Fiscal Policy Work Group - Commission to Study School Funding

Notes 10/22/20 10AM

Attendees: Dave Luneau, Chris Dwyer, Mel Myler, John Beardmore, Mary Heath, Dick Ames, Bill Ardinger. Absent: Rick Ladd. Also in attendance: Jordan Hensley. 10 public attendees.

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

The meeting began with a discussion of Massachusetts’ Chapter 70 presentation and fiscal policy work group member’s reflections on the MA example.

Dick – most recent amendment to chapter 70 reflects work that began in 2014/2015 (2015 Commission there), and an effort that is clearly input based in terms of looking at the components of cost that go into providing and education and relating those to perceptions of performance. The outcome of it isn’t dissimilar to where we are at – the low income children get in their calculating a big boost in money, which drives their foundation budget (which they deem as “adequacy”). They arrive at a foundation budget that goes from a high number in a place like New Bedford to a low number in a place like Westham. Still have that difference because of no cap at the top. Some elements are politically based to make it come together to get support in the legislature.

Mel – thought it was interesting in talking about the incentives to get MA Ch 70 passed. The question that wasn’t answered was how in the 7 year phase in period do they buffer the issue of legislative initiatives that might interrupt the plan.

Mary – MA has been at this for a long time, and seems like they have a higher level of statewide support on a bipartisan level. It goes all the way back to 2000 when Duval Patrick got this whole initiative started and the state embraced it. I reached out to Aiden and asked if he would send us the research they’ve done on establishing mandatory minimum levels.

Mel – One of the things I think we’re going to find out in engagement is the lack of understanding of school funding in our state. There is a dearth of understanding, and it may be prudent for us to begin to think about how we begin to explain this process to the public and legislators and not presume because we put out recommendations that it all will be totally understood so regardless of where you come out there is a level of understanding.

Chris – I think that’s right, but something MA has done over the last few decades is that they have built up great confidence that their DOE is really on top of what is happening—and they are—and they are conducting research about schools performing better or worse and systems of support. Have built confidence that they are using monies well and results show. They have built a floor under the schools and if you look at our public comment and they are all over the place. We don’t have an image of where we are in education – not sure people other than legislators need to understand the mechanics but public needs to know that schools are producing a good
product. Mary – and schools have to be held to standards. A level of trust with the DOE that we are missing in NH.

Dave – one of the things we want to talk about in this process is the accountability element of this and given that the path we’ve taken is outcome-driven, we won’t get to state average outcomes overnight. It will take several years and how we go about monitoring progress toward that and what steps are taken to help districts in terms of accountability will get complicated.

Mary – I think NH needs an education reform act, and people should think about the PR aspect. NH is doing well but many don’t understand that.

Dave – Talking to Rep. Peisch before, she was very clear that school funding and school reform are two very different things. If looking at reform, that’s another effort to follow on this one.

Bill – As we think about what a report looks like, and I think about what I do in congress on federal tax bills. It starts with current situation, reasons for change, and effective date transition rules, and I am stunned how little people have a sense of where NH is as a state (who should know about it), with good performance levels but in certain areas issues. I think our report could serve a very good role if it starts with a description of current facts and law that summarizes what we’ve heard. Back to Mel and an early meeting we had, up on the screen they showed various state shares of spending on education, and New England had low state shares of funding with NH at the bottom. I would strongly urge a good beginning of the report that shows where we stand on current measures.

Dave – Something that wasn’t clear to me in last week’s meeting was what the MA 70 funding plan will look like in FY28. This is the first year of it now, FY21, and Alice was clear that they funded it 1/7 of the additional cost for the new funding model. We know what that looks like in FY21 and know that the foundation cost is between $12-13k, picked up in some combination of local and state dollars. What will that look like in subsequent years? Will mandatory minimum change?

Bill – I saw no information on what the future relationships will be. I asked about percentage shares, and she was clear that they had not thought about that.

Dave – Saw an NCSL article this morning (from Bill), with a link to the report from Dr. Kenyon. In the report Daphne recommends against picking a state vs local share, mentioning it several times.

Bill – share doesn’t have to be a target picked, but it does come out. Able to see in terms of comparisons, NH has the lowest state share, and I think it’s a relevant indicator of the level of delegation and mix of financing. Dave – so it’s not a design factor.

Chris – In our model, both parts can be labeled state share, because whatever the state says is state money is state money. It’s state defined. So it’s all coming eventually from local, but it’s state 1 plus state 2. Dave – so is mandatory minimum in MA part of state share? Chris – no, but we could look at what we now have as state spending.
Bill – I think Dick has been articulate about whatever rule exists – would we run afoul of any constitutional rule?

Dave – Going back to MA, they have got at least in the first year the foundation amount per student, specific to base component plus differentiated factors (12-13k on average). From the presentation, the first dollars toward that come from the mandatory local minimum. Bill – I think that’s a fair characterization, they have both working together at the same time but calculate mandatory local minimum first. Dave – and the mandatory minimum has a measure of fiscal capacity built in. Chris – and they’re equal contributions. Looking at the Lincoln Land Institute, saw that correlation between property value and income was .11, so not closely connected. Dave – that’s a good point, in that report they talk about targeted property tax relief programs specific to taxpayers as opposed to towns or cities as a whole. Use targeted grants through a low/moderate income property tax relief program.

John – As we’re talking through the mandatory local contribution, I take a different approach although I appreciate Chris’ point of view. I’m not inclined to support a mandatory minimum. Don’t see what policy benefit it accomplishes and concerned that it could trip on the 28A issue. I’ve always struggled with 28A because cities and towns are political subdivisions of the state. Have taken the position that state has created localities, can tell municipalities what to do. And do in many ways. Dave – Doesn’t MA have a hook through the foundation amount. John – they may, but for our conversation I see 2 choices: a big property tax rate or you split it into two, and not sure if that makes sense. Creates confusion, and I don’t blame people, it is confusing. But I think having a mandatory state rate, mandatory local rate, and optional local rate adds complexity and I think we should move in the other direction, unless there’s a policy reason to do otherwise.

Chris – I think the MA rep said that it was an important political piece. In the first years the money spent in local places the donor towns would have some concern that there is skin in the game both monetarily and with educational will to improve conditions. It may not be policy, but there is a political element. I think it’s important that all towns, particularly if there will be additional contributions from some places more than in others, to know that the local body has committed to a certain amount of resources and to know that they are being spent on education, that was described in MA and think that is important for us to. Some communities will be spending more, so knowing that every community is spending is important.

John – I think it comes down to point of view. Taxpayers in property wealthy towns pay less and effectively less and effectively get a property tax subsidy in lieu of the state dealing with a difficult issue. Thought it was telling that Rep. Peisch said that Wellesly should get less and elsewhere more – that flies in stark contrast to what we’ve heard. Chris – that’s because they take income into account, you can’t just take two parts, have to take all the variables working together. If you don’t have circuit breakers or haven’t taken other things into account you would have a different perspective in those communities if you knew you weren’t losing younger families or older people due to that. John – I may have a different perspective. We probably should follow Dr. Kenyon’s guidance and if we are going to ramp up the state property tax materially and collect it statewide and not give Waterville Valley and Newington grants because
they are property wealthy we need a strong targeted property tax relief program. It will be a shot in the dark in the first instance, because we don’t have income mapped to property value. But if we launch a program with a $20 or $50 million-dollar appropriation we can dial it in downstream. Chris – We have to talk not about towns paying taxes but people paying taxes, because people pay taxes.

Bill – you have the property tax base, which like any other tax base has pros and cons to it. How to enhance pros and reduce cons? One way we have done that is to say that you get an automatic rebate for towns if you pay up to a certain amount, and that is related and in some ways a substitution for individual tax relief. In some ways if you are trying to address the issues for taxpayers it would be through the taxpaying mechanism for individuals, not towns paying fair share statewide. If the Commission were to focus and come up with a well structured property tax payer relief program, the concept of donor towns should be dropped. Once you’re getting to the problem directly you don’t need the indirect relief.

John – The “rebate”, or act of allowing Waterville Valley keep excess, was not an act of trying to target property tax relief. It behaves like a property tax relief program, but it was created arbitrarily, solely because we raise property taxes and we aggregate it by town and then we the state are using that bucket of dollars in Waterville Valley as a credit against what the state owes the town for just one bucket, education. It could fund other things as well, but state didn’t go that route, state let them keep cash and keep those 30 or so communities quiet. They speak up in certain policy debates, like this one, but that was a response to appease folks that live in property wealthy towns and did nothing to address people living all across the state. Don’t mean to fight this repeatedly, but a component of my career for many years. I don’t see the point of view of those folks, perhaps I would if I lived in Waterville Valley. I see why politicians support that view, but I do not.

Dave – What I’m hearing is similar to what we’ve done on the school side – not every kid is identical to the next kid in the classroom, and not every homeowner is identical to another homeowner in the same town. I am hearing a strong preference toward low and moderate targeted property tax relief programs are better than providing blanket relief on a town by town basis. John – I would also support a homestead exemption, which accomplishes some of the same goal and could be easier to administer.

Mel – The idea we just talked about, this is an individual issue and not a town issue. That really changes the entire focus of this conversation to looking at each taxpayer rather than a collectivity called a town, and I think that’s key here.

Dick – You say it’s not a town issue, but I say it is in reality. It is for Waterville Valley, Portsmouth, Hanover, New London, anywhere with high property values and is considered for current purposes as an aggregate. The picture painted by those towns is that their money is supporting programs in other places. John has made the point that it won’t work to have the money collected like the rooms and meals tax where it is collected and then goes to whatever state considers as needing that money. The money collected from the statewide property tax would be collected/aggregated locally and then shipped out. It has taken the shape of the town,
and that is where you run into trouble. Conceptually, I am all for a pure statewide education property tax paid by individuals and all that money flowing into the state treasury and sent out according to the state’s determination of needs. The problem we’ve got is the reality that it is aggregated locally. Maybe we can go to a $7 or $8 property tax or whatever makes the formula work, and that is how it will play out. It will be difficult to pass anything. Would love to get away from that but told we can’t. Can be shipped to the state, which could work, but still viewed as local money and however magnanimous people may be, they will see it in a way working against the success of this formula.

John – I appreciate your consideration of the state collecting property tax and see that there are some benefits. My view is that the biggest level of government should centralize services in the name of efficiency, but wouldn’t want state collecting all property taxes. One issue is that the math would still be there. These numbers are publicly known and people could find that data from DRA. If we went to a more robust property tax relief program or homestead exemption you could calculate the relief, for the so-called donor towns, if they have low income folks living a high property value area, the value remitted could exceed the excess taxes. Could say that this program actually targets Portsmouth really well.

Dave – this has been a good discussion. One point brought up started to scope out the magnitude of a property tax relief program, which is currently getting about a million dollars/year of use. Without having put a finger on what a statewide property tax would be, a relief program would have to be a meaningful range, it’s not a $2mil program but a significant program that provides value not just for people in Portsmouth and Waterville Valley but Pittsfield and Hopkinton. Bill, you and I have talked about bigger than a breadbasket, smaller than an elephant.

Bill – Right now it’s too small and not working. Either our version of a circuit breaker or a deferral program, neither are being used, so there is a problem. It’s going to have to be a larger number, and I believe it has got to be funded through state budget dollars. It’s a matter of incentives. If you’re telling towns to get the word out and every time they are successful they lose property tax dollars, that won’t work. With deferral programs, it’s not a permanent loss of revenue, the state can borrow against that. Have to face the fact that if you tell towns that you’ll teach people they can use it, you have to hold harmless town tax revenues with state support or else the program will not catch not to the level required. Has got to be more, and state has to provide a backstop.

Dave – one of the other things is Dr. Kenyon’s report is valuable examples, and you could see how far away from other states NH was. Can get an update. Some states also had provisions for renters, which is something that should be examined in more detail. Bill, you also mentioned a tax deferral program, and I’m wondering how you see the qualifications for a tax deferral program looking? Have some work to do in updating qualifications for the low/moderate relief program, but what about deferral?

Bill – one of the good things in the LLI report was that circuit breakers are different than tax deferral programs. I believe it is possible to construct a dovetail, where the circuit breaker is a permanent exemption (like Homestead). In our BET if you have <$50k receipts, you don’t even
file. I see it like this – the permanent exemption should be limited to those with least cash flow AND lowest net worth. No one else agrees with me. John – is that constitutional? Bill – I think so, legislature has the ability to create REASONABLE exemptions, including that one in the BET/BPT. I would be a little nervous if you said you’d exempt everyone on their primary residence and whether that is a sufficient reason. But a targeted exemption through a circuit breaker (like that sponsored by Dick), the deferral program can be on top of that. Could extend it to low cash flow residents with higher net worth. Portsmouth may have examples of this. Circuit breaker/homestead program on the bottom, with a deferral program above it. The fiscal cost of that pain can be addressed through borrowings. When you defer payment, you create an automatic lien against the property, so when the conversion event happens the first thing paid back is the deferral. Have seen rates in MA at 8%, which is crazy, but could have a market based rate that is reasonable, and the state could borrow one way or another, put it in a trust fund, and give that back to towns, in which case the state of NH has one of the longest time horizons for borrowing or could even do securitized debt filing. A real appetite and a product like that would be well backed. I think you need both. A message driven to taxpayers. Would eliminate the excess rebate by town, because once you get to real focus point you’re getting to the Mel Myler point, which is helping kids everywhere. If there’s a wealthy person in Wolfeboro paying 1%, that’s not great policy.

Dave – why would that be preferable to just getting a mortgage from a bank? Bill – that is an alternative now, and in a pure market-based thinking, that is exactly the way it would work. In fact, my personal experience is that there are a tremendous amount of people who would be eligible but have obstacles, either through the market itself or whether it’s cultural.

Chris – the article sent out with this agenda last night does such a good explanation of this issue, and shares some of the research related to that. Why it has to be something more age than income related, especially given what it takes to make it work, thought that article was extremely enlightening along those lines.

Dave – so would one of the qualifications be age? Chris – if you had both working together, one for low income, one for age, that article explains why it is important to make it available across the board. Comes from an age perspective, but to me we have people falling into that category, including those in donor towns, where their homes are the primary source of their wealth. When we’ve had escalations—last month the median price of homes went up $200k in what sold—the pressure on property is going fast and because we have to keep up with our coefficient of dispersion it’s moving quickly. So having multiple targeted mechanisms is important.

Dick – We’ve been focusing here on homeowners. What about renters? If you have a significant portion of homeowners who will have taxes reduced/delayed but you have landlords passing costs to renters, how would you treat that? Bill – I struggle with that. I have been in other areas of tax policy where the person paying is the landlord, but the person you’re focusing on is a contractual party to the landlord (the lessee). Would NOT want to see where the policy is sold as helping renters be able to stay in rented households but what you’re really doing is increasing the rate of return for the landlord. Have tried before to create rules to enforce that pushdown, but it is hard to do. It gets complicated and is a tension. It’s an absolutely important consideration, renters
should receive some support. Whether it’s through a property tax program or a renter support program, is the question. Dick – I think that’s the way to go, but how to structure is hard, and in MA they have an income tax to help calculate. Dave – I think it would be good to reach out again to Daphne Kenyon and seeing what other states are doing with this. Hopefully we don’t have to reinvent the wheel.

Dick – I think that a relief program across the rental group and homeowner group is essential if we decide to go with a higher statewide property tax, and the funding for that has to be provided, which adds to the burden of what we are dealing with, that has to be borne by state revenues, some of which would come from the statewide property tax. If I could back up to MA Ch 70 – one other takeaway, their foundation budget is somewhere between 12-13k/per pupil, but also know their total spending per pupil is well above that level (~18-19k/pupil). Their hard commitment is to the foundation budget, and local decisions move costs above that. Here in NH with our education cost model, we are looking at predicted costs of around 17k/pupil, and we’ve left open the question of how the predicted cost translates into a hard state commitment. There needs to be some kind of translation/addressing of that difficulty. What is our hard commitment?

Dave – That is an adequacy work group conversation that has to happen. There is clearly starting to be a blending of fiscal policy and adequacy, but something else John said earlier is relevant in terms of simplicity and not getting too complicated in all this. I’ve said at other meetings, I am working on a few spreadsheets I’ve cobbled together, and some can look really complicated. That’s not at the end of the day something that will help towns and voters develop budgets. Whether it’s 100% of the cost model or a factor/fraction of that, and looking at some number of years, maybe a 5 year phase-in. Dick – I will look into more of what the phase-in looks like. Dave – we need to understand what MA looks like in future years in their model. Swinging back to the MA discussion, what has the MA 70 funding model done to help schools raise the money they need to provide an education for their students? At the end of the day, that’s the key part, and I think Dick’s question goes to that. We have an estimated cost model that gets students in every district to state average outcomes. We’re proud of our state average outcomes—is something greater or less than that the target? Price tags can be put on all of that.

Dick - ECM starts at state average outcomes, and have produced a predicted cost based on other variables of what it will cost to reach various outcomes. If you look at predicted costs town by town, you find a lot of towns that are achieving above average outcomes spending less. The hard commitment can be on the educational goal, and then there is a predicted cost. How you translate that into a commitment, maybe you don’t – you stick with the outcome goal but not necessarily require every town spend so much. Some towns may be more adept at finding ways to achieve above average outcomes with less money, and that is admirable. Dave – hearing that actual costs will not be equal to predicted costs, and therefore giving schools some flexibility to spend something other than the estimated cost model will have some value at the local district level.

Chris – That’s an interesting point. I believe one thing in MA is requiring expenditure on education of their predicted amounts. Would be interesting to know their discussion and how they arrived at that – assume they saw abuses on that. Dick – other thing that should be part of my homework is the leeway on the cost side, what triggers a state audit of a school district. Chris
– they classify their schools into 4 categories, would be interesting to see if there are different levels of leeway in those categories. Dave – do you mean MA is required to spend the foundation amount of their total costs? Chris – if I read correctly, have to spend minimum predicted costs, can spend more. But would be interested in Dick following up on that.

Dave – for comparison, predicted costs would be like what we have in the AIR model, but the foundation cost is something like 2/3 of that. Chris – but remember they set that as an aspirational proportion. Obviously that came out of negotiation but didn’t have an empirical basis. Dick – I’ll try to chase that down.

Dave – while we’re still talking MA, did we get any information on what they are doing as far as property tax relief? Dick – A big question. They have credits, and various localities have their own exemptions. Complicated. Dave – looking at it from a comprehensive standpoint, how spending is required, what’s happening in year one to year seven, and what are the property tax relief package and does that ramp up?

John – they do cap property tax growth absent a supermajority (Prop 2 1/2 ). I think one thing we ought to think about is if we’re going to pump a lot of money throughout state, do we want to try to limit property tax growth? Dave – that’s a clear fiscal policy question. Do we have a way to get a 50 state scan on that? John – I can take a look for that.

Dick – this may be asking too much, but it might be helpful to do a careful side by side pros/cons of the pure statewide education property tax and the local minimum contribution option, compare the two. We’ve focused in on the excess issue, and presume that whatever one would do in terms of tax relief would be applicable on both sides. Why is one better than the other, or maybe, what are the differences between the two so that we can compare.

Mel noted that property tax relief is really fundamental to this work. Some discussion of the LSRs included as part of the background information for this meeting.