**Fiscal Policy Work Group - Commission to Study School Funding**

**Notes 7/16/20 10AM**

Attendees: Dave Luneau, Chris Dwyer, Rick Ladd, Mel Myler, John Beardmore, Mary Heath, Bill Ardinger. Also in attendance: Linda Kennedy, Bruce Kneuer, Jordan Hensley, Bruce Mallory. 11 public attendees.

Just after 10am Dave Luneau called the meeting to order.

The conversation began with reflections from Dr. Kenyon's presentation to the commission on July 7. Particular topics included the state property tax relief program, property tax circuit breakers, current use and exemptions, the stability of various exemptions (in particular veterans and elderly tax credits and exemptions), the marketing of exemptions, and how taxpayers are informed about exemptions. Linda Kennedy from DRA discussed how exemptions are calculated and where they apply, as well as the history of exemptions and modified assessed values the state uses (which do not include exemptions). Towns can grant exemptions and offer property tax relief, but they have to share within own town. Other towns do not have to make up for the decisions of other towns at the county/state level. Since 1999 a modified assessed value is used. On the DRA website you can click on the municipal/property icon, pick equalization, and then you can see all the exemptions that all towns have adopted (or for some veterans, tax credits). Mosaic uses assessed values given to DRA by towns (full value prior to exemptions) for that program. Equalized value is calculated from current use, not the ad valorum value of the property. Bill notes that current use is not particularly progressive relative to other measures. John notes that even when land is taken out of current use, that money can go to conservation districts instead of the town's general funds. Linda noted that a land use change tax of that nature would need to be adopted at a town meeting (which 162 municipalities have). Chris asked if income to property wealth measures were discussed in the process of SWEPT – Linda did not recall any discussion of the sort (but they could have occurred). Linda notes that a significant portion of NH is owned by nonresidents, which means that per capita figures will seem higher than they are. Dave asked if we could see what share of NH property owners are nonresidents, and it was unclear. Dick notes that while New Hampshire cannot have variable property tax rates by income, but can have a property tax relief program (as it is an expenditure). Discussed potential for taxes and rebates and that it is worth looking at how the program is administered, as well as pros and cons of state administration of a property tax.

For future discussion – need to look at the structure of a tax relief program given various options as the fiscal policy work group models options.

John mentioned that relief program timing could be changed – but problem with that is that need musts be demonstrated, which requires tax liability to be in rearview mirror/tax return filed, and that the idea of the state fully administering a property tax would be a multimillion dollar endeavor and duplicative to good work that goes on in towns. Would be interested in talking about towns fully remitting their property tax dollars to the state, maybe combined with a repeal

of the education trust fund, and insulate from donor town issue. But would need to discuss with local town managers and governments because cash flow could become an issue (but could be designed to impact cash flow positively). More discussion to be had down the road.

Dave – what would it take to model changes to a property tax relief program? Bill – DRA would be able to model. Linda – would be complicated, as NH does not know income levels for individuals. John thinks it would be rather cumbersome, and personally struggles with the idea of an income based circuit breakers, especially given that there are very wealthy residents with little income in the state. A homestead exemption could be another option – Andy Peterson had worked on the issue for a long time and could be someone to talk to.

Bill notes that we are circling three questions – income, constitutional concerns, and revenue effects. General rule is Claremont rule – proportional rates for same properties, with only exemptions for reasonable uniform reasons. Tension between how to handle different properties. Thinks it can be modeled, but may have to look to alternative databases.

Mary asked about census data and county wealth – is personal income or county income taken into account when setting property taxes? General consensus is no.

Dave let the work group know that Jenn Foor had put together data together on previous attempts at various tax alternatives and bill attempts. Bill noted that in terms of data – could propose a transition rather than everything changing at once, and can ask department to report data. Discussion was had about homeowners with little cashflow but valuable properties. Noted some examples of what a system could look like. Cash flow reconciliation a feature of any tax issue. Further discussions of horizontal equity. Rick talked about equalized value per pupil in particular, and variations within towns even with high equalized value.

Following that discussion, the fiscal policy work group discussed the Shaheen 2000 report's conclusions. Dick discussed the capital gains tax and how it fits into our criteria.

The conversation then moved to discussion of AIR's Brief on Adequate Education Funding through Equitable Taxation. Discussion focused on tax levels, issues of equity, what AIR's model will look like with respect for New Hampshire, weighting, charter schools/special education, and how AIR's work fits with Fiscal Policy's efforts.

Dick noted that we should look closely at Massachusetts's arrangement and how they have handled the state aid requirement. MA has determined that on average statewide the foundation amount (accounting for all weights) comes out to about $12,700/pupil. In NH if we arrived at the same result, the state would have to pay 100% of that amount. A lot of money. MA has a concept called minimum local contribution – calculates a uniform effort requirement that takes into account income and property values, and then applies that to each town plus expected state aid level. 41% of the foundation amount is paid by the state with the balance paid by localities. That has not been challenged in MA in terms of proportionality. Important for us to understand how they do that calculation of effort, would like us as a group to go through that. Mary noted that it would be worthwhile to hear from leaders in Massachusetts. Important that a presenter could speak to tax effort issue and proportionality of the tax.

There was some discussion of the fact that equalized valuation has improved greatly over the past 20 years. Dave notes that during a full commission meeting it would be nice to have AIR take us through the equitable taxation brief prior to utilizing the simulator. Tasks 6 and 7 for the fiscal policy group are still on the horizon. Want to start to model some combinations – not taking policy positions, but want to know what we want to advocate for and against and understand the moving parts. Still need to hear from Sen. Guida on variable classes of properties.

Linda notes that appraisers use industry standards, but that state standards are to use "market assessment." Bruce Kneuer mentioned that DRA takes this very seriously and guides professionalism behind assessing. Much has changed since Shaheen 2000 report.

John mentioned that if you're interested in learning more about appraisal the DRA website is great resource. Notes a pretty robust regulatory process.