

# Our Schools, Our Kids: Achieving Greater Equity for New Hampshire Students and Taxpayers

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## A REPORT FROM THE COMMISSION TO STUDY SCHOOL FUNDING

Submitted to the New Hampshire General Court  
December 1, 2020

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## FORWARD

This is the final report of the Commission to Study School Funding. The Commission was established under New Hampshire law in the 2020-2021 state budget. Following a later-than-expected start, the Commission met in person during the months of January and February, and then moved to remote meetings from April through November. In all, 90 public meetings totaling over 180 hours were held, including workgroup and full Commission meetings.

We have a lot to be proud of in New Hampshire when it comes to our public schools. On average, our kids perform among the best in the country. So, what's the problem?

Averages do not tell the whole story. Our students in some places do very well, while students in other places struggle. I think we can all agree this is not just a problem limited to our communities; this is a problem for our economy, our workforce, our businesses, and the civic health of our state.

To understand and solve a problem as complex as school funding, we used an approach called Design Thinking. Rather than starting with a specific number or percentage, we began from a point without preconceptions or politics. The Commission took steps to understand the problem, explore possible solutions and then develop the best solutions to solve the problem. An important benefit of using a Design Thinking approach is that it begins with the question, What does the end user need? In this case, our "end users" are first and foremost students. Residential homeowners who pay property taxes, municipal officials, and educators are also key stakeholders in the matter of how we fund our schools.

It took nearly eight months of investigation, research and public engagement in order to understand the problem. For the first time in decades, this Commission engaged a national research team with expertise in education, public policy, and data analysis to help us understand the problem. We engaged focus groups from around the state, including civic leaders, educators, taxpayer associations, youth, senior citizens, and the public to learn their perspectives on the problem and receive feedback on potential solutions.

This report lays out the problem in its findings, but it can be summed up in two words, *student equity*. The report also offers examples of how to solve the problem, but most importantly, establishes key principles that become the foundation for a solution. Ultimately, it is up to the political process to enact legislation to solve the problem, and I hope the Governor and lawmakers will find this report to be useful in that endeavor.

A big thank you goes out to the members of the Commission for the hundreds of hours of their time and for their active engagement. Another big thank you goes out to our core team of researchers from the American Institutes for Research for their attention to detail, data-driven analysis, and for the effective communication to link their findings to tangible policy principles. And many thanks to so many people who attended the meetings, visited our website, and

contributed to the trove of public comments about the work. The public comment is a substantial part of the body of work and consideration in this report.

Finally, none of this would have been possible without the support and guidance from the Carsey School of Public Policy at UNH, specifically the leadership from Jordan Hensley, Dr. Carrie Portrie and Dr. Bruce Mallory. Jordan, Carrie and Bruce organized the work path, managed the calendar of meetings, reached out to national, regional and state-level experts to inform and advise the commission, coordinated a substantial process of public input, set the rules of engagement for productive dialogue, prepared this report, and helped Representative Myler, Senator Kahn, and me stay on track and follow the evidence. I hope you will find this report is a meaningful step to achieving the goal of finding an equitable way to fund public education for all our kids.

Rep. David J. Luneau, Chair  
Commission to Study School Funding

**EXECUTIVE SUMMARY**

Draft for Discussion

## HOW THE COMMISSION APPROACHED ITS CHARGE

As part of the final budget resolution enacted by the New Hampshire General Court at the end of the 2019 legislative session, RSA 193-E was amended to create a Commission to Study School Funding. The General Court recognized that the long-time challenge of funding New Hampshire's public schools, resulting in both legislative and judicial efforts to ensure proportional and equitable financing, demands intensive study in order to create legal and sustainable solutions. At the end of the 2019 session of the New Hampshire General Court, the Commission to Study School Funding<sup>1</sup> was established. The Commission was appropriated \$500,000 to support comprehensive research and public engagement processes that would result in policy recommendations for consideration in the 2021 legislative session. The Commission was created by [HB 551](#) and the Commission's charge was outlined in [RSA 193-E:2-e](#) under Title XV Education, Chapter 193-E Adequate Public Education.<sup>2</sup>

The Commission's main charge is to, "review the education funding formula and make recommendations to ensure a uniform and equitable design for financing the cost of an adequate education for all public school students," ([RSA 193-E:2-e](#)). The Commission consists of 16 members and one alternate appointed by the Speaker of the House, the President of the Senate, the Governor, and the Commission chair. Six of these are public members (not currently serving as legislators). The Commission is chaired by [Representative David Luneau of Hopkinton \(Merrimack—District 10\)](#). Commission members include:

- Rep. Mel Myler – Merrimack, District 10
- Rep. Dick Ames – Cheshire, District 9
- Rep. Rick Ladd – Grafton, District 4
- Sen. Jay Kahn – District 10
- Sen. Jon Morgan – District 23
- William Ardinger – Attorney, Rath Young Pignatelli
- Jane Bergeron-Beaulieu – NH Association of Special Education Administrators
- Corinne Cascadden – Retired Superintendent of SAU 3
- David Ryan – Superintendent, SAU16
- John Beardmore – Former Commissioner, Department of Revenue Administration
- Iris Estabrook – Former State Senator
- Barbara Tremblay – Retired superintendent, SAU 29, SAU 62
- M. Christine Dwyer – Vice President, RMC Research
- Susan Huard – Interim Chancellor, Community College System of New Hampshire
- Val Zanchuk – Past President, Business and Industry Association
- Rep. Mary Heath – Hillsborough, District 14 (alternate member)

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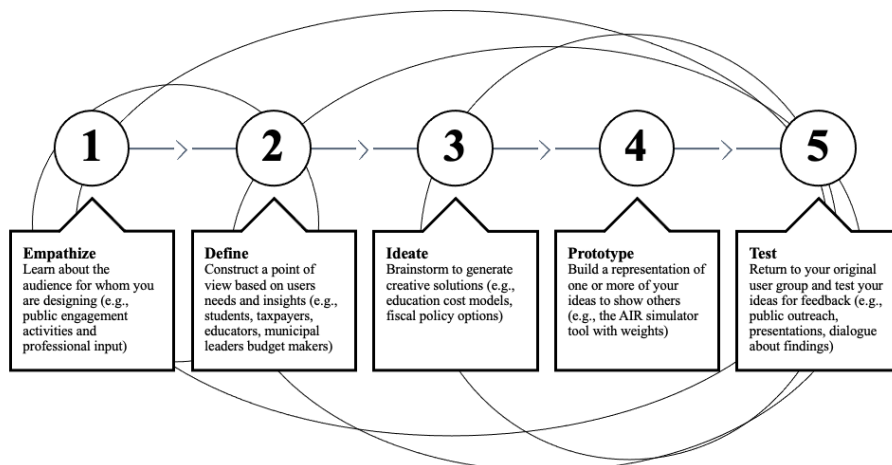
<sup>1</sup> <https://carsey.unh.edu/school-funding>

<sup>2</sup> <http://www.gencourt.state.nh.us/rsa/html/XV/193-E/193-E-mrg.htm> and [http://gencourt.state.nh.us/bill\\_status/billText.aspx?sy=2019&id=430&txtFormat=html](http://gencourt.state.nh.us/bill_status/billText.aspx?sy=2019&id=430&txtFormat=html)

## Design Thinking Approach to Study School Funding

From the beginning, this Commission to Study School Funding in New Hampshire sought to use a design thinking approach to find long-term, sustainable policy solutions for students and taxpayers across the state of New Hampshire. Design thinking has been used for decades to help with innovative problem solving in many sectors. According to Rebecca Linke’s explanation in the MIT Sloan School of Management blog “Ideas Made to Matter,” it takes certain skills, creativity, and setting aside preconceived notions to critically engage with others in, “modeling, analysis, prototyping, and testing, and to really learn from these many iterations.”<sup>3</sup> This approach allows for innovation and for the people involved **to think big and be bold using a non-linear, iterative process**. The frame in Figure 1 guided the Commission’s approach to design thinking (see Appendix D for the questions guiding the Commission’s design work). The first steps of which are to learn more (or understand) and define the problem.

Figure 1. Overview of the Commission’s Design Thinking Process



## Understanding and Defining the Problem

According to the [American Institute of Research \(AIR\)](https://mitsloan.mit.edu/ideas-made-to-matter/design-thinking-explained)'s final report<sup>4</sup> prepared for the Commission, school funding formulas should in theory accomplish two goals, “Account for differences in the costs of achieving equal educational opportunity across schools and districts based upon the children they serve (e.g., some districts serve larger shares of students who are disadvantaged than others), and “Account for differences in fiscal capacity, or the ability of local

<sup>3</sup> MIT Sloan School of Management, Linke, R (2017, September 14), Design thinking, explained. <https://mitsloan.mit.edu/ideas-made-to-matter/design-thinking-explained>.

<sup>4</sup> [https://carsey.unh.edu/sites/default/files/media/2020/09/20-12685\\_nh\\_final\\_report\\_v10.pdf](https://carsey.unh.edu/sites/default/files/media/2020/09/20-12685_nh_final_report_v10.pdf)



jurisdictions to pay for the cost of education (e.g., their ability to raise local revenue, mostly via property taxes) (p. 12). AIR also asserts that municipalities and school districts have differential needs and “vary widely” regarding wealth and their abilities to raise funds through residential property taxes, two factors that are often linked. Furthermore, the linkages between these two factors leads to the likelihood that districts with less property wealth will have higher concentrations of students living in poverty or in need of programs like free and reduced lunch. AIR noted in their report that they and colleagues have begun to understand in recent years that state school funding systems should not focus on providing the same financial resources to every district but rather attend to equitable funding and distribution for the statewide benefit of taxpayers and students<sup>5</sup>. Currently, New Hampshire’s school funding system does not attend to equity in this manner for either group. In fact, the system is considered regressive rather than progressive<sup>6</sup>. The authors further explained that a regressive system leads to districts with less property wealth to have to tax themselves at higher rates to achieve similar levels of funding as wealthier districts in order to achieve comparable student outcomes.

Taking into account this background information, the Commission’s charge, and the local realities of New Hampshire school funding, the problem the Commission addressed is how to ensure that all students, regardless of where they live or what their challenges are, have a fair and reasonable opportunity to achieve at the same level as their peers. This will require that some students, and the districts where they are educated, have access to differential resources that can “level the playing field.” At the same time, Constitutional requirements for uniform and proportional taxes (in this case the property tax) must be a part of any school funding formula. Thus, the Commission worked to achieve an understanding of how to arrive at greater fairness in outcomes for students and greater fairness for taxpayers who live in communities with a wide range of property values around five main dimensions: equity and disparity issues, revenue issues, funding formula and distribution issues, definitions of adequacy, and student outcome issues with the following initial logic model.<sup>7</sup>

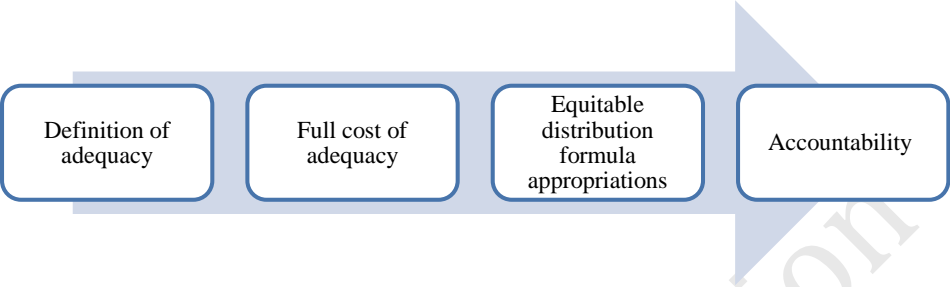
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<sup>5</sup> (Baker & Green, 2008; Baker & Levin, 2014), see AIR report page 12 at for the verbatim language. This section is paraphrased from the report [https://carsey.unh.edu/sites/default/files/media/2020/09/20-12685\\_nh\\_final\\_report\\_v10.pdf](https://carsey.unh.edu/sites/default/files/media/2020/09/20-12685_nh_final_report_v10.pdf).

<sup>6</sup> This conception of equity can be formalized by defining school funding systems that systematically provide more resources (revenue) to districts with the highest student poverty rates as being relatively “progressive.” Conversely, those systems that tend to provide fewer resources to districts with the highest student poverty rates are considered to be relatively “regressive.” (Atchison, Levin, Baker, & Kolbe, 2020, p.12) [https://carsey.unh.edu/sites/default/files/media/2020/09/20-12685\\_nh\\_final\\_report\\_v10.pdf](https://carsey.unh.edu/sites/default/files/media/2020/09/20-12685_nh_final_report_v10.pdf).

<sup>7</sup> See **Understand the Problem working documents** under Commission meeting materials (March 9<sup>th</sup>, May 7<sup>th</sup>, June 8<sup>th</sup>, July 27<sup>th</sup>

Figure 2. Definition of the Problem Logic Model



To better understand the problem and engage in design thinking, the Commission worked all together during full Commission meetings and as three workgroups that would address the three main areas of inquiry: Public Engagement, Adequacy and Distribution, and Fiscal Policy. The Commission contracted with the [University of New Hampshire’s Carsey School of Public Policy](#), including its public engagement program [New Hampshire Listens](#), to provide staff and capacity to support its various activities (see Table 1 for an abbreviated timeline).

Table 1. Commission Timeline January 2020 to December 2020

Winter-Spring 2020	Review of past reports, collection of existing data Presentations by state agency staff
Spring – Summer 2020*	Research and analysis by national experts Early modeling of new funding methodologies Presentations by state agency staff Statewide public engagement activities
Summer – Fall 2020	Statewide public engagement activities Complete research and analysis Identify policy option(s)
Report to the General Court: December 1, 2020	

\*meetings went remote due to COVID-19, shifts in plans occurred

**Expert Opinion and Input and Hours Committed to Meetings**

The Commission members sought local perspectives, expert opinions, and committed numerous hours to meetings over 11 months (see [Appendix](#) for full listing). The Commission invited professionals from both the public and private sectors to give presentations and engage in conversations about the key topics and considerations of school funding in New Hampshire. The Commission received input from a wide range of stakeholders. The Commission gained initial

insight from the [National Conference of State Legislatures](#) in January 2020, who reviewed approaches to study school funding and developing cost models that would help provide all students an opportunity for an adequate education in New Hampshire. The approaches included:

Input-based (resource oriented methods)

- Professional judgment
- Current spending by high-performing schools (if these schools can produce high achievement, they must be using their resources effectively)
- Qualitative, case examples

Output-based (performance oriented) methods

- Successful schools, case examples
- Current spending by high-performing schools

Evidence Based

- Spending and other variables and performance outcomes
- Correlational, linear
- Descriptive

Education cost function

- Spending and other variables and performance outcomes
- Correlational, linear
- Quantitative, model-driven

The Commission also gained some initial insight from the [Education Commission of the States](#) in early March 2020 to understand school funding policies in other states challenges and developed solutions. The Education Commission of the States provided high-level overviews of state funding in the United States, a closer-look at Vermont, Massachusetts, and New Jersey, and some background on outcomes-based approaches to school funding.

The public engagement activities began in June 2020 after the Commission shifted to remote/online meetings. They included: a survey of public school staff, public commenting sessions, questions on the Granite State Poll, and a number of focus groups – local leaders, students, senior residents, and taxpayer associations (see engagement section of the report for further detail). The Commission also heard from a number of professionals which are listed below. The full calendar with speaker names, agenda items, and documents are in [Appendix](#) and can be found on the Commission website).<sup>8</sup>

- **National Conference of State Legislatures -- Possible Methodologies for Studying School Funding**
- **Court Decisions** with the NH Department of Justice and NH School Funding Fairness Project
- **Overview of federal funding streams** –“What are the federal funding streams for Pre-K to 12? How are they allocated?” (NH Department of Education, Director, Education Division of Education Analytics and Resources)

<sup>8</sup> <https://carsey.unh.edu/school-funding/resources-and-meetings/meeting-documents-video>

- **Department of Revenue Administration** - “How does money flow from local communities to the state and back again through the adequacy grants?” (Commissioner, Department of Revenue Administration)
- **Education Commission of the States overview state funding of education – emphasis on VT, MA, & NJ** (Senior Policy Analyst, State Relations Strategist, and team)
- **The Whole Picture of Public Education in New Hampshire, Reaching Higher NH** (Interim Deputy Director and Director of Policy & Practice, Interim Executive Director, Communications Director, Data consultant)
- **School Business Officers Panel** (SAU 29, SAU 67, SAU 52) and **Special Education Directors Panel** (SAU 19, SAU 37, SAU 48)
- **Plaintiffs’ arguments in the current ConVal litigation** (Attorneys)
- **Behavioral Health Services in Schools** (NH Bureau of Children’s Behavioral Health Director, Bureau of Student Wellness Director)
- **Career and Technical Education** (NH Department of Education Director of Bureau of Career Development)
- **School Transition Reopening and Redesign Taskforce (STRRT)** (Rep. Mary Heath)
- **Early childhood and preschool education** (for Children, Youth & Families, Head Start State Collaboration Office Administrator, Endowment for Health Early Childhood Program Officer)
- **Statewide Education Property Tax (SWEPT) presentations and discussion** (Department of Revenue Administration Director and Supervisor Municipal and Property Division, Legislative Budget Assistant, State School Board Chair (2003-2005))
- **History of school funding and *The Property Tax--School Funding Dilemma, 2020 update*** (Resident Fellow, Lincoln Institute of Land Policy Resident Fellow)
- **Overview of school building aid** (Division of Education Analytics and Resources Bureau of School Safety and Facility Management Bureau Administrator,)
- **Overview of school funding formulae in New Hampshire** (NH Department of Justice Associate Attorney General)
- **Measuring Disparities in Municipal Economies and Fiscal Capacities** (NH Fiscal Policy Institute Executive Director, Senior Policy Analyst)
- **Low and Moderate Income Homeowner Property Tax Relief Statewide Property Tax and Phase-in Considerations** (Department of Revenue Administration Director, Supervisor Municipal and Property Division, Supervisor Municipal Bureau, Municipal Accounts Auditor)
- **Public Chartered Schools – Funding, adequacy, and relationship with traditional public schools** (Board President Alliance for Public Charter Schools)
- **Career and College Readiness** (Director of the New Hampshire Alliance for College and Career Readiness, Career and Technical Education Director, Concord Regional Technical Center)
- **Impact of Property Taxes on the City of Portsmouth** (Assistant City Attorney)

- **Conversation about Impact of Property Taxes on School and Municipal Services** (Mayor of Berlin, Superintendent of Pittsfield school district)
- **State’s Perspective on Possible Changes to the Statewide Property Tax** (NH State Treasurer, Chief Deputy Treasurer)
- **Municipal Perspective on Possible Changes to the Statewide Property Tax** (Government Finance Advisor at the NH Municipal Association)
- **Reaching Higher NH School Funding Survey Report** (Interim Deputy Director and Director of Policy and Practice)
- **English language learners—programming and fiscal topics** (NH Department of Education English Language Education Consultant/Title III, Nashua Director of Student Services and English Language Learning, NH Technical Institute, Academic Advisor and NH State-certified English Language Educator)
- **Property classification and taxing** – (Sen. Bob Giuda – Planned)
- **Conversation with MA Joint Committee on Education** (Chair, Research Director)
- **Granite State Poll Findings** (UNH Survey Center research associate, research assistant)
- **Key Features of the MA Chapter 70 Foundation Budget** (Rep. Dick Ames)

Overall, the Commission held 85 full Commission and work group meetings and 9 dedicated public comment sessions totaling just over 170 hours between January and December 2020. That number does not include time spent by Commission members working outside of public meeting times on briefs and reading the extensive materials collected, executive committee meetings, and public engagement activities facilitated by New Hampshire Listens on behalf of the Commission. This number also does not include the hours spent by people across the state and in previous Commissions who built a history and record that served as a foundation for understanding among 2020 Commission members.

## **A BRIEF HISTORY OF SCHOOL FUNDING IN NEW HAMPSHIRE**

### **Background**

As part of the final budget resolution enacted by the New Hampshire General Court at the end of the 2019 legislative session, RSA 193-E was amended to create an independent commission to study school funding. The primary purpose of the Commission is to “review the education funding formula and make recommendations to ensure a uniform and equitable design for financing the cost of an adequate education for all public school students” (RSA 193-E:2-e). Further, the Commission was charged with developing school funding policy that complies with court decisions calling for uniform revenue sources and fulfillment of the Constitutional requirement for a state-funded opportunity for an adequate education for all students. The Commission consists of 16 members and one alternate appointed by the Speaker of the House, the President of the Senate, the Governor, and the Commission chair. Six of these are public

members (not currently serving legislators). **Appendix X lists Commission members. Appendix X** provides the statutory charge to the Commission as enacted in the fall of 2019.

The report that follows is the first comprehensive analysis of school funding in New Hampshire supported by expert consultant advice since the [Augenblick Report](#) of 1984. The goal of that effort was to, “present a comprehensive school finance plan which is designed to achieve greater excellence and equity in education, and which could be implemented without new taxes.” The Report noted that, “There has been little attention to overall goals or an overall strategy [for school funding], and even less attention paid to the outcomes of these distribution patterns.” Thirty-six years later, the Commission to Study School Funding has worked diligently to create solutions to this long-standing policy challenge.

### **Judicial History**

The Commission’s work has taken into account a considerable history of litigation brought by plaintiff school districts seeking to change the way that New Hampshire funds its public schools. Plaintiff arguments have generally focused on the Constitutional provision found in Part 2, Article 83 -- “Knowledge and learning, generally diffused through a community, being essential to the preservation of a free government; and spreading the opportunities and advantages of education through the various parts of the country, being highly conducive to promote this end; it shall be the duty of the legislators and magistrates, in all future periods of this government, to cherish the interest of literature and the sciences, and all seminaries and public schools...” As cases have been adjudicated, court decisions have generally found that the state has not fulfilled its obligations under Article 83, due largely to the inequities that result from the high reliance on local property taxes as the primary source of funds for public schools. All relevant court arguments and decisions can be found under the New Hampshire School Funding Court Cases & Legal Resources tab on the [Commission website’s resource page](#).

It’s worth noting that similar litigation regarding how public schools are funded, especially when the primary revenue source is property taxes, has occurred in numerous other states. Court decisions in those states have generally sided with plaintiff school districts and ordered states to design more equitable forms of education financing so that students are not penalized for living in districts with limited capacity to raise property-based revenue. Many of these cases rely on the concept of “adequacy” as the benchmark for determining the minimum level of quality and scope necessary for students to achieve educational success. Analyses of efforts in other states to respond to court orders and to create more equitable school funding systems are found at <https://carsey.unh.edu/school-funding/resources>.

### **Legislative and Executive History**

School funding has been a subject of legislative and executive action since the first statewide property taxes to pay for local school budgets were set in 1905, when the statewide property tax rate was set at \$3.50. Over the past two decades, legislative studies committees and a Governor’s

commission have addressed the Supreme Court's findings regarding school funding. The most relevant studies include:

- [Commission to Analyze the Economic Impacts of Various School Funding Revenue Options](#) (2000), which analyzed a range of alternative revenue sources for school funding. These included a personal income tax, a state sales or gross receipts tax, a value added tax, a capital gains and excise tax, variations on the property tax, and revenue from legalized video lottery terminals. The pros and cons of each were weighed, but no conclusive recommendations were made. Additionally, the Commission put forward several criteria for judging revenue sources for school funding. These were:
  - Fairness (distributional equity)
  - Adequacy and stability
  - Competitiveness
  - Exportability
  - Neutrality
  - Simplicity
- [Joint Legislative Oversight Committee on Costing an Adequate Education](#) (2008), which calculated a universal cost of an adequate education based on the "per pupil resources [needed] to provide a public school student in New Hampshire with the educational opportunity required under RSA 193-E:2-a." The inputs to be used for the calculation include teacher salary and benefits; principal and principal assistant salary and benefits; guidance counselor; library media specialist; technology coordinator, custodians; instructional materials; technology (e.g. computers); teacher professional development; facilities operation and maintenance, and transportation. This codified the input-based cost formula contained in current statutes. The Committee also recommended the use of differentiated aid for student with greater educational needs, to be added to the universal base cost (\$3456 for FY '09). A kindergarten transition program was also suggested, in order to create incentives (rather than mandates) for school districts to expand the availability of public kindergarten.
- [Committee to Study Education Funding and the Cost of an Opportunity for an Adequate Education](#) (2018), which "evaluated the successes and shortcomings of the funding formula" and reviewed the formula with an eye toward increased costs not addressed in the 2008 universal cost base and addressed disparities in student performance relative to the funding formula. The Committee recommended an end to stabilization grants, a slight increase in the base adequacy amount, a flat increase in differentiated aid for students eligible for free and reduced price lunch, supplemental grants to school districts with below average equalized valuation per pupil (\$2500 per pupil for Title I schools).

Since 2008, a number of statutes have been enacted by the New Hampshire General Court impacting the definition and costing of adequacy and sources of revenue and distribution of funds for education. Included in this legislative activity are:

- [SB539](#) (2008): An act relative to the cost of an adequate education and provision of fiscal capacity disparity aid.
- [SB180](#) (2009): An act establishing an accountability system to ensure the opportunity for an adequate education and repealing the legislative committee on costing an adequate education.
- [HB338](#) (2011): An act allowing towns and cities to exempt farm buildings and structures from property taxation.
- [SB67](#) (2011): An act establishing a committee to study the implementation of an education tax credit plan in New Hampshire.
- [SB372](#) (2012): An act establishing an education tax credit.
- [SB401](#) (2012): An act relative to reporting the average daily membership of pupils in the public schools and relative to adjustments to adequate education grants.
- [HB2](#) (2013): An act relative to state fees, funds, revenues, and expenditures
- [SB350](#) (2014): An act relative to the transfer of adequacy aid estimates from the department of education to the department of revenue administration.
- [HB2](#) (2015): An act relative to state fees, funds, revenues, and expenditures
- [SB227](#) (2016): An act relative to calculating the cost of an adequate education.
- [HB354](#) (2017): An act making an appropriation to the department of education to provide additional adequate education grant payments to certain municipalities.
- [HB356](#) (2017): An act establishing a committee to study education funding and the cost of an opportunity for an adequate education, establishing a committee to study the organizational structure of the department of education and the duties and responsibilities of the commissioner of the department of education, and relative to the duties of the commissioner of the department of education.
- [HB386](#) (2017): An act relative to technical corrections to the education tax credit statute.
- [SB191](#) (2017): An act establishing keno and relative to funding for kindergarten.
- [HB1495](#) (2018): An act relative to standards for determining an adequate education.
- [HB1496](#) (2018): An act relative to requirements for performance based accountability for an adequate education and relative to reporting requirements for the civics competency assessment.
- [HB1674](#) (2018): An act relative to computer science and digital skills required for an adequate education.
- [HB1686](#) (2018): An act relative to applications for and the use of education tax credits.



- [SB539](#) (2018): An act making appropriations to the department of education for adequate education grants and relative to certain provisions for Medicaid waivers.
- [HB4](#) (2019): An act relative to state fees, funds, revenues and expenditures.
- [SB137](#) (2019): An act relative to the certification of school nurses.
- [SB276](#) (2019): An act relative to career readiness credentials for high school students.
- [HB130](#) (2020): An act relative to property tax relief for totally and permanently disabled veterans.
- [SB684](#) (2020): An act relative to Medicaid to schools.
- [HB1558](#) (2020): An act relative to discipline of students, addressing students' behavioral needs; kindergarten funding; violence in schools; policies for students with head injuries; child sexual abuse prevention education and training; authorizing the issuance of bonds or notes by a municipality; adding the chancellor of the university system of New Hampshire to the department of business and economic affairs council of partner agencies; change of school or assignment due to manifest educational hardship; school board expenditure of year-end fund balances; a children's system of care; student wellness; and criminal background checks for bus drivers.

## **THE COMMISSION'S RESEARCH PARTNERSHIP WITH THE AMERICAN INSTITUTES FOR RESEARCH**

Beginning May 12, 2020, the Commission contracted with the American Institutes for Research (AIR) to partner with the Commission in order to identify and collect publicly available data, identify appropriate methods for evaluating education opportunities and outcomes in New Hampshire, apply accepted school finance methodologies to recommend remedies for disparities in education opportunities and outcomes, model recommended options, provide a report to the Commission, and consult additionally as necessary through the Commission's deliberations. The Commission encourages any Granite Stater interested in the details of student equity in New Hampshire or school funding more generally to read through [AIR's final report](#) and the [materials](#) they provided to the Commission.

### **Key Findings**

AIR laid out five key findings in its report:

- The state's current system is inequitable from both student and taxpayer perspectives.
- Districts with higher incidences of economically disadvantaged students, students in special education, and more English learners performed worse on average than those with fewer students with those characteristics.

- Districts with higher needs and small districts require more spending per student to achieve a common desired level of student outcomes.
- AIR created a weighted funding formula that allocates funding to districts according to the costs facing each district. The formula results in a distribution of funding that provides more resources for high-need districts, recognizing the higher cost of education in these districts compared to lower-need districts.
- The state could more equitably generate revenue for education through a statewide property tax that collects revenue centrally and distributes the revenue according to the formula.

Several key figures below illustrate AIR's key findings. In the first, AIR shows the relative spending compared to the relative poverty of districts, finding that New Hampshire is extremely regressive—that is to say, provides less revenue to districts with the highest needs—and more regressive than its neighbors across New England. A more progressive education funding system would provide more revenue to those districts with greater needs. The charts of Massachusetts and Vermont are examples of more progressive funding systems. The second figure shows the relationship between local property tax rate and equalized valuation per pupil, showing that in general the property wealth of a community highly influences its local education tax rate. The third shows the negative relationship between district outcome scores and shares of free and reduced price lunch eligible students, pointing toward the need for greater support necessary to go to those districts. The final figure shows the relationship between the difference in actual vs state average outcomes and actual district spending vs predicted costs in AIR's model. It strongly indicates that the model developed by AIR is both producing reasonable cost estimates and identifying that those districts with less spending need more support to raise their student's outcomes toward state average outcomes.

AIR also created an Estimated Cost Model (ECM) that predicts education costs by district needed to achieve equitable statewide outcomes. The ECM should only be adjusted following the same calculations used to develop it, with consideration for the impact of any changes on students and school districts with the greatest education and financial needs.

## **Illustrative Exhibits from the AIR Final Report**

Exhibit 7. Progressivity of Spending in New Hampshire Compared With Other New England States

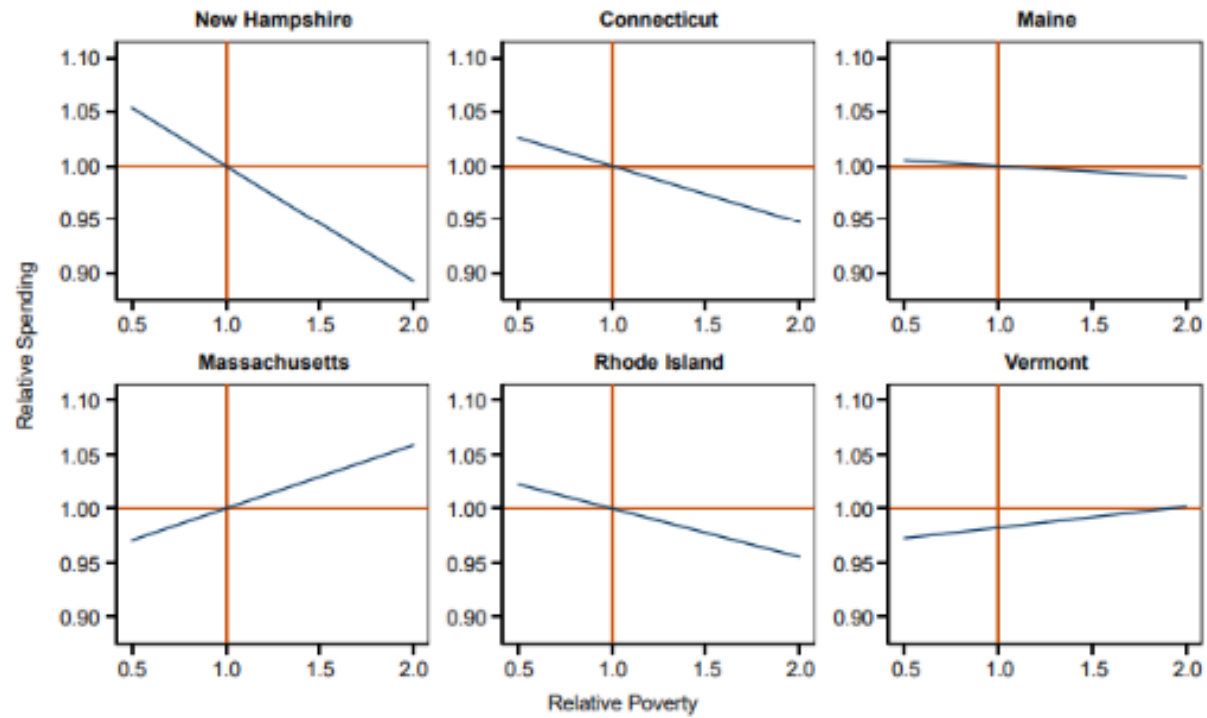


Exhibit 10. Property Tax Rates and District Property Wealth

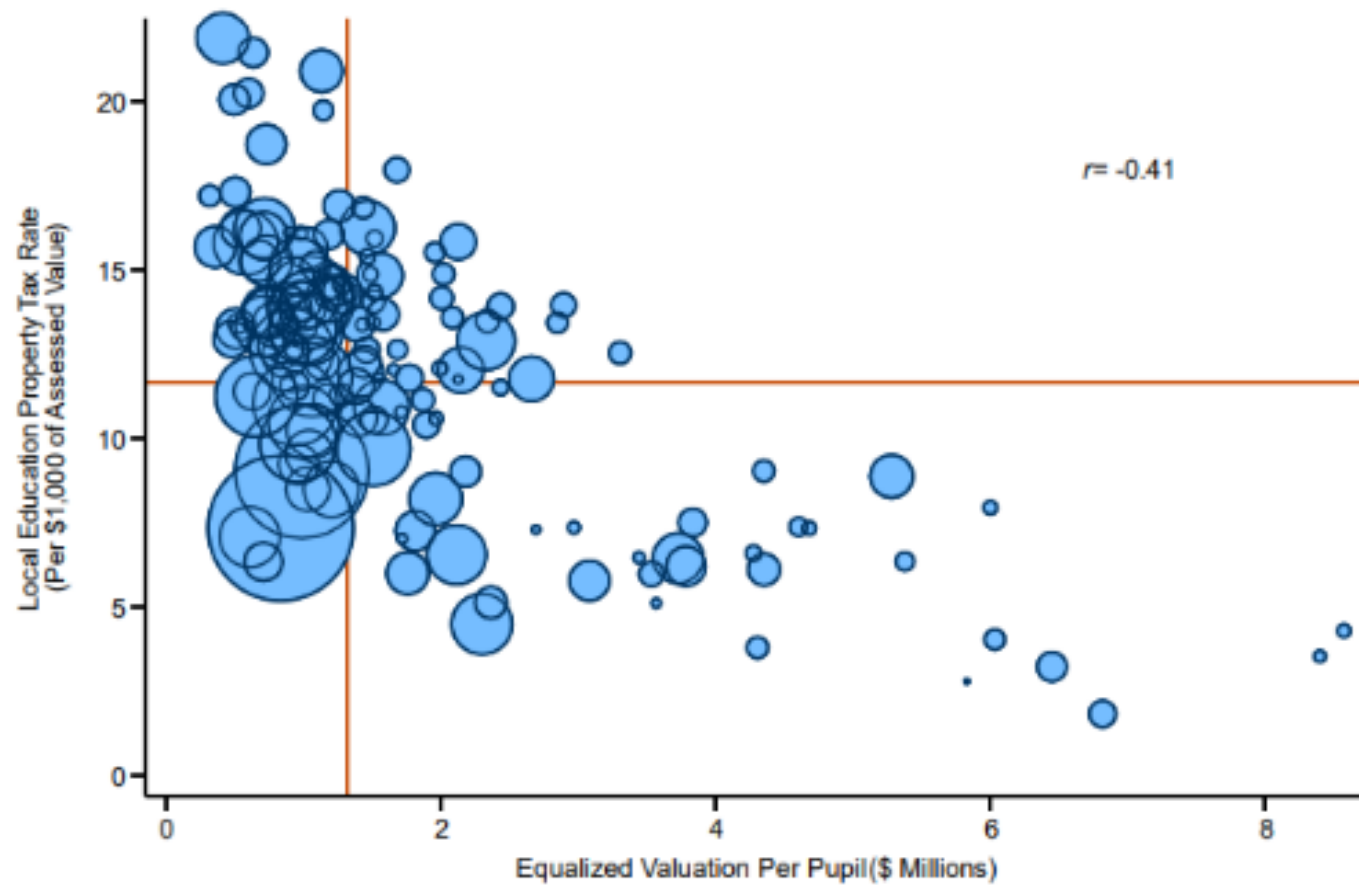


Exhibit 14. Relationship Between Student Outcomes and Free or Reduced-Price Lunch Rate

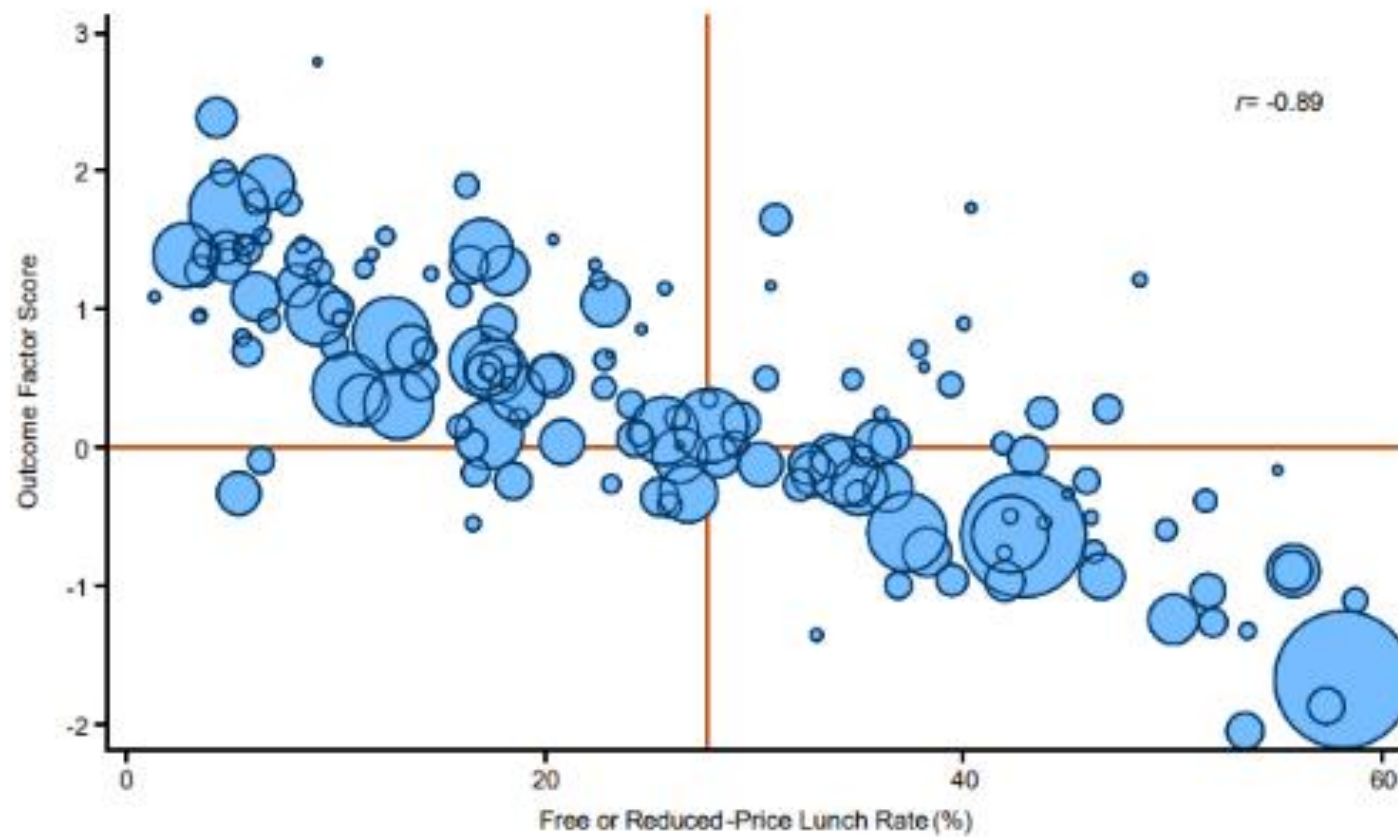
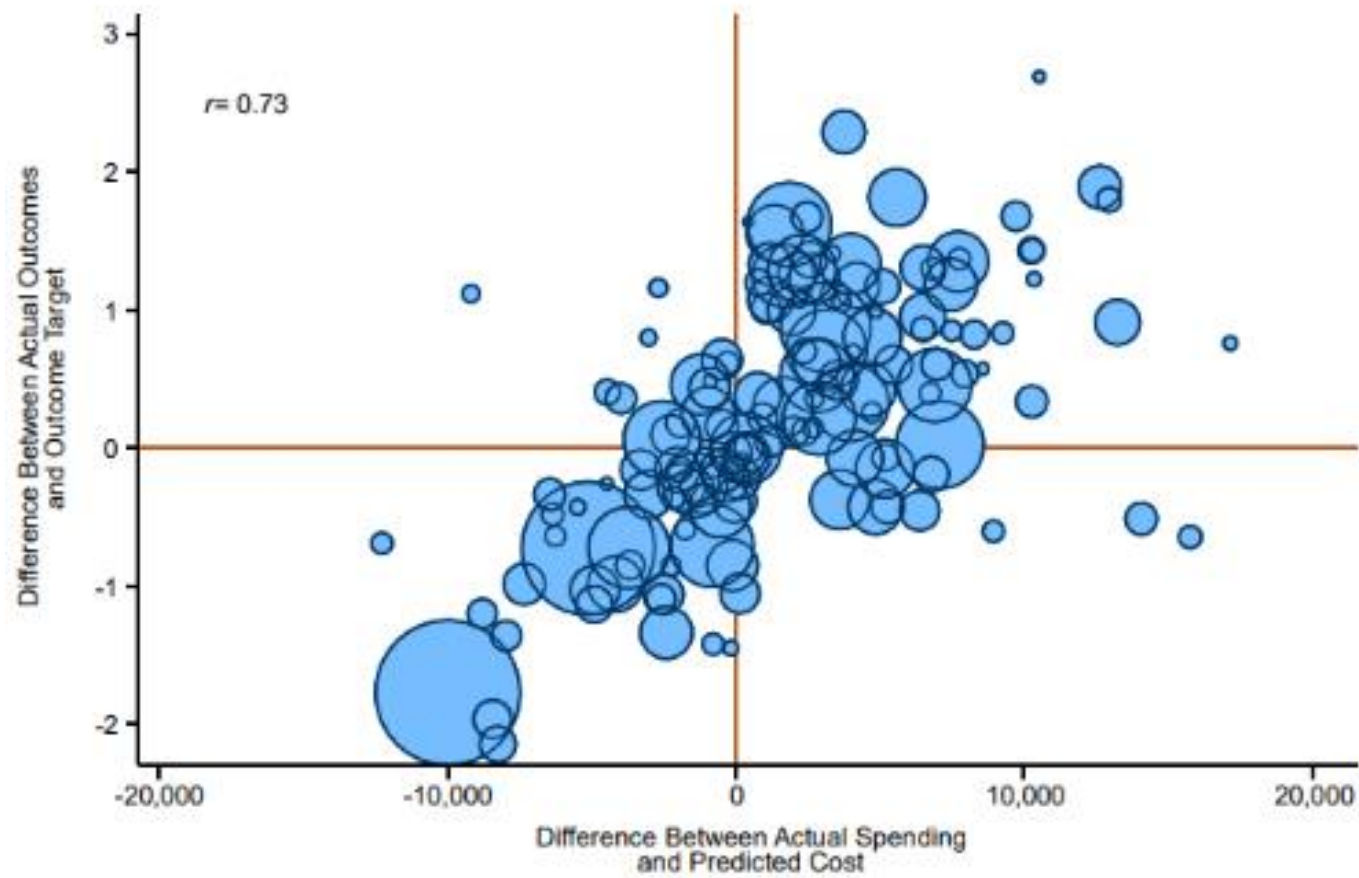


Exhibit 21. Outcome Gaps and Funding Gaps



## Research Materials Prepared for the Commission

As part of its work, AIR's research team prepared the following documents for the Commission:

- [AIR Final Report](#)
- [Costing Out an Adequate Education - A Primer](#)
- [Evaluating State School Finance Systems - An Introduction](#)
- [Using Cost Modeling to Inform Education Funding Formulas](#)
- [Setting Outcome Goals and Standards - From a Formal to Functional Definition of Adequacy](#)
- [State Finance Reform Vignette - Kansas](#)
- [Providing Adequate Funding Through Equitable Taxation - An Introduction](#)
- [State Finance Reform Vignette - New Jersey](#)
- [State Finance Reform Vignette - Vermont](#)
- [State Funding Formulas - A National Review](#)
- [Special Education Memo](#)
- [Considering Weight Adjustments to Account for Concentration of Student Needs Memo](#)
- [Eliminating the District Size Weight "Cliffs"](#)

AIR also created a [school funding simulator tool](#) to assist in the modeling of various potential school funding programs. The aforementioned documents, simulator, and documentation outlining how to use the simulator tool can be found on resource page of the [Commission's website](#). It is important to note that the simulator created by AIR is a tool for modeling and planning but should not be interpreted as a policy prescription.

## **PUBLIC ENGAGEMENT WORKGROUP REPORT**

### **Overview**

New Hampshire public school funding has been and continues to be a long-term policy challenge. Many have studied and discussed this for years, as the historical summary indicates. Taxpayers, students, parents educators, local and state policy-makers all play a role in the system. People who provided their thinking during the public engagement activities want New Hampshire to be a state where people can live within their means, find the resources they need, and have a public school system that prepares students for their futures. They are very aware that the financial resources that support public schools are primarily raised in local property taxes. They see the current funding system as flawed overall. It is also a system that many believe the public and decision-makers need better understanding about. The public further voiced the need to balance community needs, tax payer concerns, and for all students' to have an opportunity to an adequate education – the major concern, when stated briefly, are issues of equity for both students and taxpayers. This section of the report is an overview of public engagement efforts coordinated by New Hampshire Listens, a civic engagement initiative at the University of New Hampshire's (UNH) Carsey School of Public Policy. These qualitative findings provided the commission members with a sense of the public's knowledge, beliefs, and values regarding public school funding in the state. The findings offer an opportunity to discuss a funding formula based on student outcomes, a formula that can offer an opportunity for academic achievement at the state average of assessment. The findings further recommend a funding formula that considers the concerns of local property tax payers.

### **Initial Plans, Education Stakeholders Briefing, Determining Input**

New Hampshire Listens designed an engagement strategy to inform the public about the goals and activities of the Commission that would create pathways for input that could inform deliberations and decisions during the Commission's work. The key engagement activities originally anticipated during the Commission's work included stakeholder focus groups with municipal and school leaders, a statewide survey through the University of New Hampshire survey center, student voice summit, and statewide community conversations.

To begin this work, the Carsey School and New Hampshire Listens staff supporting the Commission gathered key stakeholders in March 2020 to provide an initial briefing about the Commission and its work. The 16 attendees represented the NH School Administrators Association, NH National Education Association, Career and Technical Education Advisory Board, NH Association of Special Education Administrators, NH School Boards Association, NH Charitable Foundation, Reaching Higher NH, Governor's Council on Diversity and Inclusion, and the NH Coalition for Business in Education. They provided their perspectives regarding:



1. What they would like the Commission to consider as it gets started
2. Their hopes for what will happen as a result of the Commission's work
3. The concerns they hold that they want the Commission to keep in mind

Key themes from this discussion included:

- Start with the realities and basics
- Unification, sustainability and equitable solutions for students and taxpayers
- Name disparities, challenges, and definition of adequacy
- Identify funding streams and contributors
- Keep in mind politics of communication and clarity of purpose/decisions
- Make creative and thorough solutions

### **Workgroup Tasks, Questions, and Engagement Activities**

Following this initial in-person gathering of stakeholders, all other public engagement efforts were shifted online due to the COVID-19 pandemic (summaries and details in Table 1). When the Commission re-convened remotely, the public engagement workgroup was formed and began to focus on the following tasks during workgroup meetings:

- Review specific plans for stakeholder, student, and public engagement (including design, key questions, and locations),
- Identify key groups to recruit to engagement events,
- Review input from engagement activities and review summaries of that input, and
- Identify key findings from all engagement activities (What did we hear from the people involved in these activities and elsewhere? How do the findings inform final recommendations?)

Workgroup members also generated a list of stakeholders who could provide input that would represent multiple points of views and experiences.<sup>9</sup> The following questions prompted discussion:

1. What stakeholders do we need to engage in the focus groups? (e.g., by position, advocacy area, interest area, racial and social identity diversity)
2. What are the questions we want to ask stakeholders?
3. What data do we need to share with stakeholders, so they can provide input?

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<sup>9</sup> Find the planning document here:  
[https://carsey.unh.edu/sites/default/files/media/2020/05/audit\\_stakeholderparticipation\\_final05212020.pdf](https://carsey.unh.edu/sites/default/files/media/2020/05/audit_stakeholderparticipation_final05212020.pdf).

The workgroup also generated questions and commented on the design of surveys and focus groups.<sup>10</sup> The questions for the public engagement activities focused on the following key areas:

- How the current funding system works from their experiences, perspective, and role(s)
- The most important factors in providing an adequate education to students across the state
- The components of an “adequate” education that should be considered as part of the base formula for calculating the cost of adequacy
- The positive outcomes for students across the state and how they should be measured
- Barriers that inhibit the opportunity to an adequate education in New Hampshire
- Understandings and perspectives about how public funding for schools is gathered and distributed (local and state distribution)

The workgroup met 16 times. Agendas, meeting materials, and minutes are available on the Commission website under each calendar date listed here: <https://carsey.unh.edu/school-funding/calendar>.<sup>11</sup>

- |                 |                      |                      |
|-----------------|----------------------|----------------------|
| • May 7, 2020   | • July 16, 2020      | • September 29, 2020 |
| • May 18, 2020  | • August 3, 2020     | • October 13, 2020   |
| • May 21, 2020  | • August 7, 2020     | • October 22, 2020   |
| • June 1, 2020  | • August 17, 2020    | • October 29, 2020   |
| • June 5, 2020  | • August 31, 2020    |                      |
| • June 15, 2020 | • September 14, 2020 |                      |

From March 2020 through late October 2020 a series of efforts occurred including two statewide surveys (Granite State Poll – random sample representative of the state and educator survey) and 16 focus groups (school and municipal leaders, youth, senior residents, tax payer associations). Table 1 provides the timing, number of participants, description of each activity, and links to each summary posted on the Commission website. These summaries provide details about participants and findings.<sup>12</sup>

<sup>10</sup> Find a planning document with questions here:

[https://carsey.unh.edu/sites/default/files/media/2020/08/schoolfunding\\_engagementquestionsmarch-sept\\_08262020\\_1.pdf](https://carsey.unh.edu/sites/default/files/media/2020/08/schoolfunding_engagementquestionsmarch-sept_08262020_1.pdf)

<sup>11</sup> Past October 29<sup>th</sup>, engagement discussions were integrated with fiscal policy and adequacy discussions and were addressed during full Commission meetings

<sup>12</sup> The draft designs for each effort is listed on this site under meeting documents. The documents are placed under the meeting date they were discussed – <https://carsey.unh.edu/school-funding>.

Table 1. Public Engagement Timing, Participation Counts, Efforts, and Summary Links

Timing	Count*	Effort
March 2020	16	<b>Education stakeholder briefings</b> <a href="https://carsey.unh.edu/sites/default/files/media/2020/10/schoolfunding_publicengagementoverview_pointscrosswalk_draft3_10262020.pdf">https://carsey.unh.edu/sites/default/files/media/2020/10/schoolfunding_publicengagementoverview_pointscrosswalk_draft3_10262020.pdf</a> .
September 2020	17	
June 2020	48	<b>Municipal and school leader online focus groups (x12)</b> <a href="https://carsey.unh.edu/sites/default/files/media/2020/10/draft_schoolfunding_municipalschoolleaderreprise_discussionguide_10112020.pdf">https://carsey.unh.edu/sites/default/files/media/2020/10/draft_schoolfunding_municipalschoolleaderreprise_discussionguide_10112020.pdf</a>
October 2020	15	<b>Municipal and school leader reprise briefing and discussion</b> <a href="https://carsey.unh.edu/sites/default/files/media/2020/11/schoolfunding_municipalschoolleaders_summary_11032020.pdf">https://carsey.unh.edu/sites/default/files/media/2020/11/schoolfunding_municipalschoolleaders_summary_11032020.pdf</a> .
July 2020	1,768	<b>School and District Employee (Educator) Survey</b> <a href="https://carsey.unh.edu/sites/default/files/media/2020/11/schoolfunding_educatorsurvey_allfinal_11042020.pdf">https://carsey.unh.edu/sites/default/files/media/2020/11/schoolfunding_educatorsurvey_allfinal_11042020.pdf</a>
September 2020	1,030	<b>Granite State Poll – statewide survey (UNH Survey Center)</b> <a href="https://carsey.unh.edu/sites/default/files/media/2020/10/2020_09_-_granite_state_poll_-_commission_to_study_school_funding_report.pdf">https://carsey.unh.edu/sites/default/files/media/2020/10/2020_09_-_granite_state_poll_-_commission_to_study_school_funding_report.pdf</a>
October 2020	11	<b>Senior resident focus groups (10/2, AM &amp; PM)</b> <a href="https://carsey.unh.edu/sites/default/files/media/2020/10/schoolfunding_seniorresident_summary_10122020.pdf">https://carsey.unh.edu/sites/default/files/media/2020/10/schoolfunding_seniorresident_summary_10122020.pdf</a>
October 2020	8	<b>Taxpayer association focus group (10/1)</b> <a href="https://carsey.unh.edu/sites/default/files/media/2020/10/schoolfunding_taxpayerssummary_10122020.pdf">https://carsey.unh.edu/sites/default/files/media/2020/10/schoolfunding_taxpayerssummary_10122020.pdf</a>
October 2020	21	<b>Student voice public comment (9/23, 10/7) and focus group (10/14)</b> <a href="https://carsey.unh.edu/sites/default/files/media/2020/11/schoolfunding_youthvoice_summary_11032020.pdf">https://carsey.unh.edu/sites/default/files/media/2020/11/schoolfunding_youthvoice_summary_11032020.pdf</a>
July–November 2020	~100	<b>Extended public commenting sessions beyond Commission meetings (x8)</b> Public comment session minutes and testimonies: <a href="https://carsey.unh.edu/school-funding/school-funding-study/resources/meeting-documents-video">https://carsey.unh.edu/school-funding/school-funding-study/resources/meeting-documents-video</a> . Dates to find minutes: 7/15, 8/12, 9/16, 9/30, 10/7, 10/14, 10/28, 11/18  A Summary of Public Comments: <a href="https://carsey.unh.edu/school-funding/resources">https://carsey.unh.edu/school-funding/resources</a>
<b>Overall Points and Themes Document for Discussion**</b>		<a href="https://carsey.unh.edu/sites/default/files/media/2020/10/schoolfunding_publicengagementoverview_pointscrosswalk_draft3_10262020.pdf">https://carsey.unh.edu/sites/default/files/media/2020/10/schoolfunding_publicengagementoverview_pointscrosswalk_draft3_10262020.pdf</a> .

\*New Hampshire Listens and Carsey School staff facilitated the discussions, and Commission members attended some of the activities to support briefing the public and answer questions. Each activity (minus the surveys) provided an overview of the Commission's purpose and work. The taxpayer association and senior focus groups also included local municipal leaders or those seeking election who were interested in learning more. In the case of public comment counts, many stakeholders provided comments multiple times. This is a rough count of comments during meetings, extended commenting sessions, via email, the feedback form on the website.

\*\*This summary does not include the Granite State Poll or municipal and school leader reprise summary findings.

### **Need for Further Educational Outreach and Opportunity for Public Engagement**

New Hampshire residents hold varying levels of understanding about school funding in New Hampshire. This is not surprising given the complexity. Participants in public engagement focus groups noted they attended because they either had substantial experience with school funding in the past and/or they wanted to learn more about the study and current system. The public engagement workgroup recommends efforts to provide additional public outreach and education about the Commission's findings and school funding in general. The workgroup brainstormed the following list of stakeholders as suggestions for outreach.

- Legislators learning exchange for new members
- Business and Industry Association
- Chambers of Commerce
- Business and education coalition
- NH Department of Education
- Superintendents
- Business managers
- Special Education directors
- City managers – NH Municipal Association
- Local city councilors and select board
- Editorial boards
- Higher education groups
- Career and technical education – 28 CTE directors/principals
- Groups representing marginalized communities – English language learners, NH National Association for the Advancement of Colored People (NAACP), Welcoming NH, Economic Vitality NH
- Young Leaders – youth organizations and leaders NH Youth in Government
- Parent and family voices groups – NH Family Voices, NH Partners in Education
- Former coalition communities.
- School Funding Fairness Project
- County commissioners
- Stakeholders representing educators and school district leadership and staff – School Board Association

Students, people advocating for educators, taxpayers, students, local and state decision-makers, elected officials and people running for local offices, joined public commenting sessions and engagement activities eager to learn more and offer their knowledge and perspectives. And it became clear that local and state-level decision-making among elected officials needs to be bolstered by public perspectives. Furthermore, more comprehensive knowledge about how school funding works is needed at multiple levels of New Hampshire's school funding system.

### **Key Findings from Engagement Activities**

Members of the engagement workgroup and Commission leadership, along with New Hampshire Listens staff drafted the following list of key findings after reviewing the engagement summary reports and overview of themes and points linked in Table 1. All Commission members had an opportunity to comment and suggest edits. This list serves three purposes (1) to share key points

and findings that resonated across public engagement activities completed during the Commission and (2) To help inform the adequacy and distribution and the fiscal policy workgroups reports, and (3) to connect policy-making recommendations with local thinking. The findings drafted by the engagement workgroup are as follows:

1. Education inequities in public school districts across the state was voiced clearly in each engagement activity. All public input recognized that the current funding system, dependent on local property taxes, does not provide an equitable opportunity for an adequate education for all students regardless of where they live.
2. The general public raised concerns about the reliance on property tax and the unequal application of taxes across the state when funding public schools. The current system of public school funding does not work in people's minds. A change needs to be made in the current revenue system for tax payers to seek property tax relief. There is a conundrum about how to raise funds for public schools. The reliance on local property tax to fund public schools is undesirable, but there is no consensus on an alternative form of revenue (see Granite State Poll report, page 6, linked in Table 1).
3. People had concerns about disparities in students' opportunity among districts and communities and made reference to the negative impacts on achievement. People showed concern for high poverty areas, communities that have higher racial diversity, and higher language diversity.
4. The public has varying understanding about how public schools are funded and how funds are allocated to school districts.
5. People agree that funding for public schools should be student-centered and based upon identified student needs and outcomes that will prepare students for diverse career and college pathways.
6. People raised concern about student needs during the pandemic and short- and long-term funding to meet those needs (e.g., food, health and safety, access to internet and technology, mental and behavioral supports). The needs raised existed prior to the pandemic, and public concern makes many of these needs more visible during this time.
7. Local educators often feel a lack of capacity to implement mandates or requirements from the state department of education or legislature because of the lack of funds or how funds are distributed. A couple areas that people mentioned included special education costs, mental and behavioral supports, and building safety – a focus on students mental and physical well-being while learning.

8. There is concurrence that the key to a quality education is a quality teaching staff. High turnover of staff impacts continuity in the quality of education in a public school district. Teacher retention and professional development is foundational to a quality education and student performance.

### **Connections to Policy Making and Implementation**

In addition to the broad findings listed in the previous section, the engagement workgroup also discussed connections to policy making, planning, and implementation.

**Staff quality, capacity, and numbers matter.** When schools have quality teachers and adequate staffing, the schools can offer curricular and extracurricular opportunities, which are important to students. During the engagement activities students noted that they love their teachers. They also want experiences in school that are beyond the basics and prepare them for future careers. This links to concerns about equity and outcomes noted by the public across the state.

**The current formula covers the current funding need.** However, there will be additional cost if SWEPT is collected by the state. Additional funding will be needed to support the Department of Education with staffing to insure accountability measures. Additional funding will also be needed. Building aid is sorely funded, when students and parents go to other schools they notice the inequity in facilities. How do we insure all students have a healthy and safe school environment to meet all student needs that cost more than what is currently on the table?

**Accountability measures need further discussion.** In reference to the Commission's research on developing an outcome-based model for funding schools and public engagement activities, workgroup members discussed the lack of clarity regarding accountability measures in the current funding model. Who determines outcome measures and levels of acceptable outcomes? Who monitors and supports the process? For instance, what can be learned from Title I guidance and oversight to help connecting accountability to the adequacy system?

**The culture of education and teaching is shifting.** There is an acknowledged need for equity and momentum in the state for educational improvements. Educators reminded the Commission that workforce development and diverse pathways toward careers is important. Schools are looking closely at students' needs and taking on a student-centered approach (e.g., family and community engagement, schools and districts engaged in competency-based teaching and learning, social-emotional and behavioral supports).

**Balance between local and state funding, grants, and partnerships aides sustainable funding across the state.** Municipal and school leaders spoke about sustainable funding in relation to certain districts' need to rely on grants and being unable to fulfill unfunded mandates put forward by the New Hampshire Department of Education or the legislature. Some of the areas mentioned by the public included mental and behavioral supports and personnel for

students, affording special education costs that include personnel and services for students with higher needs, building maintenance and repair costs, maintaining health and safety standards, and updating technology. For local leaders in schools and municipalities as well as school employees building aid is also a concern. Many school buildings are old and in need of repair.

**There remains a need for further discussion about taxpayer concerns and needs.** The research from the American Institutes of Research (AIR) has shown the cost of providing an adequate education differs among districts and communities, and the estimated cost model described may not necessarily relate to the fiscal capacity of a municipality of school district in its effort to focus on equitable students' outcomes. When looking at a municipalities' ability to pay, taxpayer inequities enter the conversation. People have concerns especially in districts with higher need rural, urban, and suburban. People in smaller and/or rural communities have concerns unique to their municipalities as well, such as maintaining the local elementary schools and contributing to cooperative or regional schools.

**People wonder about revenue sources.** For instance, the current revenue mechanisms may seem to satisfy the current needs but that may change – This is a question for people. The public wonders and discusses, what might be the new taxes on the table? Is there enough revenue right now? How are funds distributed to each district to meet diverse student needs and outcomes? How are the unique qualities of smaller municipalities considered in an effort toward both student and taxpayer equity?

**People on fixed incomes, including senior residents, may need local property tax relief.** This concern links to the work of the fiscal policy workgroup regarding circuit breakers. It links to potential policies that include a tax deferral program. In connection to public engagement, these may be very difficult and complex to organize and manage at the municipal level. The state could help make taxpayer relief more actionable.

Overall, the Commission's public engagement findings lend to the reporting and discussion of principles, findings, and recommendations gathered by the fiscal policy and adequacy and distribution workgroups. They also provide a point of reflection for Commission members and policymakers when reviewing the research, professional presentations, and full Commission report. A number of professionals from the state system presented to the Commission to support its and public understanding of the issue. The American Institutes of Research (AIR) also provided briefs that further support the public understanding of school funding in general, comparisons to other states, and a substantial report (<https://carsey.unh.edu/school-funding/resources>) which offers a shift in how New Hampshire views school funding – moving to a system that that thinks about the state's students as “our kids” versus yours or mine.

## ADEQUACY AND DISTRIBUTION WORKGROUP REPORT

### Findings

1. The opportunity for an adequate education is based on education that (a) conforms to the state's minimum standards and other state requirements for public education, (b) provides every student with the opportunity to perform at or above the state average student outcome level, and (c) appropriately responds to differentiated student needs and community characteristics.
2. New Hampshire average student outcomes are in the top 10 percent of all states. However, averages mask inequities across 234 towns and 177 school districts. As noted in the AIR report, "the highest poverty districts [measured by rates of Free and Reduced Lunch Program eligibility] in New Hampshire spend less money per student, on average, than more affluent districts." As a corollary, "Districts with higher property wealth spend more, on average, than districts with lower property wealth. This happens despite low wealth districts setting local property tax rates that often are well above the state average local education property tax rate." The Commission found that lower student outcomes are directly related to lower total spending per student which is in turn related to lower property valuations.
3. The Education Cost Model (ECM) adopted by the Commission is based on a formula that calculates the predicted total cost of education using factors specific to the school district, including information about the students who attend schools of varying sizes and at different grade levels. The application of differentiated weights for students receiving Free and Reduced Priced Lunch (a proxy for poverty), special education, English language instruction, who attend middle or high school, and who are in relatively smaller districts is an effective predictor of the cost of an opportunity to achieve at the statewide average student outcomes. The "base cost" is not a input-based calculation of many averages of expenditures schools incur to educate a student. The ECM produces a "base per-pupil cost", which represents the predicted cost per pupil for a district that faces none of the factors that put upward pressure on cost (e.g., a large district in a population-dense area with no students who are economically disadvantaged, ELs, or students with disabilities).
4. The current school funding formula (including differentiated aid) and current distribution processes are unable to address the goal of allocating funds in a way that addresses variations in student need as well as variations in local capacity to raise revenue to pay for public schools. Weights for differentiated aid should be aligned with the resources needed by students with greater needs to ensure every student has the opportunity to achieve statewide average outcomes. Based on the AIR findings, differentiated aid weights used to estimate the total cost of education should be as follows (all weights x base cost = per pupil cost):



a. Free and Reduced Lunch Program	1.49
b. Special education	4.29
c. English language learners	2.20
d. Enrollment	
i. Less than/equal to 200	1.08
ii. 201-600	0.57
iii. 601-1200	0.43
iv. 1201-2000	0.24
e. Enrollment in middle grades	1.42
f. Enrollment in high school grades	0.42

Base cost using FY 2018-2019 data equals \$5,868 (including transportation); this represents the portion of total average cost per student (\$17,000) not explained by the differentiated aid factors above. Base cost will need to be adjusted each biennium as stated in RSA 198:40-D.

5. The integrity of the formula is fundamental to distributing funds in a way that creates greater equity for all students. The ECM should only be adjusted following the same calculations used to develop it, with consideration for the impact of any changes on students and school districts with the greatest educational and financial need.
3. Resources available for career and technical education are inadequate and not consistent with the state's need for a prepared workforce.
4. Significantly reduced building aid distribution has resulted in a backlog of projects and a growing number of aged, inadequate, unhealthy school facilities. Such facilities have been found to be detrimental to positive student outcomes.
5. The costs of meeting special education mandates directed at local school districts are insufficiently matched by state funding.
6. The opportunity for quality early childhood education leads to documented positive educational and lifetime outcomes, especially for children from low income families.

### **Recommendations**

1. A student centered, outcomes-based funding formula that raises the opportunity for all students to achieve at current statewide average outcome levels should be adopted and phased in over the next three biennia.
2. Court proceedings over the past 30 years have asked the legislature to define constitutional adequacy. The Commission recommends that the legislature adopt a funding model that recognizes that the cost of constitutional adequacy varies by community and state funding should direct resources in a manner that addresses communities with the greatest need as determined by student outcome factors identified in this report.

3. Weights for differentiated aid should be aligned with the resources required by students with greater needs to assure they have the opportunity to achieve statewide average outcomes.
4. Access to career and technical education programming should be expanded, with full tuition and transportation support for students from sending schools.
5. Building aid funding should be restored to the previous 20-year distribution cycle, with an initial increase in the total amount of funds available in order to more quickly address the backlog of projects and thereby improve student outcomes. It is expected that a portion of building expenses will be contributed by local districts; the proportion of local contribution will vary with local capacity.
6. The current approach to funding special education students attending publicly chartered schools should be changed in order to assure that the district in which the student is enrolled has sufficient funding to cover the additional charges assessed by the chartered school on the district that exceed the weighted allocation received by the district.
7. Access to community and school-based early education programs should be expanded to enable all students a better opportunity to achieve an adequate education.

Commented [MOU2]: Do we know when this was last used

Commented [DL3R2]: I think it was changed in 2013. I'll confirm with Mary Ellen in OLS this week. Have an LSR in drafting now

#### Definition of the Cost of an Adequate Education

The Commission finds that the statutory definition of an adequate education should reflect the importance of assuring that all students have equal opportunity to achieve a comparable level of educational outcomes as their peers, regardless of the equalized valuation of property in their communities or their particular needs as learners. *Therefore, the Commission defines the cost of an adequate education as the predicted cost for each school district to provide every student with the opportunity to achieve the average statewide outcomes.* The Commission has defined average statewide outcomes based upon performance outcomes described in RSA 193-E:3: attendance rates; graduation rates; and scores on standardized achievement tests. This performance-based definition pegs the cost of an adequate education on outcomes, not inputs. The Accountability and Data Needs section later in this report offers several options for expanding these traditional measures to produce more nuanced ways of assessing student outcomes.

The Commission is making no recommendations to change the definition of an adequate education, as defined by existing statutes (RSA 193-E:2 and 2a and elsewhere) and NH Department of Education standards and rules. The criteria of the skills and knowledge of an adequate education, and the content that schools are required to deliver in their locally-determined curricula are not affected by an outcomes-based definition of the cost of providing an adequate education.

Implementation of an outcomes-based cost formula will require changes to 193-E:2b, Cost of an Adequate Education, which currently states: “The general court shall make an initial

determination of the necessary specific resource elements to be included in the opportunity for an adequate education.” The resource elements in an input-based formula is constructed on minimum inputs such as class size, teacher compensation, administrative support, technology, etc. The important question is not what class size might be or number of administrators in a school, but rather whether the school is producing student outcomes that achieve, or are progressing to achieve, statewide average student outcomes.

This outcomes-based definition will facilitate measuring the value of constitutionally adequate education, the term used in court proceedings, by defining the predicted costs for each district to achieve the designated standard of student-centered outcomes. In addition, an outcomes-based definition will facilitate accountability. Establishing standard student outcomes leads to consistent and timely assessment of relative district performance. An outcomes-based definition may also facilitate judicial review of the constitutional duty of the State.

#### Education Cost Model (ECM)

The Commission accepts the Education Cost Model (ECM) developed by AIR. The ECM creates student-centered, outcomes-based cost estimates of total education costs that reflect a “goodness of fit” among statistically significant variables associated with student needs and school district characteristics (see the AIR Report discussion of Step 1 of the ECM, p. 29). The Commission understands that the ECM operates best when the salient factors of poverty (measured by eligibility for FRPL), special education enrollment, ELL enrollment, district size, and grade level are all included to predict the estimated cost of education for each school district. The ECM enables the legislature to estimate the cost of education based on the characteristics of students and schools throughout the state based on actual statewide costs and an outcome objective. The identification of costs for public schools is determined by the dollars needed for all students in all districts to have opportunities to achieve average statewide performance outcomes. After considering both options of including the cost of transportation in the cost of adequacy calculation or excluding it, the Commission determined that the costs of transportation services should be included in the total cost of educating students.

The ECM includes a district size weighted differential that reflects the varying expenses associated with district size. Smaller districts operate at a lower level of cost efficiency than larger districts. The Commission was not charged with considering school governance structures, including district size. Future legislative action might consider removing size weights from districts that choose to remain small as measured by population density and/or distance to abutting districts.

### Recommendations and Considerations for Categorical Aid Programs

In addition to the adequate education grant that each district receives, districts may also receive categorical grants intended to support specific activities not included in the adequate education cost formula. The Commission considered grant programs recommends adjustments, which will improve student opportunity and outcomes. Summary findings and recommendations relative to those grant programs are provided below. Expanded briefs on categorical aid program are included in Appendix X.

The Commission considered bringing categorical aid programs into the cost of adequate education but lacked a statistical basis for doing so. Adding any categorical programs to the recommended differentiated weights included in the cost of an opportunity for an adequate education will lead to the need to recalculate the ECM, and would affect the level of funding available for each area of differentiated aid (as available dollars are distributed across more categories of aid).

#### *Career and Technical Education*

CTE is identified in statute as a critical and necessary component of the opportunity of an adequate education. It should be funded in a manner reflecting its critical importance. Opportunities for CTE are more easily accessed by students at schools hosting CTE centers than by students at sending schools. Opportunities should be expanded in order to meet the state's workforce needs. The Commission affirms the language and intent of HCR 12 (approved May 12, 2016) which calls for 65 percent of the state's working age population to hold a post-secondary education degree or credential by the year 2025. A robust career and technical education program available to high school students is a critical means to achieve that goal.

#### Process to Achieve Target:

- CTE is part of an adequate education, and the commission encourage greater funding to support this vital component of an adequate education. This goal could be achieved by allocating a flat dollar per student amount as an incentive for districts to expand access to CTE programs.
- Provide full funding for tuition support for all CTE students, not just those from sending schools.
- Fully reimburse tuition and transportation costs.
- Amend RSA 188 to achieve these policy goals, including provisions to assure continued maintenance of the CTE per pupil allocation and make adjustments aligned with inflation over time.

Commented [MOU4]: We don't have a recommendation on CTE facilities funding

#### *Building Aid*

- Building aid should be distributed over a 20-year period in order to would allow more projects to receive awards

- Change the award range to be more reflective of the district resource capacity based on equalized valuation per student
- Require the state budget to appropriate no less than \$50 million each year to cover new projects and an additional appropriation to cover the obligated tail payments
- Prioritize projects for health, security, safety and accessibility (including universal design for learning), with an emphasis on air quality given virus transmission concern.
- Request NH DOE to report on school building status (including indoor air quality, health, safety and accessibility), grant applications, awards, tail obligation, 10-year proforma for new projects, tail costs, and bond rates
- Conduct regular assessments of absentee rates, health complaints, student performance

#### *Special Education Aid*

- Continue funding Special Education Aid (that exceeds local district responsibility defined in statutes) outside the adequacy funding formula proposed by the Commission, similar to the methods used by states across the country.
- Affirm that both Special Education Aid and the federal and state special education laws, rules, and administrative practices are integral components within the state's commitment to provide every child with an opportunity for an adequate education.
- Affirm the commitment on the part of the state of NH to fully fund Special Education Aid by appropriating sufficient funds in order to pay its full share of excess cost under RSA 186-C:18 (requiring the state to pay 80% of costs between 3.5 and 10 times the state average per pupil cost and 100% of costs above 10 times the average cost).
- Affirm that official guidance documents, including data entry manuals, software manuals, software updates, and related memoranda, must be consistent with special education law.
- Special Education Aid reimbursement should occur within the fiscal year services are provided. Basing reimbursement against previous year or years, later adjusted to actual expenses, should be possible and still consistent with special education laws.
- Special education aid should include provisions to reimburse school districts for charter school students with IEPs who require services from the student's home district. There is a need to create data collection capacity within the Department of Education to enable the setting of reasonable rates for special education services charged to school districts by public chartered schools. Rate-setting guidance for chartered schools should be established by the Department.
- A Task Force should be established to examine the complicated issues related to IDEA eligible students who are placed by the juvenile court in private special education facilities or foster homes and the related fiscal costs to school districts.
- Changes to existing special education aid provisions must be aligned with any effect on ECM weights (e.g., if special education aid went to 2 ½ times average statewide per pupil cost).

Commented [MOU5]: Is this within our scope

#### *Early Childhood Education*

- Improve access to quality Early Childhood Education for children age 3-5 in school-based and community-based programs
- Focus initial expansion on serving children in families earning up to 250% of the Federal Poverty Level
- Increase eligibility and funding for the Child Care Scholarship Program beyond current threshold of 250% of the Federal Poverty Level
- Create a Preschool Incentive Program, modeled on the Kindergarten Incentive Program, to include enrolled preschool aged children in the district ADMA in order to encourage expansion of school-based programs
- Invest in the training and compensation of the early education workforce as a critical path to quality (evidenced by lower turnover rates and greater teacher longevity)
- Increase collaboration between DHHS and DOE; consider opportunities for improved data collection

*Public Chartered Schools.* The outcomes-based funding model suggested herein is based on current funding levels. The current state per pupil funding level to public chartered schools authorized by the State Board of Education (31 of 32 current chartered public school) is \$7,120 plus differentiated aid, which brings the average state funding per student to \$9,000. Chartered public schools (except for one) receive no local funding nor student tuition support, are eligible for federal funds, and rely on fund raising to make up differences between state tuition funding and actual cost per student less federal aid. It is difficult to incorporate chartered public schools into the Estimated Cost Model. They don't have the same legal requirements, have no responsibility for special education, serve a smaller percentage of students receiving free or reduced lunch or requiring English language learning and are not required to provide transportation.

The unique funding of public chartered schools is described in RSA 194-B:11. As the state legislature implements the Commission's recommendations for public school districts, consideration should be given to if and how those changes should be reflected in state per student tuition funding to public chartered schools.

As the state authorizes increased capacity of public chartered schools, consideration should be given to the stranded costs of districts -- fixed operating and capital expenses.

## **FISCAL POLICY WORKGROUP REPORT**

### **Introduction**

Funding of public education continues to be an issue for New Hampshire and the subject of many court decisions and ongoing cases. The New Hampshire Supreme Court has long held that the responsibility to provide a constitutionally adequate education rests with the State (both legislative and executive branches). This Commission sees the objective of a New Hampshire's educational fiscal policy as ensuring that sufficient resources are available in every district in order for all students in the state to have the opportunity for a constitutionally adequate education. Well-designed fiscal policy should take into account the full costs of educating students, and recognize that fiscal capacity varies significantly among cities, towns, and taxpayers.

In this section, the Commission lays out key findings and recommendations related to the fiscal policy for providing a constitutionally adequate education, as well as a brief review of three potential funding models. The fiscal policy work group met seventeen times between May 7 and November 20, 2020, totaling nearly 40 hours of work group meetings.

## Background

New Hampshire's average student performance is among the best in the nation

The Granite State has much to be proud of when it comes to public education. New Hampshire is ranked 3rd in the nation by US News & World Report's K-12 education rankings, calculated across metrics of college readiness, high school graduation rate, NAEP math scores, NAEP reading scores, and preschool enrollment.

Of course, averages do not tell the whole story. While New Hampshire's state-average student outcomes are among the best in the country, it is not true for all school districts. Average performance by district falls over a wide range with some districts well above state average and others so far below average that it calls into question whether there was an opportunity for any students to access an adequate education.

New Hampshire's average total public school spending is in the top 20% of all states, though its total spending per pupil is exceeded by several other New England states. However, the portion of the total spending comprised of state budget support is the lowest of all states.

While the low share of state budget support for public schools can [contribute](#) to student inequity across the state, it is not totally responsible for lack of student equity—a principal culprit for student inequity is the method for distributing the state budget resources between poorer and wealthier districts.



# U.S. School System Spending Per Pupil by Region

Nationwide average school spending per pupil: \$12,612

## MIDWEST

Illinois	\$15,741
North Dakota	\$13,758
Ohio	\$13,027
Minnesota	\$12,975
Nebraska	\$12,491
Michigan	\$12,345
Wisconsin	\$12,285
Iowa	\$11,732
Kansas	\$11,653
Missouri	\$10,810
Indiana	\$10,262
South Dakota	\$10,073

Average per pupil current spending: **\$12,773**

## NORTHEAST

New York	\$24,040
Connecticut	\$20,635
New Jersey	\$20,021
Vermont	\$19,340
Massachusetts	\$17,058
New Hampshire	\$16,893
Pennsylvania	\$16,395
Rhode Island	\$16,121
Maine	\$14,145

Average per pupil current spending: **\$19,953**

## WEST

Alaska	\$17,726
Wyoming	\$16,224
Hawaii	\$15,242
Washington	\$12,995
California	\$12,498
Oregon	\$11,920
Montana	\$11,680
Colorado	\$10,202
New Mexico	\$9,582
Nevada	\$9,417
Arizona	\$8,239
Idaho	\$7,771
Utah	\$7,628

Average per pupil current spending: **\$11,582**

## SOUTH

District of Columbia	\$22,759
Delaware	\$15,639
Maryland	\$14,762
Virginia	\$12,216
Louisiana	\$11,452
West Virginia	\$11,334
Kentucky	\$11,110
South Carolina	\$10,856
Georgia	\$10,810
Arkansas	\$10,139
Alabama	\$9,696
Texas	\$9,606
Tennessee	\$9,544
North Carolina	\$9,377
Florida	\$9,346
Mississippi	\$8,935
Oklahoma	\$8,239

Average per pupil current spending: **\$10,285**

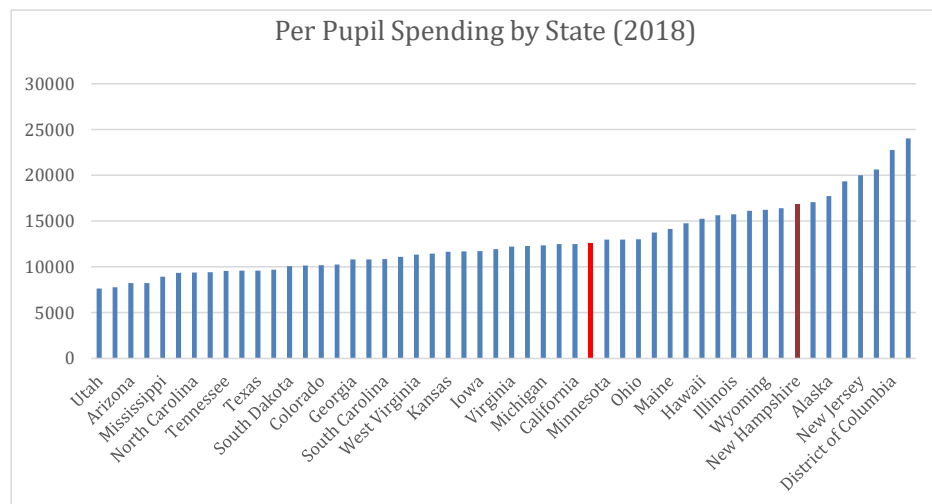
United States<sup>®</sup>  
**Census**  
Bureau

U.S. Department of Commerce  
U.S. CENSUS BUREAU  
[census.gov](https://www.census.gov)

Note: Data include public elementary-secondary pre-K through 12 school systems.

Source: 2018 Annual Survey of School System Finances

Despite having the lowest state budget support share for public education in the nation, New Hampshire spends more per student than most other states, 8th most in the nation in 2018, the last year for which comparable data is available—and about average for states in the Northeast. This is an important fact, because most school budgets are set and approved by voters and taxpayers who support their public schools largely through local property taxes. The voters and taxpayers place a premium on a high-performance public education system.



Commented [HJ6]: Bill will provide underlying table

Finding:	a	a	b	c	d	d
State	2018 Census Report Spending Per Pupil <sup>1</sup>	2018 Census Report Spending PP National Rank <sup>1</sup>	Education Week Overall Quality Ranking <sup>2</sup>	2020 Shanker/Rutgers Report Fairness of Distribution Ranking <sup>3</sup>	2018 Census Report State Budget Funding % <sup>4</sup>	2018 Census Report SFP National Rank <sup>4</sup>
NH	18,667	10	5	45	31.3%	50
CT	23,135	3	3	39	37.8%	46
MA	20,581	6	2	9	38.0%	45
ME	15,996	17	13	46	38.6%	43
NJ	22,424	4	1	12	41.6%	34
NY	28,228	2	8	15	39.6%	41
RI	18,628	12	12	29	40.8%	37
VT	21,614	5	7	31	90.5%	1
National	14,840				46.7%	

<sup>1</sup> 2018 Census Report, Table 11.

<sup>2</sup> Education Week, "2019 Quality Counts - Grading the States".

<sup>3</sup> Shanker Institute & Rutgers University, "The Adequacy and Fairness of School Finance Systems" (2020)

<sup>4</sup> 2018 Census Report, Table 5.

But despite having very high average student outcomes and spending compared to other states, there is a problem...

From AIR Report “Equity and Adequacy of New Hampshire School Funding”, August 2020

**New Hampshire’s current system of funding is not working for large segments of New Hampshire’s students and taxpayers.** Specifically, communities with higher poverty rates and lower property wealth are doubly penalized under New Hampshire’s current system. Students in these communities, on average, receive fewer resources in the form of funding than students in wealthier communities. Taxpayers in these communities do their best to provide for their children, often levying higher local education property taxes than residents of wealthier communities.

**Inequities also manifest themselves in [student] outcomes.** The negative relationship between districts’ aggregated student outcomes and student poverty (proxied by FPRL rates) is clear and strikingly linear. As district poverty rates increase, student outcomes decrease. This relationship holds even after accounting for other district factors that also may be related to poverty, such as special education rates, EL rates, and district size. Although district poverty rates appear to be the strongest predictor of district outcomes, special education rates and EL rates also have independent effects on student outcomes.

Fundamental to these findings is that the state’s distribution of funds for education is extremely inequitable, yet the current state funding formula fails to remedy this student inequity. This leads to inequitable student outcomes, and inequitable tax burdens for property taxpayers. New Hampshire has significant variation across municipalities in the equalized property valuations used to generate the local tax revenue necessary to fund municipal and school budgets. New Hampshire also has significant variation in capacity to pay within municipalities, and the Commission heard significant testimony to that effect. Compared to other states, like Massachusetts, New Hampshire’s failure to focus resources to districts with greater need contributes significantly to this student inequity.

Commented [HJ7]: Cite equalized valuation data on state website

## Findings

New Hampshire average student performance is among the best in the nation

New Hampshire’s state budget share of total public education spending is the lowest of all states

New Hampshire average public school spending is among the highest in the nation, though lower than several other New England states.

**New Hampshire’s current system of funding is not working for large segments of New Hampshire’s students and taxpayers**

**Inequities manifest themselves in more needy districts through lower student outcomes and higher property tax burdens**

## Current Fiscal Policy

A decision by the New Hampshire Supreme Court in *Londonderry v. State of New Hampshire* (2006) finding the state had failed to define a constitutionally adequate education was the latest in a long string of court decisions, legislative responses, and subsequent court opinions that have made school funding one of the state's most contentious issues. In its opinion, the Supreme Court gave New Hampshire lawmakers until July 2007 to define a constitutionally adequate education, implying that failure by the legislative and executive branches to remedy the situation could lead to a court-mandated system:

"Since the inception of the education cases in 1993, we have consistently deferred to the legislature's prerogative to define a constitutionally adequate education. ... Deference, however, has its limits. We agree with [the] concern that this court or any court not take over the legislature's role in shaping educational and fiscal policy. For almost thirteen years we have refrained from doing so and continue to refrain today. However, the judiciary has a responsibility to ensure that constitutional rights not be hollowed out and, in the absence of action by other branches, a judicial remedy is not only appropriate but essential."

In advisory language that went beyond its core finding of a failure to define a constitutionally adequate education, the Court advised that "[w]hatever the State identifies as comprising constitutional adequacy it must pay for. None of that financial obligation can be shifted to local school districts, regardless of their relative wealth or need."

The Commission believes that this advisory language from the Court's *Londonderry* case, issued in the context the then-current system which failed to focus aid to communities with greater need and exhibited excessive reliance on local property taxes that had disproportionate rates that imposed unreasonable burdens on taxpayers in poorer communities, should not allow for a singular consideration of "who pays" to stand in the way of the legislature or executive branch's direct consideration of developing solutions focusing on student equity and enhancing fiscal neutrality.

The current statutory method of determining the cost of a constitutionally adequate education is based on certain input factors that result in a lower state budget obligation than in other states, such as Massachusetts. This cost is calculated based on limited set of inputs, specifically the cost of faculty and staff, materials, technology, professional development, facility maintenance and transportation. Nearly half of the calculated cost is driven by a student/teacher ratio of 25:1 for grades K-2 and a student/teacher ratio of 30:1 for grades 3-12. Actual student/teacher ratios range from a high of 12.4 to a low of 4.1. Student/teacher ratios of 25:1 and 30:1 are not found in any public school in the state.

Ref. NHDOE student teacher ratio report, January 10, 2020.

[https://www.education.nh.gov/sites/g/files/ehbemt326/files/inline-documents/2020-04/stud\\_ratio19-20.xlsx](https://www.education.nh.gov/sites/g/files/ehbemt326/files/inline-documents/2020-04/stud_ratio19-20.xlsx) (Jordan --- how should we deal with links? We can't guarantee they'll always be available at the URL unless we host the URL. Should we include refs as PDF pages in the appendix?)

The current statutory method for determining the cost of an adequate education also considers factors for differentiated aid, specifically for special education students, English language learners, students who do not reach a proficient reading level in third grade, and students who participate in the free and reduce price lunch program.

For FY21, the state determines the adequacy grant as \$3,708.78 per full time student, with an additional \$1,854.38 per student who participates in the free and reduced price lunch program, \$1,995.21 per special education student with an individualized education plan, \$725.63 per English Language Learner receiving English language instruction, and \$725.63 for each 3rd grade student in the district who scored below proficient on the statewide assessment for reading. On average, New Hampshire provides \$4,619 per student from state funding sources. Approximately 85% of the total amount of the adequacy grant is distributed among local districts on a uniform (fixed) per pupil basis, regardless of a community's relative need, which contributes significantly the overall regressive nature of New Hampshire's distribution system (as compared to other states like Massachusetts).

The state provides this "adequacy grant" to all school districts based on student enrollment. (Ref NH RSA 198:40-???) The state also provides a "stabilization grant" totaling approximately \$157M to specific school districts and designed to serve as a bridge from the prior state funding plan to the current funding plan. And from FY08-13 (??) and in FY21, the state provided additional grants to communities with lower-than-average property valuation and with incidences of poverty.

Another supplemental state grant is provided to towns with high property wealth. This grant is known as "excess SWEPT" and represents the difference between the total revenue raised in a municipality through the state property tax and the cost of an adequate education as calculated by the NHDOE. In FY21, this grant totaled approximately \$30M. The Commission heard comment from administrators and taxpayers in some towns that receive this grant. The grant is used in some cases to support higher contributions to cooperative school districts to reduce property tax assessments in other municipalities that are members of those districts. And in some towns, the grant is used to offset other education costs and reduce property taxes.

The Commission heard testimony with respect to the budget of the Pittsfield School District (date of meeting – it might have been in comment). The testimony showed no way to reduce their existing budget to reach the calculated cost of an adequate education found in statute today.

**Commented [HJ8]:** How long do we have to guarantee their availability? Most websites will stay around for a few years, especially ones with state data. I am of the opinion that if we have reason to believe the website will be around for the foreseeable future it's OK just to link in the appropriate site (like DOE here). I just think including them as PDFs in an appendix makes the document very unwieldy. My \$.02

**Commented [HJ9]:** This is another example where the RSAs aren't going anywhere and it would be easy and helpful to readers just to link. Alternately footnoting RSAs would be pretty easy as well.

**Commented [HJ10]:** Will find

State revenues used for these grants are deposited to the state's education trust fund (ETF). The accounting of deposits to and appropriations from the ETF are summarized in the NH Department of Administrative Services annual report (Ref: CAFR FY19 p142 – in appendix or put here?)

How the state calculates the cost of an adequate education and distributes state grants to school districts leads most school districts to fund much of their budgets through local property taxes. Because so much of the state aid is distributed on a uniform per pupil basis, regardless of any assessment of community need, the current distribution formula results in student inequities, and greater burdens in poorer towns. The Commission's research partners from the American Institutes of Research (AIR) estimate that the average statewide total cost of education is approximately \$18,861 per student, factoring in all state and local spending. This disparity between the full cost of educating a student and the state's contribution means that municipalities are currently obligated to raise substantial funds through local property taxes to pay for their students' education. These disparities are exacerbated by the differences in property wealth between communities and their relative abilities to raise the necessary funds.

### **Findings**

Enrollment (ADMA) statewide has decreased from 202K students in FY01 to 168K students in FY19.

Commented [HJ11]: Link to DOE

The statewide total collected local education property tax (does not include the SPT) has grown from \$555M in FY00 to \$2.01B in FY19. If the local education property tax share of the total costs of public education had remained the same from FY00 to FY19, the total statewide collected local education property tax would be \$1.1B.

The amount of state funds for public schools has grown from \$825M in FY00 to \$915M in FY19. If the state share of the total costs of public education remained the same from FY00 to FY19, the state grant would currently be \$1.7B.

The state's current estimated cost for an adequate education is not reproducible by any evidence-based approach.

The current state aid distribution formula fails to direct aid to more needy communities in a meaningful matter, resulting in student inequities.

This significant disparity between the full cost of educating a student and the state's contribution means that municipalities are currently obligated to raise substantial funds through local property taxes to pay for their students' education. These disparities are exacerbated by the differences in property wealth between communities and their relative abilities to raise the necessary funds.

An increase in the state's share of education funding can improve student and taxpayer equity.

### Recommendations

The state should eliminate the “excess-SWEPT” grant and apply those state funds to improve student and taxpayer equity.

The current public school funding system should be reformed to provide greater state budget resources to the communities that are determined to have greater need.

The current public school funding system should be reformed to include increased state budget funds that are directed to communities that have greater need, which will also result in greater taxpayer equity by reducing disproportionate burdens on poorer towns. The state should increase the amount of state funds for education to improve student and taxpayer equity.

To the extent that the state budget uses a State Property Tax to fund some or all of its state budget obligations under a reformed distribution formula, the state should eliminate the “excess-SWEPT” grant and such excess funds should be applied through the reformed distribution formula apply those state funds to improve student and taxpayer equity.

### **TAXATION**

Public engagement on the issue of taxes to pay for education did not reveal surprising results. Granite Staters have a strong distaste for broad-based taxes even if they are dedicated to paying for public education. The cost of public education is paid for through a combination of local, state, and federal revenue sources, and some private grants. State revenues, including the state property tax (SPT) and a variety of non-SPT revenue sources, account for approximately 31% of the total. Approximately 69% comes from the local property tax. Private grants account to a small fraction of the budget. (do we know how much???) The percentage of state budget funds used for public education is the lowest in the nation.

An increase to the state share budget of school funding can help to improve taxpayer fairness, but not without student equity being the primary objective. For example, if the state budget share is funded entirely by state taxes with perfectly proportionate tax rates, one could say that taxpayer equity had been improved, but if those resources were distributed in the same manner as currently, the public school finance system would continue to be regressive (as determined by AIR) and student equity undermined. Any reform of the public school funding system must begin first with consensus on a reformed distribution system that directs state budget aid to the most needy communities first.

“State policy makers should not aim to provide any specific percentage of the total funding for K–12 education. Better policy goals focus on student achievement or limiting property tax burdens to some percentage of household income.” Source: “The property tax school funding dilemma”, Dr. Daphne Kenyon, Lincoln Institute, 2007.

Commented [HJ12]: Link to GSP

The role of state funding in New Hampshire is not to implement a specific set of state-defined programs. State funding should be applied to assist locally raised funds to ensure student equity.

An increase in the use of non-SPT revenues can put less pressure on property taxes. State funds may be directed to property tax relief through “circuit breaker” style programs designed, for example, to help people living on modest or fixed incomes, or with cash-flow challenges.

New Hampshire currently funds its schools through a mix of state, local, and federal dollars, with local taxes accounting for just over 62% of school district revenue during the 2018-2019 school year. These local taxes are raised almost exclusively via the property tax. State dollars are raised from a variety of sources, including a statewide property tax. In FY20, the equalized statewide property tax rate was \$1.93, but the local burden on taxpayers in a given community varies widely across the state. Local education property tax rates range from \$0.52 per mil (thousand dollars of assessed value) in Hart’s Location to \$24.02/mil in Charlestown. That means the owner of a \$300,000 home in one community (which, as of this writing, is approximately the average home price in New Hampshire) pays the same amount in property taxes as the owner of a \$3,000,000 home in another community. Nearly **three quarters** of New Hampshire’s state and local dollars raised for education come from property tax revenue.

New Hampshire relies on a combination of state taxes to finance the state budget’s share of the total cost of public education.

Education Fund Revenues <sup>1</sup>	FY 2020
Business Profits Tax	90,200,000
Business Enterprise Tax	244,000,000
Education Property Tax	363,100,000
Transfer from Lottery	100,400,000
Tobacco Tax	87,100,000
Revenue Adjustments	73,088,000
Real Estate Transfer Tax	52,600,000
Utility Property Tax	43,400,000
Tobacco Settlement	39,700,000
Meals & Rooms	11,100,000
<b>Total</b>	<b>1,104,688,000</b>

<sup>1</sup> From LBAO, Surplus Statement for HB 3 and 4 (9/25/19)

The New Hampshire Department of Administrative Services’ (NHDAS) consolidated annual financial report (**appendix XXX**) illustrates the sources of deposits to the ETF over the period FY10 through FY19. It also shows that for many years, any balance that remains in the ETF is drained into the general fund at the conclusion of the fiscal year.

In 2000, a **Commission to Analyze the Economic Impacts of Various School Funding Revenue Options** was created by then-Governor Shaheen. This report identified six widely accepted tax policy criteria, which are also endorsed by the Commission. These criteria are fairness

Commented [HJ13]: link



(distributional equity), adequacy and stability, competitiveness, exportability, neutrality, and simplicity. The 2000 report examined five specific sources of revenue across those criteria: a personal income tax, sales tax, property tax, a value-added tax (VAT), and capital gains tax. This Commission believes the evaluation of revenue sources in the report remain mainly true today. A table summarizing each revenue source according to those principles can be found at the end of this section as well as on the [Commission website's resource page](#) under the "Previous New Hampshire School Funding Reports" tab.

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According to their report, the 2000 Commission found the performance of the most significant non-SPT state revenues are more subject to economic volatility than the property tax. The Commission also received testimony concurring with the assessment of the stability of the property tax.

"The rapid historical average growth of taxable property [as of 2000] largely reflects the speculative real estate boom of the late 1980s and early 1990s...Given tighter financial regulation and lessons learned from the boom experience, such volatility is unlikely to be repeated in the foreseeable future."

New Hampshire is required by the state constitution to enact taxation that is both reasonable and proportional, and any system created by the legislature to fund education must follow those requirements. This means that any tax must be implemented at a uniform rate within the tax jurisdiction, subject to reasonable and uniform exemptions and adjustments.. A state tax must be uniform in rate across the state for all taxpayers subject to the tax. A tax by a political subdivision, such as a municipality, village precinct or a school district, must also be uniform in rate across the political subdivision for all taxpayers subject to the tax. To find a tax to violate the constitution, the tax must not only have disproportionate rates, the tax must be applied in an unreasonable matter. In *Claremont II*, the Court held not only that the local property tax in 1997 had disproportionate rates, it also found that the tax created an unreasonable burden on poorer communities. Any solution must therefore not just focus on proportionate rates, but must also be part of a system that reduces unreasonable burdens on poorer communities.

One takeaway from the 2000 Commission report was that "given [the complexity of administering the property tax across hundreds of municipalities], New Hampshire would have to devote considerably more resources to administering the state property tax than it does currently so that the fairness of the tax does not continue to be called into question or challenged in court." Subsequently the constitutionality of the statewide education property tax was called into question, forming the basis of the complaint in *Evelyn Sirrell, et al. v. State of New Hampshire, et al.* 99-E-0692 (1999). The court ruled the state property tax unconstitutional because the state did not have systems in place to provide equalized statewide property valuations outside of the local property tax jurisdictions.

Following the decision, the General Court made changes to how the SPT was collected and used. Currently, the SPT is collected locally and applied to the municipality's total cost of an adequate education as determined by statute. If the amount of the SPT collected exceeds this cost, the state issues an additional grant to the municipality in the amount of the excess with the stipulation that it be used for public education.

By 2014, the New Hampshire Department of Revenue Administration (NHDRA) had implemented a comprehensive system called MOSAIC to evaluate property sales and develop equalization ratios for all municipalities. Substantial testimony heard by the commission attested to the efficacy of the system and fairness of equalized valuations. This effort addresses the court's concern in the Sirrell case.

The Commission heard testimony from the NHDRA director of the property division with respect to timely receipts of property tax payments made to municipalities. The on-time collection rate is XX% (refer to minutes) and has been reliable even during periods of economic volatility. Testimony from the NHDRA indicated that a state-based system for collecting SPT directly from taxpayers would be very labor intensive and difficult to implement and administer. But the Commission learned that it would be very possible for the NHDRA to administer a process where the SPT is collected locally (as it is today) and then sent in full to the state by the municipal tax collector.

The Commission also heard testimony from the State Treasurer and from the NH Municipal Association with respect to challenges or problems that could develop should the state change from current policy and require municipalities to collect and remit the SPT in full to the NHDRA to be deposited to the ETF. No major challenges were identified.

The Commission has noted repeatedly in its deliberations that while the impact of taxation is often discussed at the municipal level, it is individual taxpayers and property owners who fund the costs of education in New Hampshire. Any changes in the methods of raising revenues for education, particularly those related to the property tax, should be designed with the knowledge that changes in either rates or property value can burden taxpayers with limited capacity to pay. Tax relief should be directed to specific taxpayers based on need and program eligibility, and sufficiently funded by the state.

### **Findings**

The current public school funding system should be reformed to include increased state budget funds that are directed to communities that have greater need, which will also result in greater taxpayer equity by reducing disproportionate burdens on poorer towns.

An increase in non-property tax bases will result in reducing overall reliance on the property tax base, but unreasonable burdens in poorer communities may only be reduced if such additional revenues are distributed first to communities with greater need.

The education trust fund (ETF) collects deposits from a variety of revenue sources and to have the funds available for the state treasurer to make timely payments to school districts. The presence of the ETF helps create public trust that dollars earmarked for education are being used for their intended purpose.

Property taxes have been shown over time to be resilient to economic volatility.

Under the New Hampshire constitution, a tax must be implemented at a uniform rate within the tax jurisdiction. A state tax must be uniform in rate across the state for all taxpayers subject to the tax, and the tax must be reasonable.

The methods used by the NHDRA to develop equalization ratios for property valuations are fair and accurate.

The SPT is a state tax on individuals paid by local property taxpayers.

Property taxes have a strong record of stability and on-time payment.

The State Treasurer, Department of Administrative Services, and NHDRA can implement a process to receive SPT from municipal tax collectors

#### **Recommendations**

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.

The state should introduce a property tax deferral program administered by the state for eligible residents and under certain qualified conditions.

The NHDRA should collect and organize data appropriate to determine taxpayers' capacity to pay property taxes and to improve the state's ability to evaluate equitable funding mechanisms.

The SPT should be collected by the municipal tax collector and remitted in full to the DRA for subsequent deposit to the ETF by the state treasurer.

There should be no blanket rebates, abatements, refunds or grants of SPT back to municipalities.

The question of which tax policy is best for public education funding (or any other public sector purpose for that matter) is a fundamental matter of legislative and public policy. The Commission supports the analysis set forth in the 2000 Shaheen Commission Report, and

believes that all possible revenue options should be open for discussion and debate. However, the Commission believes that no matter what tax policy options are used to fund public education (local and state shares), the first priority must be to reform the public school funding formula so that state budget funds are directed first to the communities with greatest need.

### Fiscal Policy Models

The principle of student equity needs to be central to the framing of fiscal policy. Student equity means every student has the opportunity for an adequate education regardless of exigent circumstances, such as the financial resources of the family or the community where they live. Fiscal policy, that is how state funds are applied to support public education, should be developed to ensure student equity throughout New Hampshire.

The costs of education vary by district, depending on student needs and exigent conditions that exist in the communities served by the school district. Likewise, the funding of local schools may also vary based on the financial resources available in the communities served by the district. Some districts are well funded by the communities they serve, while others are not. To compensate for this, state funds can be applied in a similar way based on district needs and exigent conditions that exist in the communities served by the school district to improve student equity, as laid out in the [report prepared by AIR](#).

Commented [HJ15]: link

That is not to say that student equity cannot be achieved by 100% state funding of the cost for an adequate education. But by itself, no specific share of state funding ensures student equity without student equity being the objective. For example, the fiscal policy model used by the state today does not result in student equity and fiscal neutrality.

The Commission examined a wide range of possible options for reform of New Hampshire's school funding and distribution policies. Within this spectrum of possible options, there are almost an infinite range of policy modifications and adjustments that can be used to achieve a reform that achieves the primary goal of increasing student equity.

The following sections address three such possible options. The first two options were presented as "simulation models" as part of the final research submitted by AIR. These models are fairly simple, and it is possible that funding policy created by the legislature would be more complex. However, as a conceptual framework, they are provided as examples of how very different approaches to fiscal policy, with very different demands on state and local revenue, can improve equity for both students and property taxpayers. A third example based on Massachusetts' Chapter 70 education funding design, with considerations based on the New Hampshire context, is also provided.

AIR Simulation Model #1: Full Funding from the State

This method would involve the state raising 100% of what is currently the state and local shares of education dollars in the state. In FY19, non-statewide education property tax appropriations raised \$601,909,000 of an estimated proposed state obligation for education of \$2,947,379,635. If there were zero reliance on local property tax revenue to fund education in New Hampshire, and no new revenue from other sources, the state would need to raise \$2,345,470,635 via a statewide property tax rate of \$12.05. That rate could be lower if revenue were raised from non-property tax sources, or higher with a redesigned circuit breaker program for low- and moderate-income property owners.

This would result in a state share of 100% of the cost of an adequate education – and cost to the state would equal the total cost of providing an adequate education. If the state’s target outcome goal were set to less than state average performance, the cost of adequacy would be reduced.

Commented [HJ16]: Further examples?

Commented [HJ17R16]: Showing taxpayer and student equity

#### AIR Simulation Model #2: Combination of a Statewide Property Tax and Mandatory Minimum Local Contribution

AIR also briefly examined what revenues might be necessary if, holding non-property tax revenue at current levels, there were to be a mandatory minimum local contribution required of \$5 per \$1,000. This kind of mandatory local minimum would in many ways resemble the current statewide property tax. If localities were permitted, as under the current statewide education property tax, to keep any amount raised above the amount estimated in the education cost model to achieve adequacy, a statewide property tax of \$7.24 per \$1,000 of equalized valuation would then be required to raise the remainder of the state’s obligation.

In their report, AIR noted that:

“If we use as an example a \$5.00 per \$1,000 tax rate to define the minimum local contribution, the revenue raised from the minimum local contribution would decrease the state’s funding obligations by \$937 million, leaving approximately \$2 billion in remaining state obligation. If we assume that \$602 million of state revenue comes from non-property tax state revenues, that leaves \$1.4 billion that would need to be funded through a statewide property tax. A statewide property tax of \$7.24 per \$1,000 of equalized valuation would then be required to raise the remainder of the state’s obligation. Adding together the minimum local contribution tax rate and the statewide property tax rate results in an overall education tax of \$12.24 per \$1,000. Using the 2018–19 actual town tax rates as a comparison, under this scenario 70% of towns would see a reduction in property tax rates under the proposed revenue structure.” p.47

AIR also found that under this scenario, 24 towns would raise more than their adequacy target with a local contribution of \$5.00.

#### Possible Option #3: Massachusetts’ Chapter 70 Case Study

During its deliberations, the Commission reviewed public school funding approaches used in other states to provide context for how to address New Hampshire's school funding issues. One state in particular – neighboring Massachusetts – provides an interesting case study as it too has implemented reformed education funding laws in response to judicial decisions over the last two decades.

On October 13, 2020, the Commission received excellent testimony regarding the Massachusetts experience with its Chapter 70 Program from Representative Alice Peisch, Chair of the Massachusetts Joint Committee on Education & Research Director Aiden Church. Further, the Fiscal Policy Workgroup followed this presentation with several discussions of the Chapter 70 Program, including reviewing a summary prepared by member Representative Richard Ames which is set forth in the materials for the October 29, 2020 meeting.

Attached as Exhibit \_\_\_ to this report is a case study and summary of the history and structure of the Chapter 70 Program. This case study includes the following parts: (1) a summary of the similarities, and differences, between the Massachusetts and New Hampshire litigation that challenged each state's respective public school funding systems in the 1990s; (2) an overview of how the Chapter 70 Program works; (3) a description of certain specific aspects of how the Chapter 70 Program computes its "Foundation Budget," the minimum "Local Contribution," and the amount of "Chapter 70 State Aid;" and (4) some concluding comments adopted by the Commission about how the Massachusetts experience may be used in crafting a better, more progressive, answer for New Hampshire's public school finance system.

### **Property tax "Circuit breakers"**

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.

A state-administered property tax deferral program should also be considered. Such a program operates much like that of a commercially available reverse-mortgage. Certain conditions would have to apply for a resident to be eligible for such a program. However, it is beyond the scope of this Commission to develop the specific parameters behind such a program.

### **Data Collection and Analysis**

Towns report to NHDRA the value of property in different categories, e.g., residential land, commercial buildings, utilities, current use, etc. Other categories are not collected such as owner-occupied, seasonal, rental residences, lake frontage, etc. The DRA can do some calculations regarding the effect of possible different tax rates for different types of property as anticipated in

the “A, B, and C” part of the charge to this Commission. The Commission heard testimony around the need for a deeper examination of commercial property valuation. Differing tax rates are allowed for different uses of property by the amendment to the NH Constitution that was passed in 1968. In the past, proposals have been for changes to the property tax itself. DRA has made estimates of the effect of proposed homestead exemptions and “circuit breakers”.

**Commented [HJ18]:** Link to DRA presentation to Commission

The NHDRA MOSAIC data contains information about every individual piece of taxable property in the state. The NHDRA can use this data to evaluate how possible changes to tax policy could impact taxpayers. For example, the data could be used to evaluate how a change to state and local property tax rates could manifest as a change in the tax burden on residential property taxpayers. The data could also be used to examine the effects changes to tax policy could have on the number of units valued in a specific price range statewide, owner-occupied property, rental property, and property owned by out of state entities. Information like this would be useful in tax policy analysis consistent with the policy criteria presented in the 2000 Commission Report.

### **Findings**

Improved data collection as part of the assessment standards and NHDRA MOSAIC data can improve the state’s ability to evaluate the fiscal impact of changes in tax policy, and can help inform the General Court in state funding matters, including the funding of schools and tax relief programs.

### **Implementation**

**Commented [HJ19]:** Consistency with adequacy

Changes should be phased-in over a period of five years, with an emphasis on student equity (the opportunity for statewide average outcome). A transition plan should be developed that begins with existing funding levels (state and local sources) reduced over five years by 20% each year, and introduces the new funding plan at a rate of 20% each year over five years.

Required state revenue sources should be implemented ONE YEAR before the start of a transition and deposited into the Education Trust Fund. The ETF provides a valuable mechanism to safeguard funds raised so they are available when needed.

### **Findings**

It is the state’s responsibility to guarantee that all students to have an opportunity for an adequate education

The cost of the opportunity for an adequate education varies by student needs and community characteristics

Student equity is the most important principle for good fiscal policy in school funding.

### **Recommendations**

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.

Fiscal Policy for education funding should place a priority on student equity.

Implementation should be done over a five-year period with the emphasis on improved student equity.

Revenue should be collected in advance of the transition to a new funding plan and deposited to the ETF.

### **Quality Assessment of a School Funding Plan**

Once the state has developed and implemented a funding design that supports the principles of student equity, fiscal neutrality and taxpayer equity, the performance of the funding design can be evaluated. It will take years for the performance effects to begin to materialize after implementation of the funding plan. And it may take longer than that for the performance measures to reach a steady state. However, annual assessment and evaluation of these performance measures can show whether the funding plan is working as expected.

### ***Student Equity***

Student equity can be measured and evaluated based on the average performance of students in each school district. Currently, the average student performance score in each school district is based on equal parts of performance on the eleventh-grade standardized test, attendance rate, and graduation rate. The average student performance scores for every school district in FY19 is referenced in this report.

### **Fiscal Neutrality**

The cost of education for each school district is collected annually by the [NHDOE on the Form DOE25](#). To demonstrate fiscal neutrality, there should not be a strong correlation between the relative wealth of a community and the ability of the community to generate local revenues necessary to support their public schools. For example, if a community cannot raise sufficient revenue through local taxation to meet the predicted costs of operating their schools, after all other state and federal revenues have been applied, then fiscal neutrality has not been achieved. The fiscal gap can be calculated for each school district.

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### ***Taxpayer Equity***

Tax policy is made through the political process, but equity in tax policy can be measured. When considering the property tax, equity is when the tax burden on property taxpayers across the state is relatively the same. Therefore, property taxpayers in one community should not have to work harder than those in another community to raise the local revenues necessary to operate their



schools. In addition, the tax burden on taxpayers within the same community should also be similar.

Taxpayer equity is improved on a community basis when funds raised from outside the community, such as state and federal funds, are applied to fully fund the school district or are applied to supplement local tax revenue based on the community's fiscal capacity. And within a community, taxpayer equity can be improved through local tax credits and state tax relief and deferral programs based on meeting eligibility requirements and with sufficient local and state funding.

When a school funding design results in a narrower range of property tax rates across the state, taxpayer equity is improved. This can be measured by a smaller standard deviation or variance in property tax rates from each municipality and reported annually by the NHDRA. Similarly, when there are sufficient state funds and realistic eligibility requirements for property tax relief programs, taxpayer equity is improved.

#### **Findings**

The performance of a school funding plan can be assessed for student equity using data collected annually by the NHDOE, specifically scores on the eleventh-grade standardized tests, attendance rates and graduation rates.

The performance of a school funding plan can be assessed for taxpayer equity using data collected by the NHDRA, specifically the variation in local education property tax rates among municipalities

The performance of property tax relief and deferral programs can be assessed using data collected by the NHDRA, specifically the number of grants approved, the total amount of the grants, the budget for the programs, and the net tax paid as a percentage of income

#### **Recommendations**

The NHDOE conduct an annual assessment of student equity, and issue a report to the General Court with the results and comparison to the results from the last ten (or as available) years of such assessments.

The NHDRA conduct an annual assessment of taxpayer equity and property tax relief and deferral programs, and issue a report to the General Court with the results and comparison to the results from the last ten (or as available) years of such assessments.

## CONCLUDING FINDINGS AND RECOMMENDATIONS

### The Commission's Charge

Throughout the 10 months of the Commission's work, we were mindful of the charge to the Commission as delineated in HB 4. That charge was to:

- a. Review the education funding formula and make recommendations to ensure a uniform and equitable design for financing the cost of an adequate education for all public school students in pre-kindergarten through grade 12 in the state.
- b. Determine whether the New Hampshire school funding formula complies with court decisions mandating the opportunity for an adequate education for all students in pre-kindergarten through grade 12, with a revenue source that is uniform across the state.
- c. Identify trends and disparities across the state in student performance in pre-kindergarten through grade 12 based on current school funding options.
- d. Re-establish the baseline for the costs, programs, staffing, and facilities needed to provide the opportunity for an adequate education.
- e. Study and produce recommendations regarding all costs and existing funding for special education, including listing any currently unfunded special education mandates issued to date by the state department of education.
- f. Study integrating into the education funding adequacy formula a factor that accounts for the number of Class A, B, and C properties in a community, and the distribution of education funding costs across those numbers and classes of properties.
- g. Consider other policy issues as the commission deems necessary. The commission may consult with outside resources and state agencies, including but not limited to the department of education, the department of revenue administration, and the legislative budget office.

The Commission directly and comprehensively addressed each of these charges with two exceptions. Simply due to lack of capacity and time, we did not identify a complete list of "unfunded special education mandates" (e. above). We received considerable input from special education directors and the New Hampshire Association of Special Education Administrators, which led to a number of findings regarding special education funding. These are contained in the Adequacy and Distribution Workgroup Report and in the summary of findings and recommendations below. In addition, the Commission was unable to address the matter of Class A, B, and C properties, due to a lack of consistent definitions and data on the topic. Future legislative inquiry on this matter may be warranted.

In the following sections, we list the key findings and recommendations for legislative attention in the coming months and years. Throughout this report additional specific findings and recommendations are included that should be considered by future legislatures.

## Key Findings and Recommendations

### *Engagement Findings*

- E-F1. Education inequities in public school districts across the state was voiced clearly in each engagement activity. All public input recognized that the current funding system, dependent on local property taxes, does not provide an equitable opportunity for an adequate education for all students regardless of where they live.
- E-F2. The general public raised concerns about the reliance on property tax and the unequal application of taxes across the state when funding public schools. The current system of public school funding does not work in people's minds. A change needs to be made in the current revenue system for tax payers to seek property tax relief. There is a conundrum about how to raise funds for public schools. The reliance on local property tax to fund public schools is undesirable, but there is no consensus on an alternative form of revenue (see Granite State Poll report, page 6, linked in Table 1).
- E-F3. People had concerns about disparities in students' opportunity among districts and communities and made reference to the negative impacts on achievement. People showed concern for high poverty areas, communities that have higher racial diversity, and higher language diversity.
- E-F4. The public has varying understanding about how public schools are funded and how funds are allocated to school districts.
- E-F5. People agree that funding for public schools should be student-centered and based upon identified student needs and outcomes that will prepare students for diverse career and college pathways.
- E-F6. People raised concerns about student needs during the pandemic and short- and long-term funding to meet those needs (e.g., food, health and safety, access to internet and technology, mental and behavioral supports). The needs raised existed prior to the pandemic, and public concern makes many of these needs more visible during this time.
- E-F7. Local educators often feel a lack of capacity to implement mandates or requirements from the state department of education or legislature because of the lack of funds or how funds are distributed. A couple areas that people mentioned included special education costs, mental and behavioral supports, and building safety – a focus on students mental and physical well-being while learning.

- E-F8. There is concurrence that the key to a quality education is a quality teaching staff. High turnover of staff impacts continuity in the quality of education in a public school district. Teacher retention and professional development is foundational to a quality education and student performance.

### ***Adequacy and Distribution Findings***

- AD-F1. The opportunity for an adequate education is based on education that (a) conforms to the state's minimum standards and other state requirements for public education, (b) provides every student with the opportunity to perform at or above the state average student outcome level, and (c) appropriately responds to differentiated student needs and community characteristics.

- AD-F2. New Hampshire average student outcomes are in the top 10 percent of all states. However, averages mask inequities across 234 towns and 177 school districts. As noted in the AIR report, "the highest poverty districts [measured by rates of Free and Reduced Lunch Program eligibility] in New Hampshire spend less money per student, on average, than more affluent districts." As a corollary, "Districts with higher property wealth spend more, on average, than districts with lower property wealth. This happens despite low wealth districts setting local property tax rates that often are well above the state average local education property tax rate." The Commission found that lower student outcomes are directly related to lower total spending per student which is in turn related to lower property valuations.

- ADF-3. The current school funding formula (including differentiated aid) and current distribution processes are unable to address the goal of allocating funds in a way that addresses variations in student need as well as variations in local capacity to raise revenue to pay for public schools. Weights for differentiated aid should be aligned with the resources needed by students with greater needs to ensure every student has the opportunity to achieve statewide average outcomes. Based on the AIR findings, differentiated aid weights used to estimate the total cost of education should be as follows (all weights x base cost = per pupil cost):

▪ Free and Reduced Lunch Program	1.49
▪ Special education	4.29
▪ English language learners	2.20
▪ Enrollment	
• Less than/equal to 200	1.08
• 201-600	0.57
• 601-1200	0.43
• 1201-2000	0.24

- Enrollment in middle grades 1.42
- Enrollment in high school grades 0.42

Base cost using FY 2018-2019 data equals \$5,868 (including transportation); this represents the portion of total average cost per student (\$17,000) that can't be explained by the differentiated aid factors above. Base cost will need to be adjusted each biennium as stated in RSA 198:40-D. (Note: The "base cost" is not a bottom-up calculation of the cost to education a student, but is a remainder value that results from the regression analysis used to generate the prediction factors listed above.)

- AD-F4. The Education Cost Model (ECM) adopted by the Commission is based on a formula that calculates the predicted total cost of education using factors specific to the school district, including information about the students who attend schools of varying sizes and at different grade levels. The application of differentiated weights is an effective predictor of the cost of an opportunity to achieve at the statewide average student outcomes. The integrity of the formula is fundamental to distributing funds in a way that creates greater equity for all students. The ECM should only be adjusted following the same calculations used to develop it, with consideration for the impact of any changes on students and school districts with the greatest educational and financial need. listed above.
- AD-F5. Resources available for career and technical education are inadequate and not consistent with the state's need for a prepared workforce.
- AD-F6. Significantly reduced building aid distribution has resulted in a backlog of projects and a growing number of aged, inadequate, unhealthy school facilities. Such facilities have been found to be detrimental to positive student outcomes.
- AD-F7. The costs of meeting special education mandates directed at local school districts are insufficiently matched by state funding.
- AD-F8. The opportunity for quality early childhood education leads to documented positive educational and lifetime outcomes, especially for children from low income families.

### ***Adequacy and Distribution Recommendations***

- AD-R1. A student centered, outcomes-based funding formula that raises the opportunity for all students to achieve at current statewide average outcome levels should be adopted and phased in over the next three biennia.
- AD-R2. Court proceedings over the past 30 years have asked the legislature to define constitutional adequacy. The Commission recommends that the legislature adopt a funding model that recognizes that the cost of constitutional adequacy varies by community and state funding should direct resources in a manner that addresses communities with the greatest need as determined by student outcome factors identified in this report.
- AD-R3. Weights for differentiated aid should be aligned with the resources required by students with greater needs to ensure they have the opportunity to achieve statewide average outcomes.
- AD-R4. Access to career and technical education programming should be expanded, with full tuition and transportation support for students from sending schools.
- AD-R5. Building aid funding should be restored to the previous 20-year distribution cycle, with an initial increase in the total amount of funds available in order to more quickly address the backlog of projects and thereby improve student outcomes. It is expected that a portion of building expenses will be contributed by local districts; the proportion of local contribution will vary with local capacity.
- AD-R6. The current approach to funding special education students attending publicly chartered schools should be changed in order to ensure that the district in which the student is enrolled has sufficient funding to cover the additional charges assessed by the chartered school on the district that exceed the weighted allocation received by the district.
- AD-R7. Access to community and school-based early education programs should be expanded to enable all students a better opportunity to achieve an adequate education.

Commented [MOU21]: Do we know when this was last used

Commented [DL22R21]: I think it was changed in 2013. I'll confirm with Mary Ellen in OLS this week. Have an LSR in drafting now

### ***Fiscal Policy Findings***

- FP-F1. It is the state's responsibility to guarantee that all students to have an opportunity for an adequate education.
- FP-F2. New Hampshire average student performance is among the best in the nation.

- FP-F3. The cost of the opportunity for an adequate education varies by student needs and community characteristics.
- FP-F4. New Hampshire average public school spending is among the highest in the nation, though lower than several other New England states.
- FP-F5. New Hampshire's state budget share of total public education spending is the lowest of all states.
- FP-F6. New Hampshire's current system of funding fails to direct aid to more needy communities in a meaningful matter, and inequities manifest themselves in more needy districts through lower student outcomes and higher property tax burdens.
- FP-F6. The state's current estimated cost for an adequate education is not reproducible by any evidence-based approach.
- FP-F7. This significant disparity between the full cost of educating a student and the state's contribution means that municipalities are currently obligated to raise substantial funds through local property taxes to pay for their students' education. These disparities are exacerbated by the differences in property wealth between communities and their relative abilities to raise the necessary funds.
- FP-F8. An increase in the state's share of education funding can improve student and taxpayer equity.
- FP-F9. Under the New Hampshire constitution, a tax must be implemented at a uniform rate within the tax jurisdiction. A state tax must be uniform in rate across the state for all taxpayers subject to the tax, and the tax must be reasonable.
- FP-F10. The methods used by the NHDRA to develop equalization ratios for property valuations are fair and accurate.
- FP-F11. The SPT is a state tax on individuals paid by local property taxpayers.
- FP-F12. Student equity is the most important principle for good fiscal policy in school funding.

### ***Fiscal Policy Recommendations***

- FP-R1. Fiscal Policy for education funding should place a priority on student equity.

- FP-R2. The current public school funding system should be reformed to include increased state budget funds that are directed to communities that have greater need, which will also result in greater taxpayer equity by reducing disproportionate burdens on poorer towns. The state should increase the amount of state funds for education to improve student and taxpayer equity.
- FP-R3. To the extent that the state budget uses a State Property Tax to fund some or all of its state budget obligations under a reformed distribution formula, the state should eliminate the “excess-SWEPT” grant and such excess funds should be applied through the reformed distribution formula apply those state funds to improve student and taxpayer equity. There should be no blanket rebates, abatements, refunds or grants of SPT back to municipalities.
- FP-R4. The NHDRA should collect and organize data appropriate to determine taxpayers’ capacity to pay property taxes and to improve the state’s ability to evaluate equitable funding mechanisms.
- FP-R5. The Commission supports the analysis set forth in the 2000 Shaheen Commission Report and believes that all possible revenue options should be open for discussion and debate. Regardless of the tax policy used to fund public education (local and state shares), the first priority must be to direct state budget funds to the communities with greatest need.
- FP-R6. The state should enhance taxpayer equity through property tax relief targeted to homeowners and renters and introduce a property tax deferral program.
- FP-R7. Implementation should be phased in with an emphasis on improved student equity.
- FP-R8. Performance data should be collected by the NHDOE and NHDRA to assess student equity, taxpayer equity, and the performance of property tax relief and deferral programs.

### **Accountability and Data Needs**

RSA 193-H addresses “School Performance and Accountability,” including the purpose of an accountability model that will, “enable all students to progress toward college and career readiness with clearly defined learning outcomes.” Further, the chapter sets a target that “all pupils are performing at the proficient level or above on the statewide assessment” and references graduation rates as a key criterion for performance at the high school level. In the current system, the legislature sets the target outcome measures and levels of acceptable performance. The Department of Education is charged with setting standards necessary to



achieve these outcomes and monitoring progress toward the targets. Current language makes schools the unit of analysis for measuring performance.

The student outcome measures identified in this report are consistent with those contained in RSA 193-E:3 and RSA 193-H. We recognize that the recommendations below put forward an ambitious set of additional data needs that would require significant expansion of the research and analytic capacities of both Department of Education and Department of Revenue Administration. We believe that the continued monitoring of student equity and the costing of an opportunity for all students to achieve at comparable levels will require that the state make the necessary investments in personnel and technology. Accurate and comprehensive data bases should be available to assess progress toward equity, to ensure the public that state grants assist schools in making progress toward the goals of adequacy.

The Commission notes that there is some disconnection between current means to measure district performance and student outcomes and recent changes to RSA 193-E that emphasize individualized student learning, work-study skills, and competency-based learning. These newer ways of defining a student's education do not yet have corresponding forms of assessment that can allow student-to-student or district-to-district comparisons. New Hampshire's innovative Performance Assessment of Competency Education (PACE) allows for locally-designed and locally-administered student-centered assessment. "Proficiency" may be defined differently across districts, making it difficult to apply standardized calculations of student outcomes at the statewide level, which are necessary in application of the Education Cost Model. In the future, the lack of alignment between 21<sup>st</sup> century approaches to teaching and learning will need to be addressed with accountability systems capable of guiding statewide education and fiscal policy.

The Education Cost Model (ECM) uses three outcomes measures to establish the target for student performance at the statewide average. The district outcome measures applied in the ECM model include attendance rates, graduation rates, and standardized achievement test scores. The Commission heard various testimony, primarily through public comment, that suggested additional outcome measures could produce a more robust assessment of student outcomes.

Consistent with the career and college readiness focus of RSA 193-E and H, capacity to follow graduates during their post-secondary experience would provide important data for determining the success of schools in preparing students for success after high school. Currently, the onus is on school districts to do that; generally, they lack the capacity and resources to do so. Therefore, capacity should be developed within the Department of Education to create data collection systems on outcomes such as:

1. Post-secondary applications, admissions, matriculation, and completion (in two-year, four-year, and technical training programs)

2. Post-secondary employment and earnings (e.g., up to five years post-high school graduation)

If these additional accountability measures or others were available for most students, the ECM would need to be adjusted to include these measures as part of the opportunity for all students to achieve at the level of average statewide performance outcomes. The Commission recommends that the Department work with the legislature to identify additional district-level criteria that align with the state's goal of graduating students who are career and college ready.

The Commission also heard testimony on the need for other measures of district performance, many of which were consistent with current language in RSA 193-E and H. A comprehensive system of measuring performance and maintaining accountability that is consistent with the outcomes-based school funding formula could include:

1. Annual teacher and administrative staff turnover rates
2. Career and technical education participation rates
3. Access to community or school-based early childhood education programs
4. Progress toward competency-based student experiences that emphasize work-study practices and community-based learning (such as extended learning opportunities)
5. Implementation of structural reforms to achieve greater efficiency and effectiveness related to school or district size, technology-mediated instruction, cross-district collaboration, early post-secondary matriculation, etc.

The use of an Education Cost Model to guide distribution of state funding creates the opportunity to measure the degree to which the goals of student and taxpayer equity are achieved. Two assessment questions related to the ECM are:

1. Is the disparity in student outcomes across districts with diverse student populations narrowed (as measured by less variation in z-scores<sup>13</sup>, which would overall raise the average statewide achievement)?
2. Is there less variation in local property tax rates with the implementation of state policies that distribute funds based on student need and equalized valuation per pupil?

### **Data Capacity and Collection**

The Commission benefited from the publicly available data maintained by the Department of Education and the Department of Revenue. School district expenditures, enrollments, staff salaries, student outcomes, local property tax rates, equalized valuations per pupil and related

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<sup>13</sup> A "z-score" is a statistical term that represents a standardized measure and its relation to the mean (or average). In this case, the z-scores derived for school district performance shows how close (or far) any given district's student outcomes (attendance rate, graduate rate, standardized test scores) are from all other districts.

data were useful for making comparisons across towns and districts and identifying statewide totals. The Commission also relied on guidance from the National Conference of State Legislatures and the Education Commission of the States relative to school funding data and analysis from other states. We note the importance of maintaining member relationships with NCSL and ECS to continue to have access to these valuable resources.

The Commission identified several issues that would benefit from improved data collection and analysis capacity in the Department of Education and Department of Revenue Administration. In general, a review of the DOE 25 data system could identify factors directly tied to the ECM that provide more granular data. Candidates for new or improved data collection and analysis in the future, as Commission recommendations are implemented, include:

1. An annual compilation of the DOE25 data into a file that would allow for more detailed analysis of fiscal data. Data should be compiled to retain as much detail as possible and expenditures and revenues could be organized by chart of account codes. At a minimum, the Department should report on a number of common mutually exclusive categories in order to aggregate district-level charts of account codes (e.g. instructional spending, school administration, district administration, transportation, food, etc.).
2. Collection of data on enrollment by grade at the town level that would allow for calculations of the proportion of students by grade who are residents of towns. Currently this exists by school and can be rolled up to districts. However, if funding is going to flow through towns and grade level weights are to be used and calculated as the percentage of students in middle and high school grades, town-level enrollments by grade will be needed.
3. Monitoring and accountability systems capable of “following the dollar” to ensure that state grants to local districts are used to achieve targeted student outcomes.
4. Monitoring and accountability systems capable of tracking the use of differentiated aid funds at the district level, to ensure that those funds are directly applied to programs and services intended for the recipients of the funds (e.g., are ELL differentiated aid funds used to support personnel and programs for enrolled English language learners?).
5. Special education by severity of need, to create more discrete breakdowns of the special education weighting and align the level of resources needed with the particular characteristics of and services to special education students.
6. Creation of research files in the Department of Education that contain unsuppressed data for all data that currently is posted with suppression, including ELL counts and school-level assessment data. This would also include any special education data that is subject to suppression.
7. Data bases on student density as it relates to transportation, e.g., data on the miles traveled by school buses, especially important for more isolated rural districts.

8. Additional community wealth measures beyond number of student eligible for FRLP and equalized valuation per pupil; e.g., household income by town (collected and analyzed by the Department of Revenue Administration).
9. A measure of the distance between schools to evaluate the efficiency of districts that chose to remain small and independent. Other measures of efficiency related to school or district size could be recognized.
10. Creation of a standard data sharing agreement in the Department of Education would allow research requests to be received and processed in a timely manner, while meeting the Department's concerns for protection of sensitive data.
11. Data collection and analysis by the Department of Revenue Administration regarding the implementation of targeted low and moderate income tax relief by communities.

### **Implementation and Phase-in**

Most school districts develop their budgets during the winter months, and generally before the state's biennial budget has been approved. School districts need to be able to predict how the state budget will fund schools for the first year of the biennium. Therefore, a phase-in to a new school funding plan should begin in the second year of the biennium.

Changes should be phased-in over a period of five years and over a span of three state budget biennia. In the year preceding the phase-in, any additional state revenue required for the first year of the phase-in should be collected and deposited to the education trust fund.

The phase-in should place an emphasis on student equity, and direct state funds to school districts with need and/or serving municipalities with more limited fiscal capacity. This applies specifically if the school funding plan does not take into consideration fiscal capacity. In this case, the availability of funds could be accelerated for these districts with higher needs and delayed for better resourced districts.

It is important to model the transition plan to be sure the necessary state and local revenues are available when needed. A sample transition could be done by receding from existing total state and local revenue levels at a rate of 20% per year for five years, while at the same time introducing the new state and local revenue plan at a rate of 20% per year.

If a hold harmless provision, like the state's current stabilization grant, is required during the transition period, it should not be necessary once the transition is complete. A funding plan focused on student equity should not require a hold harmless provision.

Implementation should also consider a phase-in of property tax "circuit breakers" such as the low and moderate property tax relief program. The state budget and eligibility requirements for this program should be considered along with any changes to the state property tax in order to provide relief for taxpayers with limited financial resources.

Every year and including the transition years, an adjustment should be made to the ECM to factor in changes in consumer prices, energy costs, and costs of living. At least every ten years, the ECM should be recalibrated using student outcome data and actual statewide spending, just like what this Commission has done to create the ECM. ▲

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