

SUBJECT: Authorizing state credit/debit card agreements benefitting public schools

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 5 ayes — Wilson, McCall, Hilderbran, J. Keffer, Woolley
0 nays
4 absent — Pitts, Luna, Paxton, Ritter

SENATE VOTE: On final passage, April 22 — 31-0

WITNESSES: No public hearing

BACKGROUND: Government Code, sec. 403.0231 allows the comptroller to contract with credit-card issuers for cardholder programs that generate money through card usage to benefit state parks.

DIGEST: SB 966 would authorize the comptroller to contract with issuers of debit cards (including prepaid) or credit cards to provide programs through which the use of their cards would benefit Texas public education. Issuers would have to make set payments to the comptroller based on card usage. Issuers could advertise their cards' educational benefits and could design cards accordingly, subject to comptroller approval.

The comptroller would have to evaluate issuers' contract proposals based on financial stability, strength of marketing efforts, and the quality of financial terms available to cardholders and the state, in addition to other factors deemed appropriate. Contracts would have to allow cardholders to designate recipient school districts for money generated by card usage. To the extent practicable, cardholders could designate individual schools as recipients. Undesignated money generated by card usage would be deposited into the Foundation School Fund.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003.

**SUPPORTERS
SAY:**

Government-sanctioned “affinity” cards — both credit and debit — are among the newest public-private partnerships being created to aid public schools. Like cards that pay cash rebates, offer discounts, or earn frequent-flyer miles, education cards earn money that can be allocated to individual schools or districts. The University of Texas alumni association, for example, uses affinity cards to subsidize UT activities.

Affinity card programs derive financial benefits from the 2 percent discount fees merchants pay on card transactions. Fee revenue is divided among card associations (Visa, MasterCard, and others), issuing banks, merchants’ banks, and processing clearinghouses. Typically, portions of the issuing banks’ share is dedicated to an outside entity, such as a charity. Earnings under SB 966 would benefit the Foundation School Program if cardholders did not designate specific schools or districts.

According to the comptroller’s 2003 e-Texas report, *Limited Government, Unlimited Opportunity*, the education card program could raise more than \$5 million a year for public schools from a 1 percent rebate of \$525 million in annual charges and debits made by 150,000 cardholders each averaging \$3,500 a year. The state would capitalize on Texans’ strong identification with their state and close ties to their local schools, especially in smaller cities and rural communities. The program would be attractive particularly to parent-teacher associations, booster clubs, local businesses, and others interested in better schools.

The state must encourage innovation while seeking new and better ways to pay for its public education system. The popularity and effectiveness of affinity card programs are well established. Risk to the state, if any, would be minimal. The contract criteria in SB 966 would help ensure a better deal for the state than existing programs.

Education card programs help parents develop closer relations with their children’s schools. Busy two-wage-earner families who otherwise might not be able to support their local schools in other ways can enrich their children’s education by using a mechanism already available to most of them.

School children and their families living in affluent districts would not necessarily benefit disproportionately from this program. Given the ubiquity

and availability of credit/debit cards, families in less wealthy districts could participate just as actively. They actually would have more incentive to use their cards to supplement funding of their children's education.

**OPPONENTS
SAY:**

Affinity card programs are unproven and, like the state lottery, an unreliable source of revenue. Texas already has similar credit-card arrangements for state employee purchases of goods and services, including state-related travel, and for state parks through a nonprofit foundation (the comptroller has not activated the state program). Based on the most recent data available, the comptroller reports that the two programs have generated only about \$213,000 for the state since their inception.

During three previous years, the Texas Parks and Wildlife Foundation has received \$150,000 from charges made by 10,000 cardholders. Most of the program promotion has been limited to magazine advertisements. The Texas Building and Procurement Commission has not managed the state employee credit-card contract effectively, according to the state auditor. The 0.002 percent rebate rate for fiscal 2002 was well below that of other states, yielding low returns on more than \$158 million in employee charges.

The success of SB 966 probably would hinge on the program's ability to link card usage to individual schools. It is unlikely that cardholders would be motivated to use cards benefitting the state education system, which they already support with taxes, unless they could allocate their rebates to specific campuses. If this were possible, the likeliest users would be parents and other relatives of the state's 4 million school children. The comptroller, however, has been unable to estimate the program's local impact.

Creating such linkage could affect school equity adversely. Credit cardholders are more likely to be affluent, meaning that program participants more likely would be parents or grandparents of children attending schools in property-wealthy districts. If those schools received the bulk of the rebates, it could widen the gap between them and schools in property-poor districts.