A Decade of Success
Pennsylvania’s Educational Improvement Tax Credit
ANDREW LEFEVRE

EXECUTIVE SUMMARY

For the past 10 years, Pennsylvania’s highly innovative and popular Educational Improvement Tax Credit (EITC) Program has provided educational options to low- and middle-income families across the commonwealth. These families were searching for alternatives to the sometimes dangerous and often-times failing government-run school assigned to them according to their ZIP code.

Through the direct engagement of businesses in the educational process, by providing the funding for scholarships in exchange for state tax credits, the EITC program has proven a tremendously successful partnership, awarding more than 284,000 scholarships worth $335 million.

Additionally, this landmark program has saved Pennsylvania taxpayers millions of dollars each year. With an average scholarship of approximately $1,000, the EITC serves students for a small fraction of the $14,000 spent per student by school districts. If each of the 38,600 students receiving EITC scholarships in 2009-10 returned to public schools, schools would require an additional $512 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 millions it has saved taxpayers and relief to high-growth school districts, but parental satisfaction with education outcomes. Demand for EITC scholarships far outweighs what is available from participating Scholarship Organizations across the commonwealth. For example, the Children’s Scholarship Fund Philadelphia had 95,000 applications for 7,700 scholarships awarded over the last decade. The EITC provides choices parents demand and offers better outcomes for children.

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* Author’s tabulations based on data provided by Pennsylvania Department of Community and Economic Development
BACKGROUND

Pennsylvania public school spending has rapidly increased despite declining enrollment, with little growth in academic achievement to show for it. Since 2000, public school spending rose 68%, from $15.3 billion to $25.8 billion in 2009-10. Over that time, enrollment in Pennsylvania public schools declined by 26,960 students while schools have hired an additional 32,937 more employees. Despite spending more than $14,000 per student, only 40% of Pennsylvania 8th grade students scored at or above proficiency on the National Assessment of Educational Progress reading and mathematics exams.

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 a lot of fights and didn’t have many friends.

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

According to Jonathan, one of the greatest things about CCA is that it’s like a family. Because of the small classes, he got to know his classmates well and take the time to understand where they’re 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,” said Jonathan. “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 explains. “Before, I felt neglected by my teachers, but at CCA my teachers give me options; I can talk to them whenever I

In 2001, Pennsylvania became the first state in the nation to enact an education tax credit funded by corporations. Since then, the Educational Improvement Tax Credit (EITC) Program has provided an educational lifeline to tens of thousands of families looking for safer and better-performing schools for their children. Seven other states have followed Pennsylvania’s example by enacting similar 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 giving them 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 their family now have the choice to attend the school that best fits their needs. The EITC provides a unique way to further invest in the educational futures of Pennsylvania’s children while saving taxpayer money and providing relief to high-growth school districts.
The EITC Program allows businesses to donate up to $300,000 per year to a registered and approved 501 (c)(3) Scholarship Organization (SO) or Educational Improvement Organization (EIO) of their choice. The state then provides each donating business with a tax credit of 75% of their donation amount (or 90% if they pledge the donation for two consecutive years) against what they owe 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.3

This 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 Pre-K scholarships to families for children ages four through five.

When enacted in 2001, the cap for the tax credits was set at $30 million annually, with two-thirds allocated to SOs and one third given to EIOs. The total cap has been increased several times to its total current level of $75 million, which includes funding for Pre-K scholarships. The cap was temporarily reduced in the 2009 budget, but returns to $75 million for fiscal year 2011-12. The division of credits between EIOs and SOs remained the same through most of the program years, but was shifted to favor SOs over the last two years.

Of the $60 million available under the EITC Program for the 2010-11 school year, $40.2 million went toward K-12 scholarships and $13.4 million toward innovative educational programming, and $6.4 million for Pre-K scholarships. During the 2009-2010 school year, more than 38,600 students used EITC funds to attend the school of their choice.

Since the program’s inception in 2001, more than 5,000 businesses have contributed in excess of $573 million dollars to approved EITC organizations to fund private scholarships for students to attend K-12 schools and Pre-K scholarships as well as for innovative public school programs.

**Scope of EITC Program**

While nearly 40,000 students utilizing EITC scholarships to attend the school of their choice may seem like a significant number, it represents but a small number of K-12 students in Pennsylvania. In 2009-2010, there were more than 1,787,000 students enrolled in Pennsylvania’s public schools (including charter schools), and more than 287,000 attending nonpublic schools.5

In other words, approximately 15% of students in the commonwealth attended nonpublic schools, while the 38,600 children using EITC...
scholarships represents only 1.9% of total students in the state. Only one out of 50 families are or able to choose a different learning environment for their children with the help of the EITC program.

Demand for EITC scholarships by families far outweights the available supply that is offered by the participating SOs 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

The wide disparity between public schooling and the EITC Program is also witnessed in terms of funding for the two options. The EITC Program represents less than one-fifth of 1% of the taxpayer dollars allocated to public schools in the state. For each $100 spent by taxpayers 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.

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 hard at first; Steve and Sheona didn’t 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 looking for. A few years ago, they enrolled Tyrece and Tiara into Emmanuel Baptist Christian Academy. Tamal 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 Tamal 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 to attend Emmanuel Baptist Christian Academy. Without this scholarship, the Littles would have no options.

During the 2009-10 school year, there were 238 approved SOs, 500 approved EIOs and 143 PKSOs in Pennsylvania recognized to participate in the EITC program by the Department of Community and Economic Development. The scholarship organizations vary in their size and scope and include state-wide organizations, regional organizations, city-based, and small organizations established to help students at a small group of schools and can also be religiously affiliated, ethnically-focused, or focused 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.
EITC Benefits Low-Income, Middle-Class and Families with Special Needs Children

Families are eligible to participate in the EITC program if they have a family income of up to $60,000 per year, with an additional $12,000 allowance per dependent child. Prior to July 2011, the income limit was $50,000 plus $10,000 per child.

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. This point has been confirmed by several studies that have shown that the EITC program predominately serves low-income children and families.

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.

A 2003 Commonwealth Foundation study, Getting More, Paying Less, surveyed parents participating in the Futuro Scholarship program in Philadelphia. Information provided by the parents responding to survey indicated that 10% reported annual incomes under $5,000; 43% reported annual incomes between $5,000 and $10,000; 14% reported annual incomes between $10,000 and $15,000; and 24% reported annual incomes over $15,000.7

A 2010 analysis by the Pennsylvania Legislative Budget and Finance Committee, Pennsylvania's Tax Credit Programs, found that the majority of families receiving EITC scholarships had family incomes below $29,000.8
During the 2009 legislative session, changes were made to the EITC 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).

Our Story: The Iglesias Family
(Clarks Green)

We are all a result of the choices we make. One of those choices is where to send our children to school. It’s our responsibility to make it affordable, so that we may all have the option to make the right choice.

Last year we, registered our 5-year-old, Joanna, a future fashion designer, and 6-year-old, Joey, a future eye doctor, into Pre-K and Kindergarten, respectively, at the Abington Christian Academy in Clarks Green.

With great hardship, Joanna started Pre-K on a monthly payment plan at Abington Christian Academy and Joey, by default, had to start Kindergarten at our “free” local public school, which only offered a two and a half hour program.

In October, a prayer was answered and we learned that Joey had been awarded a financial aid scholarship to attend the school of our choice through the Faith First Educational Assistance Corporation. However, we could not accept it because he was not enrolled in the school of our choosing—Abington Christian. Thus, the scholarship was given to another student. Through the wonder of God, several organizations came together to produce scholarships for both of our children, which enabled Joey to attend Joanna’s school.

Since Joanna’s and Joey’s enrollment, their nightly prayers have gotten rather lengthy; they both have an ever increasing roster of people for whom to ask God’s blessing. We’re amazed how they remember that many names. They are thriving at Abington Christian Academy because of the EITC Program. We are so thankful that our children can receive the education they deserve despite our current hardship in life.

EITC PROGRAM COST SAVINGS

The EITC does not represent additional educational spending. Instead, school districts and state taxpayers may realize savings as the program has been implemented and expanded.

Funding for public schools come from federal, state, and local sources. Federal funding represents the smallest portion of the total, with the state share at about 34% and local taxes 58% of public school revenues. With the EITC, a school would lose its federal funding (which is allocated on a per-pupil basis) when a student leaves with a scholarship. However, state funding (largely set by appropriation) and local taxes remain in the district. This retained funding with fewer students allows districts to raise per pupil spending without increasing taxes or other means of funding.
The per-pupil spending in 2009-2010 school year was more than $14,300. In comparison, the average K-12 scholarship amount awarded through the EITC is $1,040. In other words, public schools spend roughly 14 times in tax dollars the amount of the average privately funded EITC scholarship to attend a school of choice.

The difference—$13,260—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 2009-10 (38,600), results in an estimated taxpayer savings of $512 million. That is, if each of these students re-entered the public school system, schools would require an additional $512 million in revenue to handle the increased enrollment.

**EITC Case Study: The Gearys**

(Donegal)

Once Tom and Cheryl had children, they realized that they wanted something more than sending them to the local public school: somewhere that combined academic excellence with Christian values and principles along with a loving and caring staff that would take an interest in determining their children’s futures. They found exactly that at Champion Christian School and their children, Cara and Luke, are thriving there.

Cara has been at Champion for the last nine years and Luke is enrolled in the preschool program. “We couldn’t be more pleased with the integrated Christian curriculum,” say Tom and Cheryl.

Along with the great academics at Champion, Cara has the opportunity to be involved in many sports and extracurricular activities. Cara loves her caring teachers and the overall environment. Meanwhile, Luke is excelling in the preschool curriculum which is geared to facilitate children’s growth in all areas.

With the help of the EITC scholarship that both Cara and Luke receive, their parents have been able to fulfill their vision

**HOW TO IMPROVE THE EITC**

After 10 years of success, it’s clear the EITC is an effective tool for delivering educational choices to parents and engaging the community, while saving taxpayers money. Expanding the EITC would dramatically increase the benefits to students and taxpayers.

There are proposals in both the Pennsylvania House and Senate that would increase the EITC cap. HB 1330, which passed the House by a 190-7 margin in May, would raise the EITC cap from $75 million to $200 million over two years. SB 1 would raise the cap on EITC contributions to $100 million, and then by 5% for every year that 90% of tax credits are claimed, allowing the EITC to grow with the demand for scholarships.

Apart from increasing the size of the EITC, Pennsylvania could follow the example of other states, which also allow individuals to contribute to scholarship organizations and receive tax credits against the personal income tax. Georgia, Indiana and Arizona offer individual tax credits.
Additionally, states like Illinois and Iowa allow personal tax credits or deductions for educational expenses. This would allow parents to deduct part of their tuition payments or homeschooling parents to deduct some of their education costs, and reducing the financial barriers for those families covering the costs of educating their children.

Given the decade of success of the EITC—and the unmet demand for greater choice—lawmakers should consider these options for expanding and improving the EITC. With an expanded EITC, more students would obtain educational lifelines, and taxpayers would continue to accumulate savings.

ENDNOTES

3. For a list of Scholarship Organizations, Educational Improvement Organizations, or Pre-K Scholarship Organizations, see Pennsylvania Department of Community and Economic Development, http://www.newpa.com/find-and-apply-for-funding/funding-and-program-finder/educational-improvement-tax-credit-program-eitc
4. Pennsylvania Department of Community and Economic Development, Tax Credit Division, data provided upon request.
8. Pennsylvania’s Tax Credit Programs, Pennsylvania Legislative Budget and Finance Committee, June 2010, http://lbfc.legis.state.pa.us
10. Pennsylvania Department of Community and Economic Development, Tax Credit Division, data provided upon request.

ABOUT THE AUTHOR AND THE COMMONWEALTH FOUNDATION

Andrew LeFevre is President & CEO of the Arizona Choice in Education Foundation.


The Commonwealth Foundation (CommonwealthFoundation.org) is Pennsylvania's free-market think tank. The Commonwealth Foundation crafts free-market policies, convinces Pennsylvanians of their benefits, and counters attacks on liberty.