Fiscal Policy Recommendations: Principles & Policy Considerations

Based on expert and public testimony and the group’s deliberations, the fiscal policy work group of the Commission to Study School Funding arrived at several consensus fiscal policy principles and considerations that should guide the work of future legislative action:

- New Hampshire is required by its constitution to enact taxation that is both reasonable and proportional, and any system created by the legislature to fund education must follow those requirements.

**Student Equity**

- The cost of the opportunity for an adequate education varies by student needs and community characteristics and can be made equitable through differentiated state funding
  - Accountability and performance measures should be created to assure that districts are making effective use of state funds
    - The opportunity for an adequate education, in the view of the Commission to study school funding, is the opportunity to achieve state average education outcomes, a target which is both tangible and measurable

**Fiscal Neutrality**

- The state’s funding system should seek to minimize the relationship between the wealth of a community and the revenues and expenditures of schools in that community.
- The state should not determine its obligation based on a specific percentage of the statewide cost of education, but rather based on principles of student and taxpayer equity

**Vertical Taxpayer Equity**

- To the extent that the state contribution to education is funded through a statewide non-utility property tax, the State Property Tax is a state tax and should be remitted to the state treasury/education trust fund.
  - It should be applied with the same tax rate for all taxable properties across the state, including properties that qualify for current use.
  - Tax dollars should be collected locally to avoid complications and duplicative collection processes
  - The state should provide exemptions/rebates directly to taxpayers statewide
  - It should incorporate relief provisions for low to moderate income residential homeowners across the state through a redesign of the existing low income property tax relief program
The local property tax should continue to play a significant role in financing the total cost of public education, subject to the following requirements:

- The state should adopt statewide relief provisions for low to moderate income residential homeowners across the state and such provisions should protect municipalities from cash flow disruptions.

- The delegation of taxing power to local municipalities enhances the vesting of local communities in their local public schools, and such vesting is a positive force for the maintenance and improvement of public school quality.

- It is axiomatic that because the value of real property differs across communities, and different voters across communities, that use of local property tax will result in different rates among communities, but such rate differentials are acceptable as long as the state budget contribution, coupled with the more progressive state aid distribution formula, is sufficient to reduce unreasonable tax burdens in communities with lower property values.

**Horizontal Taxpayer Equity**

- Funding of constitutional adequacy should be provided by a combination of “state revenues” and “mandatory local required minimum contributions” and should not derive from local property tax revenues raised from local property taxes with disparate, locally set tax rates.

- “State revenues” that may be identified by the state to pay for a part of constitutional adequacy may include all state taxes, fees and enterprise fund revenues that are raised by the state for deposit into the state’s education trust fund or general fund.

- The formula for distributing state budget money to school districts and municipalities should direct greater state aid to districts and municipalities that are determined based on outcome measures to have greater need in terms of outcome measures relevant student characteristics – e.g., economically disadvantaged, special education eligible, English language learners – and relevant community characteristics – e.g., district size and municipal property wealth.

- The state should enhance taxpayer equity through property tax relief targeted to homeowners and renters through a low- and moderate-income property tax relief program. This program should include updated limits to income, home value, and net worth, and be satisfactorily funded by the state. A property tax deferral program managed by the state for residents with limited ability to pay should also be introduced.

**Implementation**
Changes should be phased-in, with an emphasis on student equity (the opportunity for statewide average outcome) and horizontal taxpayer equity (property tax relief and deferral programs.) A transition plan should be developed that begins at existing local and state funding levels.

Other principles

- Local districts should remain in control to raise and appropriate the school district budget, comprised of local, state, federal and other revenues
  - Local municipalities/districts should not be prohibited or disincentivized to raise additional funds beyond state dollars and required local minimum contributions to support local schools.
- There should be an incentive (via a state education grant) for districts to comply with local tax effort requirements
- Municipalities should continue to administer and collect the state property tax, but the revenues should be remitted to a state account for redistribution in accordance with the new, more progressive distribution formula in a manner that protects municipalities from cash flow disruptions.
- The percentage of statewide funding of the total statewide cost of an adequate education (including Special Education Aid and CTE Aid), should be increased over time to levels consistent with other New England states (e.g., approximating the Massachusetts state share of Massachusetts total public education costs.)

Policy Considerations

- To better create equitable funding mechanisms, the legislature should consider asking the Department of Revenue Administration to collect and organize data appropriate to determine taxpayers’ capacity to pay.
- “Mandatory local minimum contributions” that may be identified by the state to pay for a part of constitutional adequacy should be defined in a way that is equivalent to the Massachusetts Chapter 70 definition but the income weight used in MA may be excluded; the NH mandatory local minimum contribution for a municipality would therefore be calculated by applying a uniform statewide rate against the municipality’s local real property tax base to raise an amount equal to the municipality’s assigned (based on equalized property values) share of a total statewide targeted local share.
  - Consider floors (10%? 15%?) and caps to the mandatory local minimum contribution (82.5%? 87.5%?, 95%?)
• There was not substantial discussion on a statewide property tax growth cap, but there also did not appear to be wide support for such an initiative

Recommendation: The SPT should be collected by the municipal tax collector and remitted in full to the NHDRA. State grants using SPT revenue should be done on the basis of student equity and taxpayer equity purposes.

Recommendation: State funds should be applied to assist locally raised funds to assure student equity.

Recommendation: Additional state funds should be directed to property tax relief and deferral programs.