



CASE STUDY

Number 20

APRIL 2014



Pennsylvania's Education Improvement Tax Credit Program: A Winning Educational Partnership

By Andrew LeFevre

EXECUTIVE SUMMARY

In 2001, Pennsylvania became the first state in the nation to enact a highly innovative public-private partnership in the form of an education tax credit aimed at corporations. Since then, the popular Educational Improvement Tax Credit (EITC) Program has provided more than 430,000 scholarships to students from low- and middle-income families across the commonwealth seeking the right school for their child. These families were searching for alternatives to the sometimes dangerous and oftentimes failing government-run schools

assigned to them according to their ZIP codes.

Because of the direct engagement of businesses in the educational process, where the businesses fund scholarships in exchange for state tax credits, the EITC program is a tremendously successful public-private partnership. During the first 12 years of the EITC program's operation, businesses have contributed nearly \$470 million in funding for student scholarships – oftentimes helping families directly in the communities where they operate their businesses.

ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
FOR MISSOURI PUBLIC POLICY

The EITC program is a tremendously successful public-private partnership.

Additionally, this landmark program has saved Pennsylvania taxpayers millions of dollars each year.

With an average scholarship of approximately \$1,100, the EITC serves students for a small fraction of the \$14,865 that school districts spend per student. If each of the 60,000 students receiving EITC scholarships in 2012-13 failed to receive scholarships in the next school year and their parents had to make a decision to place them into a public school, schools would require an additional \$892 million in revenue to handle the additional enrollment.

The EITC creates partnerships between parents, businesses, and scholarship organizations. These partnerships allow funding to follow students, giving children and their families choices of schools that best fit their needs. The success of the EITC program is demonstrated not just in the hundreds of millions it has saved taxpayers and relief to high-growth school districts, but also in parental satisfaction with education outcomes. Demand for EITC scholarships far outweighs what is available from participating Scholarship Organizations (SOs) across the commonwealth. For example, the Children's Scholarship Fund Philadelphia turns away 7,000 scholarship applicants each year due to lack of funds. The EITC provides

choices parents demand and offers better outcomes for children.

This paper examines the creation, implementation, and growth of Pennsylvania's EITC program over the past 12 years; specifically, it explores how the program works for the businesses, families, and scholarship organizations that make up the three components of the program. In addition to this academic review of the program, readers are introduced to real-life examples from three different families that are utilizing the EITC program to provide educations for their children that best meet their educational needs. Taken together, these stories along with the deeper look at the nation's first corporate tax credit program will show why Pennsylvania's EITC program has become one of the largest and most successful school choice programs in the nation.

BACKGROUND

Pennsylvania public school spending has rapidly increased despite declining enrollment, with little growth in academic achievement to show for it. Since the 2000-01 school year, public school spending has risen 71 percent, from \$15.3 billion to \$26.1 billion (not adjusted for inflation) in the 2010-11 school year. Over that time, enrollment in Pennsylvania public

schools declined by 1 percent, or 22,537 students (from 1,799,691 to 1,777,154), while schools have hired an additional 32,937 more employees, or an increase of 26 percent (from 123,231 to 156,168).¹ Despite spending \$14,865 per student during the 2010-11 school year, only 40 percent of Pennsylvania eighth-grade students scored at or above proficiency on the National Assessment of Educational Progress (NAEP) reading and mathematics exams.²

On May 7, 2001, with an overwhelming bipartisan majority, Pennsylvania made history when it became the first state in the nation to enact an education tax credit that corporations fund. Former Pennsylvania Gov. Tom Ridge and a diverse coalition advocated for House Bill 966, which created the Educational Improvement Tax Credit (EITC) Program. Since then, the EITC Program has provided an educational lifeline to tens of thousands of families looking for safer and better-performing schools for their children. Ten other states have followed Pennsylvania's example and enacted similar tax credit programs (*see* "States with Educational Tax Credit Programs"). In addition, the EITC Program has accomplished what many have been advocating for years: a way for the business community to be involved in children's education and provide more schooling options.

The distinctive elements of the EITC focus on a partnership between parents, businesses, and scholarship organizations. This partnership shifts the focus from the educational institution to the needs of a child. When resources follow a child, that child and his or her family now have the choice to attend the school that best fits his or her needs. The EITC provides a unique way to invest further in the educational futures of Pennsylvania's children while saving taxpayer money and providing relief to high-growth school districts.

This landmark program has saved Pennsylvania taxpayers millions of dollars each year.

STATES WITH EDUCATION TAX CREDIT PROGRAMS

Pennsylvania – 238 SOs
Corporate (2001)
Tax Credit Cap – \$94.5 million

Indiana – 5 SGOs
Individual & Corporate (2009)
Tax Credit Cap - \$5 million

Florida – 1 SFO
Corporate (2001)
Tax Credit Cap - \$229 million

Iowa – 12 STOs
Individual (2006) & Corporate (2009)
Tax Credit Cap - \$12 million

Arizona – 53 STOs
Individual (1997) & Corporate (2006)
Corp. Tax Credit Cap - \$35 million

Oklahoma
Individual & Corporation (2011)
Tax Credit Cap - \$3.5 million

Rhode Island – 5 SGOs
Corporate (2006)
Tax Credit Cap - \$1 .5 million

New Hampshire – (New)
Corporate (2012)
Tax Credit Cap - \$3.4 million

Georgia – 33 SSOs
Individual & Corporate (2008)
Tax Credit Cap - \$58 million

Virginia (New)
Individual & Corporate (2012)
Tax Credit Cap - \$25 million

These partnerships allow funding to follow students, giving children and their families choices of schools that best fit their needs.

SCOPE OF EITC PROGRAM

While nearly 60,000 students utilizing EITC scholarships to attend the school of their choice may seem like a significant number, it represents a small number of K-12 students in Pennsylvania. In 2012-13, there were more than 1,800,000 students enrolled in Pennsylvania’s public schools (including charter schools), and more than 234,000 attending non-public schools.³

In other words, approximately 11.5 percent of students in the

commonwealth attended non-public schools, while the 60,000 children using EITC scholarships represent only 2.9 percent of total students in the state. Only approximately one out of 34 students is able to choose a different learning environment for their children with the help of the EITC program.

When enacted in 2001, the cap for the tax credits was set at \$30 million annually, with two-thirds allocated to Scholarship Organizations (SOs) that provide scholarships to students and one-third given to Educational

Educational Improvement Tax Credit Program								
FY	Total SO Credits Available	SO Receipts	K-12 Scholarships	Avg. Scholarship Amount	Total Pre-K Credits Available	Pre-K Receipts	Pre-K Scholarships	Avg. Scholarship Amount
2001-2002	\$20,000,000	\$19,066,825	17,350	\$1,099	-	-	-	-
2002-2003	\$20,000,000	\$22,207,444	20,208	\$1,099	-	-	-	-
2003-2004	\$26,666,665	\$28,434,178	25,875	\$1,099	-	-	-	-
2004-2005	\$29,333,333	\$29,342,885	26,701	\$1,099	\$5,000,000	\$3,023,258	2,445	\$1,237
2005-2006	\$36,000,000	\$32,569,421	29,638	\$1,099	\$5,000,000	\$5,389,543	4,358	\$1,237
2006-2007	\$36,000,000	\$40,115,095	36,540	\$1,098	\$5,000,000	\$5,159,055	4,172	\$1,237
2007-2008	\$44,666,667	\$48,709,293	44,334	\$1,099	\$8,000,000	\$7,516,133	6,078	\$1,237
2008-2009	\$44,666,667	\$49,488,166	44,893	\$1,102	\$8,000,000	\$8,136,724	6,580	\$1,237
2009-2010	\$37,967,000	\$40,338,741	38,646	\$1,044	\$6,400,000	\$6,664,757	5,390	\$1,237
2010-2011	\$40,202,400	\$44,926,133	40,882	\$1,099	\$6,396,000	\$6,810,900	5,581	\$1,220
2011-2012	\$44,666,667	\$49,667,606	45,200	\$1,099	\$8,000,000	\$8,473,402	6,852	\$1,237
2012-2013	\$60,000,000	\$65,076,529	60,000	\$1,085	\$10,000,000	\$10,470,098	8,464	\$1,237

Source: Data provided by Pennsylvania Department of Community and Economic Development

Improvement Organizations (EIOs) that provide innovative educational programming in Pennsylvania's public schools. Due to the EITC Program's strong bi-partisan support and popularity, the total cap has been increased several times to its total current level of \$100 million – with \$60 million allocated to SOs, \$30 million allocated to EIOs, and \$10 million allocated to funding pre-K scholarships, which were added for the 2004-05 school year.

During the 2012-2013 school year, 60,000 students used EITC funds to attend the school of their choice.⁴

Since the program's inception in 2001, more than 5,000 businesses have submitted more than 23,500 business applications that have been approved pledging in excess of \$657 million to fund private scholarships for students to attend K-12 schools, pre-K schools, and innovative public school programs.⁵

Families' demand for EITC scholarships far outweighs the available supply that the participating SOs offer across the commonwealth. For example, the Children's Scholarship Fund Philadelphia had 95,000 applications for 7,700 scholarships awarded over the last decade.⁶

PARTICIPATION IN THE EITC PROGRAM

The EITC Program is dependent on the participation of three distinct groups: Businesses, SOs, and families.

The program allows businesses to contribute to organizations directly in their local community. These organizations either provide scholarships for students to attend a school that meets their individual educational needs, provide innovative educational programming in traditional public schools, or provide pre-K scholarships to families for children ages 4-5.

The EITC Program allows businesses to donate up to \$750,000 per year to a registered and approved 501(c)(3) SO or EIO of their choice. The state then provides each donating business with a tax credit of 75 percent of its donation amount (or 90 percent if the business pledges the donation for two consecutive years) against what it owes in state taxes. In addition, businesses can donate up to \$150,000 per year to a registered and approved Pre-K Scholarship Organization (PKSO). The state provides each donating business a tax credit of 100 percent for the first \$10,000 contribution and 90 percent for the remaining amount.⁷

Demand for EITC scholarships far outweighs what is available from participating Scholarship Organizations (SOs) across the commonwealth.

The EITC provides choices parents demand and offers better outcomes for children.

Companies can claim the credit against corporate net income taxes; capital stock and franchise taxes; bank and trust company shares taxes; title insurance companies shares taxes; insurance premiums taxes; and mutual thrift institutions taxes. For personal income taxes - subchapter s-corporations and other “pass-through” entities - the credit can be used against the shareholder, member, or partners’ Pennsylvania personal income taxes. The credits must be used in the year that they are claimed – they cannot be carried forward to be used against future liability.

During the 2012-13 school year, Pennsylvania’s Department of Community and Economic Development recognized 247 approved SOs, 675 approved EIOs, and 175 PKSOs to participate in the EITC program. All EITC participating organizations must be registered 501(c)(3) nonprofit organizations with the IRS. The scholarship organizations vary in their size and scope and include statewide organizations, regional organizations, city-based, and small organizations established to help students at a small group of schools. They also can be used for religiously affiliated and ethnically focused schools, or only on the most-needy families. There is no one-size-fits-all model for what a scholarship organization looks like

in Pennsylvania. This has proved to be one of the biggest selling points to local businesses: their tax dollars will remain in their local communities to help students receive a better education.

Critics contend that the EITC lacks accountability and imply that without standard testing requirements or mandated reports to the state, these children receive an inferior education compared to those enrolled in traditional public schools. However, private schools are held to many of the same basic regulations as are public schools, and are routinely held to the same or higher standards of performance than are the public schools because parents are customers rather than captive audiences. Competition ensures that all schools are held accountable by those who matter most — parents. Parents with choices can vote with their feet, sending their child to another school if the current institution is not serving their needs.

When the EITC program was created, policymakers in Pennsylvania wanted to make sure both poor and working-class families were able to participate in the program. Therefore, family income guidelines were established that would allow for working-class, middle-income families with several children to still qualify for the

STUDENT STORIES

*EITC Case Study: Jonathan
(Philadelphia)*

Before Jonathan came to City Center Academy (CCA) in Philadelphia, he was a “trouble student.” He hated school and was a constant distraction to the class. He got into numerous fights and did not have many friends.

Before CCA, he looked at life as a giant game with no responsibilities. Now he has learned to take responsibility for everything he has done—good and bad. He always used to have excuses, but now he tries to fix his mistakes.

According to Jonathan, one of the greatest things about CCA is that it is like a family. Because of the small classes, he got to know his classmates well and took the time to understand where they are coming from in life. He learned how to get along with everyone because of the example his teachers set.

“There’s no drama at CCA like in the other schools I’ve attended – we treat each other like brothers and sisters,” Jonathan said.

“Even when there are problems, the teachers come and take time to sit down and talk together with us to find resolutions that work.”

The difference between CCA and other schools he has attended is the connection between the faculty and the students.

“Our teachers show us how much they really care. They talk to us; they eat lunch with us; they laugh with us,” Jonathan said. “Before, I felt neglected by my teachers, but at CCA, my teachers give me options; I can talk to them whenever I have a problem and they guide me along the way.”

EITC program. Under current EITC income guidelines, families are eligible to participate if they have a family income of not more than \$75,000 per year, with an additional \$15,000 allowance per dependent child (prior to July 2012, the income limit was \$60,000 plus \$12,000 per child). For example, a family with two dependent children can have an income of up to \$105,000.

However, a predominance of SOs and PKSOs indicate on their web pages, applications, and in their operating guidelines that they seek to serve the most financially needy students first. Several studies have confirmed this point, showing that the EITC program predominately serves low-income children and families.

A 2003 Commonwealth Foundation

study, “Getting More, Paying Less,” surveyed parents participating in the Futuro Scholarship Program in Philadelphia. Parents responding to the survey indicated that 10 percent reported annual incomes of less than \$5,000; 43 percent reported annual incomes between \$5,000 and \$10,000; 14 percent reported annual incomes between \$10,000 and \$15,000; and 24 percent reported annual incomes of more than \$15,000.⁸

The Pennsylvania Legislative Budget and Finance Committee’s 2010 analysis of Pennsylvania’s Tax Credit Programs found that the average family income for those families receiving an EITC scholarship was \$29,000.⁹

During the 2009 legislative session, changes were made to the EITC

***Pennsylvania’s
EITC program
has become one
of the largest and
most successful
school choice
programs in the
nation.***

The EITC Program has provided an educational lifeline to tens of thousands of families looking for safer and better-performing schools for their children.

program to increase access to the program for families with special needs children. Specifically, a family income multiplier was added to the program for families seeking educational options for their special needs children. Many families with greater economic means were still struggling to find educational alternatives due to the high cost of special education. In response to these concerns, the legislature added an income multiplier of 1.5 for families with special needs children in traditional public school settings (family income allowance of \$90,000) and 2.993 for families with special needs children receiving educational services in special needs schools (family income allowance of \$179,580).

EITC PROGRAM COST SAVINGS

The wide disparity between public schooling and the EITC Program also is evident in terms of funding for the two options. The EITC Program represents less than one-fifth of 1 percent of the taxpayer dollars allocated to public schools in the state. For each \$100 taxpayers spend on primary education, only 18 cents is allocated for the EITC. Moreover, nearly one-third of all EITC funds are assigned to EIOs for the purpose of bringing innovative educational resources to public schools. The EITC does not represent additional educational spending. Instead, school districts

STUDENT STORIES

EITC Case Study: The Littles (Mechanicsburg)

The Little family—Steve, Sheona, Tyrece, Tiara, and Tamel— have been truly blessed. Steve is a math teacher in the Harrisburg School District. Sheona, a housewife and full-time mother, is finishing her bachelor's degree. One thing they always wanted for their children was a school that best fit their children's educational needs. This task seemed very difficult at first; Steve and Sheona did not have the income or resources to do this.

After many attempts with various daycare centers and schools, the Little Family finally found a school

that had everything they were seeking. A few years ago, they enrolled Tyrece and Tiara into Emmanuel Baptist Christian Academy. Tamel followed a few years later. Everyone really fell in love with this school and they are very grateful that an EITC scholarship was presented to them. Without this help, Tyrece, Tiara, and Tamel would not be able to attend this school—the school that is best for them.

This scholarship has made it possible for these children to continue attending Emmanuel Baptist Christian Academy. Without this scholarship, the Littles would have no options.

and state taxpayers may realize savings as the program has been implemented and expanded.

Funding for public schools comes from federal, state, and local sources. Federal funding represents the smallest portion of the total, with the state share at about 34 percent and local taxes making up 58 percent of public school revenues. With the EITC, a school district would lose its federal funding (which is allocated on a per-pupil basis) when a student leaves with a scholarship. Because of ‘hold-harmless’ provisions, however, state funding (largely set by appropriation) and local taxes remain in the district. This retained funding with fewer students allows districts to increase per-pupil spending without increasing taxes or other means of funding.

The per-pupil spending in the 2012-13 school year was more than \$14,865.¹⁰ In comparison, the average K-12 scholarship amount awarded through the EITC is \$1,085.¹¹ In other words, public schools spend approximately 14 times more in tax dollars than the amount of the average privately funded EITC scholarship to attend a school of choice.

The difference – \$13,780 – represents the amount taxpayers are saving per child when a student leaves the public school system and

attends a private school with an EITC scholarship. Multiplying this difference by the number of students receiving EITC scholarships in 2012-13 (60,000), results in a potential estimated taxpayer savings of nearly \$826 million. This amount assumes that all 60,000 students switched from a public to a private school due to the EITC scholarship. Because there are no requirements in state law that students are only eligible if first attending a public school, the estimated taxpayer savings of \$826 million is probably the upper limit.

However, if one analyzes it from another angle, the cost savings to the state are made with much greater clarity. If each of the 60,000 students receiving EITC scholarships in 2012-13 failed to be awarded a scholarship in the next school year and their parents had to make a decision to place them into a public school, schools would require an additional \$892 million in revenue to handle the additional enrollment.

RECOMMENDATIONS ON PROGRAM DESIGN FOR OTHER STATES CONSIDERING AN EDUCATIONAL TAX CREDIT

With more than 12 years of successful operations now in the books, the Pennsylvania EITC program can provide some helpful recommendations and lessons

The EITC Program has accomplished what many have been advocating for years: a way for the business community to be involved in children's education and provide more schooling options.

This partnership shifts the focus from the educational institution to the needs of a child.

learned for other states that are considering pursuing an educational tax credit.

Recommendation One: Make it easy for all parties to participate

One of the biggest lessons that the school choice community has learned over the past 15 years is that the best school choice program can flounder if it is not implemented well. One of the biggest challenges a new program can face is the ease or difficulty for businesses, scholarship organizations, and parents to participate in the program. Requiring over-burdensome reporting requirements for scholarship organizations or lengthy and complicated applications for businesses or families is a sure way to limit participation. Keeping it as simple and easy as possible to participate (while still ensuring compliance with state statute) will help new programs gain early participation from all parties.

Recommendation Two: Make income guidelines for families accessible to the middle class

While the EITC program is primarily helping low-income families find a school that meets the educational needs of their children, Pennsylvania legislators were very specific that they wanted the

program to be accessible to middle-class working families. Allowing family income guidelines to reach up into the middle-income range opens the program to families that may have several children and wish to find an alternative education choice.

Recommendation Three: If possible, house the program in a state agency other than the department of education

School choice programs are often very contentious during their debate, passage, and ultimately, their implementation. A friendly or hostile state department of education, depending on the political orientation of the current governor, often can go a long way to helping a program grow or helping it die a death of a thousand regulations. If there is an alternative location to house an education tax credit program, it can help reduce political tensions across new administrations. For instance, in Pennsylvania, the EITC program is housed in the Department of Community and Economic Development (which administers the Commonwealth's other tax credit programs) and it is viewed as just one of their many programs to administer.

Recommendation Four: Allow for both individual and corporate tax credits

If possible, always include individual tax credit donations as part of an educational tax credit program. Pennsylvania is not able to offer individual tax credits due to its state constitution, but many other states have incorporated individual contributions into their programs. This opens up a much larger segment of the population to learn about, and support school choice.

CONCLUSION

After 12 years of success, it is clear that the Pennsylvania EITC Program is an effective tool for delivering educational choices to parents and engaging the business community, while saving taxpayers money. With more than 151,000 students in 10 other states now benefiting from an educational tax credit program, these programs have proven a popular option for lawmakers looking to help parents find educational options.¹²

When resources follow a child, that child and his or her family now have the choice to attend the school that best fits his or her needs.

Student Stories

Our Story: The Marcoz Family (Murrysville)

We are the parents of 7-year old quadruplets— Brenna, Jacob, Olivia, and Zachary—who attend Mother of Sorrows Catholic School (M.O.S.S) in Murrysville. We chose M.O.S.S. because of the small school setting and spiritual atmosphere that surround our children on a daily basis.

The religious teachings of the school are well-integrated into the educational curriculum of the school. The academic strengths of M.O.S.S. are reflected by every faculty member of the school, each of whom carries a current certificate or degree from the state of Pennsylvania.

Our children love going to school. They have had the opportunity to be involved in ballroom dancing and creative movement classes and are learning about world language and the arts. They have become friends with their classmates and have learned to respect everyone around them.

Thanks to M.O.S.S., our children are off to a great start on the road to a successful education. If everything goes as planned, we will have a veterinarian, a teacher, a computer guru (like his dad!) and an Army specialist in our family.

In this crazy world we live in today, it is nice to know that our children are in a safe school where they are receiving a spiritual and educational foundation that will mold them into great people.

We feel fortunate that we are able to send our children to such a great school, which would not be possible without the EITC.

About the Author:

Andrew LeFevre is president of LeFevre Associates, a public relation and government relations consulting firm based in Phoenix, Ariz. He has served as the director of public relations for Arizona's Department of Education and the state's elected Superintendent of Education. From 2005 to 2010, he served as executive director of the REACH Alliance & REACH Foundation, Pennsylvania's statewide school choice organizations, and was responsible for overseeing the growth of the EITC program from \$45 million to \$75 million.

NOTES:

- ¹ Pennsylvania Department of Education, Summaries of Annual Financial Report Data, Professional and Support Personnel Data and Statistics, Public School Enrollment Reports. View online here: http://www.portal.state.pa.us/portal/server.pt/community/data_and_statistics/7202.
- ² U.S. Department of Education, National Assessment of Educational Progress. View online here: <http://nces.ed.gov/nationsreportcard/states/>.
- ³ Pennsylvania Department of Education, Public School Enrollment. View online here: http://www.portal.state.pa.us/portal/server.pt/community/enrollment/7407/public_school_enrollment_reports/620541.
- ⁴ Author's calculations based on data obtained from the Pennsylvania Department of Community & Economic Development.
- ⁵ REACH Foundation, Educational Tax Credits. View online here: <http://www.paschoolchoice.org/eitc/educational-tax-credits/>.
- ⁶ Children's Scholarship Fund, Philadelphia. View online here: <http://www.csphiladelphia.org/content/about-csf-philadelphia>.
- ⁷ For a list of Scholarship Organizations, Educational Improvement Organizations, or Pre-K Scholarship Organizations, see Pennsylvania Department of Community and Economic Development. View online here: <http://www.newpa.com/find-and-apply-for-funding/funding-and-program-finder/educational-improvement-tax-credit-program-eitc>.
- ⁸ "Getting More, Paying Less: Children, Taxpayers and Public Schools Benefit from the Educational Improvement Tax Credit," by Robert Maranto, Ph.D. March 2003, p. 5. View online here: <http://www.commonwealthfoundation.org/research/detail/getting-more-paying-less-children-taxpayers>.
- ⁹ Pennsylvania's Tax Credit Programs, Pennsylvania Legislative Budget and Finance Committee, June 2010. View online here: <http://lbfc.legis.state.pa.us>.
- ¹⁰ Pennsylvania Department of Education, Summaries of Annual Financial Report Data, Public School Enrollment Reports. View online here: http://www.portal.state.pa.us/portal/server.pt/community/data_and_statistics/7202.
- ¹¹ Pennsylvania Department of Community and Economic Development, Tax Credit Division, data provided upon request.
- ¹² "The ABCs of School Choice: 2013 Edition." The Friedman Foundation for Educational Choice. View online here: www.edchoice.org.



4512 West Pine Blvd. | Saint Louis, MO 63108 | 314-454-0647 | www.showmeinstitute.org

View State Government Spending:
showmeliving.org

Read Our Blog:
showmedaily.org

Use Our Interactive Database:
showmedata.org

Find Us on Facebook:
facebook.com/showmeinstitute

Follow Us on Twitter:
twitter.com/showme