

**LEGISLATIVE EDUCATION STUDY COMMITTEE  
BILL ANALYSIS**

**Bill Number:** HB 427

**50th Legislature, 1st Session, 2011**

**Tracking Number:** .183707.3

**Short Title:** Equal Opportunity Scholarship Act

**Sponsor(s):** Representative Antonio “Moe” Maestas and Others

**Analyst:** Kevin Force

**Date:** February 24, 2011

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**Bill Summary:**

HB 427 creates new sections of law and amends the *Public School Finance Act* to:

- create the *Equal Opportunity Scholarship Act*;
- provide for tuition scholarship organizations to grant educational scholarships to low-income students to attend certain public and nonpublic schools;
- create income tax and corporate income tax credits for contributions to tuition scholarship organizations; and
- require that the membership and, as a result, the program units be deducted or reduced in the State Equalization Guarantee (SEG, or the Public School Funding Formula) for a public school student that participates in the scholarship program.

A section-by-section summary of HB 427 follows:

**Section 1** cites Section 1 through Section 5 as the “*Equal Opportunity Scholarship Act*” (effective July 1, 2011).

**Section 2** defines certain terms used in the Act, including:

- “eligible student” as:
  - qualifying for the federal reduced-price lunch program;
  - attending a New Mexico public school for the semester prior to first receiving a scholarship under the act; and
  - residing in New Mexico while receiving a scholarship under the act.
- “qualified school” as a public or nonpublic elementary, middle or secondary school located in New Mexico that a parent has chosen; and
- “tuition scholarship organization” as an organization that provides educational scholarships to students attending qualified schools of their parents’ choice that meet the criteria established in the act.

**Section 3** prescribes the requirements for certification as a tuition scholarship organization, including documentation to the Public Education Department (PED) to verify that:

- the organization is exempt from federal income tax under Section 501©(3) of the *Internal Revenue Code of 1986*;
- the scholarships are funded from contributions received by the organization in or prior to the current calendar year; at least 90 percent of contributions are awarded as educational scholarships; and a scholarship award does not exceed 80 percent of the three-year rolling average of the SEG for an eligible student;
- the organization distributes scholarship payments as checks issued to the parent of an eligible student but mailed to the qualified school in which a qualified student is enrolled;
- a scholarship award can be used at any qualified school during the school year and prorated between schools based on the number of days attended at each school;
- criminal background checks of the organization’s employees and board members have been conducted;
- the organization has systems in place that provide financial accountability; and
- the organization is likely to have received donations of \$50,000 or more during a school year.

**Section 4** outlines the duties of a tuition scholarship organization, among them:

- providing PED with the name and previous school district or charter school attended of students awarded a scholarship and;
- assuring that a school participating in the program complies with certain requirements, including:
  - health and safety laws or rules;
  - nondiscrimination in admissions on the basis of race, color, or national origin; and
  - school employee background checks;
- reporting requirements.

**Section 5** includes the administrative duties of PED, including:

- calculating the reductions of amounts in the SEG associated for a student receiving an educational scholarship pursuant to this act.

**Section 6** adds a new section to the *Income Tax Act* (for taxable years beginning on or after January 1, 2012 but before January 1, 2016) to:

- allow taxpayers to take an income tax credit for contributions to a tuition scholarship organization for up to 90 percent of total contributions, but not exceeding 50 percent of a taxpayer’s total income tax liability for a taxable year;
- require that the Taxation and Revenue Department (TRD) develop contribution receipts and determine what may be included in reported tax credits;
- allow contributions or 50 percent or more of a taxpayer’s total income tax liability to be carried over for three consecutive years;
- limit a husband and wife who file separate returns for a taxable year (in which they could have filed jointly) to claim only one-half of the scholarship income tax credit;
- prohibit a taxpayer from claiming the same credit both as an individual contribution credit and a corporate contribution credit; and

- authorize the TRD to disclose the amount of claimed credit to the Revenue Stabilization and Tax Policy Committee of the Legislature.

**Section 7** creates a new section of the *Corporate Income and Franchise Tax Act* (for taxable years beginning on or after January 1, 2012 but before January 1, 2016) to:

- allow a corporate taxpayer to take an income tax credit for contributions to a tuition scholarship organization for up to 90 percent of their total contributions but not exceeding 50 percent of a taxpayer's total tax liability for a taxable year;
- require the TRD to develop contribution receipts and determine what may be included in reported tax credits;
- allow contributions totaling more than 50 percent of a corporate taxpayer's total income tax liability to be carried over for three consecutive years;
- direct the TRD to determine, every three years, whether the corporate tax credit is fulfilling its purpose;
- prohibit a corporate taxpayer from claiming the same credit both as a corporation contribution and as an individual contribution credit; and
- authorize the TRD to disclose the amount of claimed credit to the Revenue Stabilization and Tax Policy Committee of the Legislature.

**Section 8** amends the *Public School Finance Act* in the *Public School Code* to require that the membership and, as a result, the program units be deducted or reduced in the SEG for a public school student that participates in the scholarship programs of the *Equal Opportunity Scholarship Act*.

**Section 9** makes Section 6 and Section 7 effective for the taxable years beginning on or after January 1, 2012 but before January 1, 2016.

**Section 10** makes:

- Section 1 through Section 5 and Section 8 effective on July 1, 2011; and
- Section 6 and Section 7 effective on July 1, 2012.

**Fiscal Impact:**

HB 427 does not contain an appropriation.

**Fiscal Issues:**

While the PED analysis does not indicate a fiscal impact, HB 427 would result in a reduction of funding from the SEG for public schools if an enrolled public school student accepts a scholarship as provided in the act.

**Substantive Issues:**

- In 2009 and 2010, according to the PED analyses of SB 355 (2009), *Nonpublic School Scholarship Tax Credit* (2010), and SB 198, *Scholarship Donation Tax Credit*, (both bills substantially similar to HB 427):

- there was a potential conflict between the bill’s provisions and the Establishment Clause of the United States Constitution, and the anti-donation clauses of the New Mexico Constitution;
  - because the bill allows a taxpayer to take a tax credit even if the taxpayer’s contribution is to a 501(c) (3) charitable organization that primarily supports private religious schools, “the state may find itself indirectly supporting private religious schools,” thus coming into conflict with the Establishment Clause of the First Amendment to the US Constitution, which states, “Congress shall make no law respecting an establishment of religion”;
  - for many years, the standard in deciding so-called “establishment” cases was *Lemon v. Kurtz*, 403 US 602 (1971), where the Supreme Court’s nearly unanimous decision established a three-part test for laws dealing with religious establishment. To be constitutional, a statute must:
    - have a “secular legislative purpose”;
    - have principal effects that neither advance nor inhibit religion; and
    - must not foster “an excessive entanglement with religion”;
  - the language in these bills does not reflect all three prongs of the “*Lemon* test”; and
  - since the *Lemon* decision, the Supreme Court has announced a string of opinions on the constitutionality of state assistance to nonpublic schools, leaving the law in this area less settled.
- Although the PED analyses of similar bills in previous sessions raised those issues, the PED analysis of HB 427 merely notes that:
    - HB 427 may allow more school choices for students, especially to attend nonpublic schools; and
    - the bill does not prohibit schools from discriminating on the basis of religion.

### *US Supreme Court Decisions*

- In *Hibbs v. Winn*, 542 U.S. 88 (2004), despite a provision in the federal *Tax Injunction Act* prohibiting federal courts from restraining the implementation of state tax laws, the Supreme Court asserted the jurisdiction of the federal courts in such cases. At issue was a claim of violation of the Establishment Clause in a suit seeking to enjoin the operation of an Arizona tax law that authorizes an income tax credit for payments to nonprofit “state tuition organizations” that award scholarships to students in private elementary and secondary schools, including those attending religious-based schools. The case did not resolve the main question regarding the constitutionality of the tax credit.
  - In April 2009, in *Winn v. Arizona Christian School Tuition Organization*, the 9<sup>th</sup> Circuit Court of Appeals ruled that a group of taxpayers had stated a valid legal claim that an Arizona tuition tax credit law similar to that proposed in SB 113 violates the US Constitution’s Establishment Clause. In that case, the statute allowed for contributions to “state tuition organizations (STOs)” that “allow them to attend *any* [emphasis added] qualified school of their parents’ choice”—language identical to that in HB 427.

- In May 2010, the United States Supreme Court granted certiorari to review the 9<sup>th</sup> Circuit Court of Appeals' decision in *Winn*. In November 2010, the Court heard oral arguments in the matter of *Arizona Christian School Tuition Organization v. Winn*. Since then, supplemental briefs have been filed but no opinion has been issued and the case awaits final disposition.
- In *Zelman v. Simmons-Harris*, 536 U.S. 639 (2002), the Supreme Court held that an Ohio pilot scholarship program did *not* violate the Establishment Clause in giving aid primarily to families below the poverty line with children at a failing school district so they could choose to attend either another public school or private school, receive tutorial assistance, enroll in a magnet school, or receive a scholarship.
- In *Mueller v. Allen*, 463 U.S. 388 (1983), on a five-to-four vote, the Supreme Court *upheld* a Minnesota law, challenged on the basis that it violated the Establishment Clause, that allowed state taxpayers, in computing their state income tax, to deduct expenses incurred in providing “tuition, textbooks and transportation” for their children attending a private elementary or secondary school.
- Earlier, in *Byrne v. Public Funds for Public Schools of New Jersey*, 442 U.S. 907 (1979), the Supreme Court summarily affirmed a lower federal court holding that a state tax deduction for taxpayers with children attending nonpublic school *violated* the Establishment Clause.
- In *Franchise Tax Board of California v. United Americans for Public Schools*, 419 U.S. 890 (1974), the Court summarily affirmed a lower federal court judgment that *struck down* a state statute providing income-tax reduction for taxpayers sending children to nonpublic schools.
- In *Committee for Public Education & Religious Liberty v. Nyquist*, 413 U.S. 756 (1973), the court stated, “The system of providing income tax benefits to parents of children attending New York’s nonpublic schools also *violates* [emphasis added] the Establishment Clause because, like the tuition reimbursement program, it is not sufficiently restricted to assure that it will not have the impermissible effect of advancing the sectarian activities of religious schools.”

### ***New Mexico Constitution***

- Article 12, Section 3 of the New Mexico Constitution states in part, “...no part of the proceeds arising from the sale or disposal of any land granted to the state by congress, or any other funds appropriated, levied or collected for educational purposes, shall be used for the support of any sectarian, denominational or private school, college or university.” According to the Legislative Finance Committee, proceeds from state income taxes are the second largest source (after gross receipts taxes) of General Fund revenues, and General Fund dollars are the source of an average of 90 percent of funding for public schools in New Mexico.
- The New Mexico Constitution’s so-called “Anti-Donation Clause” (Article 9, Section 14):
  - states in part, “Neither the state nor any county, school district or municipality...shall directly or indirectly lend or pledge its credit or make any donation to or in aid of any person, association or public or private corporation...”); and
  - is often interpreted as a prohibition against public support of private interests.

- Article 4, Section 31 of the New Mexico Constitution:
  - states in part, “No appropriation shall be made for charitable, educational or other benevolent purposes to any person, corporation, association, institution or community, not under the absolute control of the state.”; and
  - has been interpreted possibly to prohibit tuition assistance in the form of vouchers. It is arguable, therefore, that subsidies to parents in the form of tax credits might also violate this section.
  
- The New Mexico Attorney General (AG) has considered the question of the constitutionality of state assistance to private school students on several occasions:
  - In Opinion Number 99-01, dated January 29, 1999, the AG:
    - cited the federal decisions in *Nyquist* and *Mueller*, above, and stated that the prohibition in Article 12, Section 3 is not limited to direct payments from the state to private schools, but prohibited payments provided to private school students or their parents;
    - stated that the anti-donation clause in Article 9, Section 14 appears to prohibit the state from providing tuition assistance in the form of vouchers to private school students, stating, “Whether the beneficiary of the assistance is the parents or the schools, the use of public money to subsidize the education of private school students, without more, is a donation to private persons or entities in violation of the state Constitution.”;
    - suggested that a voucher program might run afoul of Article 12, Section 1, which states that a “uniform system of free public schools sufficient for the education of, and open to, all the children of school age in the state shall be established and maintained.” If it diverted funds from the public schools to the extent that it compromised the state’s ability to meet its obligation to establish and maintain a public school system sufficient to educate all school-age children in the state, such a program might be found to be unconstitutional; and
    - noted that a school voucher program would violate Article 4, Section 31 if the legislature appropriated money directly to parents or private schools. While admitting that the issue of vouchers had not been specifically addressed, the AG stated that it was arguable that such a program might result in a more than incidental benefit to private organizations, and thus might be prohibited.<sup>1</sup>
  
  - More recently, the AG affirmed those 1999 findings in Opinion No. 10-06 (*State funds for private school text books*), dated December 28, 2010. When considering the constitutionality of PED paying a publisher or depository to “reimburse it for the lending of textbooks to sectarian, denominational or private schools for the use of their students,” the AG reaffirmed that:
    - Article 12, Section 3 prohibits “direct state aid or *subsidies to private schools or to aid provided to students or parents that effectively subsidize private schools.* [emphasis added]; and

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<sup>1</sup> (See *State ex. Rel. Interstate Stream Commission v. Reynolds*, 71 N.M 389, 1963)

- the anti-donation clause in Article 9, Section 14 probably prohibited a proposed school voucher program under which state money would be used to provide tuition assistance to parents of private school students.

**Related Bills:**

SB 113 *Tax Credit for Certain Scholarship Donations*

SB 118a *Optional Tax Contribution to School Fund*

SB 398 *Enact "Special Needs Student Scholarship Act"* (Identical to HB 510)

SB 433 *Equal Opportunity Scholarship Act* (Identical to HB 427)