PURPOSE, POLICY, POLITICS AND POWER: ANALYSIS OF THE PENNSYLVANIA EDUCATIONAL IMPROVEMENT TAX CREDIT PROGRAM

A Dissertation

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Appendix B

Policy Analysis Executive Summary

Overview

This policy analysis of the Pennsylvania Educational Improvement Tax Credit (EITC) program revealed a fundamental disconnect between the policy claims and the experienced reality. From its 2001 inception, the policy language and legislative rhetoric claim that the EITC is intended to improve education for all children. However, the law prohibits the collection of data regarding educational achievement. This prohibition resides at the root of the disconnect, because no measures of educational attainment exist within the law despite its title.

Companies contribute money for underprivileged kids to get a better education, but this study found no evidence that kids are getting a better education. Taxpayers and companies may think they are helping poor kids but little evidence exists to suggest that funds are reaching this population. Funds are actually diverted from this purpose - intentionally. Children are hurt because not only are they not able to switch to better schools, the schools they are in are not targeted for improvement and are not receiving these funds. Analyses suggest that this program increases rather than decreases the wealth and education gaps in Pennsylvania.

Purpose of the Research

The study evaluated Pennsylvania's Education Tax Credit (ETC) program with a focus on who benefits from the investment of over $200,000,000 per year and whether the scholarships actually enable poor families to choose to switch from a low-achieving public school to a tuition-based or private school.

Overview of Findings

Who benefits from the ETC?

Select stakeholders, but not students, benefit greatly in different ways - companies, individuals, networked community and advocacy groups, middle and upper-income families, politicians, third party businesses, and nonprofits. Students of low-income families benefit least.

Companies and individuals get tax credits and sometimes profit from the program. However, access to the tax credits is uneven. The ETC utilizes staggered application deadlines for business firms that give preference to past participants and applies a "first-come, first-served" process for allocating new funds. With repetitive giving between business firms and participating nonprofit organizations, this policy serves to systematically shift funding based on business and nonprofit affiliations. Further, the law's Special Purpose Entities (SPE) allow organizations to enlist individuals to contribute against their individual tax liability, raising millions of dollars by circumventing the first-come, first-served policy for businesses, and entrenching large donations within a limited number of schools. Funds are concentrated within select organizations, mostly private and faith-based schools. Families associated with those organizations and enrolled in their private schools appear to be receiving the scholarships and potentially receiving tax credits for contributions.

Program advocates argue for tax credits to increase due to popular demand; however, the study showed that there are so many ways for businesses, individuals, schools and nonprofits to benefit financially from this program, that no matter how large the program grows that popular demand will never be met.

Needy students face significant barriers to access. First of all, Pennsylvania has the most expansive eligibility requirements in the nation with family income limits for program participation that far exceed every other state (between $105,905 and $316,656 for a family with one child in 2019-20, with an extra $15,905 for each additional child and multipliers for each child with a disability) (EdChoice, 2019). The maximum family income to qualify automatically increases without legislative action.

Secondly, an absence of social supports creates barriers to program engagement, particularly for low-income students. For example, program information is a social support that should equalize access for all. However, if a family wishes to use a scholarship to switch to a private school, they must generally be accepted to the school before they can apply to a different nonprofit for the scholarship; but there is no master list of participating schools, no common application, no guarantee that the scholarship amount will be enough to pay tuition. These are serious barriers for low-income families.

Third, the program for public school enrichment is the smallest and slowest growing component of the ETC. Some efforts by the Educational Improvement Organizations appear to help students; but few outcomes are reported, programming lacks stability, and there are no apparent links between district needs and programming offered. Educational Improvement Organizations have tremendous autonomy, creating a wide range of program topics (e.g., Financial and Economic Education, Poverty and Workforce Development to College Access and Drop Out Prevention). This program is unwieldy and lacks a structure for assessing and replicating best practices or to align programming with school district needs. Also, program guidelines leave EIOs susceptible to unstable funding due to Business Firms' changing donation preferences.

Fourth, the policy redistributes funds away from students enrolled in public schools, concentrating funds in the Southeast, Southwest, and South Central Regions. Large nonprofits control the majority of the funding and faith-based organizations control the most scholarship money. Funds are becoming concentrated for Scholarships faster than they grow for Opportunity Scholarships or Educational Innovation. Seven counties have zero participation. Some nonprofits do not give any of their Opportunity Scholarships to low-income students. Many scholarships are less than $500 per student.

Fifth, enrollment statistics do not indicate that the scholarships are incentivizing migration from lower performing schools to tuition based or private schools. The Pennsylvania Department of Education data reveals no increases and minimal decreases in Private-NonPublic school enrollment between 2011-12 and 2015-16. During this time, the Legislature created the Opportunity Scholarship Tax Credit adding $50,000,000 based on the claim that it would rescue 15,000 students from low-achieving public schools; and increased the Scholarship funds by $15,000,000. However, Private-NonPublic enrollment dropped from 11.9% to 11.6% of total enrollment. During the same period, Charter schools not involved in this program saw

enrollment growth from 5.3% to 6.9% of total state enrollment. It appears the money is having no effect on student migration to private schools, and is simply reducing the cost for those already enrolled or subsidizing private school operations. Without transparency and data collection, no one knows for sure.

Lack of Transparency and Accountability Lead to Fraud and Abuse

The ETC has almost no transparency, program monitoring or accountability which leads to loss of funds to the state treasury, unreliable program data, deceptive reporting and likely fraud. The Department of Community and Economic Development (DCED) administers the ETC, awards tax credits to business firms and SPEs, collects program reports, and provides the General Assembly with basic participation statistics. The DCED is not involved with helping students access the programming or scholarship dollars. There is no report of the actual number of individual students who receive funds, no report of the schools accepting students receiving funds, and no indication whether students receiving funds need the money to enroll in their school of choice.

Much of the data used in this study was obtained through publicly available online resources. Data related to the tax credit dollars approved and contributed by business firms; and received, expended, and reported by nonprofits were obtained between 2017 and 2019 via a series of Right to Know requests submitted to the DCED. Conflicting reports, mathematically impossible figures, inconsistent reporting and questionable amounts plagued the reports; and cross referencing across programs and program years revealed deceptive reporting.

The policy analysis revealed pervasive problems in reports provided by the DCED via Right to Know requests, showing, for example:

- Business firms making a 1-year contribution despite requesting and receiving a 90% tax credit. The tax credit for a single year contribution is 75%, leading to an unauthorized reduction in state revenue.
- Nonprofit organizations that retain more than the 20% of contributions they are permitted to keep.
- Schools and nonprofits that award scholarships exceeding the maximum limit ($8500 or $15,000 for students with a disability), some by more than $20,000 per student.
- Nonprofit organizations report mathematically impossible results.
- Nonprofit organizations contribute scholarship dollars to other nonprofits, in one case over $600,000 in one year; further confounding the trail of funds and revealing the ease with which organizations can hide or mis-allocate program dollars.
- Businesses and nonprofits that are not based in Pennsylvania benefiting from the tax credit program.

Demand is a Poor Substitute for Data-based Decision Making

The General Assembly was advised in 2010 to embed mandated reporting in new and reauthorized tax credit legislation to promote transparency and accountability, to staff the DCED monitoring unit to monitor this program at a level equal to programs getting appropriations, and to articulate the program's goals, objectives, and measures against which effectiveness can be judged. The General Assembly has failed to take these actions despite growing the program

without evidence that it encourages families to switch to private schools or improves education.

The ETC is by far the largest tax credit program in PA. The DCED reports success measures on its other programs but is not held to the same reporting for this program.

Policy Recommendations

Policy recommendations from this study are research-based strategies to test the underlying assumptions about the use of tax credits to increase school choice so legislators, educators, and the public can make informed policy decisions. These include testing the theory that competition improves all schools in the market and that tax credit subsidies enable students who otherwise could not attend their school of choice; learning whether focused and significant scholarships induce student migration; to assess the impact on students using scholarships to switch schools and those left behind when others do; and to begin to evaluate the effects of tax credit subsidy migration on private schools capacity, tuition, and student attainment; and track new entrants into the private school market.

This study provides specific policy recommendations intended to extend the educational benefits of the ETC more equitably to students across the Commonwealth and achieve increased educational outcomes. Without modifications, the ETC will not adequately serve disadvantaged youth throughout the state no matter how large it grows.

Full dissertation: Purpose, Policy, Politics and Power: Analysis of the Pennsylvania Educational Improvement Tax Credit Program, by Julie K. Ambrose, will be available at the Indiana University of Pennsylvania (https://www.iup.edu/library/digital-collections/dissertation-and-thesis/) or via ProQuest. Contact the author: J.K.Ambrose2@live.IUP.edu