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

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New Hampshire Commission to Study School Funding

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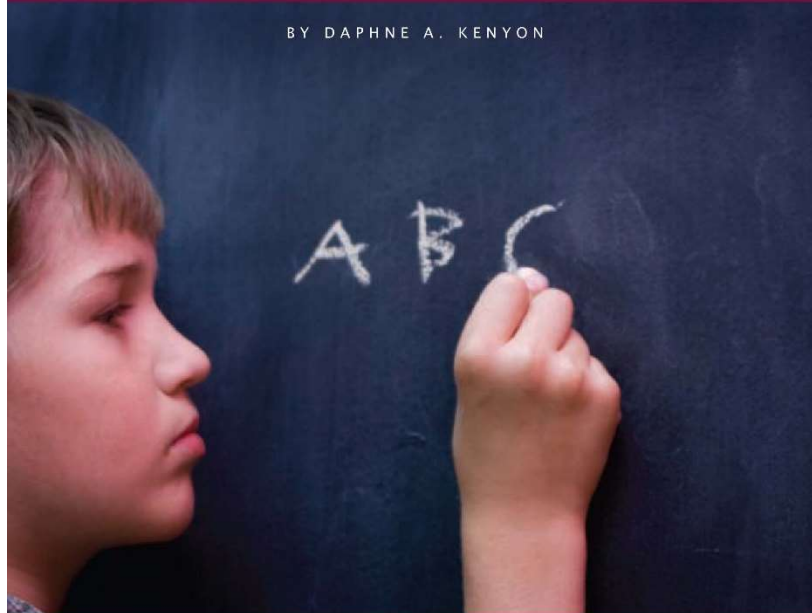


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The Property Tax- School Funding Dilemma

BY DAPHNE A. KENYON



Policy Focus Report • Lincoln Institute of Land Policy



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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?

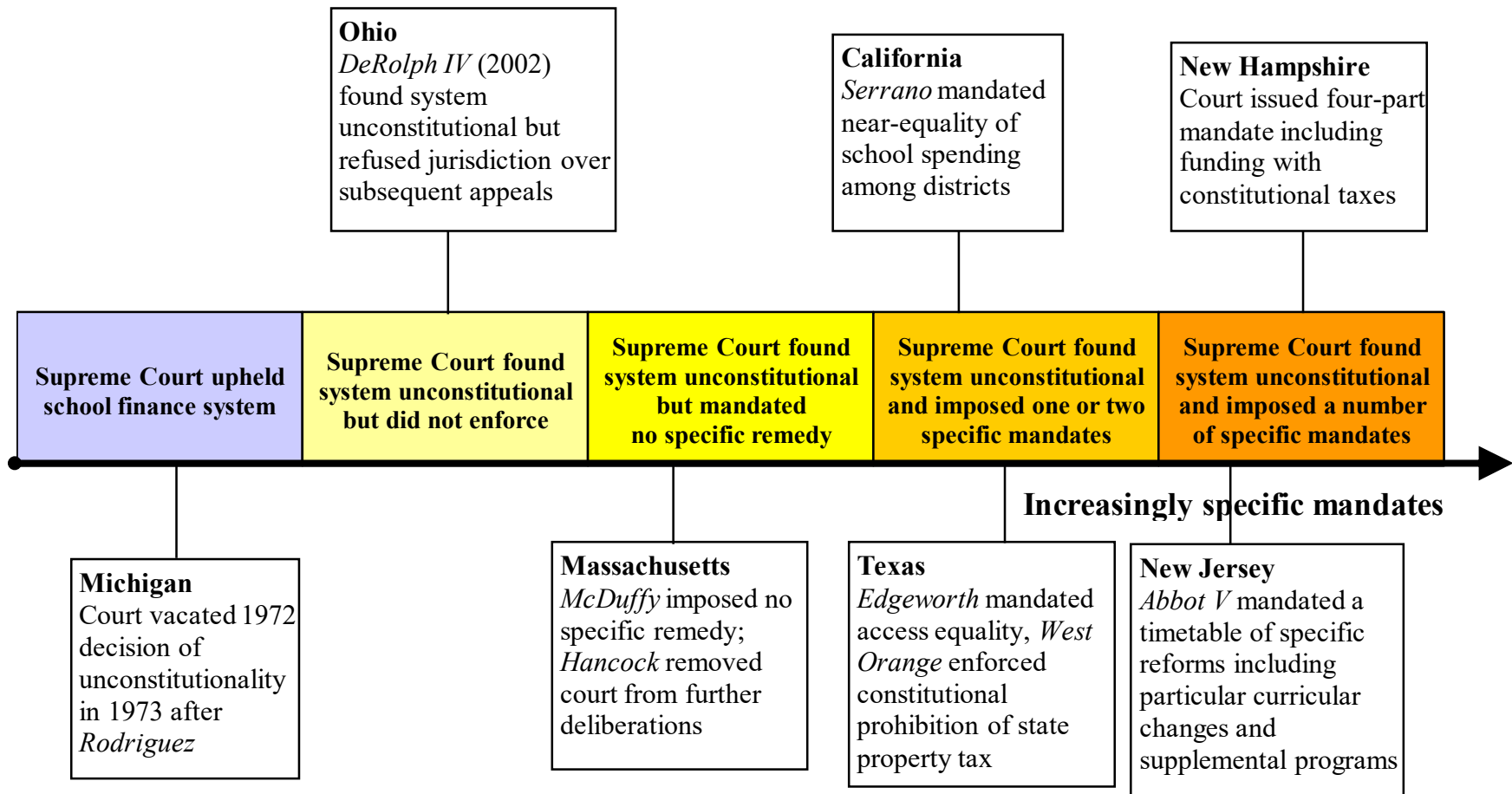
- #1 state in property tax reliance
- Enacted state education property tax to fund restructured school finance system
- Very prescriptive state supreme court school finance rulings

Selected New Hampshire Property Tax Statistics, 2016

	New Hampshire	U.S. Average	NH Rank (of 51) 1 is highest
Per capita property tax	\$3,115	\$1,556	3
Property tax percentage of personal income	5.5%	3.1%	1
Total property tax as percentage of state-local revenue	37.2%	16.1%	1
Effective tax rate, median owner-occupied home	2.2%	1.1%	3

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

State Supreme Court Rulings Range Widely



Source: ACCESS, various court rulings

Policy Recommendations (2007)

- 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

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

Source: [New Hampshire Department of Revenue](#)

2019 National Assessment of Educational Progress test, Percent scoring at or above basic; state rank

	California	Massachusetts	New Hampshire
Math – 4 th Grade	74.6% (45 th)	85.2% (7 th)	85.7% (4 th)
Reading – 4 th Grade	62.6% (40 th)	76.0% (1 st)	70.9% (5 th)
Math – 8 th Grade	61.0% (47 th)	78.5% (1 st)	76.5% (3 rd)
Reading – 8 th Grade	67.8% (42 nd)	81.1% (1 st)	78.0% (2 nd)

Source: Nation's Report Card

Grading New Hampshire's School Finance System

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

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](#)

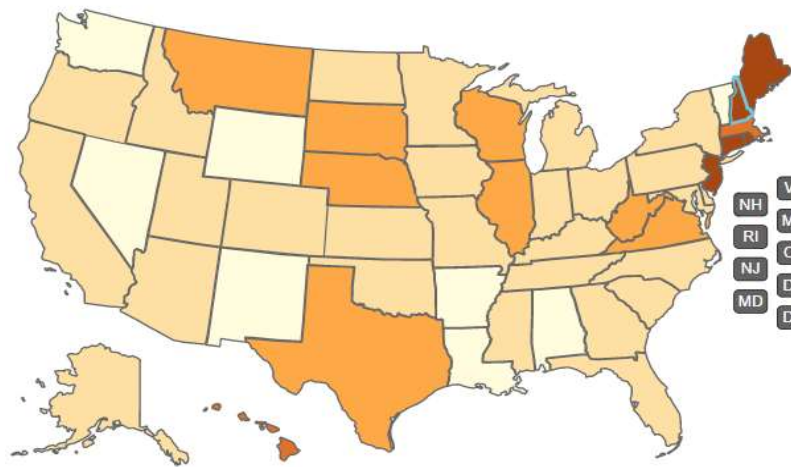
Sources for Additional Information

- 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).
 - **Albert Shanker Institute and Rutgers University Graduate School of Education**, [*The Adequacy and Fairness of State School Finance Systems*](#) (Baker, Di Carlo, and Weber, 2020).
 - **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).

State-by-State Property Tax at a Glance

State-by-State Property Tax at a Glance

Now Viewing: Property Tax



10.79% 62.41%

United States Overview

New Hampshire

[Download Details \(PDF\)](#)

New Hampshire **levies** neither a broad-based personal income tax nor a sales tax (Alaska is the

Comparing

Copy Link

Clear

US

NH

Sources of Local General Revenue

Property Tax 62.41%

US 29.79%

NH 62.41%

Sales Tax 21.99%

US 7.20%

NH 0.05%

Income Tax 18.64%

US 2.49%

NH 0.00%

Other Tax 6.44%

US 1.89%

NH 0.56%

Selected Property Tax Statistics

Property Tax Features

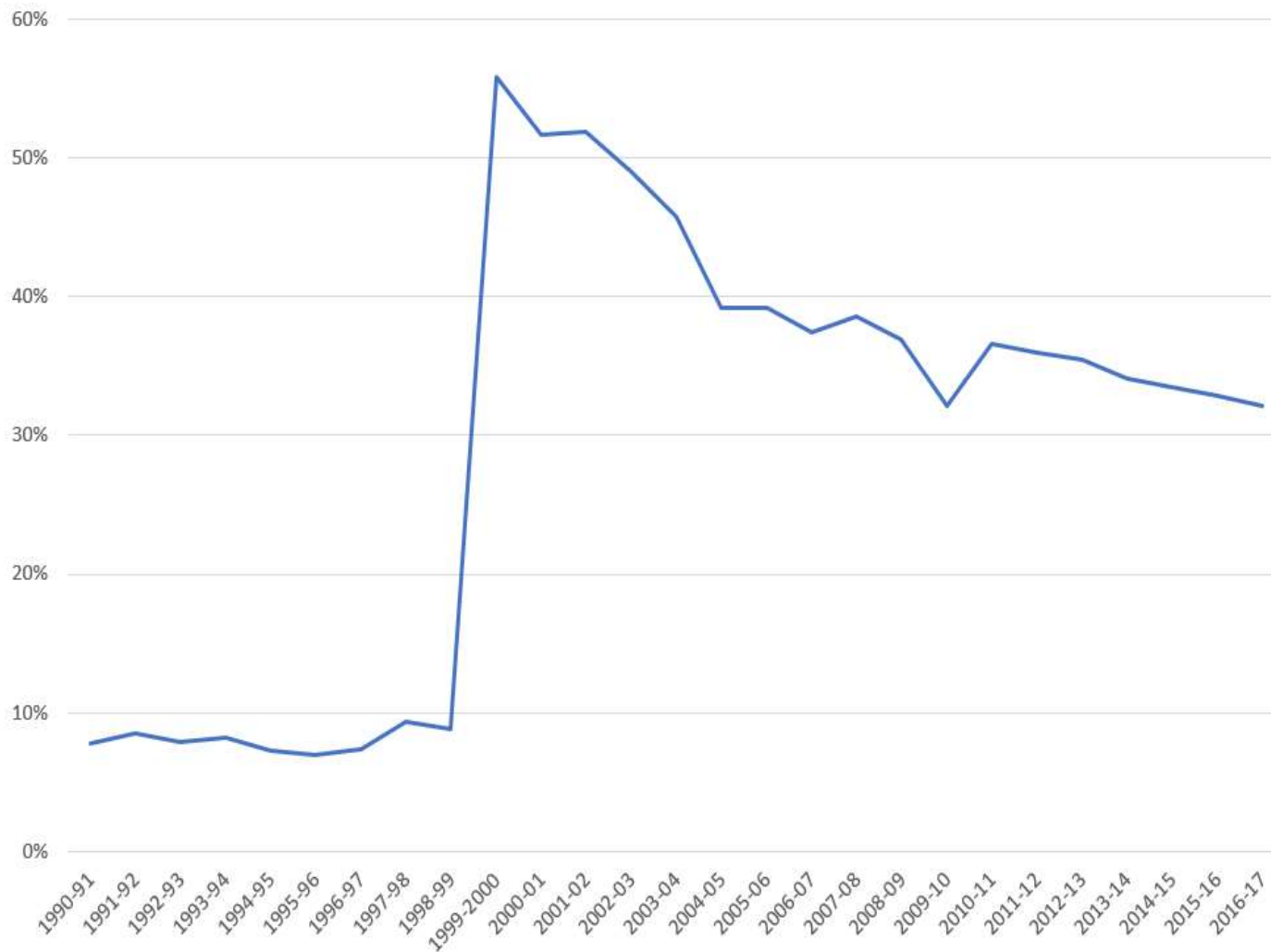
Thank you

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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