



Ten Thousand Lifeboats: Improving Students' Educational Futures via Pennsylvania's Scholarship Tax Credit Programs

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EXECUTIVE SUMMARY

In 2001, Pennsylvania became the first state in the nation to enact 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.

In 2012, the commonwealth added a second program, the Opportunity Scholarship Tax Credit (OSTC), which enables eligible students residing within the boundaries of a low-achieving school to apply for a scholarship to attend another public or nonpublic school. A low-achieving school is defined as a public elementary or secondary school that ranked in the lowest 15 percent of schools each year based on their combined Mathematics/Algebra I and Reading/Literature scores from the annual state assessments.

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

Additionally, the landmark EITC 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 \$14,621 that public schools 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 were instead placed into a public school, schools would require an additional \$880 million in revenue to handle the additional enrollment. The EITC and OSTC create partnerships between parents, businesses, and scholarship organizations. These partnerships allow funding to follow students, giving children and their families choices in schools that best fit their needs. The success of the EITC program is demonstrated not just in the hundreds of

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millions of dollars it has saved taxpayers and relief to high-growth school districts, but also in parental satisfaction with education outcomes. Demand for EITC and OSTC 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 incredible demand. The EITC, and now the OSTC, provide choices parents deserve and offers better outcomes for children.

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 80 percent, from \$15.3 billion to \$26.1 billion (not adjusted for inflation) in the 2012-13 school year.¹ Over that time, enrollment in Pennsylvania public schools declined by 2 percent, or 36,183 students (from 1,836,560 to 1,800,377), while schools have hired an additional 6,682 professional personnel, or an increase of 5 percent (from 141,836 to 148,518).² Despite spending \$14,621 per student during the 2012-13 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.³

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 funded by corporations. Former Pennsylvania Gov. Tom Ridge and a diverse coalition advocated for House Bill 966, which created the Educational Improvement Tax Credit program. Since then, the EITC program has provided an educational lifeboat 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. 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.

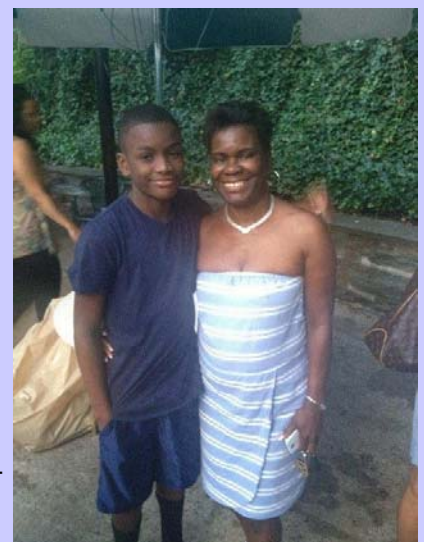
Testimony: Lynne Hammond, mother of James Cromartie

I believe that school choice is important because all children deserve a quality education. Parents should be able to select an educational setting which best fits the needs of their child and their families. School choice gives families options: the choice to attend traditional public, charter, cyber, or private schools should be available to all.

Unfortunately, far too many families do not have these options when selecting the schools their children will attend. Given the state of public education, these students are being subjected to inferior teachers, facilities, materials and equipment. The effects of inferior education are devastating to families and communities.

I have been personally impacted by the school choice options in the state of Pennsylvania. As a recipient of the Opportunity Scholarship Program, my son is able to attend a private school. James Cromartie is currently a 7th grade student at the School of Church Farm. This is a college preparatory school located in Exton, Pennsylvania. As a boarding student, James is acquiring several skills which will prepare him to attend college. The school offers a challenging academic curriculum, art, music and a rich athletic program. Many of these “extras” are unavailable at the middle schools in my neighborhood.

The Opportunity Scholarship has enabled me to send my son to the school of his choice so that he can pursue his educational goals and dreams.



Due to the overwhelming success and popularity of the EITC program during its first ten years, the Pennsylvania Legislature and Gov. Tom Corbett enacted a new program on June 30, 2012 targeting students who attend the lowest-performing schools in the commonwealth. The new OSTC program focuses funding for scholarships on those students residing in the attendance boundaries of the lowest performing 15 percent of schools as determined annually by the Pennsylvania Department of Education based on the school's combined Mathematics/Algebra I and Reading/Literature scores from the annual state assessments.

The distinctive elements of the EITC and OSTC programs 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 and OSTC provide a unique way to invest in the educational futures of Pennsylvania's children while saving taxpayer money and providing relief to high-growth school districts.

SCOPE OF SCHOLARSHIP TAX CREDIT PROGRAMS

While nearly 60,000 students utilizing tax credit scholarships to attend the school of their choice may seem like a significant number, it represents a small fraction 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 attended non-public schools.⁴

| Educational Improvement Tax Credit Program | | | | | | |
|--|----------------------------|--------------|-------------------|------------------------|-------------------------------|-------------------|
| FY | Total SO Credits Available | SO Receipts | K-12 Scholarships | Avg Scholarship Amount | Total Pre-K Credits Available | Total EIO Credits |
| 2001-02 | \$20,000,000 | \$19,066,825 | 17,350 | \$1,099 | - | \$10,000,000 |
| 2002-03 | \$20,000,000 | \$22,207,444 | 20,208 | \$1,099 | - | \$10,000,000 |
| 2003-04 | \$26,666,665 | \$28,434,178 | 25,875 | \$1,099 | - | \$13,333,333 |
| 2004-05 | \$29,333,333 | \$29,342,885 | 26,701 | \$1,099 | \$5,000,000 | \$14,666,667 |
| 2005-06 | \$36,000,000 | \$32,569,421 | 29,638 | \$1,099 | \$5,000,000 | \$18,000,000 |
| 2006-07 | \$36,000,000 | \$40,115,095 | 36,540 | \$1,098 | \$5,000,000 | \$18,000,000 |
| 2007-08 | \$44,666,667 | \$48,709,293 | 44,334 | \$1,099 | \$8,000,000 | \$22,333,334 |
| 2008-09 | \$44,666,667 | \$49,488,166 | 44,893 | \$1,102 | \$8,000,000 | \$22,333,334 |
| 2009-10 | \$37,967,000 | \$40,338,741 | 38,646 | \$1,044 | \$6,400,000 | \$15,600,000 |
| 2010-11 | \$40,202,400 | \$44,926,133 | 40,882 | \$1,099 | \$6,396,000 | \$13,400,000 |
| 2011-12 | \$44,666,667 | \$49,667,606 | 45,200 | \$1,099 | \$8,000,000 | \$22,333,334 |
| 2012-13 | \$60,000,000 | \$65,167,529 | 59,300 | \$1,099 | \$10,000,000 | \$30,000,000 |
| 2013-14 | \$60,000,000 | | | | \$10,000,000 | \$30,000,000 |

| Opportunity Scholarship Tax Credit Program | | | | |
|--|----------------------------|--------------|-------------------|-------------------------|
| FY | Total SO Credits Available | SO Receipts | K-12 Scholarships | Avg. Scholarship Amount |
| 2012-13 | \$50,000,000 | \$15,600,156 | 1,318 | \$3,193 |
| 2013-14 | \$50,000,000 | | | |

In other words, approximately 11.5 percent of students in the commonwealth attended non-public schools, while the 60,000 children using tax credit scholarships represent only 2.9 percent of total students in the state. Only about 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 in the EITC program was set at \$30 million annually, with two-thirds allocated to SOs that provide scholarships to students and one-third given to Educational Improvement Organizations (EIOs) that provide innovative educational programming in Pennsylvania's public schools. Due to the EITC program's strong bipartisan 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.

The cap for the new OSTC program is currently set at \$50 million annually. During its first year in operation, the OSTC program only received \$15.6 million in funding from businesses, as can be seen in the program chart. This can be attributed to the late passage and implementation of the program and its coexistence with the established EITC program, for which companies had already submitted their funding applications for that current fiscal year. A similar “ramp up” period was also seen in the initial years of the EITC program.⁵ As of mid-August, the OSTC program had received \$31 million in funding applications for 2013-14.⁶

During the 2012-2013 school year, 59,300 students used EITC funds to attend the school of their choice. 1,318 students utilized funds from the new OSTC program to escape from one of the lowest performing schools in the commonwealth and attend a school of their choice.⁷

Since the EITC program's inception in 2001 and the creation of the OSTC program in 2012, more than 5,000 businesses have pledged in excess of \$672 million to fund private scholarships for students to attend K-12 schools, pre-K schools, and innovative public school programs.⁸

Families' demand for EITC scholarships far outweighs the available supply that the participating SOs offer across the commonwealth. For example, over the past 13 years the Children's Scholarship Fund Philadelphia had 130,000 applications for the 14,500 scholarships they were able to award to students.⁹

PARTICIPATION IN THE PROGRAMS

The EITC and OSTC programs are dependent on the participation of three distinct groups: businesses, scholarship organizations, 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 for children ages 4-5.

Both the EITC and OSTC programs allows businesses to donate up to \$750,000 per year to a registered and approved 501(c)(3) SO (or EIO in that case of the EITC program) 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 Organiza-

Testimony: Marpessa McNeil, mother of Kaiden Myers

The scholarship awarded to our family by African Americans for Educational Opportunities (AAEO) has helped our family tremendously. The first year we decided to put Kaiden in The Westwood School was based on a family decision. We all wanted our Kaiden to be able to have a good shot at life. We knew this would have to be done by investing our time and, of course, our finances. We were using the “it takes a village” mantra because we collectively decided that raising a child with this mantra seems to be a healthy and wise way of collectively parenting.

My income alone was not enough to cover the entire weekly tuition costs. My parents and other extended family contributed to Kaiden’s education. We knew that early education was important for children to receive. The Head Start in our area had no openings initially and then subsequently closed altogether. I was not able to get any answers

or direction for the School District of Philadelphia for available schools and/or centers that Kaiden would be able to attend. When we received the scholarship for Kaiden there was no doubt that he would be able to go to a school of our choice, not by force.

Kaiden has really excelled academically and socially. Without the K-5 scholarship program, Kaiden would not have been able to return to The Westwood School. As a parent, I am proud to say to others that parents do have options, and as a recipient of the 2013-14 AAEO K-5 scholarship program, I can show a testament of this by telling others our story.

Since Kaiden has been afforded the opportunity to be enrolled in The Westwood School, he has excelled in language arts and mathematics. He has scored beyond kindergarten level in both subjects. He is also learning on new technology that the school offers, such as Smart Boards. He is able to be in an environment where the principal knows every child’s name and their caretaker’s names as well. As a parent I am overjoyed at the way Kaiden is progressing. The teachers also take time out to talk to each parent about ways they can continue to assist in their child’s learning experience as well as maintaining an open door policy. Kaiden is also learning about himself as a result of attending The Westwood School. He is learning how to fit in socially and beginning to be exposed to societal norms. Kaiden is also learning about being responsible as a young boy.

I do believe that we have already gained more than we knew we could by having this scholarship. As a family that was educated through the public school system, we all have noticed how things have changed. With this scholarship we have been given a newfound hope that our bright little boy has the foundation to become a flourishing, scholarly, and structured man one day. Our retired aunt taught in the public school district for more than 40 years and she is so intrigued with all that Kaiden has already learned and been exposed to at such a young age. When I think about the benefits of this scholarship, I am pleased to say that already I see how much Kaiden has benefited. He has received a full year of early education which has helped him to blossom. For this we are thankful! For this we know that there is hope for Kaiden’s future.



tion (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.¹⁰

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. For the same school year, 176 SO organizations were recognized to participate in the OSTC program. All EITC and OSTC 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, and city-based 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.

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.

Critics contend 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 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.

ELIGIBILITY

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 EITC program. Under current EITC and OSTC income guidelines, families are eligible to participate if they have a family income no greater 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 and still be eligible.

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

Testimony: Geronda Montalvo, mother of Zayda Davis

My family lives in a neighborhood with nothing other than low-achieving public schools. The blessing of being afforded the choice to send my daughter, Zayda, to a quality school, Holy Child Academy, that I would not have otherwise been able to pay for, overwhelms me with joy and gratitude. Being awarded this African Americans for Educational Opportunities (AAEO) scholarship has helped relieve some of the financial burden of paying for Zayda's private school education. I have peace of mind knowing that she has been granted the opportunity to receive the safe and quality education that she deserves. She is already benefiting from this and its shows in her personal and academic growth. Additionally, being a student at her school allows her the opportunity to excel academically on, and beyond, the level of a diverse group of peers; here she can be challenged. These attributes will also help to build her character and allow her to reach her full potential. These experiences will lay the foundation for Zayda's future success. I thank AAEO for this!

I have always been committed to being involved in service but I must say that AAEO's volunteering requirement has helped strengthen my commitment to and my involvement at Holy Child Academy, which may not have been as easy for my family as we are new to Zayda's school. I feel that this requirement has helped both of us to better introduce and integrate ourselves within the Holy Child Academy community.

I am appreciative of so much more than what I have stated above for I have learned and gained some invaluable lesson from AAEO this past year. I am obviously thankful for Zayda's scholarship, but I truly had no idea that there was so much more than the financial aspect to gain from AAEO. Being a AAEO parent has taught me new information about parental school choice and educational options. These resources are priceless and I have been sharing them with other parents in attempts to help empower them as I have been empowered. While I am confident with the educational decisions I have made for Zayda there is so much more that I could have known a year ago prior to sending Zayda to kindergarten. Nonetheless, I now am informed and committed to sharing what I learned with other parents.

All of these opportunities and experiences are to my and Zayda's benefit and what we have gained are life lessons that will continue to guide us through and beyond our EITC scholarship.



needy students first. Several studies have confirmed this point, showing that the EITC program predominantly 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. Ten percent of survey respondents 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 \$15,000.¹¹

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 \$29,000.¹²

During the 2009 legislative session, changes were made to increase access to the EITC 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).

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.

Since the OSTC program is specifically designed to provide educational options to students who reside within the attendance boundaries of the lowest performing 15 percent of public school districts, there are some additional restrictions placed on participation in the program. Students must reside within the attendance boundaries of a low-achieving school as of the first day of classes in order to be eligible to apply for an opportunity scholarship. This can include students entering kindergarten, currently attending a low-achieving school, currently enrolled in a non-public school, previously home-schooled, or previously attending a charter or cyber charter school.¹³

PROGRAM COST SAVINGS

The wide disparity between public schooling and the EITC and OSTC programs is evident in terms of funding. 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 and OSTC programs do 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 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 and OSTC, 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 dis-

tricts to increase per-pupil spending without increasing taxes or other means of funding.

The per-pupil spending in the 2012-13 school year was \$14,621.¹⁴ In comparison, the average K-12 scholarship amount awarded through the EITC is \$1,085.¹⁵ 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—\$13,536—represents the amount taxpayers are saving (or public schools are retaining) 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 \$813 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 \$880 million in revenue to handle the additional enrollment.

CONCLUSION

After more than a decade of success, it is clear that Pennsylvania's established EITC program and new OSTC program are effective tools 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.¹⁶

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.

ENDNOTES

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Photos courtesy of African Americans for Educational Opportunities (AAEO).

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