The Education Tax Credit Program: Fact vs. Fiction

March 27, 2019

New Hampshire's Education Tax Credit Program is under fire from legislators who want to kill the program or reduce its funding. Unfortunately, much of the rhetoric accompanying these attacks is factually incorrect. Inaccurate and misleading statements have been used in testimony at legislative hearings, in public debate, and on social media in an attempt to discredit the program. This briefing paper corrects many of those misstatements and explains what the program is, who is eligible, and what little financial impact it has.

What is the Education Tax Credit Program?

Through the Education Tax Credit Program, businesses and individuals can claim a state tax credit for donations made to qualifying organizations that offer educational scholarships to lower-income children.

The Education Tax Credit Scholarship Program began offering credits in 2013. Through the program, businesses and individuals may take deductions against the business enterprise and business profits taxes as well as the interest and dividends tax.

Some critics have asserted that the families participating in this program are stereotypically wealthy private-school families. In fact, the program is limited by law to families with incomes of no more than 300 percent of the federal poverty level and to students enrolled in public schools. Private-school students are not eligible. Data collected by the Department of Revenue Administration show that most scholarship recipients have household incomes significantly lower than the maximum allowed.

In 2017, the most recent program year for which the state has published data, 73 percent of newly enrolled scholarship students and 80 percent of returning students in the largest of the two scholarship programs, run by the Children's Scholarship Fund, qualified for the federal free or reduced-price lunch program. That program is limited to families earning no more than 185 percent of the federal poverty level, or $47,638 for a family of four.

In the smaller scholarship program, run by the Giving and Going Alliance, 44 percent of new scholarship recipients were eligible for the federal lunch program, as were 50 percent of returning students.

To claim a scholarship, families with incomes of no more than 300 percent of the federal poverty level ($73,800 for a family of four) may apply to approved scholarship organizations. Scholarships help cover the cost of education purchased outside of the traditional public school system. The scholarships awarded must average no more than $2,762 in the current program year, per Department of Revenue Administration rules.

Tax credits are capped at 85 percent of the value of the donation. A $1,000 donation to a scholarship program, for instance, would earn the donor an $850 credit. The credit is one of several the state offers to encourage private investment in public goods.

Education Tax Credits and state education aid

House Bill 632, sponsored by Rep. Joelle Martin, D-Milford, would eliminate the Education Tax Credit Program. In testimony before the House Ways and Means Committee on Feb. 5, 2019, Rep. Martin asserted that the program reduces state education aid and helps to drive up property tax rates. The anecdotes offered in support of these claims do not withstand scrutiny.

Donations to scholarship organizations are capped at $6 million for the 2018-2019 program year, with a maximum available tax credit of 5.1 million. Some legislators, including the sponsor of HB 632, have mistaken these legal maximums for an appropriation from the state budget.

“By reversing this unjust carveout, $6 million currently set aside for the education tax credit program would be appropriated fairly, taking into account all Granite Staters’ needs,” Rep. Martin said in her testimony before the House Ways and Means Committee. This statement does not accurately represent the program.

The Department of Revenue Administration’s Tax Expenditure and Potential Liability Report for fiscal year 2018 lists the total tax credits awarded under the Education Tax Credit Program since its start in 2013. The tax credits through FY 2018 have totaled $797,000. (The Department of Revenue Administration switched from calendar-year to fiscal-year reporting in 2014. It lists no Education Tax Credits claimed in its 2013 report, but notes that the 2014 figure includes the last six months of 2013.)

Education Scholarship Tax Credits Claimed
2014-2018

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
$20,000	$115,000	$93,000	$188,000	$381,000

The Department of Revenue Administration’s latest report on the program shows that tax credits of $1,421,254 have been claimed through March 8 of this year.

Even with this year’s growth in the program, the total tax credits claimed since inception would not get even halfway to the $6 million the repeal bill’s sponsor claimed the program cost the state annually.

The fact is that the program has encouraged only modest donations in its short existence. Of the state’s five tax credits that were designed to change taxpayer behavior, the Education Tax

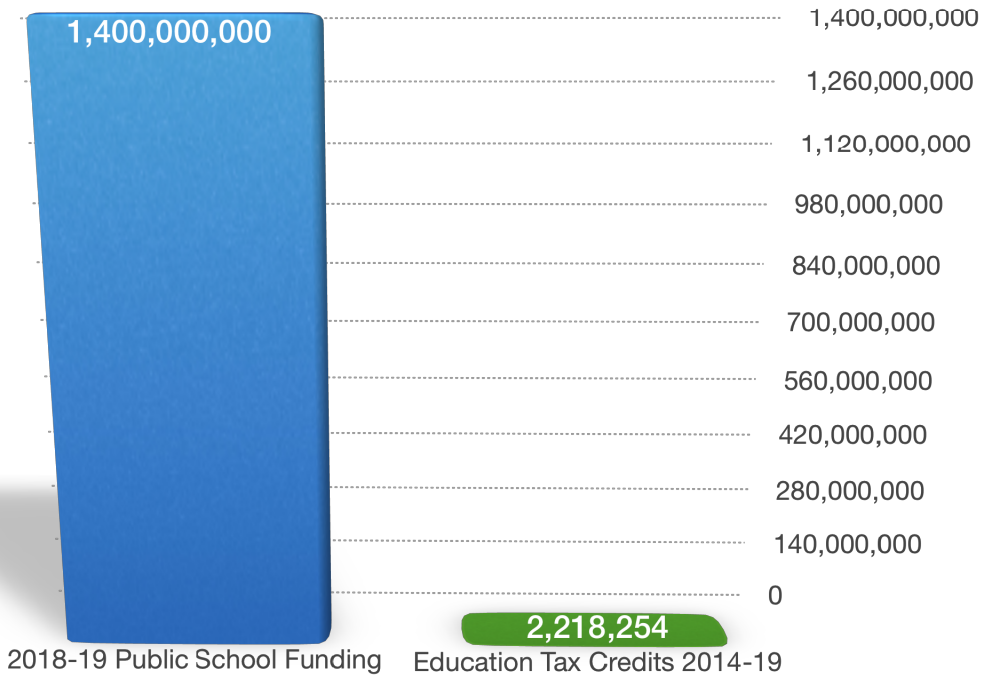
Credit is the second-smallest. And unlike other tax credits, this one has offsets that reduce public tax burdens whenever a student uses a scholarship to attend a non-public school.

State Tax Credits
Fiscal Year 2018

Research and Development Tax Credit	$5,329,000
Community Development Finance Authority Investment Tax Credit:	$3,732,000
Economic Revitalization Zone Tax Credit:	$938,000
Education Tax Credit	$381,000
Coos County Job Creation Tax Credit	$114,000

As small as this program is, there is no evidence that its tax credits have reduced state aid to public schools at all, much less at a level that would trigger property tax increases.

Assuming that a) the tax credits were not claimed, and b) businesses and individuals paid those moneys in state taxes rather than seeking other tax reduction options, the money would go into the general fund to be allocated by legislators. It is not earmarked for education. Only 24 percent of state spending goes to education, indicating that legislators are three times as likely to spend extra revenues on other priorities. Even if spent on education, the money claimed in these tax credits would represent a tiny fraction of the $1.4 billion the state spent on education in the current fiscal year.



If every dollar claimed through an Education Tax Credit since the program began were to be distributed on a per-student basis today, it would come to only $12.66 per student. New Hampshire's total cost per student is $18,991, data from the Department of Education's Office of Student Finance show.

In the Senate, they are aware that the program's tax credits are capped at $5.1 million and that the cap is not yet reached. Senate Bill 318 is designed to prevent the cap from ever being reached. It would raid the scholarship program and divert 40 percent of the maximum allowed credits to public schools, which already receive $1.4 billion in public funding.

SB 318 would eliminate 738 scholarships, at the current average of $2,762 per scholarship. Reserving $2,040,000 of the scholarship program's credits for public schools would, by design, prevent hundreds of lower-income students from accessing alternative educational opportunities that are available to families of greater financial means.

Property taxes

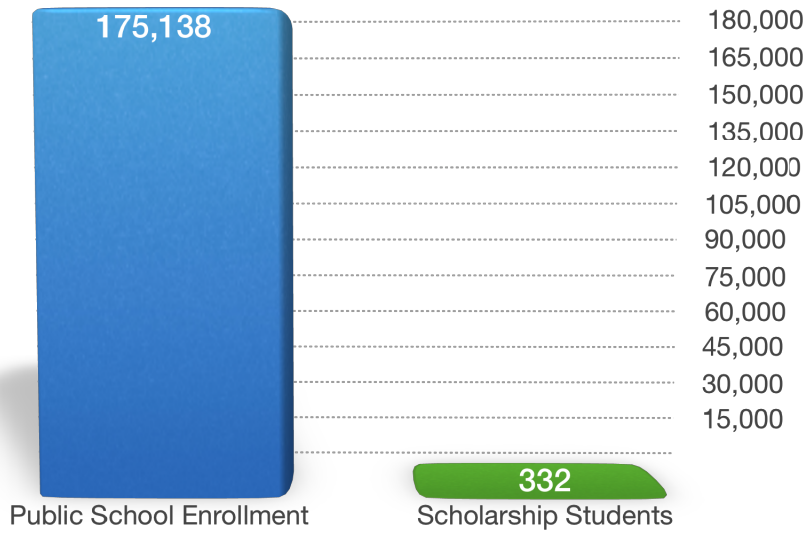
In her February 5 testimony, Rep. Martin said the Education Tax Credit Program contributed to rising property taxes. She cited her town of Milford's property tax increases as a reason for eliminating the program. "In my town of Milford, property tax rates have gone up over 50 percent in ten years," she said.

"Special carveouts like the Education Tax Credit Program that divert dollars headed to the state's General Fund and Education Trust Fund put even more pressure on our school budgets and our property taxes," she said.

Milford's property tax rate has risen rapidly in the last decade. From 2009-2018 Milford's overall property tax rate rose by 53 percent, from $19.21 per $1,000 of valuation to $29.23. The school tax rate rose by 66 percent, from $11.63 to $19.37.

But the Education Tax Credit Program was not a factor in this increase. Since the program began operations, only five Milford students have participated out of an average public school enrollment of more than 2,200 students. In the 2017 program year (the latest for which we have complete data), three Milford students received a tax credit scholarship. Milford's student enrollment that year was 2,259.

Like most New Hampshire school districts, Milford has experienced an enrollment decline, but not because of the scholarship tax credit. From 2009-2018, Milford's enrollment fell by 268 students, or 10.6 percent. The statewide average decline was 10.1 percent. This decline cannot be attributed to the Education Tax Credit Program. In the 2017 program year, 332 students statewide received scholarships vs. a total public school enrollment (measured by Average Daily Membership) of 175,138.

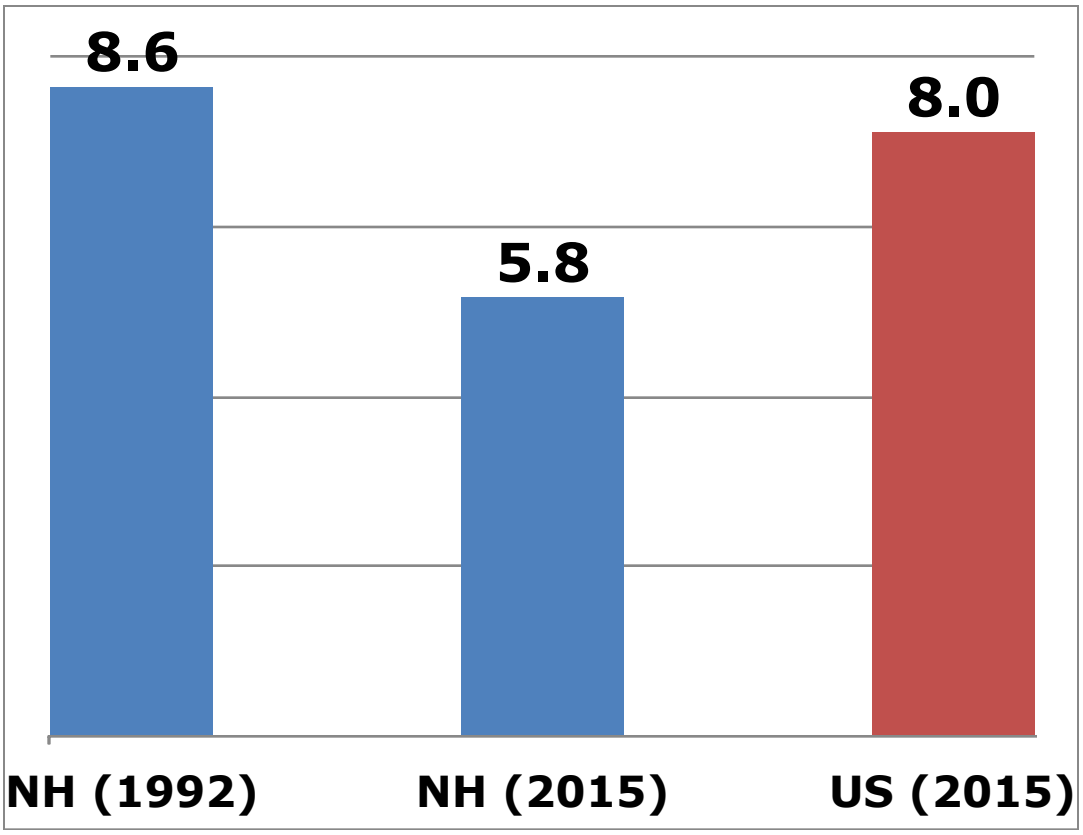


The steady drop in student populations long predated the creation of the scholarship program and is caused by a prolonged decrease in the population of school-age children. Students accepting Education Tax Credit scholarships represent a tiny fraction of that decline. From the 2007-08 school year to the 2017-18 school year, public school attendance in New Hampshire fell by 19,663 students. Eliminating the Education Tax Credit Program, accessed by only a few hundred students statewide, would do nothing to halt this long-term trend.

Rising property taxes are often blamed on this enrollment drop, but large drops in student populations ought to save districts money. As we noted in a school staffing study last year, total per-pupil spending in 2015 was $16,205, with $5,417 of that coming from the state. Yet the median variable cost for schools is $11,716 per student. Those are costs that are not fixed and can be adjusted to account for reductions in revenue. On average, any revenue loss that totals less than $11,716 per student can be absorbed through budget adjustments.

But instead of cutting spending, districts have been increasing spending and adding staff. From 1992-2015, New Hampshire public schools went from 8 students per staff member to 5.8. The national average in 2015 was 8. Most of these new staff members have been non-teaching staff. New Hampshire public schools had on average 19.6 students for every non-teaching staff member in 1992. In 2015 there were 10.8 students for every non-teaching staff member. This was a period in which student enrollment rose slightly. Staffing, however, rose more rapidly than did enrollment.

Student-Staff Ratio, New Hampshire Public Schools 1992 and 2015—compared to Public School National Average in 2015



If legislators should eliminate tax credits that produce large enough reductions in local government revenue to trigger property tax increases, there are more fitting targets than the inconsequential Education Scholarship Tax Credit. And again, the tax credit program saves taxpayer money every time a student chooses a scholarship over enrollment in a public school.

In 2016, 54,790 veterans claimed $26.76 million in property tax credits through the Veterans Tax Credit program. That is more than five times the maximum allowed value of the Education Tax Credit Program. Again using Milford as an example, 484 Milford veterans claimed the veterans' property tax exemption for a total property tax reduction of $159,600 in 2016. That year, only one Milford student received an Education Tax Credit scholarship.

And unlike those other tax credits, students receive the Education Tax Credit only when they forgo a public entitlement guaranteed to them by the New Hampshire Constitution.

Manchester, as the state's largest school district, has seen the largest number of children participate in the Education Tax Credit Program. Yet even there, any financial impact is small, especially when contrasted with the impact of the Veterans Tax Credit.

In Manchester in 2016, 2,797 veterans claimed the Veterans Tax Credit for a total reduction in property tax revenue of $1.2 million. That same year, only 27 students participated in the scholarship program.

The state adequate education grant that year was $3,561. If every scholarship student would have remained in Manchester public schools without the scholarship, then the program's cost to the district was $96,154 — less than 1/10th the cost of the Veterans Tax Credit. An average of 76.5 percent of scholarship students qualify for the federal free or reduced-price lunch program, making them eligible for an additional state grant of $1,780. That would add $37,380 to the cost, for a total of $133,534 — just 11 percent of the value of the Veterans Tax Credit.

In the 2017 program year, 55 Manchester students received scholarships. That would represent a district revenue reduction of $195,869 in base adequacy aid. Including aid for free or reduced-price lunch students would add an additional $71,400.

That total cost of $267,269 represents 0.41 percent of the $64.9 million in state aid Manchester received in 2017 and only 0.15 percent of the district's total recurring spending in 2017. In other words, after losing 55 children to Education Tax Credit scholarships, the district kept 99.39 percent of its state aid and 99.85 percent of its operating budget.

The scholarship program does not represent a significant drain on school district budgets, and therefore is not a significant contributor to rising property tax increases. The fact that opponents are going after this program, and not the Veterans Tax Credit, which does produce significant reductions in local tax revenue, suggests that their goal is not to avoid property tax increases, but to eliminate a program that lets lower-income families send their children to non-public schools.

'State-bound money'

Rep. Martin in her February 5 testimony for HB 632 made two additional presumptions about the program that cannot be verified.

First, she asserted that without the program the claimed tax credits would revert to the state. She further suggested that scholarship students would otherwise attend their local public

schools if the tax credit program did not exist. Rep. Martin called the tax credits awarded through this program “potential revenues,” “state-bound money” and “tax dollars which would otherwise become state revenues.”

This assumes that the business executives and individuals who are motivated to claim tax credits would not seek other opportunities to reduce their tax liabilities.

Likewise, the scholarship program is sought out by families who are highly motivated to find alternatives to their local public schools. The scholarship program is merely one option. Though many participating families do report that the scholarships have allowed them to afford the alternative they most prefer, there is every reason to believe that they would seek other alternatives were the scholarships not available.

Families who are seeking alternatives and cannot afford a private school can send their children to one of the state’s 29 approved charter schools, resort to home schooling, or relocate to another school district. There is no reason to assume that every family would simply give up and send their children to the local public school they are striving to leave. Some would. Some would seek other ways to provide their children with an alternative education.

Private student aid would have the same financial impact on local schools

Rep. Martin suggested that if private schools increased their financial aid offerings, students could obtain scholarships without the negative impact presumed to be associated with the Education Tax Credit Program. But this would have precisely the same effect on local public school budgets that the Education Tax Credit Program has.

If a child leaves a public school for any reason, that child’s allotted portion of state aid is no longer sent to the school. It doesn’t matter if the child receives an Education Tax Credit scholarship or a scholarship offered by a private school. The financial impact on the local public school is exactly the same.

However, because of its eligibility criteria, the state’s Education Tax Credit Program could be more beneficial for local public schools than scholarships offered by private schools. As mentioned on Page 1, the Education Tax Credit Program limits eligibility to families earning no more than 300 percent of the federal poverty level, and most students in the program come from families eligible for the federal school lunch program.

State and national data show that students who are eligible for the federal school lunch program perform significantly worse on the National Assessment of Educational Progress tests than their peers who come from higher-income families. Students who struggle to perform in school require more attention from teachers and more resources. Because the Education Tax Credit Program draws a disproportionately large share of these students, it relieves the public schools of their obligation to educate those eligible students who accept a scholarship, allowing more resources to be dedicated to the students who remain in the public school.

Summary

In sum, the Education Tax Credit Program does not subsidize wealthy families, does not cost $6 million a year, does not draw directly from funds reserved for state education aid, and does not raise property taxes. On the contrary, it saves local school districts money while giving lower-income students a chance to find the educational program that best fits their needs. It is an inexpensive and cost-effective way to invest in educational opportunities for lower-income children whose families believe they are not best served by their local public school.