

## **Fiscal Impact of the Educational Improvement Tax Credit Program modified for the 2007-2008 school/fiscal year**

by Andrew T. LeFevre

In 2001, Pennsylvania became the first state in the nation to enact an education tax credit aimed at corporations. Since then, the Educational Improvement Tax Credit (EITC) Program has provided a lifeboat to tens of thousands of families looking for the right school for their child. In addition, the EITC Program has accomplished what many in Pennsylvania have been advocating for years: a way for the business community to be influential in children's education.

The distinctive elements of the program focus on a public-private partnership and the injection of market-driven capitalism to better finance a public service. Such components provide a strong argument that the EITC Program in fact saves the state and its taxpayers' money.

Continuing to fully fund the EITC Program will provide a unique way to further invest in the educational futures of the Commonwealth's children while saving taxpayer money and providing relief to high growth school districts.

### **Background**

Enacted in 2001, the EITC Program allows private businesses to donate up to \$300,000 to a registered and approved 501 (c)(3) Scholarship Organization (SO) or Educational Improvement Organization (EIO) of their choice. The state then provides each donating business with a tax credit of 75% of their donation amount (or 90% if they pledge the donation for two consecutive years). This program allows businesses to contribute to organizations directly in their local community. These organizations either provide scholarships for students to attend a school that meets their individual educational needs or to provide innovative educational programming in traditional public schools.

Originally, the cap for the program was set at \$30 million annually, with two-thirds allocated to SOs and one-third given to EIOs. While this division of funds has remained constant, the total cap has been increased several times to its total current level of \$67 million, which includes scholarships for K-12 education, as well as funds for innovative programming in public schools (a pre-K program is also funded at \$8 million annually). This means that of the \$67 million available under the EITC Program for the 2007-08 school year, \$44.7 million went towards private scholarships and \$22.3 million went towards innovative educational programming. During the 2007-2008 school year, over 44,000 students used EITC funds to attend the school of their choice.

While 44,000 students utilizing EITC funds to attend the school of their choice may seem like a significant number, it pales in comparison to the general population of students in the state. During the 2007-2008 school year there were slightly over 1,801,000<sup>1</sup> students enrolled in Pennsylvania's public schools, compared to less than 266,000<sup>2</sup> attending forms of nonpublic schools. This means that roughly 13% of students in the Commonwealth attended nonpublic schools. Furthermore, the 44,000 children using EITC scholarships represents only 2.1% of total students in the state. This means that for every one family with the ability to have the choice between learning environments for their child, more than 50 families are unable to do so. These families are then forced into the public school determined solely by the district in which they reside.

This wide disparity between public schooling and the EITC Program is also witnessed in terms of funding

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<sup>1</sup> October 1, 2007 Enrollment Statewide by Grade, PA DPE

<sup>2</sup> <http://www.pde.state.pa.us/k12statistics/lib/k12statistics/0708PNSEnroT1.pdf>

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to the two options. The total amount dedicated to pre-K through 12th grade education in the 2007-2008 PA State Budget was \$9.4 billion<sup>3</sup>. The \$67 million apportioned to the EITC Program represents less than 1 percent (0.71%) of the monies allocated to total primary education within the state. For each \$100 spent by the General Assembly on primary education, only 71 cents is apportioned to the EITC Program. Moreover, one-third of all EITC funds are assigned to EIOs for the purpose of bringing innovative educational resources to public schools.

## EITC Cost Savings

The EITC Program does not represent sunk costs within the general fund of the state. The public school districts and taxpayers alike realize savings as the program has been implemented and expanded. The funding for one public school student to attend a government-administrated school comes from three sources: the federal, state, and local governments. Federal funding is by far the lowest portion of this total, followed by state funding, and finally, local funding – in the form of property taxes – which represents the largest percentage of the total amount designated to one student. Within the parameters of the EITC Program, the school loses its funding on a federal and local level when a student moves from a public school to one using a scholarship. However, the state funding is not taken away from the district experiencing the loss. Thus, the difference in the amount allocated to a public school student and one that has used an EITC scholarship to exit his/her public school is retained by the original district and allocated to the remaining students, raising per pupil expenditures without increasing taxes or other means of funding.

The average amount allocated to educate one public school student within the state for the 2007-2008 school year was approximately \$13,183<sup>4</sup>. The average scholarship amount awarded through the EITC Program to one student for use outside the system for one academic year is \$1,100. This means that the average amount the state designates for one student in the public school system is roughly twelve times the amount awarded to a student utilizing an EITC scholarship to attend a school outside the public school system. The difference between these two figures is \$12,083. This figure shows the amount the state is saving per child when a student leaves the public school system and attends a private school on an EITC scholarship. If one multiplies the difference (\$12,083) by the number of students receiving EITC scholarships during the 2007-08 school year (44,000), it is determined that over \$531.6 million was saved by awarding this relatively small percentage of students with EITC scholarships. That is also to say that if each of these students re-entered the public school system, that figure - \$531.6 million - would also be the amount necessary to educate this population of less than 2% of the total number of PA public school students.

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## Program Funding Implications in the 2009-2010 State Budget

In the eight years since its inception, the EITC Program has more than doubled in total size, from an original \$30 million cap to the current \$75 million. Under the current structure of the EITC Program, \$22.3 million is directed to innovative EIOs, \$44.7 million is directed to K-12 scholarships and \$8 million is directed to pre-K scholarships.

The budget that was passed by the Pennsylvania Senate on May 6, 2009 called for the significant reduction or elimination of many programs in an attempt to bring the upcoming 09-10 state budget into line with projected revenue. Under the terms of that budget, the EITC Program will be reduced by \$35 million. Of this \$35 million reduction, \$22.3 million will come from the elimination of the innovative educational programs for public schools (EIOs) and the remaining \$12.7 million from some combination of the K-12 scholarships and pre-K scholarships.

A reduction in EITC funding will force thousands of students back into a school that will not give them a chance at a successful education. In addition, a reduction in funding for the EITC Program will end up costing the state money, making it a poor funding decision.

For example, \$12.7 million in EITC funding will provide 11,545 K-12 scholarships. If all 11,545 students were forced back into the public school system due to a loss of an EITC scholarship, it would cost the state and local taxpayers an additional \$152.2 million during the 2009-2010 fiscal year. Even by taking into account just the state portion of education funding – which would be approximately \$60 million – it would cost the state \$25 million more than the originally proposed cuts.

Another factor to consider is that due to Pennsylvania's educational funding formula, every student that goes

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<sup>3</sup>2007-2008 Pennsylvania Budget Impact on Education, <http://www.pdenewsroom.state.pa.us/newsroom/cwp/view.asp?a=256&q=128089>

<sup>4</sup>Author's calculations based on PA Dept. of Education data

the public school enrollment logs will be funded indefinitely by the state.

According to the Education Law Center, in 1992 the state funding formula was frozen, meaning that the state's contribution would basically stay the same year after year (plus small and unpredictable increases) no matter how districts changed. Student enrollment and other fundamental factors are no longer considered in allocating most state funding<sup>5</sup>.

This represents a long term funding cost increase that Pennsylvania simply cannot afford.

### Education Improvement Tax Credit Program

FY	SO Receipts	# Scholarships	PKSO Receipts	# Scholarships
01-02	\$19,066,825	17,350	no program	no program
02-03	\$22,202,944	20,204	no program	no program
03-04	\$28,434,178	25,875	no program	no program
04-05	\$29,342,885	26,701	\$3,023,258	2,445
05-06	\$32,369,421	29,638	\$5,389,543	4,358
06-07	\$40,376,595	36,742	\$5,159,055	4,172
07-08	\$48,093,312	43,764	\$7,516,133	6,078
08-09*	\$48,093,312	43,764	\$7,516,133	6,078
<b>Totals:</b>	<b>\$287,047,297</b>	<b>244,038</b>	<b>\$28,604,122</b>	<b>23,131</b>

\*08-09 figures should be identical to 07-08 since tax credit caps are identical

*Chart configured by the Pennsylvania Department for Community and Economic Development*

## Conclusion

The EITC Program saves the Commonwealth and taxpayers money, provides choice in education to students and families across the state, and allows businesses to donate to a worthwhile cause within their own community. Parents, students, businesses, and taxpayers have already benefited from this relatively small program. With its retention and expansion, Pennsylvania will continue to meet the needs of all its citizens through the Educational Improvement Tax Credit Program.

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<sup>5</sup>Election Law Center, How Has Pennsylvania's Funding System Changed Over Time?; <http://www.elc-pa.org/pubs/downloads/english/fun-Changes%20Over%20Time%20in%20PA%20Funding%20System%2011-07.pdf>

## ABOUT THE AUTHOR

Andrew T. LeFevre is the Executive Director of the REACH Foundation located in Harrisburg, Pennsylvania. Founded in 1993, the REACH (Road to Educational Achievement through Choice) Foundation is dedicated to ensuring parental choice in education in Pennsylvania. REACH continually promotes policies that enable statewide parental choice in education, including the well-established and highly successful EITC Program. For more information on the REACH Foundation, visit [www.paschoolchoice.org](http://www.paschoolchoice.org).