New Hampshire Fiscal Policy Institute

Testimony of Jeff McLynch,
Executive Director, New Hampshire Fiscal Policy Institute,
Before the House Committee on Ways & Means
Regarding HB 1607
January 23, 2012

Chairman Stepanek, Representative Almy, Members of the Committee, thank you for the opportunity to appear before you this afternoon. My name is Jeff McLynch and I am the Executive Director of the New Hampshire Fiscal Policy Institute (NHFPI), an independent, non-partisan organization dedicated to exploring, developing, and promoting public policies that foster economic opportunity and prosperity for all New Hampshire residents, with an emphasis on low- and moderate-income families and individuals.

I am here today to urge you to oppose HB 1607, a bill to create an education tax credit as part of New Hampshire's Business Profits Tax (BPT).

HB 1607 would be costly for state officials to implement and would divert business tax revenue from public services to private interests. In particular, state aid to public schools would likely suffer, even though there is little evidence that students receiving subsidies to attend private school do better academically than their public school peers.

More specifically, HB 1607:

- **Would lead to a sizable reduction in funding for public services generally and likely for public schools in particular**

  As you know, the aim of HB 1607 is to create a new credit as part of the Business Profits Tax for contributions companies make to private scholarship organizations. While it is unclear how many students may receive tuition subsidies from such organizations, the bill does stipulate that no more than $15 million in tax credits may be granted in fiscal year 2013, the first year of the program.

  Given the current fiscal climate in New Hampshire, this means that the state will almost certainly have to reduce spending on a dollar-for-dollar basis, up to the maximum amount of credits granted, to keep the budget in balance. At the time the fiscal year 2012-2013 budget was adopted, the Office of the Legislative Budget Assistant's Surplus Statement showed a Revenue Stabilization Balance of $11 million at the end of the biennium, contingent upon the receipt of $10 million in proceeds from the sale of property at the Lakes Region Facility. Given that finding, as well as the disappointing trend in revenue collections through December of last year, it seems unlikely that surplus funds alone could compensate for the revenue loss associated with the new credit.

HB 1607 does not specify any spending reductions, but companion legislation in the Senate, SB 372, does provide that, should a student leave a public school to attend a private institution as a result of a tuition subsidy received under the program, the school district he or she previously attended will lose the adequacy aid associated with his or her attendance.

However, since a large and growing share of the tuition subsidies distributed under the program may go to students who never attended a public school, this provision may not be sufficient to keep the state budget in balance over time.

What's more, the revenue loss associated with HB 1607 and, by extension, the spending cuts it would force, may grow larger over time. The bill would allow the maximum amount of credits granted to rise by 25 percent in any fiscal year in which the amount of contributions made to scholarship organizations in the prior year exceeds 90 percent of the total tax credits issued. Consequently, depending upon the level of contributions to scholarship organizations, the state could see annual BPT revenue fall by $20 million or more within five years time.

- **Would divert scarce public resources to families that already have the financial ability to enroll their children in private schools**

In its current form, HB 1607 would allow students currently attending private schools or receiving instruction in their homes to receive half of all tuition subsidies issued in the first year of the program. More importantly, the bill would gradually increase that allotment, so that by 2017, it would permit every tuition subsidy for which a corresponding tax credit is issued to flow to students already attending private schools or who never attended a public school in New Hampshire.

Moreover, HB 1607 mandates that each scholarship organization provide an average tuition subsidy of $2,500 per year. This sum is well below the average cost of attending private school in New Hampshire. Information compiled by this past fall's education tax credit study committee fall indicates that the average cost of attending a religious elementary school in New Hampshire was roughly $5,200 annually and the average cost of attending a religious secondary school was nearly $7,700. For secular elementary and secondary schools, the average cost of attendance was higher still: $15,700 and $24,700 respectively.[i]

Many low and moderate income families will remain unable to pay these tuition bills even with a $2,500 subsidy and those families that can are less likely to need the subsidy to begin with.

Thus, it is likely that HB 1607 will, in time, largely subsidize decisions that many families would already have made without the tax credit and, by extension, direct millions of dollars in public funds to families that already have sufficient means to send their children to private schools. Indeed, data from the 2010 American Community Survey indicate that the median income for New Hampshire families with children attending private schools is over $97,200, 25 percent higher than the median income for families with children attending public schools.[ii]

- **Ignores research that finds little meaningful difference in performance between students who receive subsidies to attend private schools and their counterparts who remain in public schools.**

  In July 2011, the Center on Education Policy (CEP) published a major review of a wide variety of studies produced over the past decade on the impact of publicly-funded voucher programs on student achievement. Entitled *Keeping Informed about School Vouchers*, it concluded that, based on assessments of programs in Cleveland, Milwaukee, Washington, DC and elsewhere, there is "no clear advantage in academic achievement for students attending private schools with vouchers."[iii] CEP further notes that, "while some studies have found limited test score gains for voucher students in certain subject areas or grade levels, these findings are inconsistent among studies, and the gains are either not statistically significant, not clearly caused by vouchers, or not sustained in the long run."[iv]

  In light of such research, a major diversion of public funds to private schools is, at best, difficult to justify, particularly when such a diversion could lead to a loss of assistance to public schools in excess of any savings they may realize from a drop in attendance.

- **Would impose new and substantial responsibilities upon the Department of Revenue Administration (DRA) at a time when the Department already faces serious staffing challenges.**

  Under the provisions of HB 1607, DRA would be charged with, among other duties:

  - Developing, verifying, and updating the list of scholarship organizations that could receive and distribute funds eligible for the tax credit;
  - Notifying the relevant scholarship organizations in those instances in which students receive subsidies from multiple organizations;
  - Monitoring and investigating potential violations of the statutes and regulations governing the tax credit, and;
  - Compiling quarterly reports on the number of students applying for scholarships eligible for the tax credit, the amount of subsidy they receive, and the schools they attend.

  As the aggregate amount of tax credits that businesses could receive would be capped at a prescribed dollar amount each year, the Department would presumably also be required to determine whether that cap had been reached and, if so, to calculate the amount of credit each business could claim. Of note, HB 1607 fails to detail how the Department would allocate credits under such circumstances.

Accordingly, the fiscal note accompanying HB 1607 states that the bill "would place considerable administrative, auditing, and information technology related burdens upon the Department that could not be implemented at the current level of staffing and funding." Yet, as written, the bill provides no additional resources to the Department to carry out these duties. What's more, the fiscal year 2012-2013 budget approved by the Legislature last June reduces funding for the Department by close to $2.5 million. As result, the Department has laid off 14 of its 44 auditors in the past six months, a move that will likely reduce the amount of audit revenue the state collects.

In sum, I urge the Committee to recommend HB 1607 inexpedient to legislate, as it would fail to improve education for New Hampshire's children, but would require substantial cuts in public services and create new and costly oversight responsibilities for the Department of Revenue.

Once more, I thank you for the opportunity to testify and would be more than happy to answer any questions you may have.

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[i] Committee to Study the Implementation of an Education Tax Credit Plan in New Hampshire, Meeting Report, September 21, 2011, p. 1

[ii] Economic Policy Institute analysis of data from the 2010 American Community Survey, Minnesota Population Center IPUMS extract

[iii] Center on Education Policy, *Keeping Informed about School Vouchers: A Review of Major Developments and Research*, Washington, DC, July 2011, p. 3.

[iv] *Ibid.*, p. 9.