

Preliminary Report Highlights on the Educational Improvement Tax Credit Program

Senate Resolution 20 and House Resolution 127 call on the LB&FC to assess the effectiveness of 18 tax credit programs. Highlights of this preliminary report (a final report on all the tax credit programs is due by March 2010) on the EITC include:¹

- **The EITC program consists of two distinct programs—the Educational Improvement Organization and the Scholarship/Pre-K Scholarship program—that are very different in purpose and structure.** The EITC program consists of two components: the Educational Improvement Organization (EIO) program, which provides innovative programs for public schools, and the Scholarship (SO) and Pre-K (PKSO) Scholarship program, which offers scholarships for children in low-income families to attend private schools.

With regard to the **EIO program**, we found:

- **Guidelines are needed to define eligible programs.** EIOs are to offer innovative programs, defined as “an advanced academic or similar program.” The statute calls for the DCED to develop guidelines with the PDE to better define these terms, but the guidelines were never developed. We found examples of approved EIO programs (e.g., museums, zoos, folk crafts, sports camps, and life skills and mentoring programs) that do not appear to be of an advanced academic nature. *Tentative Recommendation:* DCED and PDE develop the required guidelines to better define eligible programs.
- **DCED has not defined what constitutes an eligible EIO program expense.** The EITC statute requires that 80% of an EIO’s donations be spent on programming. Because DCED has not defined what constitutes an eligible program expense, we could not verify compliance with this requirement. *Tentative Rec.:* DCED define eligible program expenses.

With regard to the **SO/PKSO program**, we found:

- **DECD has approved 239 SOs and 136 PKSOs, which together awarded \$50.3 million in**

scholarships in FY 2008-09. This \$50.3 million came from contributions made by 3,190 businesses, which in turn received \$44.8 million in tax credits.

- **Most scholarships are being awarded to low-income families with household incomes well below the statutory maximum.** The average annual income for families participating in the scholarship program is \$29,000, well below the statutory maximum of \$50,000 (plus \$10,000 per dependent child.)

The report also contains two findings that pertain to both the EIO and SO/PKSO programs:

- **The EITC program is an almost entirely paper-based operation, which creates inefficiencies in program administration.** *Tentative Rec.:* DCED work to convert the program to electronic files and on-line applications.
- **EITC organizations are permitted to retain 20% of the donations they receive for non-program purposes.** Although only about 5% of EITC organizations retain the full 20%, the amount allowed to be retained appears high, particularly for large, established organizations. *Tentative Rec.:* The EITC statute be amended to increase the amount for scholarships or direct programming purposes from 80% to 90%.
- **EIOs, SOs, and PKSOs are required to be 501(c)(3) organizations, which provides certain financial assurances.** In addition to the financial reports required by DCED, 501(c)(3)s that solicit contributions in excess of \$50,000, unless otherwise exempt, are required to submit independently prepared financial statements to the Bureau of Charitable Organizations. These documents are available to the public.

¹This is a preliminary report, and as such does not include all the findings and information we anticipate including in the final report. These additional findings and information may be material to a reader’s conclusions regarding this program.