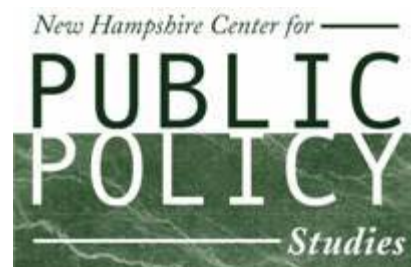


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Plumbing the Numbers #12

More and Less

How the House’s Education Equity Index Redistributes State Aid

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About this paper

This is the twelfth paper in the NH Center for Public Policy Studies' "Plumbing the Numbers" series of reports on education finance. The paper analyzes data contained in a spreadsheet developed in the NH House as part of the vote on HB 616 in April 2005. The analysis compares that data to current law.

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More and Less

How the House's Education Equity Index Redistributes State Aid

**By Richard A. Minard, Jr.
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Plumbing the Numbers #12

More and Less

How the House's 'Education Equity Index' Redistributes State Aid

1. More and Less

Three aspects of the education finance bill approved by the New Hampshire House in April warrant attention:

- the creation of an “education equity index” which, for the first time in New Hampshire, builds a town’s median household income and measures of student performance into the aid-distribution formula
- the elimination of the statewide property tax and, with it, the program that provided property-tax refunds to 27,207 low-income households
- the impact of constraining the growth of education grants to a total of 1.2 percent in Fiscal Year 2006, even as school districts have been increasing their spending at a rate of approximately 8.2 percent over the last five years.

The effect of the three changes would be a significant shift in state-aid dollars from relatively wealthy communities to relatively poor ones. By constraining the growth of state aid, the formula amounts to a nearly perfect “zero-sum game”: for every winner, there is a loser and the losers will probably pay higher property taxes. The biggest losers are low-income homeowners living in middle- to high-income communities. Their property taxes will go up twice: first, when their tax rates rise to compensate for the lost state aid, and second when the state no longer refunds a portion of their tax bill.

The House bill suffers from some of the same problems that the legislature built into the current law: the text of the bill does not correspond exactly to the spreadsheet that calculates how much aid each town should get. This paper analyzes the results of the spreadsheet, not the text.

The Center plans to analyze whatever bill emerges from the Senate so voters and legislators will be able to compare the House and Senate approaches before a conference committee attempts to resolve any differences. Because there may be insufficient time to copy and distribute such an analysis, the Center may simply post the analysis on its website: www.nhpolicy.org.

2. Targeting

The House adopted HB 616 after weeks of debate on large principles and the fine points of spreadsheets and formulas. The bill combines features of Governor Lynch’s proposal to the legislature with policy goals important to members of the House. Three goals appear to have dominated the process: avoiding any significant increase in the total amount of state aid to be distributed to communities; targeting aid to communities that “need it”; and eliminating the statewide property tax, which the legislature had created in 1999 as part of a package to infuse more state money into education.

The House plan would disburse \$460 million to communities in FY 06, compared to \$454.4 million this year. If the legislature does not pass a new aid formula this year, the one adopted in 2004 (SB 302) will remain in place. The old formula would cost the state \$508 million, but only if the legislature corrects technical errors in the text of the statute.¹

The bill passed by the House creates what Governor Lynch called an “education equity index,” a score for each town based on its relative need as determined by six measures, each given a particular weight in a formula. A town’s fiscal capacity—its ability to raise property taxes locally—makes up about half of the index. Where previous formulas had only considered property wealth, the new one gives a significant amount of weight to the town’s median household income, as shown below.

The Education Equity Index: Factors and their relative weight²

- ❑ Fiscal Capacity
 - 25% property valuation per pupil
 - 20% median household income
- ❑ Resource Challenges
 - 9.5% percentage of student body receiving free & reduced lunch
 - 0.5% percentage of student body with limited English proficiency
- ❑ Academic Performance
 - 15% 3rd & 6th grade scores on standardized tests
 - 7.5% percentage of students who graduate

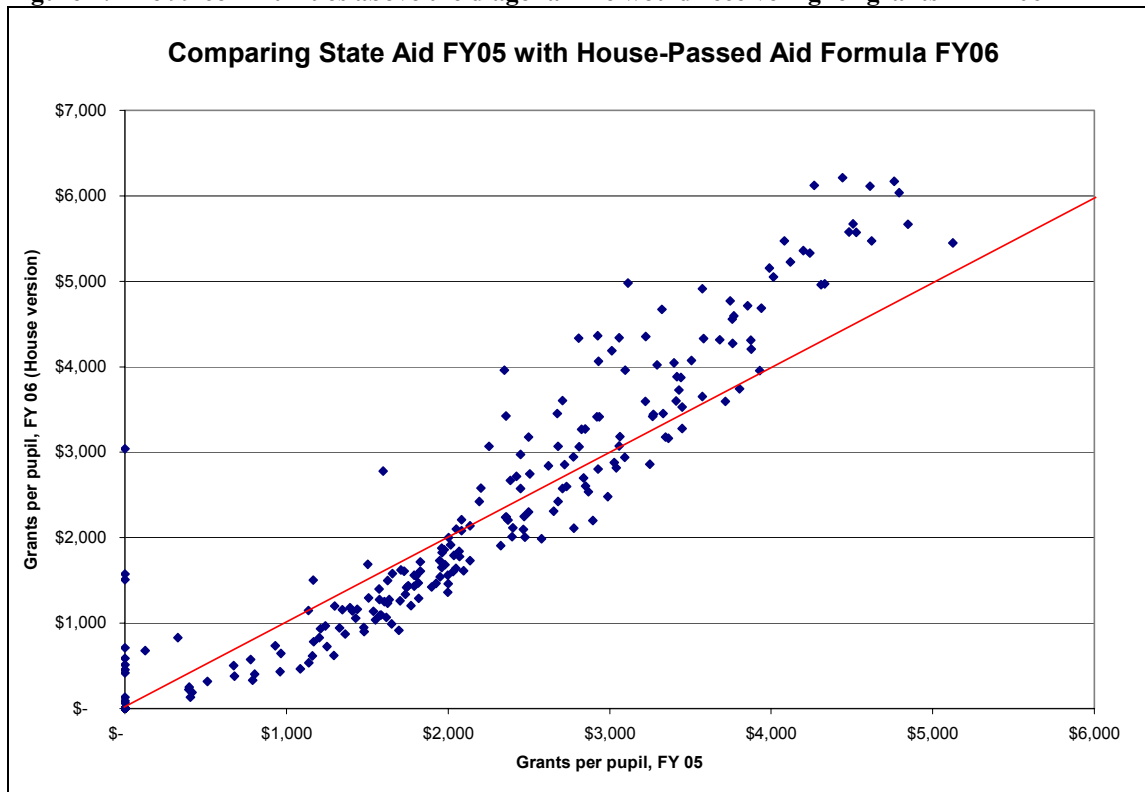
Towns with a low EEI are considered to be in greater need and receive larger grants per pupil. A weaker tax base and lower incomes, a large proportion of students qualifying for free and reduced lunch and requiring additional work in English, and a smaller proportion of students scoring well on tests, graduating, or going on to post-secondary education all reduce a town’s EEI. The results of the targeting are illustrated in the graphs that follow. One of the most obvious changes is a reduction of state aid to relatively affluent bedroom communities such as Amherst, Bedford, and Bow.

In general, the communities that received the largest grants per pupil in FY 05 continue to do so and their grants increase substantially, as shown in Figure 1.³ Each town is represented by a dot on the graph, which plots the town’s grants in FY 05 against the grant they would receive if the House-passed formula becomes law. Any community right on the diagonal line would receive the same amount in FY 06 as in FY 05; those above the line would receive an increase; those

¹ The text of SB 302 directs the state to multiply the amount of state aid distributed in FY 05 by an inflation factor and to distribute the product according to a formula; the text should have directed the state to *increase* the FY 05 spending by an inflation factor. Thus the letter of the law would reduce state aid to a small fraction of the amount intended by the legislature and send financial shock waves through most communities in the state. For more on SB 302, including its distribution of funds in FY06, see *Plumbing the Numbers #10: Understanding State Aid, FY 05 & FY 06*, Richard A. Minard, Jr., NH Center for Public Policy Studies, December 2004.

² Although the weighting factors in the bill do not add up to 100 percent they show the relative weight of each criterion.

³ The analysis in this paper uses the FY 03 student-population count to calculate the grant *per pupil* for both FY 05 and FY 06. Current law (SB 302) based its grants on the FY 02 count of pupils and HB 616 uses the FY 03 count. This paper uses the more recent count (FY 03) because it is more likely to approximate the actual number of pupils in school during the current year.

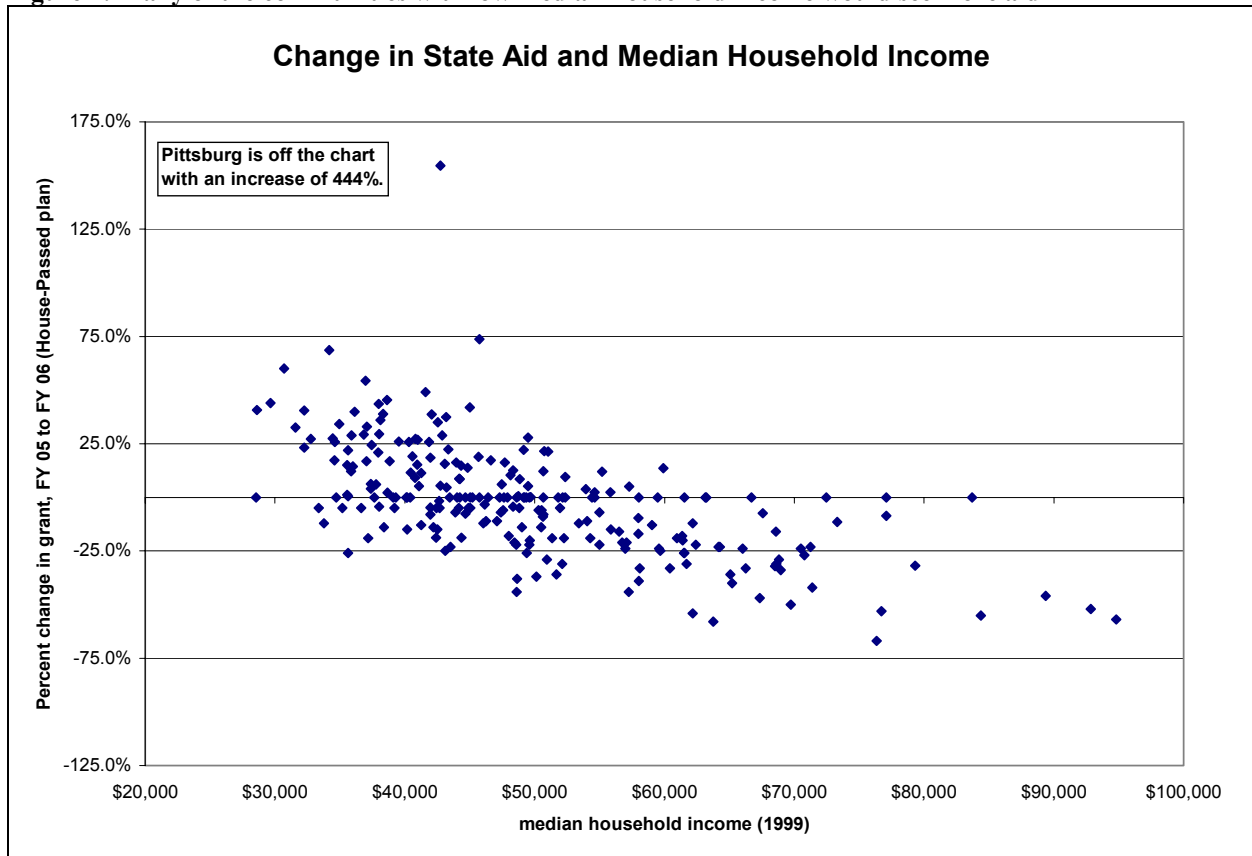
Figure 1: The 99 communities above the diagonal line would receive higher grants in FY 06

below the line, a decrease. Twenty-six towns with a total population of 103,561 would see no change; most of those communities are at the zero-zero point: they received no aid in FY 05 and they would receive none in FY 06. Ninety-nine communities with a total population of 545,248 would see larger grants per pupil; 114 communities with a total population of 643,275 would see smaller grants.

School districts across New Hampshire have increased their total spending by an average of 8.2 percent per year over the last five years. Increases in state aid have not kept pace with that growth, so property taxpayers in most communities have borne a growing percentage of the total cost of education. If school costs continue to rise at comparable rates in FY 06, 28 communities with 171,247 residents would see their state-aid grants increase but by too little to offset the rising costs. Seventy-one communities, with a combined population of 374,001, would see their grants increase by 8.2 percent or more and thus be able to maintain current spending without paying a larger percentage of the costs with local property taxes. Because the House chose to constrain the growth of state aid so tightly, more than two-thirds of New Hampshire's residents live in communities whose grants will increase less than the recent average cost of education.

The targeting in the House bill effectively shifts aid to communities with lower median household incomes, as illustrated in Figure 2, which graphs each town's change in state aid per pupil against its median household income, as measured by the 2000 Census in 1999. The wealthier communities either see substantial decreases in their grants or were receiving none in FY 05 and so show no change in FY 06. Note, however, that there are numerous communities with median household incomes below \$50,000 which would see substantial reductions in aid.

Figure 2: Many of the communities with low median-household income would see more aid



The House bill’s redistribution of state aid from wealthier communities to poorer ones is even more apparent when a broader measure of income and wealth is used. The “wealth cluster” analysis, developed by the Center several years ago, groups towns into five clusters, each with approximately 20 percent of the state’s population.⁴ Towns are sorted by their median household income, their per capita income, and several measures of poverty. Cluster 1 is the wealthiest; Cluster 5 is the poorest. Figure 3 shows that all of the towns in Cluster 1 will receive less state aid in FY 06 (or none at all) and most of the towns in Clusters 4 and 5 will receive substantially more. The data are summarized in Table 1 and Table 2.

⁴ See Appendix B in the *Kids Count 2003* report published by the NH Children’s Alliance, available at www.childrenNH.org.

Figure 3: The House bill shifts aid from wealthier communities to poorer ones

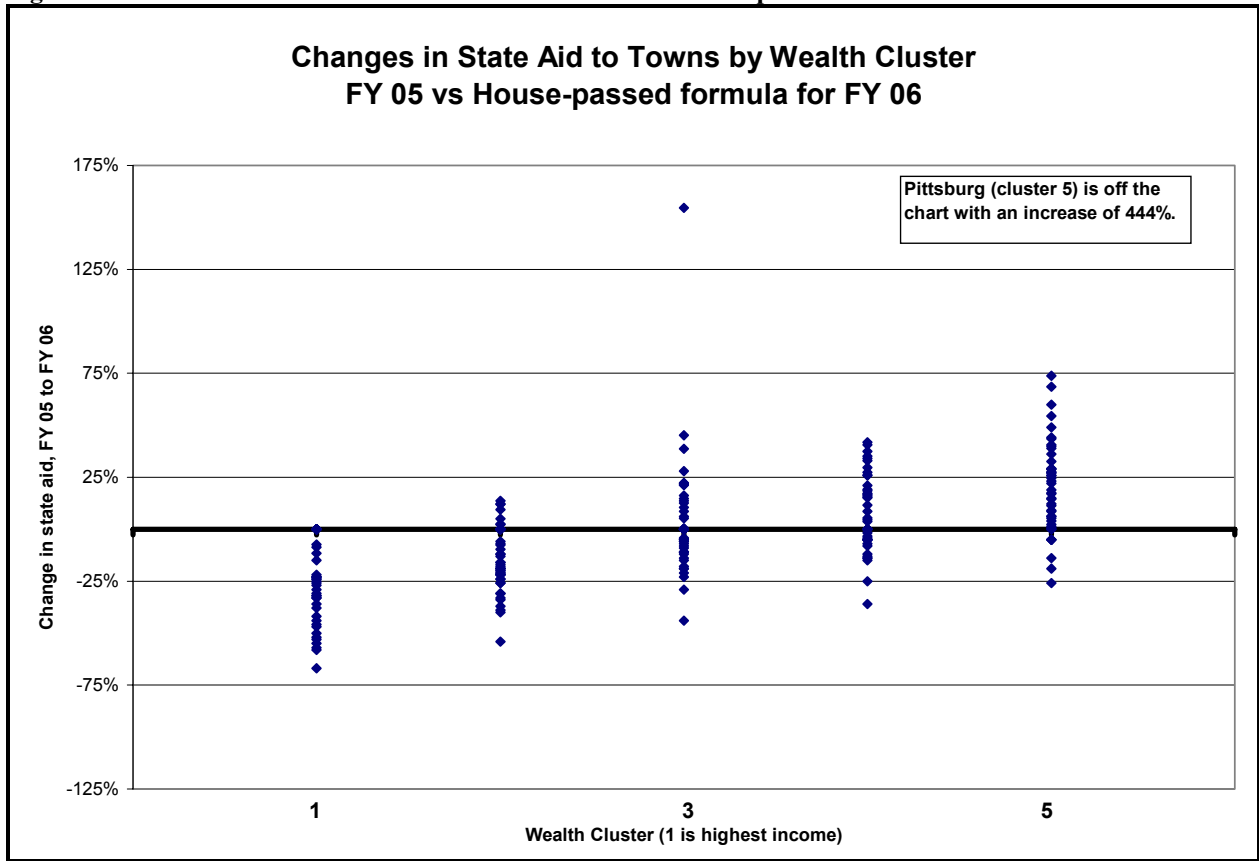


Table 1: Change in state aid corresponds to wealth clusters

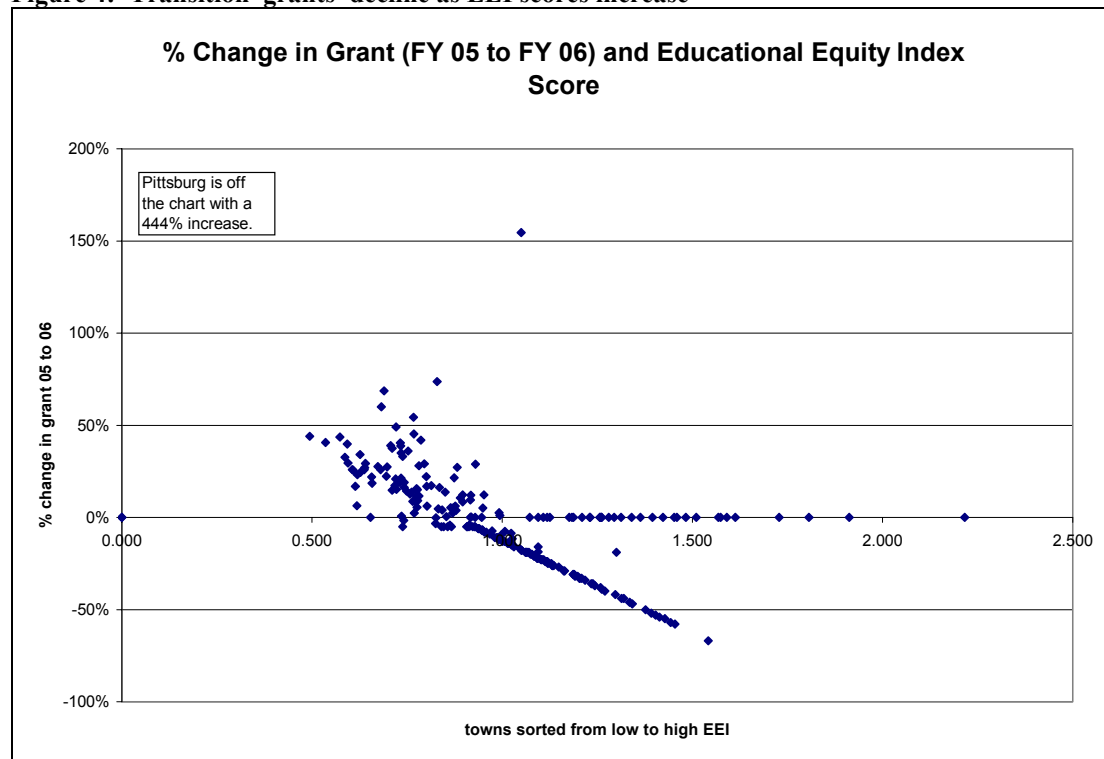
change in grant \$ per pupil FY05 to FY06	number of towns by wealth cluster (1 is richest)					NH total
	1	2	3	4	5	
Gain more than 50%	-	-	1	-	5	6
Gain 26 to 50%	-	-	3	10	16	29
Gain up to 25%	-	9	18	17	20	64
All gainers	-	9	22	27	41	99
Gain more than 8.2%	-	4	14	20	33	71
No change	9	9	4	4	-	26
Lose up to 10%	2	4	10	11	4	31
Lose 11 to 25%	9	20	11	6	2	48
Lose 26 to 50%	15	9	2	1	1	28
Lose more than 50%	6	1	-	-	-	7
All losers	32	34	23	18	7	114

Table 2: The House-passed bill increases aid per pupil in poorer towns

Wealth Cluster	No. of students (2003)	FY05 adequacy grants	FY06 grants in House-passed bill	change from FY05	FY06 avg. adequacy grant per pupil
1	46,459	\$ 76,052,789	\$ 53,899,765	-29%	\$ 1,160
2	42,910	\$ 87,583,986	\$ 81,664,019	-7%	\$ 1,903
3	38,206	\$ 77,377,589	\$ 80,181,766	4%	\$ 2,099
4	34,880	\$ 97,695,300	\$ 107,851,791	10%	\$ 3,092
5	37,697	\$ 115,722,769	\$ 136,406,991	18%	\$ 3,618
NH	200,152	\$ 454,432,433	\$ 460,004,332	1%	\$ 2,298

The shift in aid would have been even more dramatic had the House not included in the aid package nearly \$40 million in “transition grants.” These funds are divided among the communities that lose aid under the formula as a way to reduce the financial shock of the plan. This part of the formula is also tied to the EEI; the higher the EEI score (and thus the wealthier the community and the more successful the pupils) the less cushion the transition grant provides. Other aid proposals had promised that no town would see more than a 5 or 10 percent reduction in one year; the House-passed version, however, uses a sliding scale, allowing larger reductions for towns with higher equity index scores. The effect is clearly visible in Figure 4, where the towns receiving transition grants form a straight line heading to the lower right of the graph.

Figure 4: 'Transition grants' decline as EEI scores increase



House Bill 616 produces a dramatically different result from the formula in current law, SB 302. Were it to remain in place (with technical corrections described in footnote 1), SB 302 would increase grants by nearly \$54 million or 12 percent in FY 06. The formula would direct the increases to towns in every wealth cluster. The statute also would retain the property-tax refund program for the low-to-moderate income homeowners.

3. Eliminating the Statewide Property Tax

By eliminating the statewide property tax, the House bill would send a \$21 million benefit to 37 communities with exceptionally high tax bases per pupil: New Hampshire's so-called donor towns. Twenty-six of those towns would continue to receive no state-aid grant, but they would no longer have to send revenues raised from the statewide property tax to Concord for redistribution. Eleven of the donor towns would not only receive that tax reduction, but would also receive a cash grant.

All property taxpayers in New Hampshire have been paying a statewide property tax since 1999. Every town retains revenues from the state tax to support the local cost of providing an "adequate" education. In towns where the statewide property tax revenues are insufficient to cover the costs of what the state considers adequate (\$3,390 per pupil in FY 05), the state has made up the difference with cash grants. In towns with large tax bases per pupil, the statewide tax generated more than \$3,390 per pupil and the towns remitted the excess to the state.

Except in the 37 donor towns, property-taxpayers would not notice any change if the statewide property tax is eliminated because their towns will still need to raise the same funds to cover the costs of schools. The tax will simply have a different name in those towns. But in the donor towns, tax rates could fall because the towns would no longer need to raise funds for the state.

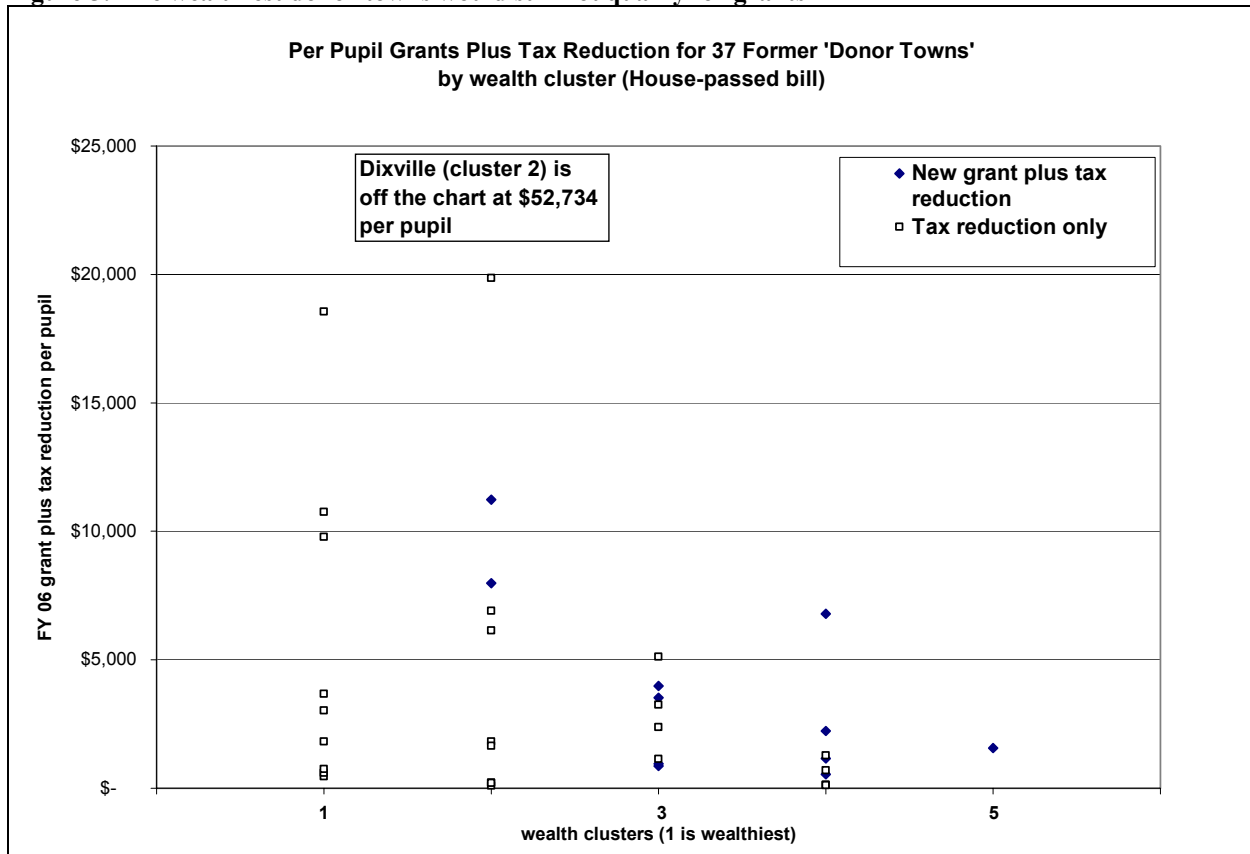
The donor towns have high tax bases per pupil, and thus relatively low property tax rates, but their residents are not necessarily particularly wealthy. Donor towns fall in each of the wealth clusters. Eleven of the towns have sufficiently low education equity scores that they would qualify for cash grants in FY 06. Table 3 sorts the current donor towns by wealth cluster and shows the combined impact of education grants plus eliminating the statewide property tax.

Most of the benefits shown in Table 3 were not apparent in previous graphs (e.g., Figure 3) because the donor towns had received no grants in FY 05 and most would receive none in FY 06 under the House-passed bill. When the House bill's tax benefits are added to the new grants, however, the distribution of financial benefits among the donor towns is more apparent, as illustrated in Figure 5.

Table 3: Former donor towns would see \$22.4 million benefit

Donor towns FY 05	no. students 2003	statewide property tax remitted to state FY 05	FY 06 grant	grant \$ per pupil	tax savings + grant	net benefit per pupil	wealth cluster
CAMBRIDGE	1	\$ 18,553			\$ 18,553	\$ 18,553	1
GRANTHAM	326	\$ 147,212			\$ 147,212	\$ 452	1
HANOVER	1,173	\$ 697,178			\$ 697,178	\$ 595	1
NEW CASTLE	105	\$ 1,022,873			\$ 1,022,873	\$ 9,779	1
NEW LONDON	412	\$ 1,514,885			\$ 1,514,885	\$ 3,673	1
NEWBURY	259	\$ 473,564			\$ 473,564	\$ 1,827	1
NEWINGTON	104	\$ 1,112,821			\$ 1,112,821	\$ 10,752	1
NORTH HAMPTON	649	\$ 488,280			\$ 488,280	\$ 752	1
RYE	689	\$ 2,089,378			\$ 2,089,378	\$ 3,034	1
BRIDGEWATER	134	\$ 243,379			\$ 243,379	\$ 1,815	2
DIXVILLE	1	\$ 63,281			\$ 63,281	\$ 52,734	2
HAMPTON	1,970	\$ 206,217			\$ 206,217	\$ 105	2
HEBRON	40	\$ 383,261	\$ 62,508	\$ 1,575	\$ 445,769	\$ 11,228	2
HOLDERNESS	320	\$ 68,820			\$ 68,820	\$ 215	2
JACKSON	85	\$ 588,381			\$ 588,381	\$ 6,906	2
MILLSFIELD	2	\$ 9,876	\$ 6,075	\$ 3,038	\$ 15,951	\$ 7,976	2
MOULTONBOROUGH	656	\$ 4,033,580			\$ 4,033,580	\$ 6,146	2
SUGAR HILL	67	\$ 110,537			\$ 110,537	\$ 1,645	2
SUNAPEE	506	\$ 105,528			\$ 105,528	\$ 209	2
WATERVILLE VALLEY	33	\$ 645,643			\$ 645,643	\$ 19,866	2
CENTER HARBOR	122	\$ 626,358			\$ 626,358	\$ 5,126	3
EASTON	23	\$ 26,001			\$ 26,001	\$ 1,135	3
FREEDOM	138	\$ 474,450	\$ 9,287	\$ 67	\$ 483,737	\$ 3,516	3
HART'S LOCATION	6	\$ 13,821	\$ 8,437	\$ 1,507	\$ 22,258	\$ 3,975	3
PORTSMOUTH	2,128	\$ 924,192	\$ 1,093,440	\$ 514	\$ 2,017,632	\$ 948	3
SANDWICH	157	\$ 374,235			\$ 374,235	\$ 2,388	3
TUFTONBORO	292	\$ 946,544			\$ 946,544	\$ 3,244	3
WOLFEBORO	926	\$ 720,973	\$ 83,890	\$ 91	\$ 804,863	\$ 869	3
ALTON	691	\$ 708,079	\$ 90,715	\$ 131	\$ 798,794	\$ 1,155	4
CARROLL	106	\$ 174,249	\$ 62,449	\$ 588	\$ 236,698	\$ 2,229	4
DUBLIN	136	\$ 18,369			\$ 18,369	\$ 135	4
EATON	60	\$ 7,198			\$ 7,198	\$ 121	4
FRANCONIA	148	\$ 19,040	\$ 61,737	\$ 416	\$ 80,777	\$ 545	4
LINCOLN	163	\$ 993,439	\$ 116,415	\$ 712	\$ 1,109,854	\$ 6,792	4
STODDARD	106	\$ 134,558			\$ 134,558	\$ 1,269	4
WENTWORTH LOC.	4	\$ 2,439			\$ 2,439	\$ 697	4
BARTLETT	449	\$ 500,172	\$ 203,533	\$ 453	\$ 703,705	\$ 1,567	5
Unincorporated towns		\$ 246,867			\$ 246,867		
TOTAL	13,185	\$ 20,934,231	\$ 1,798,485		\$ 22,485,849	\$ 1,705	

Figure 5: The wealthiest donor towns would still not qualify for grants



4. Increasing the Poorest Homeowners' Property Taxes

The House-passed aid plan eliminates both the statewide property tax and the state program to refund that tax to low- and moderate-income homeowners. In the 2003 tax year, 27,207 households received refunds totaling \$7,480,732. (Data are not yet available for the 2004 or 2005 tax year.⁵) More than 90 percent of the recipients and more than 90 percent of the refund dollars went to people living in towns where their statewide property tax was retained locally. For those people, the elimination of the statewide property tax makes no difference on their local tax bill (their taxes won't go down as they will in the so-called "donor towns") but they will no longer receive refunds from the state. Eliminating the program is a \$7 million tax increase on the least wealthy homeowners in the state.

Under that program, single homeowners (of any age) earning less than \$12,500 per year, or married couples (of any age) earning less than \$25,000 per year qualified for a 100 percent refund of their statewide property tax. Smaller refunds were available on a sliding scale. Single homeowners earning between \$17,500 and \$20,000, and couples earning between \$35,000 and \$40,000 qualified for a refund of 20 percent of their statewide property tax payment. The average refund in 2003 was \$275 per household.

⁵ For "confidentiality reasons," the Department of Revenue Administration omitted data on 11 towns from its town-by town breakdown of the refund program. The omissions totaled 107 households receiving less than 0.4 percent of the total refunds.

The recipients of those refunds resided in rich and poor towns alike; 40 percent—11,234 of the qualifying households in 2003—were in towns that would see their state aid reduced in FY 06. Of those, 2,944 households are in communities that would see state-aid reductions of more than 25 percent. These households will not only lose their refunds, but they will probably see their property taxes jump as the town's share of school expenses rises to offset the lost state aid.

Figure 6 shows the distribution of refunds among state-aid gainers and losers (each dot represents one town and its height indicates how many households received refunds). Thirty-nine percent of the refunds went to households living in communities that will receive increases in state aid exceeding 8.2 percent. These data are summarized in Table 4.

Table 4: Low-to-moderate income homeowners in many towns will lose refunds and state aid

change in grant \$ per pupil FY05 to FY06	number of towns	number of low-to-moderate income refunds	value of tax refunds from state	population (2000 Census)
Gain >50%	6	302	\$ 76,948	9,087
Gain 26 to 50%	29	4,356	\$ 1,107,442	100,642
Gain 0 to 25%	64	9,900	\$ 2,695,435	435,519
All gainers	99	14,558	\$ 3,879,825	545,248
Gain >8.2%	71	10,896	\$ 2,875,594	374,001
No change	26	2,082	\$ 575,523	103,561
Lose 0 to 10%	31	4,555	\$ 1,290,794	243,081
Lose 11 to 25%	48	3,735	\$ 1,041,655	185,990
Lose 26 to 50%	28	2,484	\$ 749,586	165,919
Lose >50%	7	460	\$ 146,260	48,285
All losers	114	11,234	\$ 3,219,530	643,275

A relatively high median household income and ample tax base will disqualify a town for much state aid and mask the presence of low-to-moderate income homeowners. Figure 7 is similar to Figure 6, but it graphs not the *number* of households receiving the refunds but the *percentage* of each town's households receiving refunds.⁶ Thirty-five towns would receive no aid or reduced aid in FY 06 although more than 10 percent of their households received low-to-moderate income refunds.

The House-passed bill is progressive among towns but regressive within towns. The bill achieves legislators' goal of trying to target state aid to needy communities, but it does so at the expense of low-income homeowners in the majority of New Hampshire's communities.

⁶ The graph uses 2000 Census data for the count of households in each town.

Figure 6: 40% of the recipients of property-tax refunds live in towns that would lose state aid

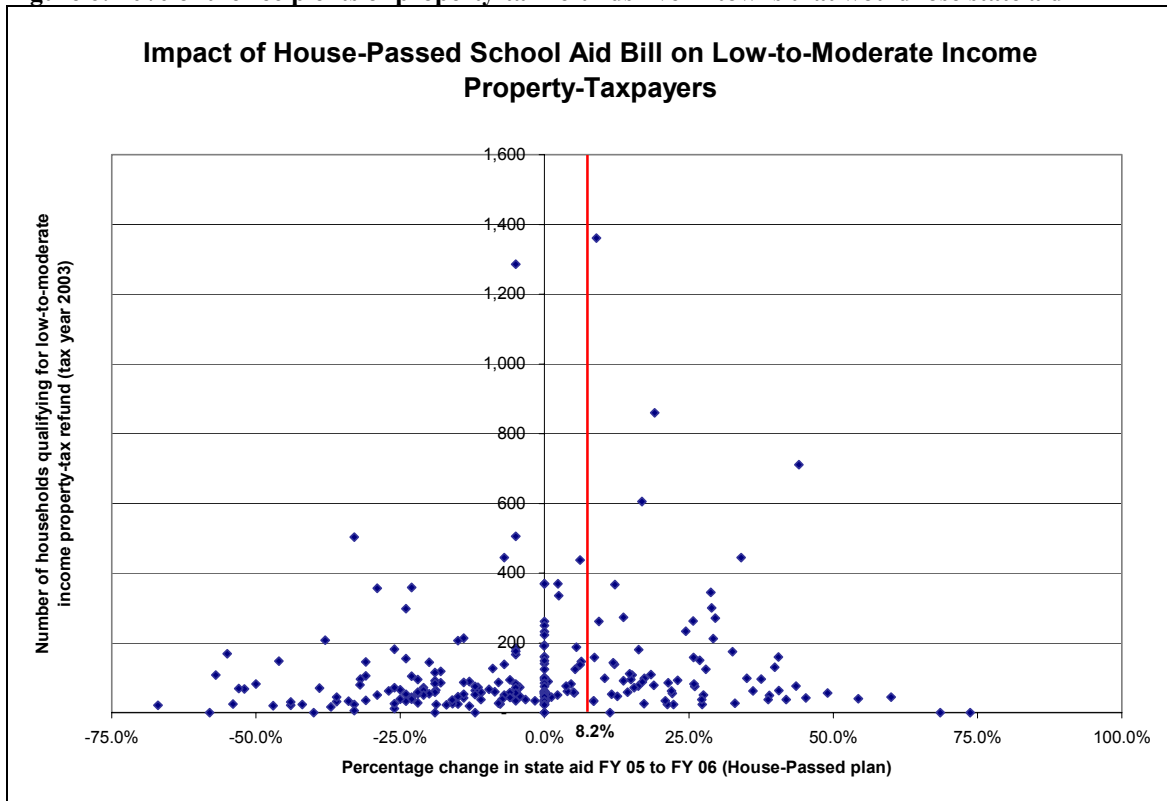
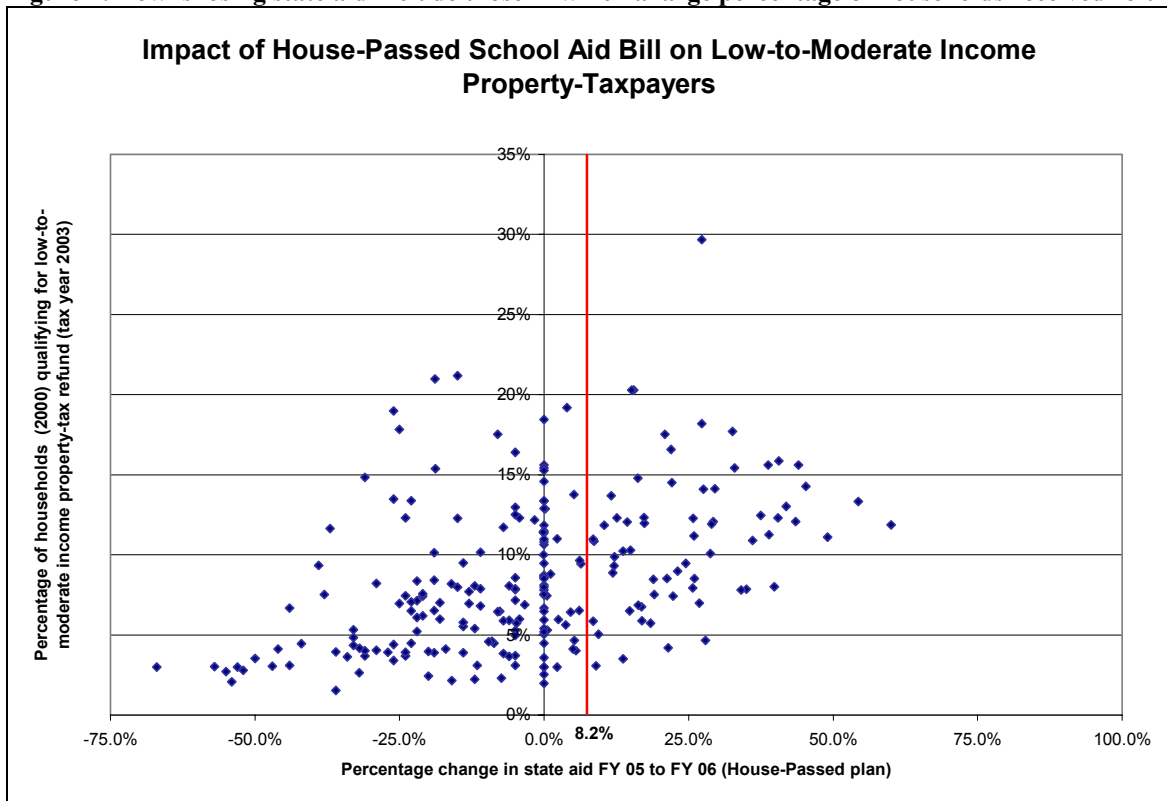


Figure 7: Towns losing state aid include those in which a large percentage of households received refunds



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