



Legislative Budget and Finance Committee

A JOINT COMMITTEE OF THE PENNSYLVANIA GENERAL ASSEMBLY

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Preliminary Report on Pennsylvania's Educational Improvement Tax Credit Program

Conducted Pursuant to Senate Resolution 2009-20 and
House Resolution 2009-127

June 2009

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I. Introduction

Senate Resolution 2009-20 and a companion resolution, House Resolution 2009-127, direct the Legislative Budget and Finance Committee (LB&FC) to study the impact and effectiveness of 18 Pennsylvania tax credit programs. Although the final report is not due until March 2010, we were requested to review the four tax credit programs with the greatest fiscal impact in an expedited manner. These four are the Keystone Opportunity Zone (KOZ) program, the Film Production Tax Credit program, the Educational Improvement Tax Credit program (EITC), and the Research and Development Tax Credit program (R&D).

Our report on the Film Production Tax Credit program was released on June 3, 2009, and separate reports on the KOZ and Research and Development Tax Credit programs are planned to be released in late June 2009. This report contains our preliminary analysis of the EITC program. Work will continue on this programs as well as the remaining tax credit programs, with studies to be released at a later date.

Study Objectives

The study seeks to identify:

- if participant applications ask the questions necessary to determine (1) if applicants are eligible to participate in program and (2) that the activities for which credits are being awarded are in accordance with statute and program guidelines;
- if the Department of Community and Economic Development takes reasonable steps to verify the accuracy of the information provided on the applications; and
- if the Department of Community and Economic Development takes reasonable steps to ensure that the EITC organizations that were approved undertook their activities as described in the approved application.

Scope and Methodology

To conduct this review we:

- reviewed pertinent statutes, regulations, and guidelines;
- developed information requests of the Departments of Community and Economic Development;
- met with relevant department staff at all levels;

- conducted file reviews of various program participants to ascertain compliance with administrative controls and review compliance with departmental guidelines;
- conducted phone surveys of program participants;
- conducted meetings and information gathering sessions with key stakeholders and stakeholder organizations;
- gathered and analyzed fiscal and program information; and
- compiled other state information and compared Pennsylvania's programs to several other states.

Acknowledgements

We acknowledge and appreciate the assistance provided by staff of the Department of Community and Economic Development, particularly Mr. Ted Knorr and his staff. We also thank the Reach Foundation, the Mid Atlantic Consortium of Educational Foundations, and the other interested persons and organizations who worked with us to identify issues and provide data for this review.

Important Note

This report was developed by Legislative Budget and Finance Committee staff. It is preliminary in nature and will be followed by a complete report on all of the tax credit programs identified in the Senate and House resolutions. The release of this preliminary report should not be construed as an indication that the Committee or its individual members necessarily concur with the report's findings and recommendations.

Any questions or comments regarding the contents of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania 17105-8737.

II. Educational Improvement Tax Credit

Background and Overview

On July 1, 2001, Act 4 of 2001 went into effect, creating Pennsylvania's Educational Improvement Tax Credit (EITC). The EITC is incorporated within the Public School Code, at Article XX-B, 24 P.S. §§20-2001-B – 20-2008-B, and requires the Department of Revenue to grant tax credits to business firms¹ making a contribution—a donation of cash, personal property, or services—to three types of educational organizations: (1) a scholarship organization (SO), (2) an educational improvement organization (EIO), and (3) a pre-kindergarten scholarship organization (PKSO).

The amount of the credit available to a business is dependent upon the type of organization to which the contribution is made. Tax credits for business contributions to SOs and EIOs are not to exceed 75 percent of the contribution up to \$300,000 total credit per business annually. The credit can increase up to 90 percent if a business commits, in writing, at the time of initial application, to providing two consecutive years of the same dollar amount of contribution.

Tax credits for business contributions to PKSOs are 100 percent of the first \$10,000 contributed and thereafter may not exceed 90 percent of the remainder, up to \$150,000 total per business annually. A tax credit for any year may not exceed a business's tax liability and may not be carried forward or back; or be refunded or transferred to another business. In theory, EITC tax credits are made available by DCED on a first-come, first-served basis. However, due to the over subscription of tax credits on the EIO side (more credits sought than are available), tax credit recipients are selected in a random fashion, beginning July 1 every year, until the \$22.3 million allocation for EIOs is exhausted.

EITC was originally funded by an allocation of tax credits totaling \$30 million, which has since increased to the current \$67 million. Table 1 shows the total allocation for each year and how the money is split between SOs and EIOs as required by the act. With the addition of PKSOs to the program in school year 2004-05, and the current PKSO allocation of \$8 million, the current total of all tax credits available under the EITC program is \$75 million.

¹A "business firm" is an entity authorized to do business in Pennsylvania and subject to paying taxes or a pass-through entity.

Table 1

Increase of EITC Tax Credit Limits, by Fiscal Year			
<u>Fiscal Year</u>	<u>Total Tax Credits Available</u>	<u>Total Apportioned for Scholarship Organizations</u>	<u>Total Apportioned for Educational Improvement Organizations</u>
FY 2001-02	\$30,000,000	\$20,000,000	\$10,000,000
FY 2002-03	30,000,000	20,000,000	10,000,000
FY 2003-04	40,000,000	26,666,665	13,333,335
FY 2004-05 ^a	44,000,000	29,333,333	14,666,666
FY 2005-06	54,000,000	36,000,000	18,000,000
FY 2006-07	54,000,000	36,000,000	18,000,000
FY 2007-08 ^b	67,000,000	44,666,667	22,333,333
FY 2008-09	67,000,000	44,666,667	22,333,333

^aFor the 2004-05 school year a new Pre-Kindergarten scholarship program was established and funded. Business firms making contributions to such a scholarship organization received a tax credit equal to 100 percent of the first \$10,000 contributed and 90 percent of the remaining amount contributed with a cap of \$100,000 annually. Currently, the cap is \$150,000. The total amount of tax credits approved could not exceed \$5 million annually.

^bThe amount of tax credits available for pre-kindergarten programs increased to \$8 million annually in FY07-08.

Source: Tax credit annually available and the amount apportioned to each program under EITC, as well as the tax credit limits established for contributions made to pre-kindergarten scholarship organizations were identified from Act 2001-4, and subsequent amendments to the act.

As of FY 2007-08, DCED had approved 239 SOs, 136 PKSOs and 503 EIOs. Table 2 shows the growth of the number of EITC organizations since the program's inception. Each of the categories has increased in participants every year since EITC was implemented. The greatest growth has been in the number of EIOs, with a 278 percent increase in program participants since the program's initial year. The number of SOs and PKSOs has increased as well, to 108 percent and 161 percent respectively.

Table 2

Educational Improvement Tax Credit Program Summary			
<u>Fiscal Year</u>	<u>Scholarship Organizations</u>	<u>Educational Improvement Organizations</u>	<u>Pre-Kindergarten Scholarship Organizations</u>
FY 2001-02	115	133	NA
FY 2002-03	140	190	NA
FY 2003-04	158	203	NA
FY 2004-05	172	254	52
FY 2005-06	192	330	85
FY 2006-07	203	424	105
FY 2007-08	220	464	119
FY 2008-09	239	503	136

Source: Data provided by the Department of Community and Economic Development.

Tables 3, 4, and 5 show total contributions made to program participants. In each category, contributions have steadily increased to match the increase in tax credit allocations. There have been four increases in the allocation for tax credits; with increases occurring in FYs 2003-04, 2004-05, 2005-06, and 2007-08.

Table 3

Number of Contributions, the Amount of Contributions and the Amount of Tax Credits Awarded to Businesses for Contributing to Scholarship Organizations			
<u>Fiscal Year</u>	<u>Number of Contributions Made to Scholarship Organizations</u>	<u>Total Contributions Made to Scholarship Organizations</u>	<u>Total Credits Awarded to Businesses</u>
FY 2001-02 ...	1,057	\$19,066,825	\$16,929,332
FY 2002-03 ...	1,345	22,207,444	19,857,126
FY 2003-04 ...	1,721	28,434,178	25,202,568
FY 2004-05 ...	1,649	29,342,885	26,160,360
FY 2005-06 ...	1,743	32,569,421	28,954,734
FY 2006-07 ...	2,470	40,155,095	35,876,462
FY 2007-08 ...	3,456	48,709,293	43,530,565
FY 2008-09 ...	2,587	41,949,667	37,098,673

Source: Data provided by the Department of Community and Economic Development.

Table 4

Number of Contributions, the Amount of Contributions and the Amount of Tax Credits Awarded to Businesses for Contributing to Educational Improvement Organizations			
<u>Fiscal Year</u>	<u>Number of Contributions Made to Educational Improvement Organizations</u>	<u>Total Contributions Made to Educational Improvement Organizations</u>	<u>Total Credits Awarded to Businesses</u>
FY 2001-02 ...	657	\$10,487,622	\$ 9,095,670
FY 2002-03 ...	737	11,121,404	9,844,476
FY 2003-04 ...	1,152	15,092,106	12,999,322
FY 2004-05 ...	1,101	14,739,169	13,064,188
FY 2005-06 ...	1,206	16,624,733	14,565,087
FY 2006-07 ...	1,605	20,693,914	17,964,374
FY 2007-08 ...	2,280	25,082,358	22,317,368
FY 2008-09 ...	2,225	25,156,944	21,833,491

Source: Data provided by the Department of Community and Economic Development.

Table 5

Number of Contributions, the Amount of Contributions and the Amount of Tax Credits Awarded to Businesses for Contributing to Pre-Kindergarten Scholarship Organizations

<u>Fiscal Year</u>	<u>Number of Contributions Made to Scholarship Organizations</u>	<u>Total Contributions Made to Scholarship Organizations</u>	<u>Total Credits Awarded to Businesses</u>
FY 2003-04 ...	176	\$3,023,258	\$2,865,996
FY 2004-05 ...	321	5,389,543	4,968,629
FY 2005-06 ...	358	5,379,055	4,999,200
FY 2006-07 ...	609	7,519,133	6,963,218
FY 2007-08 ...	603	8,370,313	7,731,606

Source: Data provided by the Department of Community and Economic Development.

Qualification and Application

Although the Department of Revenue issues the EITC tax credits, the qualification, application and monitoring processes are administered by DCED. The qualifications of the educational organizations—the SOs, PKOs and EIOs—to whom businesses may make tax credit qualifying contributions are statutorily defined as:

- A “scholarship organization” is a nonprofit entity which: (1) is exempt from Federal taxation under section 501(c)(3) of the Internal Revenue Code; and (2) contributes at least 80 percent of its annual cash receipts to a scholarship program by expending or otherwise irrevocably encumbering those funds for distribution during the current or next fiscal year of the organization.
- An “educational improvement organization” is a nonprofit entity which: (1) is exempt from Federal taxation under section 501(c)(3) of the Internal Revenue Code; and (2) contributes at least 80 percent of its annual receipts as grants to a public school for innovative educational programs.
- A “pre-kindergarten scholarship organization” is a nonprofit entity which: (1) either is exempt from Federal taxation under section 501(c)(3) of the Internal Revenue Code or is operated as a separate segregated fund by a scholarship organization that has been qualified under section 2003-B; and (2) contributes at least 80 percent of its annual cash receipts to a pre-kindergarten scholarship program by expending or otherwise irrevocably encumbering those funds for distribution during the current or next fiscal year of the organization.

In addition to their initial application in which organizations submit proof of their 501(c)(3) status and describe their scholarship program(s) or innovative educational program(s), whichever is applicable, the organizations must also report annually to

DCED on the results of their programs, including dollar amounts collected and dollar amounts spent/encumbered.

The statute dictates that SOs and PKSOs must demonstrate that they have an application and review process for eligible students, with eligibility defined as being from a family that has verified family income of not more than \$50,000, with an additional allowance of \$10,000 per dependent in the family. Scholarship organizations have a great deal of flexibility under Act 2001-4 to establish their own criteria in choosing which families receive scholarships, so long as the family income guidelines are met. Businesses may request that their donations be used to fund scholarships to a specific school, but scholarship organizations cannot limit their scholarships to only one school.²

EIOs are required to provide innovative educational programs. An innovative educational program is defined as “an advanced academic or similar program that is not part of the regular academic program of a public school but that enhances the curriculum or academic program of the public school.” DCED counsels applicants that to be approved, a program must be 1) innovative, i.e., beyond the normal offerings of a public school, 2) add value to the curriculum of a public school and 3) be advanced academic, i.e., not general, remedial, counseling, motivation, or any other non-academic programming. If a program meets all three requirements, it is approved as an innovative educational program. An EIO may submit multiple programs for DCED review/approval.

Over 500 EIOs have been approved by DCED, and many different kinds of organizations are represented as EIOs throughout Pennsylvania. Over 100 EIOs are local education foundations that are directly associated with school districts. The remainder is a diverse mix of organizations that include arts councils and artistic organizations; museums and science centers; symphonies and choruses; community and youth organizations; zoos; libraries; and various others. EITC organizations are not prohibited from serving in multiple roles concurrently, and 71 organizations function as both PKSOs and SOs. In addition, there is a group of participants that function as SOs or PKSOs and EIOs and a group that functions as all three (SOs, PKSOs and EIOs).

In order to receive an EITC, business donors must apply to DCED every year for the tax credit and must follow up with their donation to a “DCED approved” EITC organization within 60 days of approval from DCED.

Several other states (e.g., Arizona, Florida, Georgia, Iowa, and Rhode Island) have tax credit programs similar to the Commonwealth’s EITC program; however, Pennsylvania appears to be the only state currently with an EIO component.

²DCED considers an upper and lower school to be two different schools, so long as the schools have separate administrative offices.

Preliminary Findings

Our preliminary findings regarding the Educational Improvement Organization program and the Scholarship/Pre-K Scholarship Organization program are shown below.

1. Educational Improvement Organizations (EIOs) are providing programs that would not appear to qualify as eligible programs under the EITC statute. The Educational Improvement Tax Credit Act allows businesses to obtain tax credits for contributions made to approved EIOs that provide an “innovative education program” to children in public schools. The act defines an innovative educational program as “an advanced academic or similar program that is not a part of a school districts regular academic program, but that enhances the curriculum or academic program of the public school.” The act further specifies that “the department [DCED] in consultation with the Department of Education shall develop guidelines to determine the eligibility of an innovative educational program.”

DCED has not developed the required guidelines, and we found that DCED has approved many programs that would not appear to meet the test of “an advanced academic or similar program”, and they are provided outside of the public school setting. Examples of such programs include museums, zoos, aviaries, theaters, folk crafts, sports camps, and life skills and mentoring programs for underprivileged students. Although these EIOs are required by DCED to utilize EITC contributions to offer innovative programs to public school children only, it appears that often these programs are little more than the typical tours and programs routinely offered to the public.

When asked about how these programs met the test of “an advanced academic or similar program”, DCED officials provided us with the unofficial criteria they reportedly use to determine program eligibility. The criteria, however, are vague and include several exceptions for “workforce development, curriculum replacement, and alternative education” programs which are questionable given the statutory definition of an innovative educational program.

Tentative recommendation: DCED should work with the Department of Education to develop the required guidelines, in compliance with the language contained in the EITC statute, regarding what constitutes an allowable educational improvement program.

2. DCED has not defined what constitutes an eligible program expense for EIO programs, so we could not determine if the EIOs are meeting the statutory requirement that 80 percent of their donations be spent on programming. The Educational Improvement Tax Credit Act requires that EIOs spend at least 80 percent of the donations they receive on programs for public schools. The remaining 20

percent is presumably available to cover the EIO's administrative and other expenses. As a condition for remaining in the program, EIOs must annually submit to DCED a year-end monitoring report that includes, among other information, how much they received in contributions from businesses earning EITCs, and of that amount, how much was spent on "DCED approved programs." DCED uses these reports to determine if a program participant meets the 80/20 test. However, DCED has not defined what expenditures are allowed to be included as a program expense, so program participants are largely self-defining what is deemed allowable.

Tentative recommendation: DCED should define, with examples, what types of expenses are allowable/not allowable as program expenses. Without such guidance, the financial information being reported has little meaning or usefulness. We also recommend that DCED identify relevant subcategories of expenses (e.g., supplies and materials, equipment, salaries, rent, etc.) for participants to use as a way to better assess the reasonableness of the information reported in the year-end monitoring report. Pennsylvania EIO organizations that receive more than \$25,000 in gross contributions are required to register with the Pennsylvania Bureau of Charitable Organizations and submit certain financial statements (see 5. below), so this level of information should be readily available for at least most EIOs.

3. The EITC program is an almost entirely paper-based operation, which creates inefficiencies in program administration. Although many Commonwealth programs have been converted to electronic filings, the EITC program remains almost an entirely paper-based operation. For example, while initial and renewal applications and the year-end monitoring report forms are all available online, they must be filled out and submitted on paper. To administer this program, DCED routinely corresponds, through traditional methods, with over 3000 program participants and business donors not once, but several times per year, every year. So the sheer volume of paperwork involved in receiving, sorting, reviewing, acting on, and filing all of the required documents is significant. Finally, having all of the participants' information online should make it easier to obtain a chronological, comprehensive picture of a participant's involvement in the program, thereby making monitoring an easier task.

Tentative recommendation: We recommend DCED begin the process of converting the EITC program into electronic files, complete with electronic applications and reports that program participants can complete and submit online. After the conversion is completed, this should save a significant amount of time in accessing files and permit electronic flagging of missing information, such as overdue year-end reports or missing school superintendent letters.³ It would also give DCED an improved ability to monitor and analyze the program using computer-generated statistics and reports.

³EIOs are required to obtain letters of support from superintendents in the school districts they propose to serve; we found several instances in which such letters were in not the EIO's file.

4. Educational Improvement Tax Credit program participants are permitted to retain 20 percent of the donations they receive for non program purposes, which appears to be a high percentage, particularly for large, established organizations.

The Educational Improvement Tax Credit Act requires that EIOs, SOs and PKSOs contribute at least 80 percent of their receipts to a scholarship program or utilize them for innovative educational programs, whichever is applicable. The act is silent on how the program participants can spend the remaining 20 percent. In discussing this provision with persons involved in the original legislation, it appears that the 20 percent figure was deemed reasonable, considering that it was a new program and that participants were likely to incur administrative startup costs, at least during the initial years of the program.

However, our survey found that many EIOs, SOs and PKSOs typically contribute far more than 80 percent to scholarships and programming. In fact, we found that the average amount of contributions used for scholarships and/or programming averaged approximately 94 percent statewide, with several participants contributing 100 percent of their donations for scholarships or direct programming. Conversely, we found others that routinely only contribute the minimum (80 percent) amount. DCED staff confirms our findings and reports that 62 percent of current program participants are using 100 percent of their donations for direct program purposes, with only about 5 percent contributing the minimum amount allowed by statute (80 percent).

Allowable administrative costs for publicly funded programs vary from program to program, but often are limited to between 10 percent and 15 percent of total program costs. Our review of nine tax credit programs in other states found that five have a requirement that at least 90 percent of donations be utilized for scholarship purposes, and one had a requirement that 97 percent of donations be utilized for scholarship purposes.

Tentative recommendation: We recommend that the EITC statute be amended to increase the percentage of donations that must go for scholarships or direct programming purposes from 80 percent to 90 percent. If this is deemed too onerous for small or start up organizations, whose administrative costs might be greater than those of larger, established organizations, thought should be given to enacting a sliding scale, where the amount required to go to scholarships or programs increases as the amount of donations collected increases.

5. Program participants are required by statute to be 501 (c)(3) organizations, which provides certain financial assurances. The EITC act requires that scholarship, pre-K scholarship and educational improvement organizations provide proof that they are exempt from taxation under section 501(c)(3) of the Internal Revenue Code. Additionally, under Commonwealth law, scholarship and educational improvement organizations that solicit more than \$25,000 in contributions must register annually with the Bureau of Charitable Organizations and, depending on the

level of contributions, must submit either an internally prepared, compiled, reviewed, or audited financial statement⁴. The Bureau of Charitable Organizations further requires that registered organizations include a signed copy of their organization's federal IRS 990 Return with their registration application.

Although the financial information provided in these documents may not be in a form ideally suited to monitoring the EITC program, BCO does require, at least in the case of the larger organizations (those receiving contributions in excess of \$50,000), that the financial information be prepared by a licensed public or certified public accountant and in accordance with appropriate professional standards. These documents are then available to the public, including businesses wishing to contribute under this program.

6. Most scholarships are being awarded to families with household incomes well below the statutory maximum of \$50,000. The EITC Act requires that students receiving an EITC scholarship be “a member of a household with an annual household income of not more than \$50,000. An income allowance of \$10,000 shall be allowed for each eligible student and dependent member of the household.”⁵

According to data provided by DCED, the average annual income per family participating in the scholarship program is \$29,000, or 48 percent of the maximum allowed for a family with one child in the scholarship program. Our survey of program participants confirmed similar findings. Therefore, the current income limitations imposed by the statute appear to be sufficient to enable all of the tax credits to be fully utilized every year.

⁴Certain organizations, such as religious organizations and educational foundations (which are directly responsible to educational institutions), are exempt from these requirements.

⁵Act 48 of 2003, Section 29.

III. Appendices

APPENDIX A

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE RESOLUTION

No. 20

Session of
2009

INTRODUCED BY PIPPY, FERLO, FONTANA, WOZNIAK, ALLOWAY, STOUT,
FOLMER, ORIE, RAFFERTY, LEACH, BROWNE, O'PAKE, WAUGH,
SCARNATI AND EARLL, FEBRUARY 6, 2009

SENATOR BROWNE, FINANCE, AS AMENDED, FEBRUARY 10, 2009

A RESOLUTION

Directing the Legislative Budget and Finance Committee to determine the impact of Pennsylvania's tax credit programs on the Commonwealth's economy, job market and State and local tax revenues.

WHEREAS, The Commonwealth of Pennsylvania has enacted at least 18 different tax credit programs that apply to businesses and other taxpayers; and

WHEREAS, These tax credit programs vary in size, scope and purpose; and

WHEREAS, Taken together, the Commonwealth's tax credit programs total approximately \$350 million annually; and

WHEREAS, Information on the effectiveness of the Commonwealth's tax credit programs in achieving their respective goals and objectives is important information for the General Assembly to consider; therefore be it

RESOLVED, That the Legislative Budget and Finance Committee conduct a study to determine the effect of the Commonwealth's tax credit programs on the Commonwealth's economy, job market and State and local tax revenues; and be it further

Appendix A (Continued)

RESOLVED, That the Legislative Budget and Finance Committee study include an assessment of the:

- (1) neighborhood assistance programs (Article XIX-A of the Tax Reform Code of 1971);
- (2) employment incentive payments (Article XIX-A of the Tax Reform Code of 1971);
- (3) Homeowner's Emergency Mortgage Assistance Fund (Article IV-C of the Housing Finance Agency Law);
- (4) job creation tax credit (Article XVIII-B of the Tax Reform Code of 1971);
- (5) research and development tax credit (Article XVII-B of the Tax Reform Code of 1971);
- (6) keystone opportunity zone (Act 92 of October 6, 1998);
- (7) coal waste removal and ultraclean fuels tax credit (Article XVIII-A of the Tax Reform Code of 1971);
- (8) educational improvement tax credit (Article XX-B of the Public School Code of 1949, as amended);
- (9) keystone innovation zone (Act 12 of February 12, 2004);
- (10) FILM PRODUCTION TAX CREDIT (ARTICLE XVII-C OF THE TAX REFORM CODE OF 1971, AS AMENDED);
- (11) first class cities economic development district (Act 226 of December 1, 2004);
- (12) organ and bone marrow donor tax credit (Act 65 of July 2, 2006);

Appendix A (Continued)

(13) strategic development areas (Act 151 of November 20, 2006);

(14) resource enhancement and protection tax credit (Article XVII-E of the Tax Reform Code of 1971);

(15) life and health insurance guaranty association credit (Article XVII of the Insurance Company Law of 1921);

(16) property and causality guaranty association tax credit (Article IX of the Tax Reform Code of 1971);

(17) emergency tax credit (Article XX of the Tax Reform Code of 1971);

(18) call center credit (Article II of the Tax Reform Code of 1971);

and be it further

RESOLVED, That the Legislative Budget and Finance Committee determine the extent to which each of the above-listed programs have clearly defined goals and objectives and whether the Commonwealth collects the information necessary to assess whether those goals and objectives are being achieved; and be it further

RESOLVED, That the Legislative Budget and Finance Committee report all findings to the Senate no later than one year from the passage of this resolution.

APPENDIX B
Response to This Report



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
HARRISBURG, PA 17120

OFFICE OF SECRETARY

June 22, 2009

Honorable John R. Pippy
Chairman
Legislative Budget and Finance Committee
Senate of Pennsylvania
168 Main Capitol Building
Harrisburg, PA 17120

Dear Senator Pippy:

Thank you for the opportunity to respond to the Preliminary Report on Pennsylvania's Educational Improvement and Research and Development Tax Credit Programs conducted pursuant to Senate Resolution 2009-20 and House Resolution 2009-127. The Department of Community and Economic Development (DCED) has endeavored to provide all information requested by the Legislative Budget and Finance Committee (LBFC) in a timely and accurate manner. The coordination between LBFC and DCED appeared to be exemplary.

In response to the preliminary findings and tentative recommendations pertaining to the educational improvement tax credit (EITC) program, we offer the following comments:

1. In consultation with the Department of Education, DCED will review and, as appropriate, revise the definition and description of an "innovative educational program" in DCED's existing EITC guidelines.
2. DCED is already developing enhanced guidance, including examples, as to precisely what types of expenses are considered allowable or not allowable as program expenses. A list of allowable administrative expenses will be compiled and included in the revised EITC guidelines.
3. DCED will consider the feasibility of converting the paper application process to an online procedure. Implementation will depend on available resources.

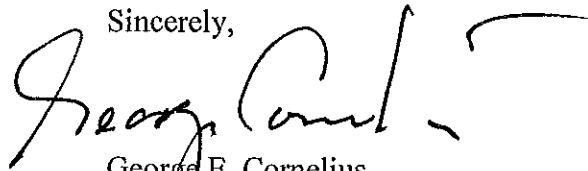
Honorable John R. Pippy
June 22, 2009
Page two

4. The last three findings and recommendations—reducing the amount of expenditures an organization is permitted to spend on non-program activity, comments on 501(c)3s, and the adequacy of the current income levels for families receiving scholarships—are for legislative consideration. DCED looks forward to working with the Legislature should it decide to move forward with any amendments in these or other areas.

There were no findings or recommendations directly related to DCED administration of the research and development tax credit program.

DCED will use both reports to focus on continued improvement in management of these programs.

Sincerely,

A handwritten signature in black ink, appearing to read "George Cornelius", with a long horizontal flourish extending to the right.

George E. Cornelius
Acting Secretary