THE KANSAS CHAMBER
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Testimony before House Education Committee
HB 2457 – Tax credit scholarship program amendments
Mike O'Neal – Kansas Chamber CEO
Feb. 2, 2016
(Testimony in support)

Chairman Highland and members of the Committee

The Kansas Chamber appreciates the opportunity to appear in qualified support of HB 2457, which amends our current tax credit scholarship program. As you know, we have appeared in support of this program since before its passage and applaud the Kansas Legislature's assistance in providing educational options for disadvantaged students. Prior to enactment of this program school choice existed in Kansas but it existed only for those with families who could afford it. Arguably, the greatest need for school choice is on behalf of those students who are, for whatever reason, at-risk of not being able to realize the promise of a meaningful and productive education in their public school.

Our Kansas Chamber Legislative Agenda for 2016 once again contains an Education section, and with regard to this issue our agenda state:

"The Kansas Chamber supports increasing the quality of education for tomorrow's workforce and the efficient use of tax dollars through policies that support efforts to offer parents and students a variety of educational choices regardless of their socio-economic status, and support efforts to create innovative environments designed to maximize the educational experience of children who don't thrive in traditional educational settings."

Members of our organization thrive on competition. It's what makes them better. Public schools should embrace rather than eschew competition. Our members, the ultimate consumers of the educational product in the state, care not whether their workforce is educated in the private or public school systems as long as prospective workers have received an education that prepares them for employment. That means prospects who come with employability skills learned during the educational experience.
Based on data from the Kansas State Department of Education and the Kansas Department of Revenue, the tax credit program made it possible in 2015 for 149 students to qualify for scholarships in the first year of operation. 73 received scholarships. I don't know who those students are or what their families' circumstances are but I suspect this opportunity for them has been transformational. (See attached Jan. 2016 report)

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As we read HB 2457, it appears that the proposed changes would expand the program in multiple ways. First, instead of only at-risk students in a Title 1 school setting, the eligibility criteria would expand to include students whose family income does not exceed 250% of the federal poverty level. We express no opinion on this change other than to say that as a matter of policy, until the program matures and participation is reviewed, you would not want to unnecessarily dilute the eligibility pool until the initial target group has had full opportunity to participate. On the other hand, there is merit in having any student who is disadvantaged or at-risk to be eligible. We leave this policy question to the Committee.

Second, the elimination of the subsection requiring an eligible student to have been enrolled in a public school in the previous school year appears to open eligibility up to private school attendees. We are not sure we are reading this correctly or whether that was the intent. You would want the program to be designed such that a student who went from public school to private school under this act to be able to qualify in the second year of private school attendance but we'd think that you would not make scholarships available in the first instance to a private school attendee, at least with this particular scholarship program.

Next, a proposed change would expand the eligibility of tax credits from corporate-only to all taxpayers, would raise the cap from $10M to $12.5M and would increase the tax credit from 70% to 100%. We applaud the move to offer the credits to all taxpayers. States that have similar programs have varying eligibility rules. Some limit credits to corporations, like Kansas does; some limit credits to individuals and some allow credits to both groups. We support the latter arrangement which helps increase donations and build up the scholarship fund more quickly. (See attached listing of states from NCSL and Cato)

We need to hear more about the thinking with regard to increasing the cap and raising the credit to 100%. On the one hand it's hard not to support the increase but we encourage the Committee to not let the program get out ahead of itself. With the proper balance of caps and eligibility, states can realize a positive fiscal note as the tax credit scholarship program matures. As noted by Cato, to ensure that the tax credits become revenue neutral to positive for a state, policymakers usually limit the size and growth of the scholarship tax credits in various ways. (See state charts in Cato report)

Programs that are just starting will experience negative fiscal notes as the contributions trigger credit in the tax year they are made. For 2015, $108,384 in scholarships were granted (not all scholarships have been finalized for 2015-2016 school year). Contributions were $776,000 with tax credits totaling $543,000. However, as the program matures, the

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numbers will "catch up" as scholarship applications are reviewed and more awards made. Florida found that their program saved $1.44 for every $1.00 of tax credits. Pennsylvania saved $512M a year. Arizona, the oldest program, estimates savings of between $99.8M and $241.5M. (Cato report) These, of course are older programs with higher taxpayer populations, but, on scale, Kansas should benefit as well.

In summary, we continue to fully support the tax credit scholarship program and are encouraged by the first full year's experience. We support expanding the program to include all taxpayers. We support continuing to target students who are at-risk and otherwise disadvantaged in their current school environments. We generally support raising the tax credit limit so long as the fiscal note is manageable while the program ramps up and matures. Sometimes the better part of valor is to expand in increments. Those states who have balanced programs have reaped rewards for targeted students, taxpayers and the state as a whole.

I would be happy to take questions.