



Testimony of Zack Sheehan,
Project Director, NH School Funding Fairness Project,
on HB 569 before the House Ways & Means Committee,
January 31, 2023

Committee Chair Sanborn, Members of the Committee, thank you for the opportunity to appear before you this afternoon.

For the record, my name is Zack Sheehan 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 equitable for students and taxpayers alike.

As HB 569 would make New Hampshire's tax system significantly fairer, NHSFFP strongly supports the bill and urges the Committee to recommend it as ought to pass.

It is impossible to discuss New Hampshire's tax system without talking about the property tax. The property tax is far and away the largest tax collected in New Hampshire, generating over \$4 billion to support state and local public services in 2022, much more than any other form of taxation levied in the state. Unsurprisingly, New Hampshire's property tax levels, consistently rank it among the highest among the fifty states.

Yet, the property tax is also an unfair tax, as it places far greater responsibility on low- and moderate-income taxpayers than it does on more affluent ones. According to data from the Institute on Taxation and Economic Policy, the 20 percent of New Hampshire households with the lowest incomes (i.e. households with incomes under \$26,700) paid 6.2 percent of their incomes in property taxes in 2018. In stark contrast, the wealthiest 1 percent of households, each of which enjoyed an income in excess of \$514,900, paid an effective property tax rate of just 1.9 percent of their incomes.

Despite its heavy reliance on the property tax and, in turn, that tax's heavy toll on the least well-off, New Hampshire does little to mitigate the impact of the tax on those struggling to make ends meet. The state's principal approach to property tax relief – the Low- and Moderate-Income Homeowners Property Tax Relief 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 2021, the state provided only \$1.4 million in relief, even as housing prices have climbed dramatically.

If enacted into law, HB 569 would significantly increase 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 creation nearly two decades ago – to allow single homeowners with incomes under \$65,000 and married couples with incomes less than \$77,500 to take part. It would also extend the program to apply not only to the Statewide Education Property Tax, as

it does at present, but to local school property taxes as well which is critical because local school taxes tend to be significantly higher than the SWEPT.

Among the other improvements to the Low- and Moderate Income Property Tax Relief Program included in HB 569 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.

HB 569 advances taxpayer equity in one other critical way, as it 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 they 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 exacerbates the wide disparities in school property tax rates that now exist throughout New Hampshire and that curtail the opportunities available to students in communities with lower property values.

In fact, since this committee last considered a similar bill last session, HB 504, another lawsuit was filed against the state that focuses on the unconstitutional taxes used to pay for public education. In that case, *Rand et al v. State of NH*, the state has not tried to defend the constitutionality of SWEPT, but has, to date, focused on the logistical complications of reforming how taxes would be collected at the state level. There are currently pending motions in this case, one of which asks the judge to issue a ruling on SWEPT before April 1 so that communities could incorporate any changes into their tax bills going out in May or June.

By restoring the SWEPT as a true statewide tax, HB 569 promotes not only greater equity, but fiscal responsibility too, as the revenue returning to the state from the SWEPT would be used to offset the cost of the additional rebates associated with the provisions of the bill I described earlier in my testimony. Those costs would be further limited by other aspects of the bill, which would cap individual rebates at no more than \$1,100 and the total sum of rebates at \$30 million. This alleviates a main concern from the communities that currently have excess SWEPT; simply put, just because an individual or family lives in a community with high property values does not mean they are wealthy. By bolstering the amount of money in and promotion of the Low- and Moderate Income Property Tax Relief Program, the people least equipped to handle an increase in property taxes in those communities would have more relief available.

HB 569 also reflects two key recommendations offered by the recent Commission to Study School Funding. As members of the Committee know, that Commission met for much of 2020, despite the pandemic, and received hours of input from school finance officials, tax administrators, academic experts, and members of the public. They examined New Hampshire's school property tax system at length and, after doing so, arrived at two conclusions embodied in HB 569. 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.”

That same report went on to make the case 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.”

Any effort to use New Hampshire’s tax system to achieve those ends should start with HB 569. HB 569 would put hundreds of dollars in the pockets of Granite Staters who need it most.

For these reasons, I urge the Committee to recommend HB 569 as ought to pass. I look forward to working with the members of the Committee to make New Hampshire’s tax system more fair for everyone and would be happy to answer any questions you may have.