

EITC and OSTC Escalator: SB 527

Legislative Summary & Analysis

OVERVIEW

- [Senate Bill 527](#) would provide for an automatic escalator to Pennsylvania's Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs so arbitrary government caps on credits no longer deny thousands of children quality education each year.

REASON FOR THE LEGISLATION

- Children have struggled with disrupted learning due to the pandemic. Now more than ever, parents need a broad range of education solutions to fill the gap. Pennsylvania's tax credit scholarship programs do just that by allowing businesses and community leaders to join together to support educational opportunity for Pennsylvania schoolchildren.
- Children have struggled for more than a year with disrupted learning due to the pandemic. Now more than ever, parents need a broad range of education solutions to fill the gap. Pennsylvania's tax credit scholarship programs do just that—by allowing businesses and community leaders to join together to support educational opportunity for Pennsylvania students.
- Unfortunately, the existing program caps are denying students opportunity. In 2019 alone, **43,000 scholarship applications were denied because of the cap**. At the same time, there is a waiting list of donors willing to give more than \$121 million to eligible organizations under the two programs.
- Expanding the EITC/OSTC programs automatically to reflect student need will ensure Pennsylvania kids aren't left on waitlists, longing for better educational opportunities.
- Since the EITC and OSTC programs [save districts thousands of dollars per student](#), expanding access to them will free up district resources to help children recover from COVID-related learning disruptions.¹

SUMMARY

- Beginning in FY 2021–2022, each program—EITC; K-12, Pre-K, EIO, and OSTC—would increase by 25% annually if 90% of the available tax credits are used in the previous year.

OTHER STATES

- Tax credit scholarship programs are offered in 21 states. Automatic escalators [are operating in four states](#): Arizona, Florida, Montana, and Utah.²
- Florida offers the gold standard for tax credit scholarship programs that meet student need. Last year, more than 104,000 children received scholarships, with an average value of \$6,346 per child.

Florida and Pennsylvania tracked very closely in terms of children served and dollars awarded until [Florida adopted their automatic escalator in 2011](#). Since then, Florida has tripled their scholarship budget and doubled the number of children served.³

FISCAL IMPACT

- Tax credit scholarships offer a unique fiscal benefit to taxpayers, in that there is no direct funding but rather deferred revenue at the state level. Additionally, tax credit scholarships are a financial boon to school districts. EITC and OSTC expansion would [save school districts hundreds of millions of dollars](#) while simultaneously [boosting the economy](#).⁴
- An [fiscal impact statement](#)⁵ by Dr. Martin Lueken of EdChoice concluded Sen. Regan’s escalator proposal would **save school districts an estimated \$500 million to \$1.1 billion each year**, or up to \$10,000 per scholarship. State revenue would be reduced an estimated \$144 million to \$225 million each year, or about \$2,000 per scholarship. The net savings to taxpayers after district savings and deferred state revenue is projected at \$360 million to \$870 million per year, or up to \$8,100 saved per scholarship.
- An economic impact analysis by Dr. Corey DeAngelis for the American Federation for Children concluded that EITC and OSTC expansion would result in [greater lifetime earnings for kids, billions of dollars in economic benefits to the commonwealth](#) from those increased earnings, and reductions in criminal activity.⁶

¹ Martin Lueken, “Education Tax Credits Save School Districts Billions,” Commonwealth Foundation, (June 2019), <https://www.commonwealthfoundation.org/policyblog/detail/new-report-education-tax-credits-save-school-districts-billions>.

² “Tax Credit Scholarships Rules and Regulations.” EdChoice, (Accessed September 2021), <https://www.edchoice.org/wp-content/uploads/2021/03/2021-ABCs-of-School-Choice-WEB-2-24.pdf>.

³ “Florida Tax Credit Scholarship Program,” EdChoice, (Accessed August 2021), <https://www.edchoice.org/school-choice/programs/florida-tax-credit-scholarship-program/>.

⁴ Martin Lueken, “Fiscal Impact Statement, Pennsylvania 2020 Budget Session,” EdChoice, (May 2021), https://www.commonwealthfoundation.org/docLib/20200520_PAHB800FiscalNote_FY2021.pdf?t=5/20/2020%205:10:27%20PM. And “Unleashing Education Opportunity: The Untapped Potential of Expanded Tax Credit Scholarships,” Commonwealth Foundation, (August 2020), https://www.commonwealthfoundation.org/docLib/20200813_UnleashingEducationalOpportunityDeAngelis08_13_2020reduced.pdf.

⁵ “Projected Fiscal Impact of Senate Bill No. 299,” <https://www.edchoice.org/research/projected-fiscal-impact-of-pennsylvania-senate-bill-no-299/>.

⁶ “The Untapped Potential of Expanded Tax Credit Scholarships,” Commonwealth Foundation, (June 2021), <https://www.commonwealthfoundation.org/policyblog/detail/the-untapped-potential-of-expanded-tax-credit-scholarships>.