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To: Senator Mark Hass and Representative Phil Barnhart, Co-Chairs, Joint Committee on Tax Credits

From: Representative Alissa Keny-Guyer, Chair

Date: April 27, 2015

RE: House Bill 2113 A – Office of Child Care Contributions

The House Committee on Human Services and Housing heard House Bill 2113 A, relating to a tax credit for child care contributions; creating new provisions; amending ORS 329A.706 and section 13, chapter 674, Oregon Laws 2001; and prescribing an effective date, and recommends that the tax credit be continued. The credit, which has been consistently and fully claimed since it was enacted in 2001, provides funding for the Office of Child Care to continue to improve the quality of childcare across Oregon. The measure was properly noticed and scheduled as well as part of a public hearing. Additionally, there were a series of workgroup meetings that brought together stakeholders to discuss the costs and benefits of modifying this among other child care related tax credits.

Below are responses to questions posed in Appendix D, on page 101 of the Legislative Revenue Office's Research Report No. 2-15, *2016 Expiring Tax Credits* (RR 2-15). The responses are based upon the report's findings, workgroup discussion, testimony and the deliberations of the House Human Services and Housing Committee.

- **What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?**

The purpose of this credit is to allow individuals and business to make contributions to the Office of Child Care (OCC), a division of the Oregon Department of Education. These individuals and business are able to claim a credit against personal or corporate income taxes for 75 percent of the contribution.

Contributions are used to fund quality improvement projects for childcare programs through education awards and quality improvement supports. Education awards are made to providers to increase educational attainment related to teaching quality in the childcare setting and for support for childcare facilities that aspire to meet higher quality rating standards.

- **Who (groups of individuals, types of organizations or businesses) directly benefits from this credit? Does this credit target a specific group? If so, is it effectively reaching this group?**

The primary beneficiaries include Individual taxpayer and businesses who claim the credit.

The Office of Legislative Revenue reports: "The program has been fully subscribed under the existing cap and the estimates provided here are based on the assumption that the cap would continue to be reached under a program extension and expansion."

The other beneficiaries are the childcare providers who receive quality improvement grants, such as pay increases after completing education requirements.

- **What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?**

Sunset or reduction of the credit would eliminate the majority of the funding for the operation of certain quality initiatives within the Office of Child Care. We recommend increasing the credit.

- **What background information on the effectiveness of this type of credit is available from other states?**

Other states use this method of funding initiatives, but it is unclear if they are being used for similar or related purposes.

- **Is use of a tax credit an effective and efficient way to achieve this policy goal? What are the administrative and compliance costs associated with this credit? Would a direct appropriation achieve the goal of this credit more efficiently?**

This funding approach provides stable funding for the described initiatives. If the funding were subject to the General Fund appropriation and the biennial budgeting process, these initiatives would be vulnerable to typical budgetary fluctuations.

- **What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?**

The Quality Improvement System (QRIS), which ERDC is now tied to, incentivizes quality enhancement.

- **Could this credit be modified to make it more effective and/or efficient? If so, how?**

The committee amended the bill to increase the cap on the Office of Child Care Credit to $2.5 million per year. The funding increase would allow for expanded program initiatives and quality improvements in childcare settings across Oregon.