

Fiscal Policy Section DRAFT

Fiscal Policy

Given the complex nature of school funding and amount of work to be done, the Commission split into three work groups in order to maximize its efforts. The fiscal policy work group met seventeen times between May 7 and November 19, 2020, totaling nearly 40 hours of work group meetings.

Background & Findings

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 year¹. 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 2020, the equalized statewide property tax rate was \$1.93². Local education property tax rates range from \$0.52 in Hart's Location to \$24.02 in Charlestown³.

Meanwhile, the state of New Hampshire provides to school districts, as of FY21: \$3,708.78 per full time student, with an additional \$1,854.38 per free or reduced-price eligible student, \$1,995.21 per special education student with an individualized education plan (IEP), \$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 reading⁴. Statewide, on average, New Hampshire provides \$4,619 per student from state funding sources. The Commission's research partners from the American Institutes of Research (AIR), meanwhile, estimate that the average statewide *total* cost of education is approximately \$18,861 per student, factoring in all state and local spending⁵. This disparity between the full cost of educating a student and the state's contribution means that municipalities are currently obligated to raise local property taxes to pay for their students' education. For property wealthy communities, this may not amount to much, but in less wealthy communities local property taxes can be extremely burdensome, particularly for those who are living on low or fixed incomes.

¹ New Hampshire Department of Education: 2018-2019 State Summary Revenue and Expenditures of School Districts. <https://www.education.nh.gov/who-we-are/division-of-educator-and-analytic-resources/bureau-of-education-statistics/financial-reports>

² New Hampshire Department of Revenue Administration: Municipal Property Tax Rates and Related Data: <https://www.revenue.nh.gov/mun-prop/municipal/property-tax-rates.htm>

³ *ibid.*

⁴ New Hampshire Department of Education: FY2021 Estimated Adequate Education Aid. https://www.education.nh.gov/sites/g/files/ehbemt326/files/inline-documents/fy2021_explained.pdf

⁵ Atchison, Levin, Baker, & Kolbe. (2020). Equity and Adequacy of New Hampshire School Funding: A Cost Modeling Approach. https://carsey.unh.edu/sites/default/files/media/2020/09/20-12685_nh_final_report_v10.pdf

- The complaint asserted in the Sirrell case has been addressed by the state. Equalized valuations are fair. The concern posed in the Shaheen 2000 revenue report (actual title?) with respect to SPT > \$6.6/mil has been addressed.
- **New Hampshire relies heavily on local financing of public education, and the state budget contribution to the total cost of public education is the lowest in the nation.**

The following chart summarizes these first four factual findings:

Finding:	a	a	b	c	d	d
State	2018 Census Report Spending Per Pupil ¹	2018 Census Report Spending PP National Rank ¹	Education Week Overall Quality Ranking ²	2020 Shanker/ Rutgers Report Fairness of Distribution Ranking ³	2018 Census Report State Budget Funding % ⁴	2018 Census Report SFP National Rank ⁴
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%	

¹ 2018 Census Report, Table 11.

² Education Week, "2019 Quality Counts - Grading the States".

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

⁴ 2018 Census Report, Table 5.

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

The following chart summarizes this factual finding:

Education Fund Revenues ¹	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
Total	1,104,688,000

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

New Hampshire relies heavily on the property tax base (including both state property tax and local property tax) to finance public education.

- The following chart summarizes this factual finding:

Total Public Education Revenues	3,239,483,410	%
Local Property Tax	2,012,730,122	62.1%
State Education Property Tax	363,100,000	11.2%
Total Property Tax	2,375,830,122	73.3%

¹ From NH DOE and LBOA Reports

Recommendations

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

Student Equity

- The cost of the opportunity for an adequate education varies by student needs and community characteristics and can be made equitable through differentiated state funding
 - Accountability and performance measures should be created to assure that districts are performing up to standards set by the legislature and DOE

Equating the opportunity for an adequate education with the achievement of state average outcomes is a tangible and measurable standard (as opposed to intangible/unmeasurable descriptors like "high quality" or "quality" or "adequate" (probably belongs in the AWG principles)

Commented [CD1]: Perhaps a substitute: "making effective use of state funding." I would avoid using the word standards. And I don't think realistically there could be expectations re: performance within the initial few years.

Fiscal Neutrality

- The state's funding system should seek to minimize the relationship between the wealth of a community and the revenues and expenditures of schools in that community.

Commented [HJ2]: Earlier comment: The state should not determine its obligation based on a specific percentage of statewide costs for education (ref Kenyon 2007? – updated?) – comment... this supports the idea not to start with a 100% (first/last dollar) assumption, or frankly any arbitrary % assumption. Base the state support on student and taxpayer equity principles.

Vertical Taxpayer Equity

- To the extent that the state contribution to education is funded through a statewide non-utility property tax, the State Property Tax is a state tax and should be remitted to the state treasury/education trust fund.
 - Tax dollars should be collected locally to avoid complications and duplicative collection processes
 - The state should provide exemptions/rebates directly to taxpayers statewide

- The existing low- and moderate-income property tax relief program should be improved

Commented [HJ3]: Discussion of improvement vs redesign

Horizontal Taxpayer Equity

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

Implementation

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

Other principles

- Local municipalities/districts should not be prohibited or disincentivized to raise additional funds beyond state dollars and required local minimum contributions to support local schools.
- There was not substantial discussion on a statewide property tax growth cap, but there also did not appear to be wide support for such an initiative
- There should be an incentive (via a state education grant) for districts to comply with local tax effort requirements
- Local districts should remain in control to raise and appropriate the school district budget, comprised of local, state, federal and other revenues

Ames - Alternative draft fiscal policy principles (includes partial overlap with adequacy principles):

- ⊖ 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) is appropriately responsive to differentiated student needs and community characteristics.
- To allow for statistical error, inefficiencies, and local initiative, the cost of providing an opportunity for an adequate education (constitutional adequacy) should be set at seventy-five [or eighty-five or ninety-five] percent of cost estimates developed pursuant to the AIR Report, thereby varying significantly among municipalities and school districts in a manner that is rationally related to achieve the target outcome measures, and should also include certain categorical

aid programs that are identified as providing necessary components of an adequate education.

- Funding of constitutional adequacy must be provided by a combination of “state revenues” and “mandatory local required minimum contributions” and should not derive from local property tax revenues raised from local property taxes with disparate, locally set tax rates.
- “State revenues” that may be identified by the state to pay for a part of constitutional adequacy may include all state taxes, fees and enterprise fund revenues that are raised by the state for deposit into the state’s education trust fund or general fund.
 - The formula for distributing state budget money to school districts and municipalities should direct greater state aid to districts and municipalities that are determined based on outcome measures to have greater need in terms of outcome measures relevant student characteristics – e.g., economically disadvantaged, special education eligible, English language learners – and relevant community characteristics – e.g., district size and municipal property wealth.
 - State revenues may include revenues from a statewide non-utility property tax, provided the tax is collected locally to avoid complications and duplicative collection processes, the collections are remitted in full to the state, and any exemptions/rebates are provided statewide, not to taxpayers in certain municipalities
 - The state should enhance property taxpayer equity by providing property tax relief targeted to homeowners and renters through an enhanced low- and moderate-income property tax relief program. This program should include updated limits to income and home value and be fully funded with state revenues. A property tax deferral program managed by the state for residents with limited ability to pay should also be introduced.
- “Mandatory local minimum contributions” that may be identified by the state to pay for a part of constitutional adequacy shall be defined in a way that is equivalent to the Massachusetts Chapter 70 definition but the income weight used in MA may be excluded; the NH mandatory local minimum contribution for a municipality would therefore be calculated by applying a uniform statewide rate against the municipality’s local real property tax base to raise an amount equal to the municipality’s assigned (based on equalized property values) share of a total statewide targeted local share.
 - Consider floors (10%? 15%?) and caps to the mandatory local minimum contribution (82.5%? 87.5%?, 95%?)

- The percentage of statewide funding of the total statewide cost of an adequate education (including Special Education Aid and CTE Aid), should be increased over time to levels consistent with other New England states (e.g., approximating the Massachusetts state share of Massachusetts total public education costs.)
- Accountability and performance measures should be created to assure that districts are performing up to standards set by the legislature and DOE
- Changes should be phased-in, with an emphasis on student equity and targeted tax relief

Policy Considerations

- Deferral and circuit breaker provisions
- Metrics of capacity to pay - data for DRA to gather?

Commented [HJ4]: To the extent that the state budget contribution to public education is funded with a statewide tax on non-utility real property, the tax should be consistent with the following requirements:

- i. It should be applied with the same tax rate for all taxable properties across the state, including properties that qualify for current use.
- ii. It should not provide exemptions, reductions or rebates solely to taxpayers located in a particular community.
- iii. It should incorporate relief provisions for low to moderate income residential homeowners across the state.
- iv. Municipalities should continue to administer and collect the state property tax, but the revenues should be remitted to a state account for redistribution in accordance with the new, more progressive distribution formula in a manner that protects municipalities from cash flow disruptions.

f. The local property tax should continue to play a significant role in financing the total cost of public education, subject to the following requirements:

- i. The state should adopt statewide relief provisions for low to moderate income residential homeowners across the state and such provisions should protect municipalities from cash flow disruptions.
- ii. The delegation of taxing power to local municipalities enhances the vesting of local communities in their local public schools, and such vesting is a positive force for the maintenance and improvement of public school quality.
- iii. It is axiomatic that because the value of real property differs across communities, and different voters across communities, that use of local property tax will result in different rates among communities, but such rate differentials are acceptable as long as the state budget contribution, coupled with the more progressive state aid distribution formula, is sufficient to reduce unreasonable tax burdens in communities with lower property values.

Fiscal Policy Work Group Meetings/Topics

Please note that video recordings of every Commission meeting and documents from those meetings are available on the [Commission's website](#).

May 7, 2020:

Determine/review fiscal policy work group task list
Becoming more familiar with revenue outlook and DRA's role in education funding

May 18, 2020:

Presentation by Reaching Higher NH: The Whole Picture of Public Education in New Hampshire

May 21, 2020:

Working with engagement work group to finalize stakeholder focus group questions
Revisions to scope of work for research vendor

June 1, 2020:

Review of New Hampshire Supreme Court past education funding rulings
Presentations by John Tobin and Michael Tierney regarding ongoing ConVal litigation

June 5, 2020:

Identifying current revenue sources for PK-12 education
Identifying changes in levels and mix of revenue sources from 1999-2020
Discussions regarding equity and fiscal neutrality

June 15, 2020:

Continued deliberations of fiscal policy principles
Review of Governor Shaheen's 2000 Commission to Analyze the Economic Impacts of Various School Funding Revenue Options Report

July 16, 2020:

Review of the property tax
Continued discussion of how to weigh tax options against criteria outlined in 2000 report
Review of AIR brief "Providing Adequate funding Through Equitable Taxation"

August 3, 2020:

Review of Sirell (2001)
Discussion of pros and cons of various revenue sources
Considerations around modeling tax options

August 17, 2020:

AIR Presentation: Considerations and discussion for use of state property tax/mandatory minimum local effort; revenue simulation

DRA Presentation: Low and moderate income homeowner property tax relief; the statewide property tax and phase-in considerations

August 31, 2020:

Presentation by Jane Ferrini, Assistant City Attorney, City of Portsmouth: Impact of Property Taxes on the City of Portsmouth

Conversation with Paul Grenier, Mayor of Berlin, around the impact of property taxes on schools and municipal services

Reflections from AIR presentation and simulator

September 14, 2020:

Presentation by NH State Treasurer Monica Mezzapelle and Chief Deputy Treasurer Rachel Miller: State's Perspective on Possible Changes to the Statewide Property Tax

Presentation by Becky Benvenuti, Government Finance Advisor at the NH Municipal Association: Municipal Perspective on Possible Changes to the Statewide Property Tax
Continued reflections on AIR presentations and fiscal policy implications

September 29, 2020:

Mandatory minimum local contribution and first/last dollar considerations

Discussion of court rulings and their impact on education funding

October 13, 2020:

Conversation with Alice Peisch, Massachusetts House Education Chair, and Aiden Church, Research Director, on Massachusetts' Chapter 70 education funding plan and the implications for New Hampshire

October 22, 2020:

Continued discussion of Massachusetts' Chapter 70 program

Review of property tax relief programs

October 29, 2020:

Consolidating fiscal policy work group principles, drafting recommendations

November 9, 2020:

Features of the Massachusetts Chapter 70 program and their relevance to school funding reform in New Hampshire

November 19, 2020:

Reviewing recommendations, finalizing for report

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