Fiscal Policy Work Group - Commission to Study School Funding

AGENDA 6/5/20 10AM

Present: Dave Luneau (chair), John Beardmore, Mary Heath, Dick Ames, Rick Ladd, Chris Dwyer. Also in attendance: Jordan Hensley, Jennifer Foor. 7 public attendees.

Dave called the meeting to order at 10am and conducted a roll call of attendees.

Review tasks by Reps Ladd and Ames

1. Identify all current revenue sources (local/state/federal/grants) for PK-12 education

2. Identify changes in level and mix of those revenue sources (1999-2020)

Began with high level overview of general and education fund revenues. Dick noted that there will be significant revenue losses moving forward as a result of COVID-19. Have to grapple with that fact, especially given that some taxes (like meals and rooms) which are normally are not volatile will be reduced greatly. Dave asked if there was a revised overview with the FY20/21 budgeted AND revised amounts together. Dick noted that he could put that together.

Dave asked if there is a priority to collection of taxes. John noted that there is and isn't. John reiterated that SWEPT is a STATE tax. But there is a perception issue about it being a local tax. Noted that SWEPT set to raise a certain dollar amount, and varies by year to raise that amount. Overlay process – where DRA lets towns raise above the tax warrant, protects against deficiencies of collection rates. Collection rates likely to be lower this year. Overlay helps pay for tax abatements. Town governments will be left holding the bag as revenues don't come in. Noted that rate used to be $6.60 and amount rose and fell with property values (vs now where it's a set amount). Might be interesting to talk to Ted Gatsas about the process of that change. Commission can propose changes in a variety of ways.

Dave noted that something for Fiscal Policy to do is have a SWEPT day – talking about its history, the changes, and some of the intervening legal actions and other related items.

John noted that state law holds education funding is continually appropriated to DOE to fund school districts. Can't just cut budget, have to change statutes. In normal times Governor through executive order cannot change that funding – amounts still have to be paid.

Dave – different options are differently volatile, and have to take that into consideration as we think about our work and eventually propose policy. John agreed, but noted that adequacy aid has not for the last 20 years shouldered that burden. Rick showed the change in federal funding, reductions, and emphasis on more block-type monies. Mary – in 2008 ran into same situation, used ARRA*(sp?) money. Strings attached to that money, including holding harmless state's primary education funding commitment. Used federal dollars for education, then other money for other items. Could see that happening again in '21. Money rising for CTE, agreement that is important. Some reductions due to demographic changes, not necessarily at the federal level.

Dave – how much of this federal money needs to be considered as part of adequacy? Rick – federal money not much of total, Mary agrees, and that it's hard to supplant.

Moving to CAFR and education trust fund – John notes that it's not a discretionary expense. In statute it is an ongoing commitment. Mentions that Ann Edwards at NH DOJ would be a great resource to talk to. Dick – when determining money, if not enough money legislature will put statutory change in HB2 to bridge to constitution. In 2011 formula changed outside budget via statutory amendment that moved differentiated aid to somewhere else. John walked group through the line items in the CAFR report.

Dave – when we look back at 07/08 work, what fiscal year? Consensus is that FY10 or FY11. State contributions to teacher pensions reduced and then eliminated. A totally general fund expenditure (in state treasurers budget), did not come from education trust fund. A direct payment from state to retirement system, but directly impacted school and locality bills. An increase in school district expenses when eliminated by state. John: if we're going to create a sea change for funding of adequacy, would advocate throwing into the mix every stream of aid. Ask the question "how are we as a state supporting local governments? Who are the winners and losers of how we do it now?" As a taxpayer don't care which pocket it's going into, but want equitable and predictable taxation. Rooms and meals discussion. Those communities that generate all the meals and rooms revenue won't get it all back anyway, so would be interested in a more equitable generation. Dick – have to be careful about other allocations, even though it is one big picture. Have to be clear about not biting off more than we can chew. Don't want to go too far down other pathways except to note that pressures exist. John – we're going to make people angry one way or the other, what's one more group? Chris noted that we just don't have that many sources of revenue.

Dick then walked group through excel sheets and history of revenue/spending in schools. Statewide data of student numbers going down obscures the fact that some places have increased the number of students. Discussed impact of retirement system on school spending. Group couldn't think of any other items funded similarly in indirect ways.

Reviewed noteworthy data points, and group agreed that more digging needed to be done to differentiate data for small/medium/large schools and districts. Dick noted that 2008 formula carried forward would have included much higher levels of differentiated aid. Need to find out from LBA when 08 commission formula (FY11, likely) went into effect and then extrapolate out to the present what things would look like if formula was the same. Dick has a spreadsheet that can do that. Discussion of tax caps in places like Manchester, which function more as spending caps.

Discuss how tasks 1 and 2 could help inform task 3

3. Identify variable impacts on local districts of current funding sources and levels

To some degree this is what Dick has been doing, and part of the conversation that we've been having. Dave noted that this could factor in volatility.

Tasks to tackle in the future:

Begin discussion of fiscal policy principles

4. What does "equitable" mean in the context of fiscal policy
5. Distribution of state funding to assure "fiscal neutrality[1]" in each District

Next Steps

Dick working on revenue change sheets.

Dave and exec team working to schedule Ann Edwards and SWEPT presenters as well as LBA presentation.

Need to nail down retirement fund question and other indirect aid. Breaking out the "other state aid" category.

Special education entitlement and state funding at different levels. Ties into adequacy as well.

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[1] Fiscal Neutrality as defined by the "*Encyclopedia of Education Economics & Finance*" (Brewer & Picus, 2014): "The concept of *fiscal neutrality* entails that no relationship should exist between the wealth of a community and the revenues or expenditures of the schools in the community. The notion is that the resources available to a child at school should not be a function of the wealth of the community in which he or she lives. In reality, communities with more wealth generally raise more revenues for their schools and have schools that spend more on education than communities with less wealth do. This entry places fiscal neutrality in the context of traditional school finance issues, discusses how to measure fiscal neutrality, and touches on the standards used to determine whether a given level of fiscal neutrality is regarded as "acceptable" by school finance scholars."

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