2nd Edition of Property Tax-School Funding Dilemma, Draft Findings

Daphne A. Kenyon, Resident Fellow in Tax Policy

New Hampshire Commission to Study School Funding
July 7, 2020
Co-authors for 2nd Edition

- Daphne Kenyon
- Bethany Paquin
- Andrew Reschovsky
- Alannah Shute
Case Study States

- California
- Massachusetts
- Michigan (2007 only)
- New Hampshire
- New Jersey (2007 only)
- Ohio (2007 only)
- South Carolina (2020 only)
- Texas
- Wisconsin (2020 only)
How is the NH Case Distinctive?

• #1 state in property tax reliance
• Enacted state education property tax to fund restructured school finance system
• Very prescriptive state supreme court school finance rulings
### Selected New Hampshire Property Tax Statistics, 2016

<table>
<thead>
<tr>
<th></th>
<th>New Hampshire</th>
<th>U.S. Average</th>
<th>NH Rank (of 51)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita property tax</td>
<td>$3,115</td>
<td>$1,556</td>
<td>3</td>
</tr>
<tr>
<td>Property tax percentage of personal income</td>
<td>5.5%</td>
<td>3.1%</td>
<td>1</td>
</tr>
<tr>
<td>Total property tax as percentage of state-local revenue</td>
<td>37.2%</td>
<td>16.1%</td>
<td>1</td>
</tr>
<tr>
<td>Effective tax rate, median owner-occupied home</td>
<td>2.2%</td>
<td>1.1%</td>
<td>3</td>
</tr>
</tbody>
</table>

*Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey*
Supreme Court upheld school finance system

Ohio
*DeRolph IV* (2002) found system unconstitutional but did not enforce subsequent appeals

Supreme Court found system unconstitutional but did not enforce

Supreme Court found system unconstitutional but mandated no specific remedy

Califonia
*Serrano* mandated near-equality of school spending among districts

Supreme Court found system unconstitutional and imposed one or two specific mandates

New Hampshire
Court issued four-part mandate including funding with constitutional taxes

Supreme Court found system unconstitutional and imposed a number of specific mandates

---

**Increasingly specific mandates**

**Ohio**
*DeRolph IV* (2002) found system unconstitutional but refused jurisdiction over subsequent appeals

**California**
*Serrano* mandated near-equality of school spending among districts

**New Hampshire**
Court issued four-part mandate including funding with constitutional taxes

**Massachusetts**
*McDuffy* imposed no specific remedy; *Hancock* removed court from further deliberations

**Texas**
*Edgeworth* mandated access equality, *West Orange* enforced constitutional prohibition of state property tax

**New Jersey**
*Abbot V* mandated a timetable of specific reforms including particular curricular changes and supplemental programs

**Michigan**
Court vacated 1972 decision of unconstitutionality in 1973 after *Rodriguez*

Source: ACCESS, various court rulings

- Target property tax relief to needy taxpayers through state-funded property tax circuit breakers
- Target school aid to needy school districts, schools, and students
  - Use foundation-type formula
  - Adjust for differences in education costs
  - Take into account differences in fiscal capacity
Grading NH according to the 2007 policy recommendations?
Property Tax Circuit Breakers

- Prevent taxpayers from being overburdened by property taxes
- Provide households with direct property tax relief that increases as household income declines, for a given property tax bill
- Classic circuit breaker: Taxpayer ends up paying no more than $x\%$ of income in property tax
Circuit Breakers “Do More With Less”

- Target property tax relief more precisely to those with a limited ability to pay property taxes than other common forms of property tax relief
- Reduce the cost of providing tax relief
- Best way to help those who are housing rich and income poor
NH’s Circuit Breaker

- Low and Moderate Income Homeowner’s Property Tax Relief
- Only applies to the Education Property Tax
- Annual income restriction for a married couple
  - Less than $25,000 - 100% refunded
  - $25,000 to $29,999 - 60% refunded
  - $30,000 to $34,999 - 40% refunded
  - $35,000 to $40,000 - 20% refunded
- Claim must be postmarked between May 1 and June 30 following the due date of the final property tax bill
NH’s Circuit Breaker - Pros

- New Hampshire is one of 33 states that have a circuit breaker
- The state granted 6,865 claims in 2018, paying a total of $1.1 million in property tax relief
NH’s Circuit Breaker - Cons

- Not applied to all property taxes
- Window to apply is too short
- Income limit is too low
- Fewer claims are granted each year
NH’s Circuit Breaker - Cons

<table>
<thead>
<tr>
<th>Claim Year *</th>
<th>Claims Granted</th>
<th>Total Relief Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>27,208</td>
<td>$7.5 million</td>
</tr>
<tr>
<td>2004</td>
<td>25,059</td>
<td>$4.9 million</td>
</tr>
<tr>
<td>2005</td>
<td>22,381</td>
<td>$3.9 million</td>
</tr>
<tr>
<td>2006</td>
<td>19,570</td>
<td>$3.3 million</td>
</tr>
<tr>
<td>2007</td>
<td>18,579</td>
<td>$3.1 million</td>
</tr>
<tr>
<td>2008</td>
<td>17,600</td>
<td>$3.1 million</td>
</tr>
<tr>
<td>2009</td>
<td>16,066</td>
<td>$3.1 million</td>
</tr>
<tr>
<td>2010</td>
<td>12,100</td>
<td>$2.3 million</td>
</tr>
<tr>
<td>2011</td>
<td>11,622</td>
<td>$2.3 million</td>
</tr>
<tr>
<td>2012</td>
<td>11,674</td>
<td>$2.3 million</td>
</tr>
<tr>
<td>2013</td>
<td>10,222</td>
<td>$2.0 million</td>
</tr>
<tr>
<td>2014</td>
<td>9,414</td>
<td>$1.8 million</td>
</tr>
<tr>
<td>2015</td>
<td>8,541</td>
<td>$1.6 million</td>
</tr>
<tr>
<td>2016</td>
<td>7,938</td>
<td>$1.4 million</td>
</tr>
<tr>
<td>2017</td>
<td>7,258</td>
<td>$1.2 million</td>
</tr>
<tr>
<td>2018</td>
<td>6,865</td>
<td>$1.1 million</td>
</tr>
</tbody>
</table>

Source: New Hampshire Department of Revenue
### 2019 National Assessment of Educational Progress test, Percent scoring at or above basic; state rank

<table>
<thead>
<tr>
<th></th>
<th>California</th>
<th>Massachusetts</th>
<th>New Hampshire</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Math – 4\textsuperscript{th} Grade</strong></td>
<td>74.6% (45\textsuperscript{th})</td>
<td>85.2% (7\textsuperscript{th})</td>
<td>85.7% (4\textsuperscript{th})</td>
</tr>
<tr>
<td><strong>Reading – 4\textsuperscript{th} Grade</strong></td>
<td>62.6% (40\textsuperscript{th})</td>
<td>76.0% (1\textsuperscript{st})</td>
<td>70.9% (5\textsuperscript{th})</td>
</tr>
<tr>
<td><strong>Math – 8\textsuperscript{th} Grade</strong></td>
<td>61.0% (47\textsuperscript{th})</td>
<td>78.5% (1\textsuperscript{st})</td>
<td>76.5% (3\textsuperscript{rd})</td>
</tr>
<tr>
<td><strong>Reading – 8\textsuperscript{th} Grade</strong></td>
<td>67.8% (42\textsuperscript{nd})</td>
<td>81.1% (1\textsuperscript{st})</td>
<td>78.0% (2\textsuperscript{nd})</td>
</tr>
</tbody>
</table>

*Source: Nation’s Report Card*
Grading New Hampshire’s School Finance System

<table>
<thead>
<tr>
<th>Source</th>
<th>Year</th>
<th>Adequacy of Spending</th>
<th>Equity of School Aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albert Shanker Institute/Rutgers</td>
<td>2020</td>
<td>Above average</td>
<td>Regressive</td>
</tr>
<tr>
<td>Univ Graduate School of Ed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education Law Center</td>
<td>2019</td>
<td>Grade of A</td>
<td>Grade of F</td>
</tr>
<tr>
<td>Education Trust</td>
<td>2018</td>
<td>n.a.</td>
<td>Moderately regressive</td>
</tr>
<tr>
<td>Education Week</td>
<td>2020</td>
<td>Grade of B-, rank of 15th in</td>
<td>Grade of B-, rank of 48th in nation</td>
</tr>
<tr>
<td>Urban Institute</td>
<td>2017</td>
<td>n.a.</td>
<td>Regressive in 2 measures; slightly</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>progressive in one</td>
</tr>
</tbody>
</table>

Note: Progressivity is generally defined as higher levels of per pupil spending in school districts with larger shares of low-income students. Regressivity is generally defined as lower levels of per pupil spending in school districts with larger shares of low-income students.
Rethinking Policy Recommendations for 2020

- Challenge of the coronavirus recession
- Predicted large budget gaps for state governments
- State budget gaps usually mean cuts in education aid
- How to provide and fund an adequate education with remote learning?
Sources for Additional Information

- Lincoln Institute of Land Policy
  - State-by-State Property Tax at a Glance
  - Significant Features of the Property Tax
  - Property Tax-School Funding Connection
Sources for Additional Information

• Grading State Government School Funding Systems
  • The Education Trust, *Funding Gaps: An Analysis of School Funding Equity Across the U.S. and Within Each State* (Morgan and Amerikaner, 2018).
  • Urban Institute, *Do Poor Kids Get Their Fair Share of School Funding* (Chingos and Blagg, 2017).
  • Education Week, *Quality Counts 2019, Grading the States; School Finance* (Education Week, 2019)
  • Education Law Center, *Making the Grade 2019: How Fair is School Funding in Your State?* (Farrie, Kim, and Sciarra, 2019).
New Hampshire levies neither a broad-based personal income tax nor a sales tax (Alaska is the
Thank you

DAPHNE A. KENYON, RESIDENT FELLOW IN TAX POLICY
LINCOLN INSTITUTE OF LAND POLICY
DKENYON@LINCOLNINST.EDU
State Aid as a Percentage of School Funding, New Hampshire, 1990-2017

Source: National Center for Education Statistics
Property Tax School Funding Dilemma

- Local control of schools is prevalent in the U.S. and popular
- For local control to be meaningful, local governments need a local revenue source
- In many ways, the property tax is an ideal local tax for funding public education,
- But......
Property Tax School Funding Dilemma

• Variations in the size of local government tax bases can lead to funding disparities
• Many state legislatures have placed limits on the property tax
  • that challenge local control and/or
  • Compromise the equity and efficiency of the property tax