



**Testimony of Jeff McLynch,
Project Director, NH School Funding Fairness Project,
on SB 158 before the Senate Education Committee,
Tuesday, February 16**

Chairwoman Ward, Senator Kahn, Members of the Committee, thank you for the opportunity to offer testimony this morning on SB 158.

For the record, my name is Jeff McLynch and I am the Project Director of the New Hampshire School Funding Fairness Project (NHSFFP), a nonprofit organization that seeks to educate citizens and policymakers about the system New Hampshire uses to fund its public schools, to build awareness of the shortcomings of that system, and to advocate for changes in law to make that system more fair for students and taxpayers alike.

The bill before you this morning, SB 158, seeks to advance a number of the recommendations put forward by the Commission to Study School Funding in its final report from December 1 of last year. NHSFFP applauds the efforts of the bill's sponsors to continue the critical conversations initiated by the Commission, conversations that we hope will lead to lasting, comprehensive, and equitable reform of New Hampshire's school funding system, and supports many of the principal elements of the bill, as they would make considerable progress toward achieving that longer-term goal. However, NHSFFP does have reservations about some of the provisions in the bill and their possible implications for tax equity across various communities in New Hampshire.

As the members of the Committee will recall, as part of the FY 2022-23 budget agreement, the Legislature created a Commission to Study School Funding and charged it, among other responsibilities, with reviewing "the education funding formula and [making] 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." To assist it in fulfilling its responsibilities, the Commission engaged the American Institutes for Research (AIR), a widely-recognized research and evaluation organization, to conduct a rigorous, detailed, and empirical assessment of New Hampshire's school funding system.

Broadly speaking, AIR made two exceptionally valuable contributions to the Commission's work. First, it provided a stark and compelling diagnosis of the problems plaguing New Hampshire's current school funding system. It found that:

"[the] current system is inequitable from both student and taxpayer perspectives. The districts serving the highest proportion of students who are economically disadvantaged spend less, on average, compared with districts serving the fewest such students. Moreover, the districts with the least property wealth per student impose the highest local education tax rates to be able to fund their children's education."

Second, it constructed a model that New Hampshire could employ to address these inequities and to provide communities with comparatively fewer resources or with student populations that exhibit greater need the means to achieve a particular set of educational outcomes. More specifically, the model devised by AIR takes nearly the entire sum of existing state and local education spending – without any increases to that aggregate amount – and distributes it in such a way as to enable every school district in New Hampshire to attain statewide average outcomes across three measures: assessment scores, graduation rates, and attendance rates. In constructing that model, AIR used a decade’s worth of data from New Hampshire and sophisticated statistical analysis to identify the key factors that affect those outcomes and to assign “weights” to those factors to determine the distribution of school funding.

Under SB 158, that “education cost model” would be used to allocate state education aid beginning in FY 2023. Moreover, as part of the transition to that new approach, SB 158 appears to extend two forms of state education aid available to cities and towns in FY 2021: additional aid, which is intended to assist cities and towns with higher concentrations of low-income students, and fiscal capacity disparity aid, which is designed to help municipalities with comparatively low property values. While further refinements to AIR’s model may be desirable – for instance, to reflect several years’ worth of additional data that are now available or to improve its use of enrollment and grade level information – NHSFFP believes it represents a path toward greater school funding fairness that this Committee and the Legislature as a whole ought to follow.

AIR also explored two possible options for generating the revenue necessary to support its education cost model. Both options would continue to rely upon the roughly \$600 million in existing revenue sources flowing into the Education Trust Fund (exclusive of the Statewide Education Property Tax and including such levies as the business profits tax, the business enterprise tax, or the tobacco tax). While one option would generate the remaining necessary revenue through a single, statewide property tax, the other would produce that sum through a smaller statewide tax in combination with a mandatory minimum contribution derived from local property taxes; SB 158 appears to employ this latter option.

NHSFFP has concerns about the implementation of mandatory local minimum contributions and their potential ramifications for property taxpayers in different parts of the state. If New Hampshire chooses to institute mandatory local minimum contributions as part of school funding reform, the rate for those contributions must be the same across the state. Moreover, any cities or towns that generate an amount of revenue from their mandatory local minimum that exceeds the local cost of providing an adequate education must be required to remit that excess to the state. Otherwise, the effective tax rate of a mandatory local minimum contribution would vary from place to place, perpetuating the inequities of New Hampshire’s current approach to school funding and violating a key constitutional principle.

On a related note, it is not yet clear whether the revenue that SB 158 would generate would be sufficient to support funding levels through the education cost model that would enable every district to achieve statewide average outcomes. If the bill were to fall short of such levels, it could run the risk of leaving it to cities and towns to make up the difference and thus perpetuate the same kinds of disparities that plague the existing system.

While some questions about these mechanisms may still need to be answered, SB 158 includes several other provisions related to school property taxes that NHSFFP strongly endorses, as they would help to make New Hampshire's property tax system more fair.

Of note, while the research AIR conducted for the Commission was the focus of considerable deliberation, the Commission also received hours of input from local officials, tax administrators, academic experts, and members of the public, much of which centered on the property tax. Indeed, the Commission examined New Hampshire's school property tax system at length and, after doing so, arrived at two conclusions embodied in SB 158. First, in its final report, the Commission recommended that:

"the state should eliminate the "excess-SWEPT" grant and such excess funds should be applied through the reformed distribution formula to improve student and taxpayer equity. There should be no blanket rebates, abatements, refunds or grants of [SWEPT] back to municipalities."

To that end, SB 158 would end the preferential treatment that some property-wealthy municipalities now enjoy under the Statewide Education Property Tax (or SWEPT) and require every community to pay the full amount of the tax to the state. Under the New Hampshire Constitution, it is the duty of the state to provide an adequate education to every child regardless of where she or he may live. Moreover, as the New Hampshire Supreme Court ruled in *Claremont II*, to "the extent that the property tax is used in the future to fund the provision of an adequate education, the tax must be administered in a manner that is equal in valuation and uniform in rate throughout the State."

In its current form, the SWEPT is far from uniform. Cities and towns with comparatively high property wealth are permitted to retain any revenue from the tax over and above what is needed to meet the cost of an adequate education, rather than remitting the difference to the state, as they did when the tax was first instituted, thus lowering the effective rate of the tax. Consequently, the SWEPT, as it exists today, exacerbates the wide disparities in school property tax rates that persist throughout New Hampshire and that curtail the opportunities available to students in less well-to-do areas.

The Commission's final report likewise recommended that:

"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."

SB 158 aims to put that recommendation into law by significantly increasing both the number of homeowners eligible to participate in the Low- and Moderate Income Property Tax Relief Program and the value of the rebates they would receive. It would raise the income thresholds for the program – which have not been adjusted since its inception nearly two decades ago – to allow single homeowners with incomes under \$55,000 and married couples with incomes less than \$70,000 to take part. It would also raise the limit on the amount of assessed value used to determine homeowner rebates from \$100,000 to

\$150,000 and, even more critically, extend the program to apply not simply to the Statewide Education Property Tax, as it does at present, but to local school property taxes as well.

Among the other improvements to the Low- and Moderate Income Property Tax Relief Program included in SB 158 are a requirement that the program's parameters be adjusted for changes in the Consumer Price Index each year, so that inflation does not erode the program over time, and a requirement that cities and towns enhance promotion of the program, so that homeowners are better aware of the rebates for which they might be eligible.

Changes to the existing Low- and Moderate-Income Homeowners Property Tax Relief are imperative, for the program has all but evaporated in recent years. In 2003, the program provided roughly \$7.5 million in property tax relief to over 27,000 Granite State households; by 2018, those figures had dwindled to fewer than 7,000 households receiving a total of just \$1.1 million in rebates – even as property taxes continued to climb and despite the disproportionate responsibility the property tax places on families struggling to make ends meet.

In sum, SB 158, and the Commission recommendations it aims to implement, would travel a considerable distance on the road toward a fairer school funding system in New Hampshire. NHSFFP looks forward to working with the members of the Committee to strengthen the bill still further and to reaching that ultimate destination together. I again thank you for the opportunity to offer this testimony and would be happy to answer any questions you may have.