

Senate Finance and Taxation Committee
Chairman Jessica Bell
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SB 2288

Chairman Bell and members of the Senate Finance and Taxation Committee, my name is Shane Goettle and I am here today as a lobbyist for EdChoice.

EdChoice is a 501(c)(3) nonprofit, nonpartisan organization whose mission is to advance a K-12 system where all families, regardless of race, origin or family income, are free to choose a learning environment—public or private, near or far, religious or secular—that works best for their children.

SB 2288 represents a policy under which North Dakota taxpayers receive tax credits in return for contributions to registered, nonprofit scholarship granting organizations or SGOs.

SGOs are nonprofit organizations that grant scholarships to eligible students, and donors to the SGOs receive tax credits against certain state taxes. SGOs foster stronger communities by bringing together scholarship families, private schools, and individual and corporate donors to expand educational opportunity. SGOs often have to meet certain reporting requirements or undergo regular audits.

Most states respect the right of these nonprofit SGOs to define their own missions, so long as they grant scholarships to students eligible under the state law. Some SGOs have a religious mission; others support students attending schools with particular pedagogical approaches (e.g., Montessori) or schools in a particular network or region. Many SGOs support students attending any school their parents choose. The vast majority of SGOs prioritize scholarship awards based on the financial need of the applicants, even beyond what the state laws require. Donors have

the freedom to support SGOs whose missions align with their values. SGOs have a plurality of missions that reflect the diversity of our plural society.

In order to provide scholarships, scholarship granting organizations need funds to cover administrative costs such as staff salaries, marketing, printing, and website maintenance. Most states policies allow SGOs to keep up to 10 percent of the tax-credit eligible contributions they receive. You see that in this bill where it requires that at least 90 percent of the funds received by the SGO be delivered as scholarships.

These policies vary considerably in terms of eligibility, testing, and numerous other regulations.

There are currently 18 states that use tax credits similar to the way you see before you today supporting 24 programs. The tax credit values vary from 50 percent to 100 percent of the taxpayer's contribution to an SGO. About half (13) of the 24 programs provide 100% tax credits. Four programs have 75% credit rates. Three of these are Pennsylvania's, which also provides 90% credits to donors who commit to contributions for 2 consecutive years.

Lower credit values are intended to produce greater savings, but it comes at the cost of reducing the incentive to contribute to an SGO.

Since the purpose of the tax credit policies is to expand educational opportunity for as many children as possible, ideally the tax credit value will be as close to 100 percent as possible.

In order to help manage the fiscal impact of a tax credit, policymakers often place caps on the amount of tax credits an individual donor can receive or a cap on the total amount of tax credits available. You see that proposed in this bill as well.

Due to inflation, fixed caps have the effect of reducing the total available funds for scholarships over time. This bill address that issue by raising the fixed cap by 10% in the next tax cycle should the cap be hit. This "escalator clause" increases the total amount of tax credits over time in order to meet rising demand.

Chairman Bell, and members of the committee, I ask for your “do pass” recommendation on this bill.

I would be happy to answer any questions, but then I would also like to introduce Martin Lueken of EdChoice, who is available to testify virtually. Mr. Lueken is the director of the Fiscal Research and Education Center at EdChoice and he can address some of the fiscal aspects of SB 2288.