

**EDCHOICE**  
**FISCAL IMPACT STATEMENT**  
**PENNSYLVANIA 2021 BUDGET SESSION**

**Note Prepared:** June 2021

**Subject:** Bill to expand tax-credit scholarships in Pennsylvania

**Impact:** State, Local Taxpayers, and School Districts

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**MEASURE'S PURPOSE:** This bill, if enacted, would expand Pennsylvania's Educational Improvement Tax Credit (EITC) program in the following ways:

- 1) The K-12 scholarships EITC tax credit limit would increase from \$135 million to \$185 million;
- 2) It increases the tax credit limit for the OSTC program from \$55 million to \$100 million
- 3) The bill adds an escalator to the EITC program's tax credit limit. Beginning in fiscal year 2021-22, if the aggregate value of all credits awarded during the prior fiscal year equals at least 90 percent (90%) of the credit cap available for that year, the credit cap for the next fiscal year shall be increased by twenty-five percent (25%) over the credit cap amount established for the prior year.

The tax credit value would not change and equals 75 percent (75%) of the total donations made to qualified scholarship granting organizations during the taxable year. If the donor commits to two (2) consecutive annual contributions, then the tax credit will be worth 90 percent (90%).<sup>1</sup>

**FISCAL EXPLANATION:** Under this proposal, the state will have an estimated net cost worth between \$80 million and \$85 million, or 0.2 percent of total public school funding. School districts will incur a positive estimated net fiscal impact worth between \$265 million and \$400 million. There will be no impact on local property taxes. **The net combined fiscal impact on taxpayers would be positive, between an estimated \$180 million and \$317 million (up to \$7,500 per scholarship).**

Assuming an average award amount of \$2,500, the expansion bill would fund an additional 42,200 scholarships for students.<sup>2</sup> Sixty percent and 90 percent switcher rates imply that among scholarship students, about 25,000 and 38,000 students, respectively, would be "switchers" from public schools.<sup>3</sup>

*State impact:* Tax credit disbursements by the state would equal up to \$95 million (the maximum amount of additional credits under this expansion bill above the current EITC and OSTC limits for K-12 scholarships). School districts would also retain a portion of Basic Education Funding (BEF) formula funding distributed on a student basis that would be transferred back to the state, between \$10 million and \$16 million. The state would incur an estimated net cost worth between \$80 million and \$85 million (up to \$2,000 per scholarship student). These amounts represent 0.2 percent of total public school funding.

*Impact on local property taxes:* There will likely be no impact on property taxes, at least in the short run, because they are set locally and independent of enrollment. In the long run, districts that experience significant enrollment change may choose to adjust property tax rates. For instance, with large reductions in enrollment, districts may choose to lower property taxes.

*School district impact:* Local public school districts would have \$159 million to \$238 million in variable cost burden relief for students who would have enrolled in public schools without scholarships.<sup>4</sup> Thus, there will be a net positive local impact of about \$265 million to \$400 million (up to \$7,500 per scholarship student).<sup>5</sup>

*Break-even switcher rate:* Switcher is defined as a student who would otherwise enroll in a district school if the tax-credit scholarship program is not in place as opposed to enrolling in private school, home school, or other non-public school settings. Switchers represent fiscal savings for the state and district schools. Under the current funding system for public schools, there is no break-even point for the state.

## KEY ASSUMPTIONS AND CAVEATS

- Switchers represent an important factor in the analysis. The switcher rate is the percentage of scholarship students who would enroll in public schools without financial assistance from the tax-credit scholarship programs. The analysis considers switcher rates ranging of 60 percent to 90 percent.
- The current system of school funding, known as Basic Education Funding (BEF), features a strong hold-harmless rule where school districts are guaranteed a level of funding based on their enrollments in school year 2014-15. Given this funding arrangement, the analysis is very cautious because it understates fiscal benefits accrued to public school districts.
- Total state funds for FY 2020 for Pennsylvania school districts are \$12.1 billion, or about \$7,100 per ADM (average daily membership). BEF comprises over half of total state funding. Of BEF funding, almost \$700 million (\$400 per ADM) is distributed on a student-weighted basis. The analysis accounts for this transfer of funds back to the state.
- The present fiscal analysis assumes that the credit cap will be reached. It reports estimates for only the proposed \$95 million expansion of the EITC and OSTC, not for the programs as a whole. It also assumes an average scholarship amount of \$2,500 per student.<sup>6</sup>

**DATA SOURCES:** Pennsylvania Department of Education; National Center for Education Statistics (U.S. Department of Education); U.S. Census Bureau, American Community Survey; EdChoice program data

**DISCLAIMER:** The contents of this fiscal note are intended to provide information and should not be construed as lobbying for any position related to any legislation. EdChoice is committed to research that adheres to high scientific standards, and matters of methodology and transparency are taken seriously at all levels of the organization. We are committed to providing high-quality information in a transparent and efficient manner. We welcome any and all questions related to methods and findings.

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**FISCAL SUMMARY**

**Summary of estimated fiscal impacts of proposed expansion of Pennsylvania EITC and OSTC Programs for private K-12 scholarships**

	<b>60 percent switcher rate</b>	<b>90 percent switcher rate</b>
Estimated total K-12 public and private school children	1,932,000	1,932,000
Total number of students in Pennsylvania eligible for EITC and OSTC scholarship programs	1,216,000	1,216,000
Percent of all Pennsylvania K-12 students eligible for EITC and OSTC scholarship programs	63%	63%
Total average cost per student (ADM) for Pennsylvania K-12 public schools	\$19,100	\$19,100
Average increase in tax credit disbursements per scholarship student	\$2,200	\$2,200
Avg. increase in tax credit disbursements per student as % of total per-student expenditures for public school system	12%	12%
Number of scholarships awarded	42,200	42,200
Est. switcher rate	60%	90%
Estimated number of scholarship students who would be switchers	25,300	38,000
<i>Fiscal Impact on State:</i>		
Total increase in tax credit disbursements for ETIC and OSTC scholarship programs	(\$95,000,000)	(\$95,000,000)
Funds transferred back to state for students leaving public school districts via scholarship programs	\$10,300,000	\$15,500,000
<b>Net State Impact</b>	<b>(\$84,700,000)</b>	<b>(\$79,500,000)</b>
<b>Net State Impact as Percent of Total Public School Funding</b>	<b>0.2%</b>	<b>0.2%</b>
<b>Net State Impact Per Scholarship</b>	<b>(\$2,000)</b>	<b>(\$1,900)</b>
<b>Break-Even Switcher Rate for State</b>	<b>no break-even</b>	<b>no break-even</b>
<i>Fiscal Impact on School Districts:</i>		
State BEF funds transferred back to state from students switchers	(\$10,300,000)	(\$15,500,000)
Est. average variable educational cost per student	\$10,800	\$10,800
Total cost burden relief to school districts for students leaving public school districts via scholarship programs	\$274,800,000	\$412,300,000
<b>Net School District Impact</b>	<b>\$264,500,000</b>	<b>\$396,800,000</b>
<b>Net School District Impact Per Scholarship</b>	<b>\$6,300</b>	<b>\$9,400</b>
<b>Overall net fiscal impact (state and local taxpayers)</b>	<b>\$179,800,000</b>	<b>\$317,300,000</b>
<b>Overall net impact per public school student participating in tax-credit scholarship programs</b>	<b>\$4,300</b>	<b>\$7,500</b>

Notes: ( ) denotes a decrease/negative value

Sources: Author's calculations; Pennsylvania Department of Education; U.S. Census Bureau; National Center for Education Statistics, U.S. Dept. of Education

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<sup>1</sup> Based on conversations with staff at the Commonwealth Foundation who are familiar with the EITC program, 95 percent of donors in 2019 committed to two-year donations.

<sup>2</sup> Under the proposed expansion, an additional \$95.0 million in tax credits would generate a maximum \$126.7 million in donations to scholarship organizations (assuming all tax credits are disbursed at 75 cents per dollar donated). Donors who commit to two years of donations may receive tax credits worth 90 cents per dollar donated. Given that 95 percent of donors during FY 2018 committed to donations for two years, the present analysis assumes a 90 percent tax credit rate which would generate an additional \$105.6 million in donations under the proposed expansion.

<sup>3</sup> Random assignment studies of private school voucher programs report that, on average, between 84 percent to 90 percent of students who apply to oversubscribed programs and lose the lottery enroll in public schools. The programs analyzed in these studies target low-income families (typically households with income below 185 percent of the federal poverty level, which is lower than the eligibility threshold for the EITC). Thus, switcher rates for the EITC and OSTC will likely be lower than switcher rates implied by these studies. Please note that the assumed high-end range is also in line with Costrell (2010), who showed that the switcher rate for the Milwaukee Parental Choice Program was 90 percent.

Martin F. Lueken (forthcoming), *The Fiscal Impact of K-12 Educational Choice: Using Random Assignment Studies of Private School Choice Programs to Infer Student Switcher Rates*, *Journal of School Choice*, published online March 2020 at: <https://doi.org/10.1080/15582159.2020.1735863>

Costrell, R. M. (2010). *The Fiscal Impact of the Milwaukee Parental Choice Program: 2010-2011 Update and Policy Options*. SCDP Milwaukee Evaluation. Report# 22. *School Choice Demonstration Project, University of Arkansas*.

<sup>4</sup> Based on data from the National Center for Education Statistics at the U.S. Department of Education, we estimate that 57 percent of total costs are variable. This estimate is based on expenditures for Instruction, Student Support Services, and Instruction Support Services and excludes all other costs such as capital, debt services, food services, and transportation. Applying this percentage to \$19,100 in total expenditures per student yields estimated average variable costs per student of \$10,800.

Two studies on education costs suggest that variable costs are even higher than what is estimated in this fiscal note (Scafidi, 2012; Bifulco & Rebeck, 2014). Thus, fiscal benefits for Pennsylvania public school districts from expanding the EITC and OSTC programs will likely be higher.

Benjamin Scafidi (2012), *The Fiscal Effects of School Choice Programs on Public School Districts*, *Friedman Foundation for Educational Choice*, retrieved from EdChoice website: <https://www.edchoice.org/research/the-fiscal-effects-of-school-choice-programs-on-public-school-districts>

Robert Bifulco and Randall Reback (2014), *Fiscal Impacts of Charter Schools: Lessons from New York*, *Education Finance and Policy* 9(1), pp. 86–107, [http://dx.doi.org/10.1162/EDFP\\_a\\_00121](http://dx.doi.org/10.1162/EDFP_a_00121)

<sup>5</sup> To be clear, this \$400 million net fiscal benefit associated with a 90 percent switcher rate includes \$412 million reduction in cumulative school variable cost burden for 38,000 additional students estimated to switch from public schools to private schools. It is not a direct reduction in school expenditures. The public schools will still have to make decisions to reduce costs as enrollment declines. If they do not reduce costs, then resources available per-student will be even greater.

<sup>6</sup> The weighted average scholarship award for the EITC and OSTC in FY 2019 was about \$2,100. Experience of tax-credit program expansion in other states, such as Florida, suggests that the average scholarship amount increases, as well as the number of students participating in the program. The present analysis assumes \$2,500 average scholarship amount.