$25 million in scholarships with any additional funds raised adding to the total cost of the program.
- In the absence of a commitment to publicly fund the program, Missouri could shift the tax credit directly to parents.
- The geographic restrictions of the MOScholars program should be eliminated. There are students in small towns and rural areas who could benefit from this program in the same way that students from larger communities do.
- If public funding is provided, the program should be expanded to include Missouri families who aren't at the very bottom of the income distribution, but who would still struggle to pay private school tuition.

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CONCLUSION

Missouri is now practically surrounded by states that allow their families to choose their children's school, with state money following them. Iowa and Arkansas have passed publicly funded universal school choice programs that allow families to choose any public or private school. Oklahoma pays the first \$5,000 to \$7,500 in private school tuition for its families through refundable tax credits. Kansas greatly strengthened its public school choice program last year. Missouri's first attempt at giving families similar choices is too small and too weak. It's time to fix the shortcomings and make sure that the program can survive and grow.



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