

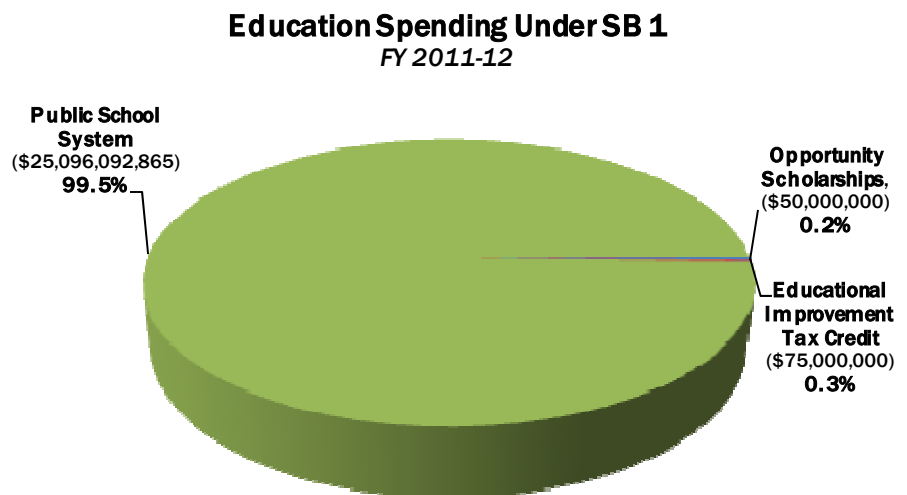


Senate Bill 1: Analysis & Recommendations

Senate Bill 1, The Opportunity Scholarship Act sponsored by Sen. Jeff Piccola (R) and Sen. Tony Williams (D), would expand scholarships available to children in lower- and middle-income families through the Educational Improvement Tax Credit program and provide low-income students in chronically underperforming public schools with a state-funded voucher.

THE FAILURE OF “GIVE US MORE MONEY, MORE TIME”

- Gov. Tom Ridge first proposed school vouchers in 1996 for children in low-performing schools. Opponents of school choice—primarily the PSEA labor union and the Pennsylvania School Boards Association—argued they simply needed more money and more time to fix the problems.
- Fifteen years later, taxpayer spending on public schools *doubled* to \$26 billion per year. Today, Pennsylvania taxpayers spend more than \$13,000 per student—\$2,000 more than the national average and more than 39 other states.
- Despite dramatic increases in funding, Pennsylvania’s academic performance on the National Assessment of Education Progress (NAEP) exam has remained relatively unchanged for years. Pennsylvania ranks among the worst performing states in SAT college entrance exam scores, and on the Pennsylvania System of School Assessment (PSSA) only about half of 11th graders are “proficient” in reading and math.
- Senate Bill 1 of 2011 maps a different route to making sure children can access a better education through an expansion of the state’s successful Educational Improvement Tax Credit (EITC) program, which provides scholarships to children in lower- and middle-income families, and a state-funded voucher program for low-income students trapped in schools with the lowest results on state test scores.



EXPANDING THE EITC FOR LOWER- AND MIDDLE-INCOME CHILDREN

- **Overview.** Scholarships generated through the Educational Improvement Tax Credit program (enacted in 2001) assist parents in paying tuition at their school-of-choice. Pennsylvania companies receive a 75 to 90 percent tax credit for voluntarily donating to a scholarship organization.
 - ⇒ The average scholarship amount is a little more than \$1,000, and the average family income of scholarship recipients is \$29,000.
 - ⇒ Over 38,000 students received EITC scholarships in 2010, serving 2.2 percent of Pennsylvania’s schoolchildren.
 - ⇒ The EITC saved taxpayers \$500 million last year, as students left high-cost district schools for lower-cost private schools. The average EITC scholarship educates students for *\$12,160 less* than school districts spend per pupil.
 - ⇒ The EITC Program represents less than 1 percent of total education spending. For each \$100 spent by the General Assembly on primary education, only 54 cents is offered for the EITC.
 - ⇒ The demand for scholarships is far greater than what is currently offered—The Children’s Scholarship Fund Philadelphia had 95,000 applications for 7,700 scholarships awarded over the last 12 years.

- **Qualification.** Under Senate Bill 1, EITC scholarships would be available to families with an annual household income up to *\$60,000 plus \$12,000 per child*. This represents an increase from current eligibility (\$50,000 + \$10,000 per child). For example, a family with two children with a household income under \$84,000 would qualify.

- **Implementation.** Under Senate Bill 1, the amount of tax credits available for scholarships, including pre-K scholarships, would increase to \$75 million. Additionally, \$25 million in tax credits would be available for contributions to Educational Improvement Organizations—an increase of nearly 100 percent.

Educational Improvement Tax Credit Limits

(in millions)

Year	Scholarship Organizations	Pre-K Scholarship Organizations	Educational Improvement Organizations	Total EITC Credits
2005-06	\$36.0	\$5.0	\$18.0	\$59.0
2006-07	\$36.0	\$5.0	\$18.0	\$59.0
2007-08	\$44.7	\$8.0	\$22.3	\$75.0
2008-09	\$44.7	\$8.0	\$22.3	\$75.0
2009-10	\$38.0	\$6.4	\$15.6	\$60.0
2010-11	\$40.2	\$6.4	\$13.4	\$60.0
SB 1*	\$75.0	\$8.0	\$25.0	\$100.0

* Under SB 1, \$75 million would be available for scholarships, of which \$8 million could be for pre-k (current law separates these two programs).

- ⇒ Beginning in 2014, the amount available for the EITC will automatically increase by 5 percent per year, as long as 90 percent of the available tax credits are claimed.
- ⇒ At full utilization, the EITC expansion could serve up to 4 percent of Pennsylvania’s school children and reduce the need for public school spending by *\$4.4 billion over four years*.

- **Funding.** Corporate tax credits are taken against taxes business owe to the state.

OPPORTUNITY SCHOLARSHIP VOUCHER PROGRAM

- **Qualification.** The voucher program would provide money for low-income students in Pennsylvania’s failing schools to attend a private school or another public school of their choice.
 - ⇒ “**Low-income**” is defined as families at or below 130 percent of the federal poverty level—the same level for “free lunch” program eligibility. A family of four would qualify at \$28,665. In 2009, more than 547,000 Pennsylvania public school students (32 percent) qualified for the “free lunch” program.

Estimated Eligibility for Opportunity Scholarship Program

- ⇒ “**Persistently lowest achieving**” (failing) schools are those schools in the bottom 5 percent on state standardized test (PSSA) scores in the latest year available.

	2009 Enrollment	Total Enrollment	Free Lunch Eligible
"Persistently Lowest Achieving" Schools		98,726	71,733
Private Schools in Failing School Boundaries		14,809	10,760
All Pennsylvania Public Schools		1,718,716	547,150

Source: http://www.education.state.pa.us/portal/server.pt/community/national_school_lunch/7487, private school enrollment in failing areas estimated to be 15% of public school enrollment

- **Implementation.** The voucher program would be phased in over three years.
 - ⇒ **Year One.** Only low-income students currently enrolled in “persistently lowest achieving” schools will be eligible for a voucher. Any funds awarded to a student above their tuition will be set aside to fund scholarships for low-income private school students in year two.
 - ⇒ **Year Two.** Low-income students residing with the boundaries of failing schools, but currently attending private schools, would be eligible.
 - ⇒ **Year Three.** All low-income students in Pennsylvania would be eligible.
 - ⇒ The program would be overseen by the Educational Choice Board, a new independent board within the state Department of Education.

Estimated Enrollment in Opportunity Scholarship Program

School Year	Eligible Student Utilization (5% of Total)	Eligible Student Utilization (15% of Total)	Eligible Student Utilization (25% of Total)
2011-12	3,587	10,760	17,933
2012-13	4,125	12,374	20,623
2013-14	27,358	82,073	136,788

- **Funding.** Scholarships will be funded by redirecting the *current* per-pupil *state* subsidy to the student’s school of choice through the parents.
 - ⇒ The amount of the scholarship depends on the child’s current school district spending. For example, a low-income student in the Harrisburg School District—which spends \$17,000 per student—would be eligible for a voucher worth approximately \$9,000. The average state subsidy among all districts is just over \$5,000 per student.
 - ⇒ Public schools retain 100 percent of local funding (i.e., local property, income, and occupation taxes) for students who transfer with vouchers.
 - ⇒ The voucher would be limited to the actual tuition charged by private schools. According to the Pennsylvania Catholic Conference, the statewide average costs for Catholic grade schools are \$3,500 per student, and for high schools are \$6,500 per pupil.
 - ⇒ School districts would have the option of creating local scholarships for students to attend public schools in other districts (usually through an inter-district agreement).

CONSTITUTIONALITY OF SB 1

- The Pennsylvania Supreme Court will have jurisdiction over any legal issues or concerns of constitutionality, though voucher programs have been upheld by the U.S. Supreme Court.
- Pennsylvania case law permits the transfer of funds to parents for the purposes of exercising school choice. In other words, because scholarships are given to parents who then makes school choices, this money is not being given directly to private schools.
 - ⇒ The Pennsylvania State Constitution states, “No money raised for the support of the public schools of the Commonwealth shall be appropriated to or used for the support of any sectarian school.” General Fund revenue does not meet this definition as it is not raised for the purposes of funding public education. School district property taxes are raised for this purpose, and that is why Senate Bill 1 involves only state funding for private schools, and not local tax revenue.
 - ⇒ Pennsylvania’s General Fund already includes line items directly funding private school students.

OPPORTUNITIES TO EXPAND THE BENEFITS OF SENATE BILL 1

While Senate Bill 1 will dramatically expand opportunities to families who lack the financial ability to access educational alternatives for their children, the Commonwealth Foundation suggests that all families be afforded such opportunities—regardless of income or zip code. These ideas were first outlined in *Reinventing Education in Pennsylvania: Fulfilling the Promise of Public Schooling* (2003).

- **Expand EITC to Individual Taxes.** Permit individuals to take personal income tax credits for contributions to scholarship organizations.
 - ⇒ Phase-in tax credits for individual contributions to scholarship organizations beginning at \$1,500 in the first year and increasing by \$2,000 per year for five years until they reach \$11,500.
 - ⇒ Arizona, Georgia and Indiana currently offer individual tax credits for contributions to scholarship organizations.
- **Create the “Parental Responsibility Tax Credit” Program.** Allow parents to take a personal income tax credit for their educational expenses.
 - ⇒ Provide an personal income tax credit for up to 90 percent of the cost of full-time schooling.
 - ⇒ Credits could be used to offset the cost of private school tuition and homeschooling expenses.
 - ⇒ Families eligible for EITC scholarships could take the full amount of the credit. For families above the EITC eligibility level, the maximum credit would be reduced by 75 cents for each additional dollar of income.
 - ⇒ Illinois, Iowa, Louisiana and Minnesota currently offer individual tax credits for personal education expenses.

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For more on **School Choice**, visit CommonwealthFoundation.org/SchoolChoice

