PENNSYLVANIA

EDUCATIONAL TAX CREDITS

An Evaluation of Program Performance

January 2022

COMMONWEALTH OF PENNSYLVANIA
INDEPENDENT FISCAL OFFICE

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INDEPENDENT FISCAL OFFICE

January 24, 2022

The Honorable Members of the Performance-Based Budget Board and Chairs of the House and Senate Finance Committees:

Act 48 of 2017 requires the Independent Fiscal Office (IFO) to review various state tax credits over a five-year period. For the fourth year, the IFO reviewed four tax credits: the Educational, Coal Refuse Energy and Reclamation, Brewers' and Mixed-Use Development Tax Credits. The act requires the IFO to submit tax credit reviews to the Performance-Based Budget Board and the Chairs of the House and Senate Finance Committees and to make reports available to the public on the IFO website.

This report contains the tax credit review for the Educational Tax Credits (ETC). The IFO identified similar programs in other states, reviewed available research, held discussions with numerous stakeholders and with met with agency staff who administer the tax credit. Based on that research, the IFO submits this report to fulfill the requirements contained in Act 48. Please note that although the IFO requested five years of ETC data, in some cases the Department of Community and Economic Development was only able to supply two years.

Currently, 19 states provide some form of tax credit to offset contributions to scholarships and/or educational programs. In most states the credit is available to individuals and businesses and ten states provide the tax credit at a rate equal to 100% of eligible contributions. Organizations are generally allowed to retain 5% to 10% of contributions to offset administrative or other costs and Pennsylvania has the highest allowance at 20%. This analysis examined available data and other issues that impact the effectiveness of the Educational Tax Credits.

The IFO welcomes all questions and comments on the contents of this report. Questions and comments can be sent to contact@ifo.state.pa.us.

Sincerely,

Matthew J. Knittel

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Director

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Table of Contents

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General Findings and Recommendations

The Educational Tax Credits are currently authorized under Article XX-B of the Public School Code and incentivize business contributions to approved K-12 scholarship organizations, pre-kindergarten (pre-K) scholarship organizations or educational improvement organizations. The organizations utilize contributions to award private school scholarships to students in pre-K through grade 12 and to fund innovative educational programs in public, charter or private schools. The credit is capped at $280 million annually, with $225 million allocated to scholarship organizations and for innovative education programs and $55 million reserved for private school scholarship programs benefiting students that reside in low-achieving public-school districts. The tax credit is equal to 75% to 100% of qualified contributions, depending on the organization type and length of commitment.

The **general findings** of this report are as follows:

- For fiscal year (FY) 2019-20, 68,430 students received $145 million in ETC scholarships, an average of $2,120 per student. Final data for FY 2020-21 are not yet available.
- Almost all firms make a two-year commitment and receive a tax credit equal to 90% of their contribution.
- Article XX-B of the Public School Code expressly limits the data that DCED may collect related to the ETC program to those that are specifically enumerated in the authorizing legislation. Key data necessary to thoroughly evaluate the program are not available.
- Qualifying income limitations for scholarship recipients are roughly 500% of federal poverty level (FPL) for a family of four. This level is higher than all other states that have an income limitation. Because some portion of families could likely afford private school without a scholarship, it is unclear how much behavior is incentivized by the credit.
- Modest state savings are realized from students switching from public to private school ($350 per student on average) due to strong hold harmless provisions.
- Compared to other states, Pennsylvania has the highest allowance for administrative and other costs. This reduces the number of scholarships available to students.
- The top ten Educational Improvement Tax Credit (EITC) organizations received 26% of contributions in FY 2015-16 and 47% in FY 2019-20. As the cap on the EITC increases, a small number of organizations benefit most.

The **recommendations** of this report are as follows. A more complete discussion of these points can be found in the final section of this report.

- There should be more accountability for contributions not used to fund scholarships or educational improvement programs.
- The statute should be amended to allow for the collection of student performance and demographic data so that program effectiveness can be evaluated. Across states, Pennsylvania has one of the largest tax credits, but collects and publishes the least amount of outcome data.
- The caps on Educational Opportunity Scholarship Tax Credit scholarships should be eliminated.
- Consideration should be given to eliminating the early application period for firms that renew a two-year contribution commitment.

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Introduction

Act 48 of 2017 requires the Independent Fiscal Office (IFO) to review various state tax credits over a five-year period.[1] For the fourth year, the IFO reviewed four tax credits: Coal Refuse Energy and Reclamation, Educational, Mixed-Use Development and Brewers' Tax Credits. The act requires the IFO to submit tax credit reviews to the Performance-Based Budget Board and the Chairs of the House and Senate Finance Committees and to make reports available to the public on the IFO website.

The act specifies that tax credit reviews shall contain the following content:

- The purpose for which the tax credit was created.
- Whether the tax credit is accomplishing its legislative intent.
- Whether the tax credit could be more efficiently implemented through other methods.
- Any alternative methods which would make the tax credit more efficient.
- The costs to provide the tax credit, including the administrative costs to the Commonwealth and local government entities within this Commonwealth.

The act also specifies that the IFO shall develop a tax credit plan for all tax credits subject to review. The plans should include performance measures, and where applicable, the measures should reflect outcome-based measures (including efficiency measures), measures of status improvements of recipient populations, and economic outcomes or performance benchmarks against similar state programs or similar programs of other states or jurisdictions. The IFO submits this report to fulfill these requirements.

The remainder of this review contains four sections. **Section 2** discusses how the tax credit is administered and presents historical program data. **Section 3** presents relevant data for states that offer similar tax credits and an overview of key findings from other state studies. **Section 4** contains a discussion of the impact of the program on the state economy. **Section 5** concludes with the tax credit plan, as required by Act 48. A complete list of reports, studies and data sources used for this report can be found in the **Appendix**. If submitted, written comments provided by stakeholders and affected agencies are also included in the Appendix.

[1] Act 48 of 2017 is also known as the Performance-Based Budgeting and Tax Credit Efficiency Act. See the Appendix for the Tax Credit Review Schedule.

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Educational Tax Credit Overview

The Educational Tax Credits (ETC) are currently authorized under Article XX-B of the Public School Code, and incentivize business contributions to approved K-12 scholarship organizations, pre-K scholarship organizations or educational improvement organizations.[2] The organizations utilize contributions to award private school scholarships for students in pre-K through grade 12 and to fund innovative educational programs in public, charter or private schools. Firms authorized to do business in Pennsylvania, including pass-through entities and special purpose pass-through entities, are eligible for the credit.[3] The tax credit is equal to 75% to 100% of qualified contributions, depending on the organization type and length of commitment.[4]

The ETC includes multiple components, each with specific eligibility requirements and credit award structure:

Educational Improvement Tax Credit (EITC): The EITC provides a tax credit equal to 75% of contributions to a scholarship organization or an educational improvement organization that appears on the approved list published by the Department of Community and Economic Development (DCED). The tax credit increases to 90% if the firm makes a two-year contribution commitment. The maximum annual EITC is $750,000 per firm, regardless of the rate of credit.

Approved scholarship organizations must be a qualified 501(c)(3) non-profit entity and contribute a minimum of 80% of annual EITC contributions to a qualified scholarship program. Qualified programs provide scholarships to school-age (kindergarten through grade 12) Pennsylvania residents meeting specified household income requirements.[5] The scholarship award cannot exceed the amount of tuition charged by the school for non-scholarship students and the school must be located within Pennsylvania. Approved educational improvement organizations must also be a qualified 501(c)(3) non-profit entity, and grant a minimum of 80% of annual EITC contributions to qualified innovative educational programs in Pennsylvania public, charter or private schools.[6]

Pre-Kindergarten Scholarship Tax Credit (PKTC): The PKTC provides a tax credit equal to 100% of the first $10,000 contributed to a pre-K scholarship organization that appears on the approved list published by DCED. Firms receive a tax credit equal to 90% of amounts that exceed $10,000. The maximum annual credit is $200,000 per firm. A two-year commitment has no impact on the amount of the tax credit.

Approved pre-K scholarship organizations must be a qualified 501(c)(3) non-profit entity and contribute a minimum of 80% of annual PKTC contributions to a qualified pre-K scholarship program. Qualified programs

[2] The ETC was originally created by Act 4 of 2001. In subsequent years, the program was often modified, the name was changed, the authorizing statute was moved and the cap on tax credits increased.
[3] Special purpose pass-through entities are created for the sole purpose of making ETC contributions. Shareholders, partners or members of the special entity are composed of owners or employees of other business firms.
[4] A contribution may take the form of cash, personal property or services.
[5] Under current guidelines, qualified students may have maximum household income of $96,676 plus $17,017 per dependent. These amounts are adjusted annually for inflation. The maximum allowable income is increased by a factor of 1.5 or 2.993 for a student with a disability.
[6] An innovative educational program is defined as an advanced academic or similar program that is not part of the regular academic program but that enhances the curriculum or program of the school.

provide scholarships to pre-K residents meeting specified household income requirements.[7] The scholarship award cannot exceed the amount of tuition charged by the school for non-scholarship students and the school must be located in Pennsylvania.

Educational Opportunity Scholarship Tax Credit (EOSTC): The EOSTC provides a tax credit equal to 75% of eligible contributions to an approved opportunity scholarship organization that appears on the list published by DCED. The tax credit increases to 90% if the firm makes a two-year contribution commitment. The maximum annual credit is $750,000 per firm, regardless of the rate of credit.

Approved opportunity scholarship organizations must be a qualified 501(c)(3) non-profit entity and contribute a minimum of 80% of annual EOSTC contributions to a qualified opportunity scholarship program. Qualified programs provide scholarships to school-age Pennsylvania residents meeting specified household income requirements and living within the boundary of a low-achieving public school.[8] A low-achieving school is defined as a public elementary or secondary school ranking in the bottom 15% of schools of the same level.[9] The list is generated annually by the Pennsylvania Department of Education based on combined math and reading Pennsylvania System of School Assessment (PSSA) scores.

The maximum scholarship award available for an application without a disability is $8,500 and the maximum amount for a student with a disability is $15,000.[10] The scholarship award cannot exceed the amount of tuition charged by the school for non-scholarship students and the school must be located within Pennsylvania.

The ETC program is capped at $280 million annually, with $55 million reserved for the EOSTC. The remaining $225 million is allocated to the EITC. For the EITC, the credits are allocated as follows: $175 million to scholarship organizations, $37.5 million to educational improvement organizations and $12.5 million to the PKTC.[11]

Tax credits may be utilized against Pennsylvania personal income, corporate net income, bank and trust company shares, title insurance shares, insurance premiums, mutual thrift institutions, malt beverage and surplus lines taxes for the taxable year in which the credit is issued. The credit cannot be carried forward or back, refunded, sold or transferred.[12]

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[7] Under current guidelines, qualified students may have maximum family income of $96,676 plus $17,017 per dependent. These amounts are adjusted annually for inflation. The maximum allowable income is increased by a factor of 1.5 or 2.993 for a student with a disability.

[8] Under current guidelines, qualified students may have maximum household income of $96,676 plus $17,017 per dependent. These amounts are adjusted annually for inflation. The maximum allowable income is increased by a factor of 1.5 or 2.993 for a student with a disability.

[9] A student that receives an opportunity scholarship in one year, but resides within the boundaries of a school that has been removed from the list of low-achieving schools, remains eligible for the program for the lesser of five years, or until the student completes grade 12 (provided that the student otherwise continues to qualify for the program).

[10] The maximum scholarship award is $9,500 for an applicant without a disability and $16,000 for an applicant with a disability for a student attending an economically disadvantaged school. To meet the definition of an economically disadvantaged school, at least 75% of students attending must have received an opportunity scholarship in the prior school year.

[11] Act 26 of 2021 established the current program caps for the Educational Tax Credit. Prior to that, the credit was capped at $240 million annually, with $185 million allocated to the EITC and $55 million reserved for the EOSTC. For the EITC, only the amount allocated to scholarship organizations increased, as all other caps remained unchanged.

[12] A pass-through entity can apply any unused portion of the ETC against the tax liability of the owner for the taxable year immediately following the year that the contribution was made.

Goals and Purpose

Act 48 of 2017 requires that all tax credit reviews published by the IFO shall discuss (1) the purpose for which the tax credit was created and (2) whether the tax credit is accomplishing its legislative intent. For this credit, the IFO reviewed the authorizing legislation and documentation provided by DCED regarding the ETC program. For this review, the IFO established the goals and purpose of the ETC program as follows:

Goals

- Subsidize private school tuition for pre-K through grade 12 students from low- and middle-income households.
- Support students that reside within the boundaries of a low-achieving public school by providing scholarships that subsidize tuition at a school of the student's choice.
- Provide financial support for innovative educational programs in Pennsylvania public, charter and private schools.

Purpose

- To enhance the educational opportunities available to all Pennsylvania students.

Administration

DCED administers the ETC program and reviews applications. The following subsection provides details on the application process for businesses and scholarship organizations.[13]

Application Process for Firms

Business applications are filed online for the requested credit category through the Single Application for Assistance. An applicant that has made a two-year contribution commitment may apply for credit beginning May 15 for the second year of credits. Applicants that complete a two-year commitment and want to renew for another two years may also file beginning May 15. All other applicants may file beginning July 1. Applications are processed on a first-come, first-served basis and are approved until all available tax credits are allocated. Applications that are unfulfilled are placed on a waitlist.

If all tax credits are not awarded in the initial round, applicants can apply for additional tax credits in excess of the $750,000 maximum between October 1 and November 30. Applications approved during this round will be considered a one-year commitment and eligible for a 75% tax credit.

Beginning January 1, any credits that remain unawarded under any category within the ETC program may be reallocated to another category and offered to firms on the waitlist. Once waitlist demand has been met, DCED may reopen the program to new applicants. However, credits offered to new applicants may not be reallocated from scholarship organizations, opportunity scholarship organizations or pre-K scholarship organizations for purposes of contributing to an educational improvement organization.

[13] The specific components within the ETC program have separate application requirements in addition to those listed. See program guidelines for complete details.

The Department of Revenue (DOR) evaluates all applications for state tax compliance. Applications considered noncompliant will not be eligible for the credit, unless the applicant resolves the issue within the timeframe set by DOR.

DCED provides written notification to the applicant confirming tax credit approval. Firms must make the pledged contribution to an approved organization within 60 days of the approval letter and DCED must receive documentation of the contribution within 90 days of the letter. The tax credit approval will be rescinded if the contribution is not made, or the required documentation is not received within the specified timeline.

Application Process for Organizations

Organizations must complete an organization profile to be considered for the list of approved scholarship organizations, pre-K organizations, educational improvement organizations, or opportunity scholarship organizations published by DCED. The following items must be attached to the profile:

- A copy of the organization's exemption under section 501(c)(3) of the Internal Revenue Code.
- A description of the program operated by the organization. For scholarship organizations, the description must include a copy of the scholarship application and an overview of the process for funding individual scholarships.
- Applications for an educational improvement organization must include a letter of support from each public school that agrees to participate in the program.

DCED will review completed applications and notify applicants of approval or denial within 60 days of application. If approved, the organization will appear on the applicable published list of approved scholarship organizations, pre-K scholarship organizations, educational improvement organizations or opportunity scholarship organizations for the fiscal year in which it applied.

Applications for renewal may be submitted for subsequent fiscal years beginning November 1. If after the submission of updated data DCED determines that the organization continues to comply with the requirements of the program, then the organization will remain on the approved list. The organization may be removed from the list at the beginning of the next fiscal year for non-compliance.

All approved organizations are required to submit an annual monitoring report. The report includes accomplishments and information pertaining to the most recently completed year.

The estimated annual staff time and cost to administer the ETC is as follows: 3 full-time equivalent (FTE) DOR staff ($0.3 million) and 6 FTE DCED staff ($0.6 million).

Historical Data

Article XX-B of the Public School Code expressly limits the data that DCED may collect related to the ETC program to those specifically enumerated in the authorizing legislation. As a result, key data necessary to thoroughly evaluate the program are not available. Pertinent data that are not collected include: (1) data regarding student outcomes or academic achievement before and after transfer to a private school, (2) the number of scholarship awards by household income, (3) the share of tuition offset by the credit, (4) the school district where the scholarship recipient resides and (5) outcomes for students that applied but were denied a scholarship (i.e., did they attend a private school regardless). The tables that follow summarize the limited data that are collected related to the program. Although five years of historical data were requested, DCED was not able to provide all requested years in some cases. Data for FY 2020-21 were also generally not available.

The ETC program cap has routinely increased since the program's inception in 2001. **Table 2.1** displays changes in the maximum allowable credit by category for fiscal year (FY) 2015-16 through FY 2020-21. The ETC cap increased every year during the period ($130 million in total) with most of the increase ($115 million) allocated for contributions to K-12 scholarship organizations.

Table 2.1
Educational Tax Credits: Program Caps

	Fiscal Years					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
ETC Program Cap	**$150.0**	**$175.0**	**$185.0**	**$210.0**	**$240.0**	**$280.0**
EITC Caps	**$100.0**	**$125.0**	**$135.0**	**$160.0**	**$185.0**	**$225.0**
K-12 Scholarship	$60.0	$75.0	$85.0	$110.0	$135.0	$175.0
Pre-K Scholarship	$10.0	$12.5	$12.5	$12.5	$12.5	$12.5
Educational Improvement	$30.0	$37.5	$37.5	$37.5	$37.5	$37.5
EOSTC Cap	**$50.0**	**$50.0**	**$50.0**	**$50.0**	**$55.0**	**$55.0**

Note: Millions of dollars.

Source: Pennsylvania Department of Community and Economic Development.

Business Contributions and Tax Credits

Table 2.2 displays tax credit awards to firms by year for the EITC and EOSTC components.[14] For the period FY 2015-16 through FY 2019-20, total credits awarded increased by $95.7 million, but the number of firms receiving credits declined by 457, causing the average tax credit award for the period to more than double. Firms electing to make two-year contribution commitments comprised roughly 99% of program participants and those firms are able to apply for credits before firms that have not previously participated in the program. Because credits are awarded on a first-come, first-served basis, new firms are effectively excluded from the program and current participants are the primary beneficiaries when credit allocations increase.

[14] Credits awarded as displayed in Table 2.2 are generally lower than the program caps displayed in Table 2.1. DCED attributes this difference to (1) tax credits that are allocated but the firm fails to make the contribution required to receive the credit and (2) organizational reporting periods that differ from the state fiscal year.

Table 2.2
Educational Tax Credits: Credits Awarded

	Fiscal Years				
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
EITC					
Number of Firms	2,323	2,503	2,308	2,177	2,210
Award Amount ($ millions)	$92.2	$113.6	$124.1	$147.4	$174.9
Average Award	$39,679	$45,395	$53,784	$67,691	$79,149
Share Making 2-Year Commitment	98.1%	98.4%	98.5%	99.5%	99.5%
EOSTC					
Number of Firms	831	703	632	542	487
Award Amount ($ millions)	$39.0	$36.2	$47.2	$49.4	$52.0
Average Award	$46,931	$51,494	$74,684	$91,144	$106,690
Share Making 2-Year Commitment	96.8%	97.9%	97.9%	98.7%	98.6%
ETC Total Awards	**$131.2**	**$149.8**	**$171.3**	**$196.8**	**$226.9**

Note: Data shown for businesses making contributions to the ETC program.

Source: Pennsylvania Department of Community and Economic Development.

Table 2.3 displays ETC contributions for the PKTC for FY 2018-19 and FY 2019-20. Under this program, the first $10,000 in contributions is eligible for 100% credit. Data show that more than half of program participants contribute at that level or lower.

Table 2.3
Educational Tax Credits: PKTC Contributions

	FY 2018-19	**FY 2019-20**
Number of Firms	257	252
Pre-K Contributions ($ millions)	$12.2	$12.3
Average Contribution	$47,391	$48,766
% Contributing $10,000 or Less	**52.9%**	**51.2%**

Note: Data shown are for businesses making contributions to pre-K scholarship organizations. DCED provided data for FY 2018-19 and FY 2019-20 only. Some amounts may not match Table 2.5 because those data are collected on a different reporting period.

Source: Pennsylvania Department of Community and Economic Development.

Table 2.4 displays the ETC program waitlist for firms that want to participate, but are unable to procure a credit allocation. Despite the dramatic increase in available tax credits over the five-year period, the number of interested applicants unable to participate in the program increased by more than 70%. In terms of dollars, the waitlist for credits totaled $137 million in FY 2019-20, an increase of $111 million from FY 2015-16. The untapped supply of K-12 scholarship contributions is the largest amount ($84 million) by a significant margin.

Table 2.4
Educational Tax Credits: Business Waitlist

	FY 2015-16		FY 2019-20	
	Applicant	Amount	Applicant	Amount
EITC				
K-12 Scholarship	290	$8.6	403	$84.0
Pre-K Scholarship	27	$0.6	148	$7.0
Educational Improvement	267	$16.4	269	$14.0
EOSTC	0	$0.0	177	$32.0

Note: Millions of dollars.

Source: Pennsylvania Department of Community and Economic Development.

Educational Tax Credit Organizations

Firms make contributions to an approved organization from the applicable list published by DCED.[15] ETC organizations receive business contributions and work with designated schools or educational improvement programs to distribute funds.

From FY 2015-16 through FY 2019-20, the number of participating scholarship organizations in each category remained relatively constant, while educational improvement organizations grew from 693 to 891. (See **Table 2.5**.) Because EITC K-12 scholarship organizations received nearly all of the increase in ETC allocations ($115 million), the number of organizations did not change and nearly all firms make two-year commitments on an on-going basis, these data suggest that higher ETC allocations largely benefit the same organizations (and the schools they support) over time.

[15] Firms may designate the school or program that receives funds via the ETC organization. However, firms cannot designate scholarship funding for a particular student.

Table 2.5
Educational Tax Credits: Participating Organizations and Contributions Received

	Fiscal Years				
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
EITC Participating Organizations					
K-12 Scholarship	249	243	241	246	260
Pre-K Scholarship	163	165	167	161	177
Educational Improvement	693	715	761	805	891
EITC Contributions Received	**$101.1**	**$121.4**	**$139.4**	**$160.2**	**$193.3**
K-12 Scholarship	$60.4	$75.0	$87.0	$109.0	$139.4
Pre-K Scholarship	$9.1	$9.8	$11.3	$12.3	$12.8
Educational Improvement	$31.6	$36.5	$41.1	$38.8	$41.2
EOSTC					
Participating Organizations	183	178	175	177	181
Contributions Received	$41.1	$41.3	$52.0	$54.8	$56.7

Note: Millions of dollars. Some amounts may not match Table 2.3 because those data are collected on a different reporting period.
Source: Pennsylvania Department of Community and Economic Development.

Tables 2.6 and **2.7** provide data on ETC contributions by county for FY 2015-16 and FY 2019-20 based on the address of the scholarship organization. It is noted that these data do not reflect the county of the schools that receive funds or the county of residence for students that receive scholarships. Organizations are not required to report the county or public school district of students that receive scholarships. For EITC scholarship organizations (see Table 2.6), the top six counties in both years included Philadelphia, Allegheny, Dauphin, Montgomery and Lancaster. For FY 2015-16, the top six counties comprised 62% of contributions. By FY 2019-20, that share increased to 70%.

For the EOSTC (see Table 2.7), the top six counties in both fiscal years included Philadelphia, Allegheny, Montgomery and Delaware. Those counties comprised 82% and 87% of EOSTC contributions in FY 2015-16 and FY 2019-20, respectively.

Table 2.6
EITC: Contributions Received by Organization Location

FY 2015-16		FY 2019-20	
Top Six Counties	**$62.5**	**Top Six Counties**	**$135.3**
Philadelphia	$21.2	Montgomery	$46.1
Allegheny	$13.3	Philadelphia	$34.1
Montgomery	$11.0	Blair	$23.5
Dauphin	$8.0	Allegheny	$15.0
Erie	$4.5	Dauphin	$9.3
Lancaster	$4.5	Lancaster	$7.2
All Other Counties	**$38.4**	**All Other Counties**	**$57.9**
Out of State	**$0.2**	**Out of State**	**$0.2**
Total	**$101.1**	**Total**	**$193.3**

Note: Millions of dollars. County is based on address of scholarship organization.
Source: Pennsylvania Department of Community and Economic Development.

Table 2.7
EOSTC: Contributions Received by Organization Location

FY 2015-16		FY 2019-20	
Top Six Counties	**$33.8**	**Top Six Counties**	**$49.1**
Philadelphia	$14.1	Delaware	$14.2
Delaware	$8.4	Philadelphia	$13.0
Montgomery	$4.3	Blair	$12.4
Allegheny	$4.1	Allegheny	$4.2
Dauphin	$1.5	Montgomery	$3.3
Lancaster	$1.4	Chester	$1.8
All Other Counties	**$7.1**	**All Other Counties**	**$7.4**
Out of State	**$0.2**	**Out of State**	**$0.3**
Total	**$41.1**	**Total**	**$56.7**

Note: Millions of dollars. County is based on address of scholarship organization.
Source: Pennsylvania Department of Community and Economic Development.

Table 2.8 further illustrates the concentration of ETC funds within a limited number of firms/scholarship organizations. Although the number of participating EITC organizations increased from 1,100 in FY 2015-16 to 1,300 in FY 2019-20 (see Table 2.5), the top ten EITC scholarship organizations received roughly 26% of contributions in FY 2015-16 and 47% in FY 2019-20. As the cap on the EITC increased, additional contributions flowed disproportionately to a small number of large organizations. Over the five-year period, EITC contributions increased by $92 million, and $64 million (70%) of those contributions flowed to the top ten organizations.

Table 2.8
EITC: Contributions Received by Top Ten Organizations

	Fiscal Years				
	2015-16	2016-17	2017-18	2018-19	2019-20
EITC Contributions Received	$101.1	$121.4	$139.4	$160.2	$193.3
Contributions Received by Top Ten Organizations	$26.5	$36.0	$49.6	$68.4	$90.7
Share Received by Top Ten Organizations	26.2%	29.7%	35.6%	42.7%	46.9%

Note: Millions of dollars.

Source: Pennsylvania Department of Community and Economic Development.

Table 2.9 provides detail on the share of contributions retained for administrative and other costs by organization type. The statutory authorization for the ETC program provides no guidance or limitations on how these retained funds may be spent and DCED is not permitted to request documentation of expenditures. Conversations with stakeholders revealed a variety of uses, such as offsetting application or staffing costs and the provision of non-ETC scholarships to students that would not otherwise qualify for the program due to income limitations. Overall, the average share retained by organizations was far below the 20% maximum. However, certain organizations did retain the full 20%. Moreover, a 10% retention rate still reflects substantial leakage from the program. For an organization that receives $10 million of annual contributions and retains 10%, $1 million is retained for administrative and other costs. If an average scholarship is $2,500, then 400 fewer scholarships can be offered.

Table 2.9
Share of Contributions Retained by Organizations

	FY 2018-19	FY 2019-20
EITC Organizations	**7.5%**	**7.5%**
K-12 Scholarship	7.9%	7.7%
Pre-K Scholarship	5.6%	5.9%
Educational Improvement	10.1%	10.4%
EOSTC Organizations	**8.4%**	**8.8%**

Note: DCED provided data for FY 2018-19 and FY 2019-20 only.

Source: Pennsylvania Department of Community and Economic Development.

Educational Tax Credit Awards

Table 2.10 displays scholarship award detail for the ETC programs. Highlights include:

- For FY 2019-20, the EITC program provided $94.2 million in scholarships to 40,720 K-12 students, for an average award of $2,310. Relative to the prior year, the average scholarship award declined by $330, but 9,030 more students received scholarships.
- Pre-K scholarships were awarded to 6,660 students in both years. The average scholarship ranged from $1,360 to $1,475.

- For FY 2019-20, 1,200 innovative educational programs received an average of $27,450, an increase of $2,020 from the prior year ($25,430).
- EOSTC programs awarded $41.7 million in scholarships to K-12 students in FY 2019-20, an average award of $1,980. The average was down from $2,680 in the prior year, partly due to the award of 5,100 more scholarships.

Table 2.10
Educational Tax Credits: Number and Amount of Awards

	Fiscal Years				
	2015-16	2016-17	2017-18	2018-19	2019-20
Number Awarded					
EITC					
K-12 Scholarships	--	34,421	37,725	31,689	40,722
Pre-K Scholarships	--	--	--	6,664	6,659
Innovative Educational Programs	--	--	--	1,402	1,196
EOSTC K-12 Scholarships	--	14,556	14,419	15,949	21,045
Awarded ($ millions)					
EITC					
K-12 Scholarships	--	$57.1	$68.5	$83.7	$94.2
Pre-K Scholarships	--	--	--	$9.8	$9.1
Innovative Educational Programs	--	--	--	$35.7	$32.9
EOSTC K-12 Scholarships	--	$35.2	$35.9	$42.7	$41.7
Average Amounts					
EITC					
K-12 Scholarships	--	$1,659	$1,816	$2,642	$2,314
Pre-K Scholarships	--	--	--	$1,476	$1,365
Innovative Educational Programs	--	--	--	$25,432	$27,452
EOSTC K-12 Scholarships	--	$2,420	$2,490	$2,677	$1,983

Note: Millions of dollars. DCED did not provide data for FY 2015-16 through FY 2017-18. When available, the IFO utilized data submitted by the Commonwealth Foundation (grey shading) that was received from DCED in response to a right-to-know request.
Source: Pennsylvania Department of Community and Economic Development and the Commonwealth Foundation.

The EOSTC program prioritizes applicants who received a scholarship in the prior year, have household income below 185% of the federal poverty level (FPL) or have household income below 185% of the FPL and reside in a district that meets any one of the following criteria:

(1) is a first-class school district;

(2) a school district with an average daily membership greater than 7,500 and received an advance of its basic education subsidy; or

(3) a school district that received an advance of its basic education subsidy and is either subject to a declaration of financial distress or engaged in litigation against the Commonwealth in which the school district seeks financial assistance to continue to operate.

Table 2.11 provides a breakdown of EOSTC scholarships by priority category for years that data were provided. For FY 2019-20, 70% of scholarships and 77% of funding went to students categorized as priority. Roughly half of EOSTC scholarships went to students below 185% of the FPL and residing in the Philadelphia School District.

Table 2.11
EOSTC Scholarship Awards

	FY 2018-19		FY 2019-20	
	Number	Amount	Number	Amount
Total EOSTC Scholarships	15,949	$42.7	21,045	$41.7
Priority Scholarships Awarded:				
Below 185% FPL	2,752	$8.5	3,609	$10.6
Below 185% FPL & 1st Class S.D.	7,364	$19.2	10,395	$20.2
Below 185% FPL & Financial Recovery S.D.	473	$0.9	682	$1.3

Note: Millions of dollars. FPL is federal poverty level.
Source: Pennsylvania Department of Community and Economic Development.

Applications Processed and Awarded

In FY 2019-20, scholarship organizations processed roughly 164,500 applications: 76,330 for K-12, 27,100 for PKTC and 61,100 for EOSTC. (See **Table 2.12**.) Total applications processed increased by 43,600 (36%) from FY 2018-19.

Approximately 54,300 scholarships were awarded in FY 2018-19, and another 68,400 the following fiscal year (includes EITC and EOSTC). In any year, various factors cause the number of scholarship applications processed to exceed scholarship awards. Potential factors include: (1) families may file multiple applications with different schools, (2) a family may file but ultimately decide to send their child to another school, (3) a student may be denied admission to the school due to lack of eligibility or space, (4) a student may be denied a scholarship due to not meeting program criteria or (5) a student could be denied a scholarship due to lack of available funds.

Data are not available that would allow the analysis to quantify students denied scholarships solely due to lack of funds available through the tax credit program. Therefore, the difference between the number of applications processed and number of scholarships awarded should not be used as a proxy for scholarships denied due to lack of donations supplied through the tax credit. Moreover, some students denied scholarships likely attended a private school regardless of the denied scholarship application.

Table 2.12
Applications Processed and Scholarships Awarded

	Fiscal Years				
	2015-16	2016-17	2017-18	2018-19	2019-20
Applications Processed					
EITC					
K-12 Scholarships	--	61,182	66,000	59,427	76,330
Pre-K Scholarships	--	--	--	12,009	27,111
EOSTC	--	40,652	35,500	49,510	61,088
Scholarships Awarded					
EITC					
K-12 Scholarships	--	34,421	37,725	31,689	40,722
Pre-K Scholarships	--	--	--	6,664	6,659
EOSTC	--	14,556	14,419	15,949	21,045
Difference					
EITC					
K-12 Scholarships	--	26,761	28,275	27,738	35,608
Pre-K Scholarships	--	--	--	5,345	20,452
EOSTC	--	26,096	21,081	33,561	40,043

Note: DCED did not provide data for FY 2015-16 through FY 2017-18. When available, the IFO utilized data submitted by the Commonwealth Foundation (grey shading) that was received from DCED in response to a right-to-know request. A processed application may not result in a scholarship award for various reasons, including lack of funding, a family's decision not to attend the school, the student not qualifying for the program, or multiple applications filed by the same family at different schools.

Source: Pennsylvania Department of Community and Economic Development and the Commonwealth Foundation.

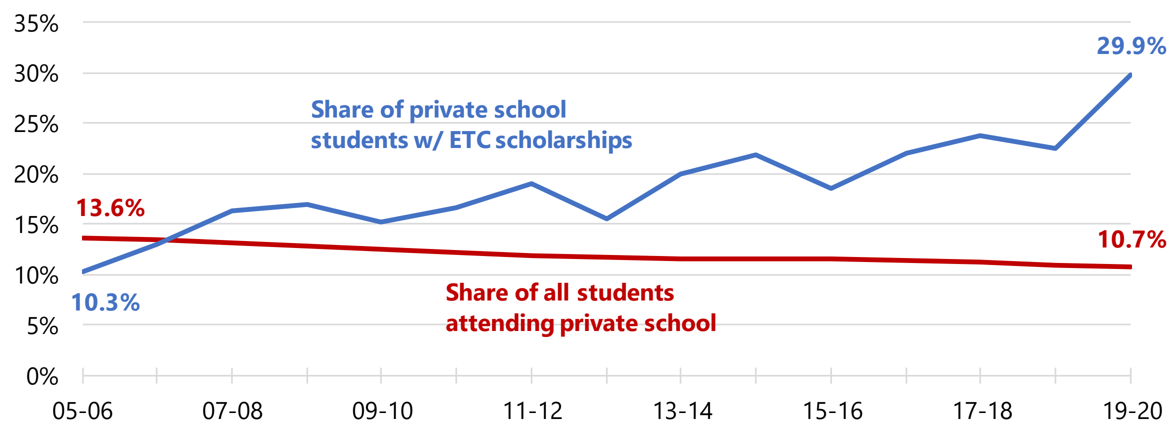
Historical Private School Trends

Figure 2.1 concludes this section with an overview of historical private school trends. The red line displays the share of all K-12 students that attended a private school since school year 2005-06. The share is computed based on data published by the Pennsylvania Department of Education.[16] The data show that the share of students attending private school declined from 13.6% to 10.7% of all students, and the number of students declined from 287,600 to 206,700 (excludes non-residents). During the same period, the share of students attending private school that received an ETC program scholarship increased from 10.3% to 29.9%.[17] These data show that additional public funds have been used to increase the share of

[16] See https://www.education.pa.gov/DataAndReporting/Enrollment/Pages/PrivateNPEnrRpts.aspx.
[17] Historical scholarship data prior to SY 2016-17 from "Projected Fiscal Impact of Pennsylvania Senate Bill No. 299," EDChoice Brief (May 2019). In turn, that document cites data provided by the Pennsylvania Department of Education and Department of Community and Economic Development. Scholarship data for the latest two years based on IFO data request to DCED.

private school students that receive scholarships. Not shown in the figure is the corresponding increase in average scholarship amounts. Over the time period shown, average scholarship amounts increased from $900 to $1,000 to $2,200 (excludes pre-K) for the latest year.

Figure 2.1
Private School Attendance and Scholarships



Sources: Pennsylvania Departments of Education and Community and Economic Development and Commonwealth Foundation (data obtained through right-to-know requests).

State Comparisons

Table 3.1 displays details for other state programs that provide tax credits to businesses or individuals contributing to private school scholarship organizations or innovative educational programs. The table excludes tax credits available to families to offset the cost of sending their children to private school. Overall, 19 states provide some form of tax credit to offset a share of contributions for scholarships and/or educational programs. A comparison of state programs reveals that:

- In most states, the incentive is available to businesses and individuals and 10 states provide a tax credit at a rate equal to 100% of the contribution. (This excludes Pennsylvania as the 100% rate is only available for the first $10,000 contributed under the PKTC.) Nine states provide a credit at 50% to 90% of the qualified contribution.
- For states that have an income limitation, most tie income limits to the FPL or the federal free and reduced-price lunch program guidelines (FRL). Five states (Arizona, Georgia, Montana, South Carolina and Utah) have no income limitation for scholarship recipients. Arizona has four distinct scholarship tax credits.
- Most states allow organizations to retain 5% to 10% of contributions to offset administrative and other costs. State allowances range from 3% (Florida) to 20% (Pennsylvania). The Pennsylvania allowance is twice the rate of any other state and is a clear outlier in this regard.

Table 3.1
State Educational Tax Credits (as of 12/31/2021)

State	Annual Cap ($ Millions)	% Donation Claimed as Credit	Max Annual Donor Credit	Recipient HH Income Limit (Family of 4)	Admin Cap	Donor Type
Alabama	30.0	100%	$50,000	100% of FRL	5%	Both
Arizona	135.3	100%	None	185% of FRL	10%	Business
	6.0	100%	None	None	10%	Business
	None[1]	100%	$611 / $1,221	None	10%	Individual
Florida	873.6	100%	None	375% of FPL	3%	Business
Georgia	100.0	100%	$1,000/$2,500 75% of liability	None	8%	Individual Business
Iowa	15.0	65%	None	400% of FPL	10%	Both
Illinois	75.0	75%	$1 Million	300% of FPL	5%	Both
Indiana	17.5	50%	None	300% of FRL	10%	Both
Kansas	10.0	70%	$500,000	185% of FPL	10%	Both
Louisiana	None	100% [2]	None	250% of FPL	5%	Both
Montana	1.0	100%	$200,000	None	10%	Both
New Hampshire	5.1	85%	$600,000	300% of FPL	10%	Both
Nevada	16.1	100%	None	300% of FPL	5%	Business
Oklahoma	5.0	50%/ 75%	$1,000/$2,000 $100,000	300% of FRL	10%	Individual Business
Pennsylvania	**280.0**	**75%-100%**	**$750,000**	**$130,710 [3]**	**20%**	**Business**
Rhode Island	1.5	75%/ 90%	$100,000	250% of FPL	10%	Business
South Carolina	12.0	100%	75% of liability	None [4]	5%	Both
South Dakota	2.0	100%	None	150% of FRL	10%	Business
Utah	5.9	100%	None	None	5%	Both
Virginia	25.0	65%	$125,000 None	300%/400% FPL	10%	Individual Business

Source: Various state websites. FRL is income limits established in the federal free and reduced-price lunch program guidelines. FPL is federal poverty level.

Notes:

1 Parameters for the Switcher Individual Income and Original Individual Income Tax Credits are similar and combined in this table.
2 Credit is equal to the actual amount of the taxpayer's donation used by a school tuition organization to fund a scholarship to a qualified student (not including administrative costs).
3 Household income limit is increased by a factor of 1.50 or 2.993 if recipient is enrolled in a special education program.
4 Scholarships are limited to special education students.

Reports Published by Other States

The text that follows provides a brief summary of reports published by states (or on behalf of state agencies). It does not include research published by private entities or advocacy groups. To maintain brevity, only high-level results are presented and they are generally extracted verbatim from the reports cited. While some reports discuss academic performance outcomes (Alabama and Florida) others only discuss the impact on the state budget and the characteristics of scholarship recipients (Iowa) or provide a summary of program data (Arizona). Therefore, the discussion for each state does not follow a standard format. Rather, the summaries provide insight into the types of data collected and published by other states that offer education tax credits.

Alabama (2020)[18]

The Alabama Accountability Act (AAA, passed in 2013) established a scholarship program for low-income students to attend public or private schools. The program is funded by contributions through a tax credit program and scholarship awards are managed by a Scholarship Granting Organization (SGO).[19] All students that receive a scholarship must meet family income eligibility requirements. The academic accountability standards require that SGOs ensure that schools accepting scholarship students "annually administer either the state achievement tests or nationally recognized norm-referenced tests that measure learning gains in math and language arts to all students receiving an educational scholarship in grades that require testing under the accountability testing laws of the state for public schools."

Comparing scholarship recipients to comparable public school students at economically disadvantaged schools, the report found that:

- In grades 4-8, scholarship students' rates of academic achievement proficiency were lower than economically disadvantaged public school students for math but were not different for reading.
- Eleventh grade scholarship students' proficiency rates for English and math were comparable to economically disadvantaged public school students and higher than this group for reading, although Black/AA scholarship students performed more poorly in all subject areas.
- Six years after the passage of the AAA, there is no evidence that the scholarship program has resulted in academic achievement that is superior to Alabama public schools, and majorities in both groups fail to meet academic benchmarks.

Assessing changes in achievement over time, the report found that:

- On average, over time, participating in the scholarship program was not associated with significant improvement on standardized tests scores.
- The lack of change over time followed the same pattern seen in public school students in Alabama and is likely not attributable to participation in the scholarship program.

Arizona (2021)[20]

Arizona provides four income tax credits for taxpayer donations to certified school tuition organizations (STOs) for the purpose of providing scholarships to students to attend Arizona private schools. Two credits are for donations made by individual taxpayers (original and switcher) and two credits are for corporate donations (low income and disabled/displaced). For FY 2019-20, donations totaled $218 million ($106 million individual donations, $112 million in corporate donations) and total scholarships awarded were $193

[18] "Evaluation of the Alabama Accountability Act: Academic Achievement Test Outcomes of Scholarship Recipients through 2018-2019," The Institute for Social Science Research at The University of Alabama (September 2020).
[19] Scholarships may cover all or part of tuition and mandatory fees for one academic year. In 2015, the legislature amended the AAA to place limits on the amount that could be awarded to a student depending on the grade level.
[20] See https://azdor.gov/sites/default/files/media/REPORTS_CREDITS_2021_fy2020-private-school-tuition-org-credit-report.pdf.

million. The average scholarship across all four credits was $2,172 and approximately 89,000 scholarships were awarded (students can receive multiple scholarships).

Arizona is unique across states because it offers an additional tax credit for K-12 students that switch from a public school. The scholarship is available to a student who meets any of these criteria: (1) attended a public school at least 90 days in the prior year and then transferred to a private school, (2) enrolls in private school kindergarten, (3) enrolls in private pre-school for students with disabilities, (4) is a dependent of a member of the armed forces stationed in Arizona or (5) received a scholarship in a prior year based on one of the prior criteria (i.e., switcher status is permanent). Donors must first have given the maximum amount via the original individual credit (maximum of $1,186 for 2020 for married filing joint) before they can claim the additional switcher tax credit (maximum of $1,179 for 2020 for married filing joint). For 2020, the data show $63.7 million for original individual scholarships (32,824 scholarships) and $37.4 million (25,384) in switcher scholarship amounts.[21]

Florida (2020)[22]

The Florida Tax Credit Scholarship Program (FTC) was established in 2001 to provide an income tax credit for corporations that make donations to nonprofit Scholarship-Funding Organizations (SFOs) that award scholarships to students from families with limited financial resources. The Florida Department of Education lists an average scholarship award of $6,815 for a student enrolled in an eligible private school; and $750 for a scholarship awarded to a student enrolled in a Florida public school that is different from the school to which the student was assigned or to a lab school.[23] For 2020-21, 106,100 students received a scholarship and the maximum scholarship per student was $7,408.[24]

The Learning Systems Institute of Florida State University publishes an annual report on the FTC. The reports do not compare the performance of FTC students to public school students. Due to the difference in the tests that each group takes, the report notes that such a comparison may not be valid. In June 2020, the institute published its latest report using SY 2018-19 data. The general findings were as follows:

- Compared to eligible non-participant students, new FTC students had poorer test performance both in English Language Arts (ELA) and math before entering the FTC Program and they tended to come from lower-performing public schools.
- Former FTC students who returned to the public schools had poorer test performance in both reading and math during their last year in the FTC Program, compared to FTC students who remained in the FTC Program.
- Former FTC students who returned to the public schools also had lower performance in both ELA and math during their first year back in the public schools, compared to low-income public school students who never participated in the FTC Program.

[21] For additional analysis of these tax credits, see https://www.azjlbc.gov/revenues/jlitcrcrpt122221.pdf and https://www.azjlbc.gov/revenues/jlitcrcrpt112417.pdf.
[22] "Evaluation of the Florida Tax Credit Scholarship Program," Learning Systems Institute, Florida State University (June 2020).
[23] These data are from: https://www.fldoe.org/schools/school-choice/k-12-scholarship-programs/ftc/ftc-faqs.stml.
[24] See https://www.fldoe.org/core/fileparse.php/5606/urlt/FTC-Oct-2021-line.pdf.

From the conclusion of the report, the institute notes the following outcomes:

- FTC students scored at the 47.3rd normal curve equivalent in reading and the 42.4th normal curve equivalent in math in 2018-19, which corresponds to the 44th national percentile in reading and the 35th national percentile in math. In terms of gains in math and reading from 2017-18 to 2018-19, the typical FTC student tended to maintain his or her relative position in comparison with all students nationally both in math and reading. It is important to note that these comparisons pertain to all students nationally, and not just students from low-income families. However, we cannot make any claims about whether gain scores of FTC students would have been higher or lower if they were compared against only students from low-income families nationally.
- As in prior years, lower-performing public school students eligible for the FTC Program were more likely to attend a private school under the FTC Program and FTC students who struggle in these schools were more likely to return to the public schools. FTC students who returned to the public schools in Florida had substantially lower test scores than other subsidized meal-eligible public school students who never participated in the FTC Program. However, based on the available evidence, poor performance of FTC returnees cannot be associated with possible negative effects of the FTC Program on participating students. Given selection of students into and out of the FTC Program, the former FTC students who returned to public schools would have been expected to perform more poorly than the typical low-income public school students.

Iowa (2017)[25]

Iowa offers a School Tuition Organization Tax Credit equal to 65% of the amount of a voluntary cash or noncash contribution made by a taxpayer to a School Tuition Organization (STO). The STO Tax Credit was enacted in 2006 to incentivize private contributions to fund tuition grants for low- and middle-income children in Iowa to attend accredited, nonpublic schools in the state.

Relevant program data from the report is as follows:

- The total number of students enrolled in schools that participate in the STO program was 33,740 (2018).
- For recent years, roughly 10,900 scholarships were granted, and the average scholarship ranged from $1,300 to $1,600.
- Average tuition among schools represented was $3,658 in 2016.
- The average family income of tuition grant recipients was around $44,000, less than three times the poverty guideline for a family of two in 2017.

Regarding the impact on the state budget, the report found that if 30 percent of tuition grants in any year are issued to students who otherwise would attend public school (the substitution rate), then $24.6 million in the 2016-17 school year was saved by the State in lower public education expenditures. Given that the cost of the STO Tax Credit was $12.0 million, the net fiscal impact of the tuition grants in that year is an estimated $12.6 million.

[25] "Iowa's School Tuition Organization Tax Credit: Tax Credits Program Evaluation Study," Iowa Department of Revenue (December 2017).

South Carolina (2020)[26]

The latest published report is the second annual report on the impact of the Educational Credit for Exceptional Needs Children (ECENC) program. South Carolina taxpayers are eligible for a state income tax credit up to 75% of their state liability. Tax credits can also be carried forward for three tax years. Scholarships are payments made by Exceptional SC to eligible schools on behalf of exceptional needs students. Scholarships can cover tuition, transportation, and textbook costs, up to $11,000 or the cost of tuition, whichever is less. The tax credit has two components: a $12 million nonrefundable credit and a $2 million refundable parental tax credit. The combined tax credit cannot exceed $14 million in any year. For tax year 2021, the parental refundable credit cap was raised to $5 million, however the combined credit cap was not increased from $14 million.

The ECENC program provides grants and parental tax credits to exceptional needs students attending private schools that meet specific eligibility requirements and that are approved by the Education Oversight Committee (EOC). The report used student level assessment information from 1,799 (80% of total) students who received a grant from Exceptional SC in school year 2018-19. Of the assessment data provided, the EOC used data from 1,650 students, or 73% of all students who received a grant from Exceptional SC in 2018-19.

At the state level, the assessment data results for school year 2018-19 for students who received a grant from Exceptional SC showed:

- The median reading percentile rank was 51, and the median mathematics percentile rank was 40. In reading, approximately, half of the students scored higher than 51% of students in a national representative sample of students. In mathematics, half of the students scored higher than 40% of students in a nationally representative sample of students.
- The mean Normal Curve Equivalents was 49.8 for reading and 45.0 for mathematics, both of which are slightly lower than the national norm, which includes students with and without exceptional needs.
- The data must be viewed in light of the following limitation. Students receiving grants from Exceptional SC all have documented exceptional needs. One would expect that students participating in the ECENC program would score lower than a nationally representative sample of students that includes students with and without exceptional needs. However, using median national percentile ranks over time will provide information on the relative performance of ECENC students and information on their academic growth.
- Based on data from approximately 925 students with assessment information from 2017-18 and 2018-19, there appears to be a slight decline in reading scores but no difference in mathematics scores from school year 2017-18 to school year 2018-19. These results are consistent with the results obtained from the 2017-18 school year.

[26] "Report on the Educational Credit for Exceptional Needs Children (ECENC) Program," SC Education Oversight Committee (April 2020).

Economic Analysis

For the EITC and EOSTC, the IFO did not perform a formal economic analysis because economic development and jobs creation are not part of the formal goals or purpose of the tax credits. Instead, this section uses recent program data to illustrate how the tax credit shifts spending to the education sector from all other sectors of the state economy. The analysis does not include the impact of innovative educational programs, which provides direct funding as opposed to scholarships.

Table 4.1 displays dollar amounts by category for the portion of the EITC routed through scholarship organizations ($187.5 million for FY 2020-21) and the EOSTC ($55.0 million). The top portion of the table lists the assumptions used based on program caps or data supplied by DCED:

- The table uses the maximum amount of contributions managed by scholarship organizations ($242.5 million). Not all available funds are used for scholarships in a given year because some amounts are rolled forward. For simplicity, the table ignores those timing issues.
- The average share of contributions retained for administrative and other expenses ranges from 8.0% to 8.8%. (Computations by IFO based on data supplied by DCED.)
- The average scholarship amount ranges from $2,100 to $2,500. (Data from DCED.)
- The number of scholarships awarded ranges from 59,000 to 92,150. These figures are computed based on the preceding three bullets and overstate the actual number of scholarships awarded due to timing issues. See Table 2.12 for actual scholarships awarded.
- A switcher rate of 20%. That is, the tax credit scholarship induces 20% of students that receive it to switch from public to private schools. (IFO assumption.)
- Average tuition of $11,000 for FY 2017-18 that increases by $300 each year. (IFO assumption based on various school websites and conversations with stakeholders.)

The bottom portion of the table lists dollar amounts spent based on these assumptions. Results are as follows:

- For the Commonwealth, total spending must net to zero. Amounts not retained by organizations for administrative and other costs must be used for scholarships. Modest savings are realized from switchers as the analysis assumes that schools lose some state funds ($350 per student) when average daily membership (ADM) falls. The savings are modest due to strong hold harmless provisions. For FY 2020-21, net state spending on education increases by $236 million, and due to the balanced budget requirement, other spending must fall by $236 million, or state taxes must increase.
- After the public sector, the table shows private schools and organizations. For students that do not switch in response to the tax credit, there is no net change in private school spending because the tax credit merely replaces spending by parents (or possibly non-profits) on private schools.
- Private schools receive four types of revenues they would not otherwise receive due to the tax credit based on the assumptions listed at the top of the table. For FY 2020-21, total tuition for switchers is $219 million. Tax credits finance $44 million (20%) of switcher tuition. Parents are

assumed to finance one quarter of total tuition for switcher students. Additional monies flow to private schools from the portion of private contributions not reimbursed by the tax credit (assumed to be 10% of contributions). Those monies would not have flowed to private schools without the tax credit and contributions associated with all scholarships (not just switchers) are shown. The residual portion (43%) is financed with other funds supplied by a non-profit organization. It should be noted that it is unknown how organizations would have spent those funds or whether that spending would have remained in state. It is possible that the tax credit leverages non-profit monies that would not otherwise be spent in the state.

- Based on data from DCED, the table assumes that scholarship organizations retain roughly 8.5% of contributions to offset administrative and other expenses.
- The final line is the Non-Education Spending Offset which forces the net spending impact to equal zero for the non-government sector. If that condition holds, then spending in other parts of the state economy must fall by $241 million in FY 2020-21 to fully fund the tuition of switchers at private schools. That amount is larger than total switcher tuition due to the contributions retained for administrative and other costs. That figure would be smaller if the tax credit leverages funds that would have otherwise been spent out of state or would have remained as savings (e.g., endowment funds).

The table illustrates that the tax credit mainly redirects state, private and non-profit funds to the education sector from other sectors of the state economy. Unless the tax credit leverages funds that would have been spent out of state or amounts that would have otherwise been saved, then the immediate net economic impact of the tax credit is modest and would generally depend on the types of spending and economic multipliers associated with spending that occurs with and without the tax credit.

Other Economic Impacts

In addition to the flows discussed above, the tax credit could impact school districts and scholarship recipients in various ways. For school districts, a small amount of funds would be lost from students that switch to a private school, but students that remain would benefit from lower student to teacher ratios. In certain cases, it is possible that schools could reduce positions and use those funds for other purposes or to increase compensation for staff that remain. Over longer periods, it is also possible that property taxes might increase at a slower rate than the counterfactual scenario without the tax credit.

For students that switch schools due to the credit, there is potential for better outcomes as a number of academic studies find a statistically significant impact on test scores and graduation rates for students that switch from a low-performing public school to a private school of choice.[27] Those studies are based on research from other states that follow outcomes for students that win and lose random lotteries for vouchers to attend private schools. A review of that literature is beyond on the scope of this analysis. However, there are several factors that imply those results may not be applicable to the educational tax credits offered in Pennsylvania:

- The research is state specific and dependent on alternatives available and the schools that students would have attended without the tax credit. Because data are not collected, Pennsylvania-specific

[27] For a list of these studies see "The Untapped Potential of Expanded Tax Credit Scholarships," American Federation for Children and Commonwealth Foundation (June 2021).

data do not exist to compare public and private school outcomes.

- The impact in Pennsylvania will depend on the share of students that switch solely due to the offer of a scholarship. Studies from other states find relatively high switcher rates, but those studies are based on vouchers that had considerably more value than the average scholarship offered in Pennsylvania (roughly $2,400, excludes pre-K). Moreover, for the ETC it is not clear how important the offer of a scholarship is as the non-profit entity may cover a greater portion of the tuition if an ETC scholarship is not available. While these students may be switchers in terms of overall financial assistance, their decision would not solely rest on the offer of a tax credit financed scholarship.
- The income thresholds are higher in Pennsylvania than other states. Hence, switcher rates would likely be lower because the families of some students that receive scholarships have more financial resources and are more likely to attend regardless of a scholarship.
- It is not known if students would remain in the private school more than one year. If more than one year, if they would remain for their entire academic career. That is a crucial assumption for an analysis that seeks to quantify the potential for improved outcomes for switchers over their earnings lifetime.

For these reasons, the analysis does not attempt to quantify the potential benefits from private school attendance over the lifetime of a student that switches from a public to a private school due to the availability of a scholarship. While academic research does identify positive outcomes (e.g., higher test scores and graduation rates and increased earnings potential) from private schools, more data are needed to quantify those potential outcomes for Pennsylvania students.

Table 4.1
Educational Tax Credits: Economic Impact

Key Assumptions	2017-18	2018-19	2019-20	2020-21
Amount Available ($ millions)	$148	$173	$203	$243
Retained for Expenses	8.0%	8.2%	8.5%	8.8%
Average Scholarship	$2,300	$2,510	$2,120	$2,400
Number Scholarships	59,000	63,090	87,400	92,150
Switcher Rate	20.0%	20.0%	20.0%	20.0%
Average Full Tuition	$11,000	$11,300	$11,600	$11,900

	Amount ($ millions)			
	2017-18	2018-19	2019-20	2020-21
Commonwealth of Pennsylvania				
Tax Credit - All Scholarships	$136	$158	$185	$221
Tax Credit - Retained for Expenses	$12	$14	$17	$21
State Savings (switchers)	-$4	-$4	-$6	-$6
Spending or Tax Offset	-$143	-$168	-$196	-$236
Total	**$0**	**$0**	**$0**	**$0**
Private Schools: Switchers Tuition	**$130**	**$143**	**$203**	**$219**
Funded by Tax Credit	$27	$32	$37	$44
Funded by Parents	$32	$36	$51	$55
Contributions not Reimbursed (all)	$16	$19	$23	$27
Funded by Non-Profit Orgs	$54	$56	$93	$93
Scholarship Organizations	$12	$14	$17	$21
Non-Education Spending Offset	-$142	-$157	-$220	-$241
Total	**$0**	**$0**	**$0**	**$0**

Tax Credit Plan

Act 48 of 2017 directs the IFO to review all tax credits and develop a tax credit plan for credits subject to review. The act states that tax credit plans should include performance metrics for each credit. The act does not specify any other elements of the tax credit plan. For this review, the IFO defined the tax credit plan more broadly to include the following elements: (1) the general findings of the review, (2) specific recommendations, including performance metrics and (3) key decision points for policymakers to consider.

General Findings

For the purpose of this report, the IFO reviewed available research, spoke with numerous stakeholders and met with agencies that administer the tax credit. The following bullet points summarize the main findings of this research:

- For FY 2019-20, 68,430 students received $145 million in ETC scholarships, an average of $2,120 per student. Data for FY 2020-21 are not yet available.
- Almost all firms make a two-year commitment and receive a tax credit equal to 90% of their contribution.
- Article XX-B of the Public School Code expressly limits the data that DCED may collect related to the ETC program to those that are specifically enumerated in the authorizing legislation. Key data necessary to thoroughly evaluate the program are not available.
- Qualifying income limitations for scholarship recipients are roughly 500% of FPL for a family of four. This level is higher than all other states that have an income limitation. Because some portion of families could likely afford private school without a scholarship, it is unclear how much behavior is incentivized by the credit.
- Modest state savings are realized from students switching from public to private school ($350 per student on average) due to strong hold harmless provisions.
- Compared to other states, Pennsylvania has the highest allowance for administrative and other costs. This reduces the number of scholarships available to students.
- The top ten EITC organizations received 26% of contributions in FY 2015-16 and 47% in FY 2019-20. As the cap on the EITC increases, a small number of organizations benefit most.

Specific Recommendations

Based on these general findings, the IFO submits the following recommendations to enhance the efficiency of the tax credit and improve its ability to achieve its goals and purpose.

There should be more accountability for contributions not used to fund scholarships or educational improvement programs.

Under current law, scholarship and educational improvement organizations are only required to use 80% of contributions for scholarships or educational improvement programs. The remaining portion may be retained by the organization and used for any purpose. Because this spending reduces the amount of funds available for scholarships or educational programs, guidelines should exist for how those funds can be used (e.g., overhead costs directly related to the administration of the ETC qualified program, payment for third party income validation related to scholarship applications, etc.) and supporting documentation should be submitted to DCED.

Moreover, all other states with similar tax credits limit the amount that may be retained for administrative and other costs to 5% to 10% of donations. (The exception is Florida where the limit is 3%.) Current ETC law should be amended to reduce the allowance for retained funds to a share that is in line with limits set by other states. This change allows more funds for the program's intended purpose. It also does not penalize organizations that are more efficient and attempt to minimize overhead costs.

To facilitate a meaningful and thorough evaluation of program effectiveness, the statute should be amended to allow the collection of certain performance data.

Article XX-B of the Public School Code expressly limits the data that DCED may collect related to the ETC program to those that are specifically enumerated in the authorizing legislation. As a result, key data necessary to thoroughly evaluate the program are not available. For students receiving ETC scholarships, key metrics that are missing include:

- Change in student outcomes or academic achievement after the switch to a private school
- Scholarship awards by family household income
- The share of tuition offset by the scholarship
- The school district where the scholarship recipient currently resides
- School that the student attended in the year prior to the scholarship award
- Whether students denied the ETC scholarship attend the school regardless

Without these basic demographic and outcome data, it is not clear if the existence of an excess supply of business contributions that do not qualify for the credit due to program caps can serve as a proxy for the effectiveness of the ETC program.

The cap on EOSTC scholarship awards should be eliminated.

There is no cap on scholarships awarded through the EITC programs, but there is an $8,500 cap on scholarships awarded through the EOSTC program.[28] To participate in the EOSTC program, a student must reside within the boundary of a low-achieving public school. These students have most need of alternative school choices, and it is unclear why this limitation is imposed only on this category of funding. Some stakeholders reported that the EOSTC program is more burdensome due to the cap.

[28] The cap may be up to $16,000 under specified circumstances.

Consideration should be given to eliminating the early application period for firms renewing their two-year contribution commitments.

Applicants that complete a two-year commitment and want to renew for an additional two years should not be eligible for early application. Allowing these firms to apply early effectively excludes new donors from the ETC program. If renewing firms are forced to compete with new applicants when their two-year commitment is fulfilled, more firms will have the opportunity to participate in the program.

Consideration should be given to a more automated system for ETC application tracking and processing.

Although the program has grown considerably since its inception, the application process is still largely manual. Stakeholders report the need to call DCED to determine application status and what, if any, additional documentation is required. A portal where participants could check application status, determine additional documentation required, electronically submit that documentation and download approval letters would improve the process for participants and presumably ease the administrative burden for DCED.

DCED should publish an annual report that summarizes basic data collected for the ETC program.

For purposes of this review, DCED was only able to provide two years of ETC data for analysis. Although the ETC is Pennsylvania's largest tax credit, in comparison to other states, it collects and publishes the least amount of data. Moving forward, DCED should publish an annual report on the tax credit. If the statute is not amended, then the report should include:

- Number of tax credits awarded and amount awarded by contribution type
- Share of firms making a two-year contribution commitment
- Number of participating scholarship and innovative educational organizations by type
- Contributions received by organization type
- Share of contributions retained by organization type
- Number, amount and average scholarship awarded by type
- Number, amount and average innovative educational program grant
- Scholarship applications processed by type

If the statute is amended to allow DCED to collect additional program data, then those data should also be included in the annual report.

Key Decision Points

In addition to the specific recommendations above, policymakers should also consider general issues that merit discussion related to Educational Tax Credits. These issues are strategic and will be related to the overall goals and purpose of the tax credit as envisioned by policymakers:

- Does the waitlist for the credit (Table 2.4) imply that the tax credit rate is too high? Would the same amount of contributions occur if the credit were awarded at a rate of 80%, 75% or 60% of contributions?
- The income thresholds for scholarship participation are higher than all other states with a limitation. Is the intent of the program to provide scholarship opportunities for the neediest students? If so, should the limitations be lowered and tied to federal poverty levels?
- What is a reasonable share of contributions for an organization to retain to cover administrative expenses? Should it be 5%, 10% or some other rate? Should there be a sliding scale so that smaller organizations can retain a higher share, but larger organizations retain less?

Conclusion

Act 48 requires that the IFO make a determination regarding whether the tax credit has achieved its goals and purpose. For this review, the analysis establishes the specific and quantifiable program goals as:

- Subsidize private school tuition for pre-K through grade 12 students from low- and middle-income households.
- Support students that reside within the boundaries of a low-achieving public school by providing scholarships that subsidize tuition at a school of the student's choice.
- Provide financial support for innovative educational programs in Pennsylvania public, charter and private schools.

The analysis establishes the program purpose as:

- To enhance the educational opportunities available to all Pennsylvania students.

Due to the statutory limits on data that may be collected related to the ETC, the IFO is unable to determine if the tax credit substantially enhances educational opportunities available to all Pennsylvania students. Subsidized tuition clearly increases opportunities that may not otherwise be available to certain students, but it is not possible to comment on whether state funds have been used effectively due to lack of general and specific outcome data. If the tax credit will be re-evaluated in the future, additional data are needed to reliably assess program efficiency and effectiveness.

Appendix

Performance-Based Budgeting and Tax Credit Review Schedule

Year	Performance-Based Budgets					
1	Corrections	Board of Probation and Parole	PA Commission on Crime & Delinquency	Juvenile Court Judges' Commission	Banking and Securities	General Services
2	Economic & Community Development	Human Services – Part 1	Health	Environmental Protection	PA Emergency Management Agency	State
3	PennDOT	Human Services – Part 2	State Police	Military & Veterans Affairs		
4	Education	Human Services – Part 3	Aging	PA Historical & Museum Commission	Agriculture	Labor and Industry
5	Drug and Alcohol Programs	Insurance	Revenue	Executive Offices	Environmental Hearing Board	Conservation and Natural Resources

Year	Tax Credits					
1	Film Production	New Jobs	Historic Preservation Incentive			
2	Research and Development	Keystone Innovation Zones	Mobile Telecom and Broadband	Organ and Bone Marrow		
3	Neighborhood Assistance	Resource Enhancement and Protection (REAP)	Entertainment Economic Enhancement Program	Video Game Production	Keystone Special Development Zones	
4	Educational Tax Credits	Coal Refuse and Reclamation	Mixed-Use Development	Brewers'		
5	Resource Manufacturing	Manufacturing and Investment	Waterfront Development	Rural Jobs and Investment		

IFO Independent Fiscal Office

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Stakeholder Feedback

BRIAN PEDDLE
GENERAL

THE SALVATION ARMY
FOUNDED IN 1865 BY WILLIAM AND CATHERINE BOOTH

COMMISSIONERS
WILLIAM A. & LORRAINE BAMFORD
TERRITORIAL LEADERS

LT. COLONELS
JANET & LARRY ASHCRAFT
DIVISIONAL LEADERS

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September 1, 2021

Kathleen Hall
Modeling and Development Analyst II
Independent Fiscal Office
400 Market Street
Harrisburg, PA 17105

Dear Katie,

On behalf of The Salvation Army, thank you for this opportunity to share an Impact Report for our EITC-approved program in Greater Philadelphia, "The Learning Zone." This success of this program would not be possible without the generous donations of our corporate partners through the EITC program.

Low academic performance, elimination of out-of-school tutoring, and cuts to other extracurricular activities within The School District of Philadelphia have had a severe impact on countless students, particularly those who struggle academically and cannot afford to pay out of pocket for tutoring and/or recreational activities. As a response to limited resources for youth to develop skills to excel in school and enjoy a safe environment to play and grow, The Learning Zone was created. The Learning Zone meets vital needs for low-income families in the Philadelphia community by providing intensive one-on-one tutoring and enrichment activities for children, including field trips, teambuilding, and STEM career exploration. The program has many strong partnerships, encourages parent participation, and has received numerous awards, community recognition and support over its sixteen years in existence.

A 2020 evaluation of the program revealed:

- Of 116 report cards collected from enrolled students, 85 of them (73%) reflected maintaining the same grade or improvement by half to one letter grade in math.
- Of 116 report cards collected from enrolled students, 97 of them (84%) reflected maintaining the same grade or improvement by half to one letter grade in reading.
- Students with intensive IEP (Individualized Education Program) have shown significant academic and behavioral improvement.

We truly appreciate the positive impact the EITC program has on our programs and the families we serve.

Sincerely,

Stephen Brown, Corporate Giving Manager

DOING THE MOST GOOD

FAITH BUILDERS
SCHOLARSHIP SERVICES

Sharing the cost of education

September 3, 2021

Ms. Katie Hall
Modeling and Development Analyst II
Independent Fiscal Office
400 Market Street
Harrisburg, PA 17105

Dear Ms. Hall,

Thank you for contacting us regarding the Pennsylvania Educational Improvement Tax Credit / Opportunity Scholarship Tax Credit (EITC/OSTC) Program. We appreciate the opportunity to participate in making this program stronger. We note three components that are essential to its functionality.

1. **Program funding should continue to increase.** The EITC K-12 program is increasing in popularity, emphasizing the need and opportunity for growth to allow more businesses to contribute to students' school choice needs.
2. **The twenty percent administrative overhead is essential.** The 80/20 scholarship breakdown is a necessary benefit for our schools and vital to best serve our students. Fifteen percent of the twenty percent known as administrative overhead is used to benefit the overall school experience of children and to assist in emergency scholarship needs. Reducing this percentage would limit the effectiveness of the program in aiding needy families and decreasing the quality of private education.
3. **Minimal reporting requirements reduce student cost.** It is important and valued that the reporting requirements for the annual renewal application are not burdensome. Increasing these would require hiring more staff to do the work previously done by community or family volunteers. This would increase the families' cost for private education with no additional benefits to the child.

We value the ability to serve our Pennsylvania private schools, enabling them to continue providing quality education to families who may otherwise not be able to afford it. We understand the importance of instilling values in our children, investing in citizens who will be ethical and efficient workers. Our communities are strengthened as businesses become stakeholders in the schools around them, schools receive community awareness and support, and parents and children can further their connection through thank-you cards to businesses.

Sincerely,

Vivian Mast
Scholarship Services Coordinator

28527 Guys Mills Rd, Guys Mills, PA 16327 Phone: 814-789-4518 Fax: 814-789-3396
Website: www.fbscholarship.org Email: secretary@fbscholarship.org

ECFA ACCREDITED

Christopher Hackett
1220 Moorgan Ridge
Shavertown, PA 18708

To the Independent Fiscal Office,

I run a mid-size manufacturing company in northeastern Pennsylvania, called Innovation 2 Manufacturing (i2M). For more than a decade our company has donated to scholarship funds and educational improvement organizations that support local students and schools through the state's Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs. These programs are key ingredients to fixing both the educational and social roadblocks facing thousands of students and families in my community and across the commonwealth.

Research has proven that tax credit scholarship programs not only increase educational access for kids, leading to improved academic and behavioral outcomes, but also yield positive long-term economic benefits for citizens and state economies alike.

One example is the McGlynne Learning Center in Wilkes-Barre. The Center provides free tutoring, recreational and cultural activities to approximately 150 children who live in two low-income housing developments in Wilkes-Barre. It is so successful in its mission that not a single child who has attended there has ended up in the Juvenile Justice System in the 30 years it has existed. But it, and the children it serves, depends entirely on donations.

That is why I was quite disappointed this year when my donations to the McGlynne Learning Center were denied. The current structure of the EITC and OSTC programs places a barrier between students in need and donors who are willing to help them. These caps kept my EITC donation to this essential institution from reaching the local children in need. And I am not alone. Many other donors like me and my company try and fail to donate to schools and community programs because of the state's restrictions, leaving hundreds of millions in donations on the table while tens of thousands of students need help. Regardless of political affiliation, one thing we can all agree on is the investment in our children's education produces results for everyone: the child, the family, the region and our great nation.

i2M is proud to be a part of the Northeastern Pennsylvania community and we're dedicated to helping local children succeed, whether it's our employees' children in our company's Learning Space or recipients of our EITC and OSTC donations. Lifting the caps on the amount that can be donated to both programs as well as expanding the number of scholarships available to children is key to ensuring we expand educational opportunities for children throughout Pennsylvania.

Recommendation 1: Expand the cap for donations and allow the program to continue to grow with the demand for scholarships and availability of donations.

Recommendation 2: Require the Pa. Department of Education to approve each donor's tax credits and send out approval letters by the deadline required by law, even if the state budget has not been passed.

Sincerely,

Chris Hackett

November 3, 2021

Matthew Knittel, Independent Fiscal Office
400 Market Street
Harrisburg, PA 17105

Dear Mr. Knittel:

We appreciate this opportunity to offer perspective on the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs for the IFO performance-based budget review.

The EITC and OSTC programs differ from other business tax credits. First, students and families, rather than tax credit recipients, are the main beneficiaries of the program. Second, the tax credit only covers part of donation; after contributing to a scholarship organization or EIO, businesses still owe 10% or 25% of their donation as tax liability. Third, the programs offset state and local public school expenditures. A 2019 analysis showed the programs saved taxpayers $3 to $5 billion in public school costs through 2017.

Launched in 2001 "to enhance the educational opportunities available to all students in this Commonwealth," the EITC became the first corporate tax credit scholarship program in the nation. In 2012, the companion OSTC was added to target resources to children in the lowest-performing schools. The programs have made great strides toward enhancing educational opportunities, but program caps have limited their reach. The EITC and OSTC are used throughout the state and applications far exceed scholarships, according to the most recent data available from DCED.

- In 2017–18, the EITC awarded K–12 scholarships in 66 counties, OSTC scholarships in 41 counties; EITC Pre-K scholarships in 59 counties; and educational improvement organizations (EIOs) operated in 58 counties.
- By 2018–19, total scholarships reached more than 700,000, including more than 630,000 for EITC and more than 80,000 for OSTC.
- In 2018–19, **42,918 scholarship applications were denied** due to caps on the program. Since 2012, 48% of scholarship applications have been denied.
- In 2019–20, more than **$120 million in tax credit applications were turned away** due to caps on the programs. These donations could have made a sizeable dent in the student waitlist.
- Statewide income numbers are not collected, but Simple Tuition Solutions is one of the largest application processors in the state. Their average household income is $63,000 for EITC and $53,000 for OSTC.
- A recent economic impact analysis concluded that EITC and OSTC expansion would result in greater lifetime earnings for kids, billions of dollars in economic benefits to the commonwealth, and fewer incarcerated people.

In our work, we've highlighted numerous examples that illustrate the impact of EITC and OSTC, such as Thalia McClenton, Maria Elizabeth Leon, Anthony Samuels, Gesu School, Children's Scholarship Fund, Independence Mission Schools, Logos Academy, Joshua Group, and Extra Mile.

The ETIC and OSTC programs have had a tremendous impact on thousands of Pennsylvania children through K–12 and pre-K scholarships and afterschool and summer programs supported by EIOs. With thousands of kids—and millions of donation dollars—waitlisted, our most urgent policy recommendation is to lift the caps on these programs.

Please feel free to contact me if you have any questions or need more information.

Sincerely,

Nathan Benefield
Senior Vice President

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November 29, 2021

Katie Hall
Modeling and Development Analyst II
Independent Fiscal Office
400 Market Street
Harrisburg, PA 17105

Dear Ms. Hall,

The purpose of this correspondence is to provide further feedback regarding Pennsylvania's Educational Improvement Tax Credit (EITC) Program, specifically the Educational Improvement Organization (EIO). The University of Pittsburgh at Bradford first qualified for the EIO program approximately 10 years ago. In the beginning, the process allowed the companies in our rural region to apply for tax credits on a multi-year basis, which worked well. As time went on, the legislature dramatically increased the budget for EITC EIO funds. Even with the increase in available tax credits, the number of companies applying for the tax credits continued to increase. It was at this point that the Department of Community and Economic Development initiated a so-called "randomization" process to award the EIO tax credits. If you had a company that was fortunate enough to be selected by the randomization process, your company was eligible to apply for renewal earlier than those companies that were not previously awarded tax credits and permitted to request up to $750,000 per year. Within a couple of years, the majority of the available EIO tax credits were being awarded to urban centers where most of the larger companies with larger tax liabilities in Pennsylvania are located.

The DCED Center for Business Financing and the Tax Credit Division of the Commonwealth should consider developing strategies for rural Pennsylvania businesses and communities as it relates specifically to these tax credit programs. The current process favors those businesses already receiving large tax credits, incorporates a first-come, first-served approval process, and makes it difficult for smaller businesses to receive benefits due to the finite amount of money that is available. At a minimum, a portion of the available tax credits should be reserved and awarded utilizing a fair and equitable process to the rural counties where smaller companies are located.

In rural communities like Bradford and Titusville, where two of the University of Pittsburgh's regional campuses are located, the impact from these tax credits would be profound for the community and beneficial for taxpayers.

Thank you for your consideration of rural Pennsylvania.

Sincerely,

Richard T. Esch
Interim President