

# **Finding a Permanent Solution To the Education Funding Dilemma Through House Bill 717 -- Targeted Aid**

*An overview of the solution presented by  
The Coalition Communities Seeking Fair Funding for Education*

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# HB 717 - Targeted Aid

## Executive Summary

HB 717 – the Targeted Aid proposal – replaces the current system of “adequacy” grants with a new system that more efficiently directs existing state resources to school districts most in need of aid. HB 717 is the result of months of dedicated research by the top educational funding experts in the country, a team assembled by the Coalition Communities.

The current system appears to cost almost \$1 billion a year to operate. In actuality, it relies on the “shell game” of a state property tax (actually collected and largely retained at the local level), which together with other state revenue sources supposedly produces grants to provide “adequate education” to every community, regardless of local need. In reality, only a little more than \$400 million in genuine state revenues is actually being distributed to communities. Also unrealistic is the current system’s way of pricing the cost of “adequate education,” an adjusted base amount of \$3,556 that bears no true relationship to actual school costs. Furthermore, the current system is very unpredictable, requires annual manipulation by the Legislature and Governor, and technically controls one of every three local property tax dollars collected for education.

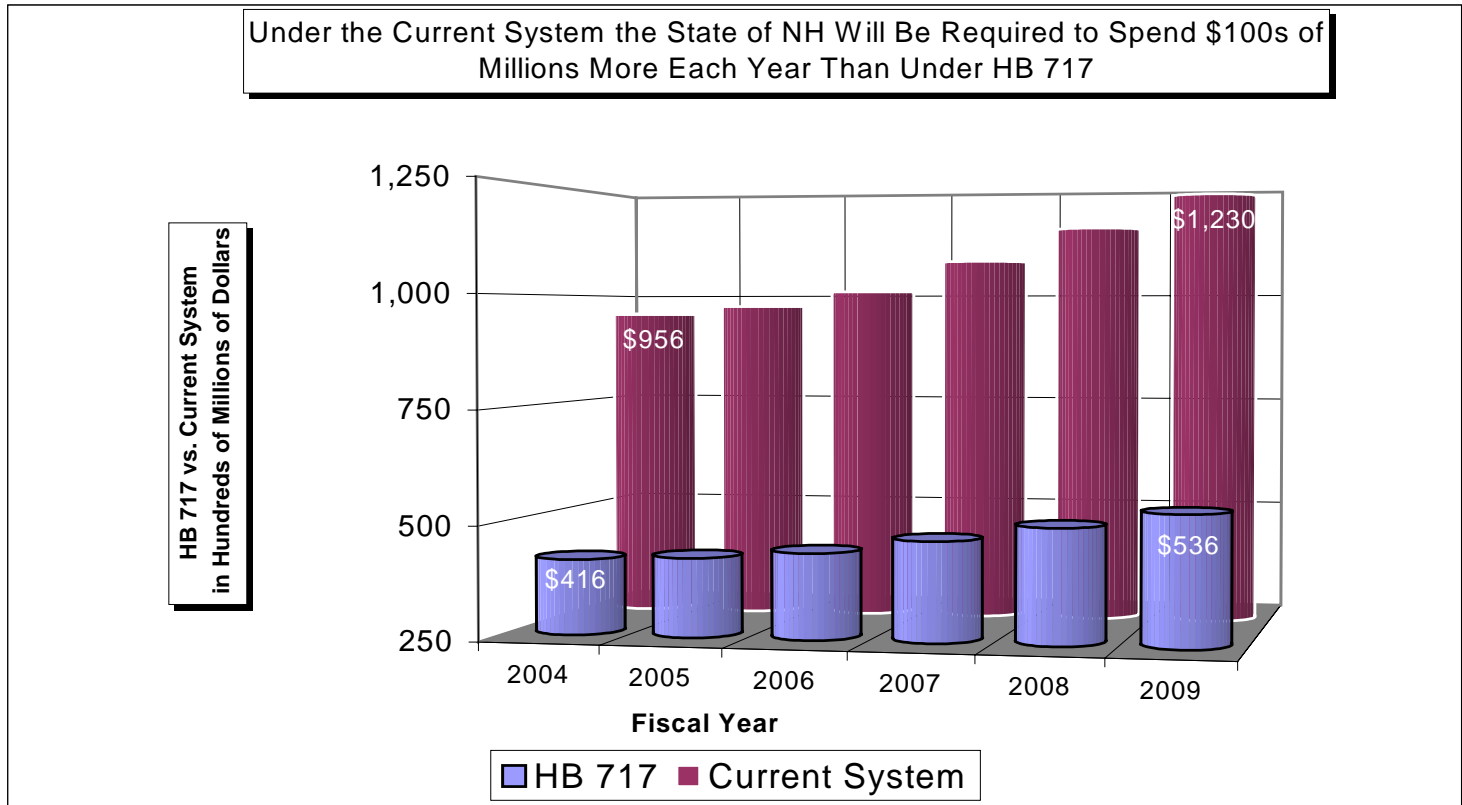
HB 717 aims to eliminate the fictions of the present system and to start over again. It is patterned after the education funding formulas used in 43 other states, but is tailored to New Hampshire’s needs. HB 717 uses more direct and stable formulas than the current system, relies only on genuine state revenues in the state’s Education Trust Fund (\$416 million), abolishes the state property tax, and sends aid only to those communities that truly need it on the basis of both property values and the median household income. Also, HB 717 uses the actual current statewide average spending level of \$6,738 per pupil as a true target, to ensure every child has an equal educational opportunity.

HB 717 provides a fiscally sustainable solution to the education funding crisis because it:

1. Promotes education quality by preserving local control and primacy of local funding for public elementary and secondary education.
2. Assists management of the State’s current fiscal deficit by using the FY 2003 State outlay for “adequacy grants” as the starting level for FY 2004 Targeted Aid grants, and then sets State outlays for 2-year periods. It uses existing financial resources within the Education Trust Fund without a statewide property tax.
3. Eases local fiscal planning by providing a five-year transition period and stability of State aid grants, beginning July 1, 2003, with full Targeted Aid in effect in FY09.
4. Includes such critical school cost factors as the number of children with limited English proficiency, variations in the cost of living and the increased cost of providing education in very small towns.
5. Provides a permanent solution to the education funding challenge.

In addition to HB 717, the second part of the proposal is a constitutional amendment, CACR 13, currently retained in the House Education Committee for further consideration and action. Although HB 717 can pass muster under the requirements of the *Claremont* rulings, CACR 13 was designed to: 1) preclude future court challenges; 2) provide a guarantee that funding for state education aid will not again fall victim to political whim and 3) tie increases in the state’s guarantee to the CPI and growth in number of students. CACR 13 can be on the ballot in November 2004. However, it is important to implement HB 717 right away, to help voters see that the new system works before seeking their endorsement of CACR 13.

# HB 717 Is More Fiscally Prudent



HB 717 sets the level of state education funding at \$416 million in FY 04, and then caps its growth to the increase in the CPI and the growth in the number of students. The chart above demonstrates that even if the current system were subject to the same cap (which it is not), its growth would far outpace NH's ability to pay for it. Under the current system, by FY 09 NH will be required to spend about \$700 million more each year to fund education. The current system counts state property taxes that are retained locally as part of the state's fiscal responsibility, whereby HB 717 ends the "shell game" and more accurately reflects the state's actual net cost.

# The Most Common Questions About HB 717

## *Legislation to Target Education Aid as Developed by the Coalition Communities*

### **1. Other school funding proposals include targeted aid. How is your proposal different?**

HB 717 is the only proposal that provides 100% of school aid in a targeted manner (after a suitable transition period.) In addition, although other proposals include some form of targeted aid, no proposal yet put forward targets as large a percentage of its aid to communities that are needy. Our proposal targets aid to over 80% of the communities with low State test scores and above average high school dropout rates. Finally, the HB 717 formula is based on months of research and the advice of education finance experts from across the country.

### **2. Is HB 717's aid formula too complex?**

The formula for HB 717 is simpler than current law. For example, the confusing yearly estimate of per pupil adequate education, which supposedly is based on a statistical sample of 32 communities (recently revealed to have dropped to only 6 districts), is eliminated altogether and replaced with a simpler, more genuine measure of "adequacy" – the average statewide per pupil expenditure, which can be taken from a single line in a Department of Education form. Also, the current half page-long definition of free and reduced lunch students is replaced in HB 717 with a single sentence based on national standards. HB 717 is also far simpler than HB608: To determine a community's education grant, HB 608 relies on a complex three-part formula. It provides "adequacy aid" based on current law, adds a new system of targeted aid on top of that, and then the whole thing is placed upon an unpredictable foundation of the annual estimate of equalized property values times the state property tax rate for that year.

### **3. What is the fiscal effort factor in the formula?**

This is the "faucet" that allows the Legislature to decide how much the State will spend on education, and to do so efficiently and independent of the volatility of the real estate market.

### **4. If we eliminate the state property tax, won't it raise my local tax bill?**

NO. The state property tax is basically a shell game – local property taxes have simply been renamed state property taxes for most communities. Today one in three property tax dollars that are administered locally in NH to fund local education are actually controlled by the State, with the tax rate subject to manipulation by the Legislature each year. When the state education property tax is eliminated, those taxes simply go back to being local taxes once again – the bottom line of an individual's tax bill is exactly the same.

### **5. Is HB 717 constitutional?**

HB 717 replaces the State's current school aid system with a proven system in use in 43 other states. Rather than providing a dollar amount per student regardless of a community's need, HB 717 utilizes existing financial resources more efficiently to provide targeted aid to the State's needier communities. HB 717's goal is to recognize New Hampshire's average per pupil expenditure (\$6,738) as the "adequate education" level and to equalize opportunity for all New Hampshire pupils to receive an education at that level, through targeted aid payments to needier communities. National studies have clearly shown that a state's average or median per pupil expenditure is a reliable indicator of an "adequate education."

HB 717 pays for the program exclusively with proportionately raised sources of funds from the Education Trust Fund, and without any need for a state property tax. The NH Supreme Court has never demanded that there be a state property tax or that payments be made to all communities, regardless of need. Furthermore, the Massachusetts Constitution contains language identical to ours (the same "cherish" and "proportional tax" language). Massachusetts fulfilled the mandate of its court through targeted aid, and without a state property tax. Therefore, HB 717's proponents believe it will pass constitutional muster if challenged in the courts.

**6. Doesn't HB 717 cause the State to have a \$32 million deficit?**

NO. First, to meet the Governor's requirement that the same amount of money be utilized in FY 2004 as in FY 2003 to fund education, HB 717 uses the same amount of money (\$411 million -- absent the state property tax -- plus \$5 million from the elimination of the state property tax exemption program) as the current year. These same resources are simply more efficiently reallocated to target funds to those communities that really need it. In each year of the transition period of HB 717, those communities that clearly do not need state funds for education are nominally, yet predictably, reduced, and those that deserve more funds are gradually increased.

**7. How do the original Claremont lawsuit communities fare under HB 717?**

All five communities will receive more aid under HB 717 than they would under the current system. HB 717 ensures that the neediest school districts receive more aid by using a formula that more accurately reflects a community's education needs and ability to finance them. Over 80% of the towns with students with above-average dropout rates and below-average test scores would benefit more from HB 717 than under current law.

**8. Why is there a 5-year transition period in HB 717?**

We didn't get to where we are overnight. A transition period is needed so that school districts have an appropriate period of time to adjust to a new school aid system and make the best fiscal choices. An abrupt change in state aid would needlessly disrupt school district plans across the state. Even those school districts receiving additional distributions would need time to choose wisely about spending the newly available aid.

**9. Why does HB 717 eliminate the state property tax relief program for low-income homeowners?**

This tax relief program is only needed with a state property tax. HB 717 repeals it so there is no need for a relief program. The \$5 million will be redistributed as education aid to those communities that need it the most.

**10. Why does HB 717 require the State to pay \$4,870 per pupil when you list a base cost of \$6,738?**

Currently, the average cost of educating every schoolchild in New Hampshire is \$6,738 (total amount of spending in all communities divided by total number of pupils). This is HB 717's base cost per pupil. But both HB 717 and current law give extra weight to certain types of pupils who are more expensive to educate, such as high school students and special education students. This means there are more "weighted pupils" to be counted in distributing aid. The \$4,870 figure in HB 717 is the base cost per weighted pupil. The \$4,870 figure was determined by multiplying \$6,738 times the ratio of total pupils to total weighted pupils.

**11. What if a town's economic profile, or a school district's population, changes dramatically?**

HB 717 guarantees two-year stability in distributions, but allows for updating at the end of each 2-year period. This ensures that districts will receive more state aid if their student populations grow.

**12. Why does HB 717 establish a formula limiting transportation costs?**

If the State picks up 100% of school district transportation costs, where is the incentive to keep those costs low? HB 717 establishes a formula that bases funding for transportation costs on statewide average transportation costs and the number of students in a district, and provides additional aid for small districts with higher per student transportation costs. This is an equitable system that does not invite abuse.

**13. Do New Hampshire residents support targeting education aid?**

By an almost 2-1 margin, NH voters overwhelmingly favor targeted aid (60% to 34%), according to a respected statewide poll conducted recently. The independent Becker Institute survey also found that by a more than 2-1 margin (68% to 25%), proponents would continue to support targeted aid even if it meant their own community would receive less funding due to sufficient fiscal capacity to meet educational need.

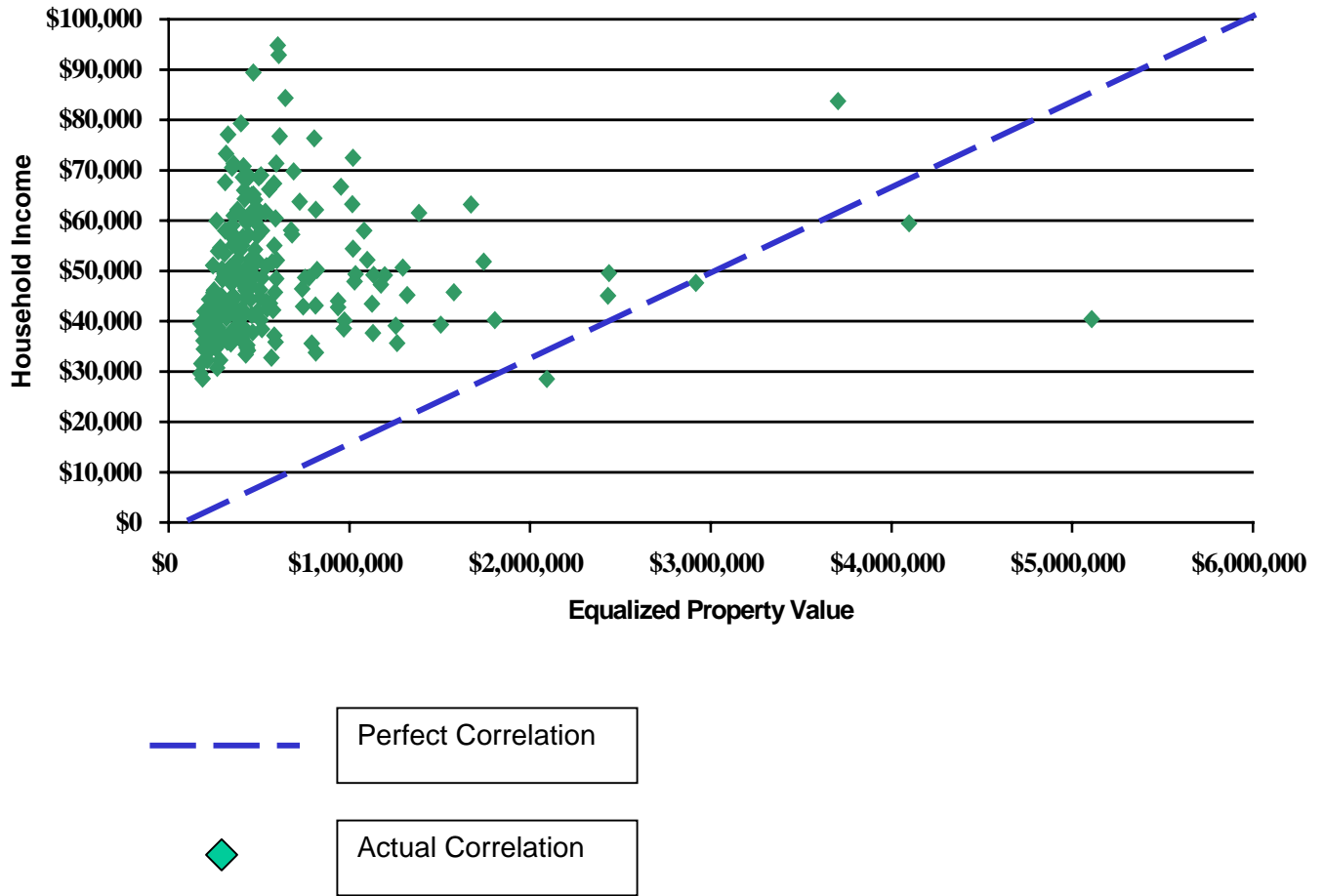
*For more information on these and other questions, visit the Coalition Communities' web site, [www.cityofportsmouth.com/Coalition](http://www.cityofportsmouth.com/Coalition) or call 431-2006, Ext. 281.*

## Targeted Aid vs. Current System

This chart compares HB 717/Targeted Aid with the current system. HB 717 uses a simple, straightforward formula with easily found data resources to target funding based on need. It begins with a standard of \$6,738, the current average per-pupil expenditure in NH, and builds from there to provide a much more accurate determination of a community's educational needs and ability to finance them.

	<i>HB 717/Targeted Aid</i>	<i>Current System</i>
<b><i>Statewide Property Tax</i></b>	Returns the state property tax to local control and eliminates the "shell game"	Maintained; \$1 in \$3 in local property tax dollars for education are under state control
<b><i>Relation of Education Aid to Need</i></b>	Aid goes only to needy communities	Nearly the same per pupil amount distributed to every community in state
	Over 80% of towns with low test scores and above average high school dropout rates receive more aid than under current law	
<b><i>Base Cost Per Student</i></b>	\$6,738 equals \$4,870 per weighted student	\$4,503 equals \$3,556 per weighted student
	\$6,738 equal to average operating cost per student in NH for most recent year	\$4,503 equal to 2/3 average operating cost per student at a sample of 32+ communities
<b><i>Donor Communities</i></b>	Eliminated, receive no grants if fiscal capacity exceeds true need	59 communities, including 2 of NH's lowest-income towns, must send local property tax dollars for redistribution elsewhere
<b><i>Education Need Measured by</i></b>	Same factors as current law (# of pupils, special ed, free & reduced lunch) PLUS limited English proficiency, cost of living, and small scale community adjustments	Number of pupils, special ed, free & reduced lunch
<b><i>Fiscal Capacity Measured by</i></b>	Equalized property valuations	Equalized property valuations
	And median household income	
<b><i>Total State Cost in FY04</i></b>	\$416.2 million	\$955.5 million (over half is statewide property tax retained locally)
<b><i>Future Cost to State</i></b>	Lower base cost than current system, linked to growth in the number of students and the CPI	Uncertain and possibly galloping growth; growth linked to school spending in sample school districts

# The Current Education Funding Formula Does Not Reflect a Community's Ability to Finance The Cost of Educating Its Children



The current education funding formula relies only on property values as a measure of wealth. However, the most recent Census Data clearly demonstrates there is little correlation between a community's property wealth and the income of its citizens. In the chart above, the median household income of every town in NH is compared to its equalized property value. If there were a correlation, the community's household income could be plotted along the same line as the property values. This is one reason why the four wealthiest communities in the state receive millions of dollars in education grants each year, while the poorest town in the state must "donate" millions.

# How the HB 717 Formula Works at Full Targeted Aid

The following examples show how a full targeted aid program would work. Please keep in mind that these examples assume full targeted aid, although House Bill 717 does not reach full targeted aid until Fiscal Year 2009. At that time, more funding will be available statewide and each community's situation may have changed in terms of its student population or the community's fiscal capacity. HB 717 includes provisions for updating the formula to provide a more realistic result than the current formula, as well as other proposals.

## Allenstown FY04

### Determining Educational Need

Number of students:

Elementary (628 x 1)	628
High School (243 x 1.1)	267
Special Education Students (117 x 1)	117
Free & Reduced Lunch (210 x 1)	210
Limited English Proficiency Students (0 x 1)	0
Scale Students (0 x 1)	0
<b>Total Weighted Students</b>	<b>1,222</b>

### *Education Operating Need*

Weighted students x Average base cost per weighted pupil x County cost of living factor  
**1,222**                      x                      **\$4,870**                      x                      **1.03**                      =                      **\$6,129,674**

*\*Statewide average education cost of \$6,738 is adjusted by # of weighted students = \$4,870 per pupil*

### *Education Transportation Need*

Number of elementary and HS pupils x Base cost per pupil x County cost of living factor  
**871**                                      x                      **\$322**                                      x                      **1.03**                      =                      **\$ 288,876**

***Total Education Need***                                      =                      ***\$ 6,418,550***





# Bedford FY 04

## Determining Education Need

Number of students:

Elementary (2,537 x 1)	2,537
High School (845 x 1.1)	930
Special Education Students (412 x 1)	412
Free & Reduced Lunch (51 x 1)	51
Limited English Proficiency Students (13 x 1)	13
Scale Students (0 x 1)	0
<b>Total Weighted Students</b>	<b>3,943</b>

### *Education Operating Need*

$$\begin{array}{rcccccc} \text{Weighted students} & \times & \text{Average base cost per pupil} & \times & \text{County cost of living factor} & \\ \mathbf{3,943} & \times & \mathbf{\$4,870} & \times & \mathbf{1.07} & = \mathbf{\$20,546,579} \end{array}$$

*\*Statewide average education cost of \$6,738 is adjusted by # of weighted students = \$4,870 per pupil*

### *Education Transportation Need*

$$\begin{array}{rcccccc} \text{Number of elementary and HS pupils} & \times & \text{Base cost per pupil} & \times & \text{County cost of living factor} & \\ \mathbf{3,382} & \times & \mathbf{\$322} & \times & \mathbf{1.07} & = \mathbf{\$ 1,165,234} \end{array}$$

$$\mathbf{\textit{Total Education Need} = \$ 21,711,813}$$

# Bedford FY 04

## Determining Fiscal Capacity

Equalized Property Values: \$2,184,035,725

Total Household Income:

Median Household Income	x	Number of Households	=	Total Household Income
\$84,392		6,251		\$527,534,392

### *Fiscal Capacity:*

<u>Equalized Property Values</u>	+	<u>Total Household Income</u>		x	Fiscal Effort Factor
		2			
<u>\$2,184,035,725</u>	+	<u>\$ 527,534,392</u>		x	0.019230
		2			

***Total Fiscal Capacity = \$26,071,747***

**Education Need – Fiscal Capacity = Targeted Aid Grant**

**\$ 21,711,813 – \$26,071,747 = - \$4,359,934**

**Where fiscal capacity exceeds education need,  
the Targeted Aid Grant is \$0**

# The Bottom-Line: How Full Targeted Aid Would Work

## Allenstown

*Education Need:* \$6,418,550  
*Fiscal Capacity:* \$2,421,803

## Bedford

*Education Need:* \$21,711,813  
*Fiscal Capacity:* \$26,071,747

**Education Need – Fiscal Capacity = Targeted Aid Grant**

\$6,418,550  
– \$2,421,803  
\$3,996,741

**Total Targeted Aid Grant:**  
**\$3,996,741**

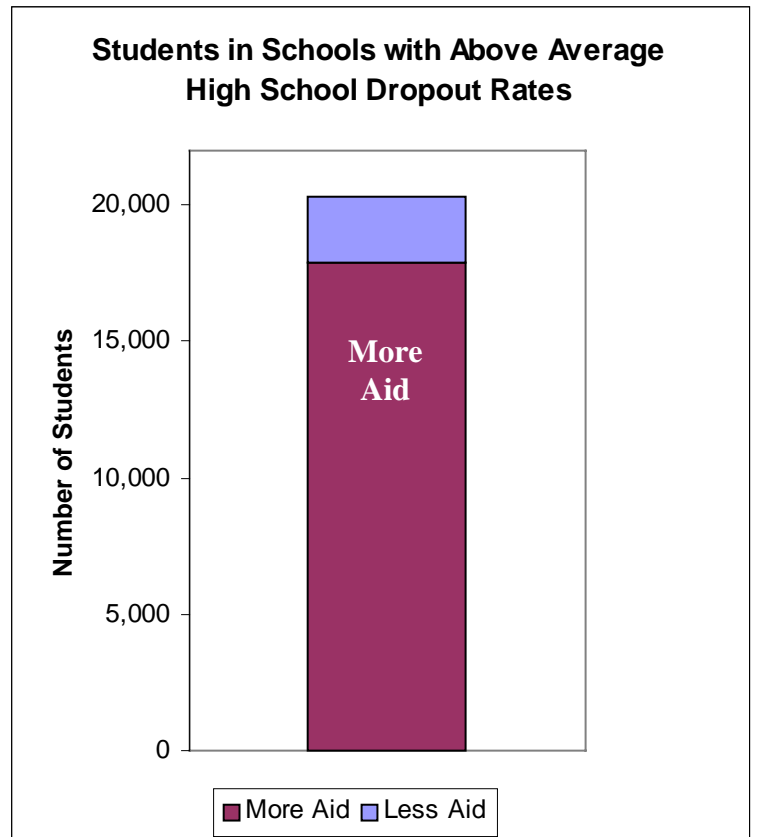
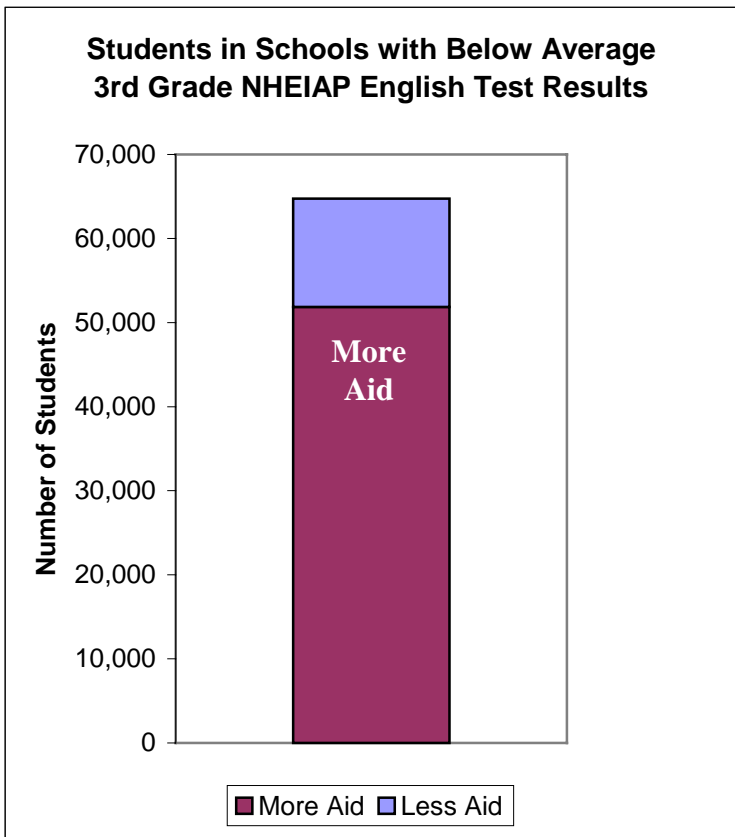
\$21,711,813  
– \$26,071,747  
**-\$ 4,359,934**

**Total Targeted Aid Grant:**  
**\$0**

*(If fiscal capacity is greater than education need, the grant is zero.)*

# Targeted Aid Passes the Test Because.....

HB 717 Provides More Aid To Over 80% Of Students  
With The Most Needs,  
As Based on Test Scores And Dropout Rates



# **HB 717 and Previous Court Rulings**

## ***Earlier Court Opinions Do Not Bar The Targeted Aid Approach***

### **The Claremont Rulings**

The direct requirements of *Claremont* are simply that the State must assure that every school district has sufficient resources to provide an adequate education (as reasonably determined by the legislative and executive branches) and whatever the State pays, it must use revenue sources raised at a uniform rate throughout the State.

It is important to remember that the Court did *not* mandate that the State must “pay for” each dollar of the adequate education cost for every pupil, nor that the State provide aid on a strict per pupil basis, nor that a statewide property tax be imposed, nor that the State supplant local decision making about what school districts would spend on education.

Again, although the Court discussed what it thought an adequate education should be seeking to provide, it expressly deferred to the Legislature to decide what would be a constitutionally adequate education.

*Why Targeted Aid Meets the Court’s Requirements.* The Targeted Aid grants program represents a reasonable response to each of the Court’s mandates because:

- (1) It establishes a target level of spending in each school district that is equal to the average statewide per pupil expenditure, adjusted for local conditions and student demographics;
- (2) It guarantees that every student has an equal opportunity to receive an education funded at that level; and,
- (3) It does so by using reasonable and proportional state taxes and other sources of state revenue.

In terms of meeting the objectives of the *Claremont* plaintiffs, the Targeted Aid Grants program is superior to the State’s current education aid system in every respect.

First, rather than the current system’s artificially low amount (\$3,556), Targeted Aid adopts as its measure of “adequate education” the State average per pupil expenditure (\$6,738). Other states have recognized State-average-per-pupil expenditure as an effective measure of education quality.

Second, it promotes greater equality of educational opportunity by weighting and targeting aid to the neediest communities. Third, while the current system measures a community’s ability to support education solely by its property value, the Targeted Aid grants program takes into account household income, increased costs in certain areas, and school district economies of scale, thereby more accurately tracking a municipality’s ability to pay for education. Fourth, the Targeted Aid grants program is more stable, sustainable and predictable than the current system and will allow for more effective long-term planning at both the State and local levels by using a set formula and a transition period.

### **The Ruling in *Opinion of the Justices, 145 NH 474 (2000) (King Plan)***

The Targeted Aid plan in HB 717 is an entirely different approach from the King plan.

King proposed a 2-tier approach to education aid: a basic tier consisting of the then-existing formula for adequacy payments payable to all communities (“baseline assistance”); and a second tier based on previous foundation aid formulas, payable only to certain needier communities (“adequacy guarantee assistance”). The Court said the total did not fully cover the Bill’s projected cost of adequate education, leaving many school districts “with unfunded gaps.”

There are no “unfunded gaps” in HB 717 because the cost of adequate education is assumed to be the statewide average per pupil cost of education in 2000-2001, and each community's Targeted Aid grant is the difference between its education need and its fiscal capacity in relation to that cost, determined in accordance with the Targeted Aid formula. The cost of the program is supported fully and exclusively from state funds raised on a "proportional" basis.

*For more information, see [www.cityofportsmouth.com/Coalition](http://www.cityofportsmouth.com/Coalition)*

HB 717-FN-LOCAL - AS AMENDED BY THE HOUSE

12mar03... 0539h

2003 SESSION

03-1026

04/09

HOUSE BILL ***717-FN-LOCAL***

AN ACT relative to targeted aid to education.

SPONSORS: Rep. Gionet, Graf 11

COMMITTEE: Ways and Means

AMENDED ANALYSIS

This bill:

- I. Provides for targeted aid grants to municipalities based on a revised cost calculation formula.
- II. Provides for transition education grants to municipalities for fiscal years 2004-2008.
- III. Repeals the education property tax.
- IV. Repeals excess education property tax payments.
- V. Repeals the low and moderate income homeowners property tax relief program.

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Explanation: Matter added to current law appears in ***bold italics***.

Matter removed from current law appears [~~in brackets and struck through.~~]

Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

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03-1026

04/09

STATE OF NEW HAMPSHIRE

*In the Year of Our Lord Two Thousand Three*

AN ACT relative to targeted aid to education.

*Be it Enacted by the Senate and House of Representatives in General Court convened:*

1 Findings and Purpose. The general court finds that the present system of providing adequate education grants to support public elementary and secondary education does not sufficiently serve the objective of equalizing educational opportunity in the state, does not efficiently direct state resources to school districts based on fiscal need, and requires levy and collection of a statewide property tax that is divisive and unnecessary, if state resources are more efficiently directed. The purpose of this act is to direct state school aid more efficiently and effectively based on the relative fiscal need of local communities, and so better serve the objective of equalizing educational opportunity for pupils in the state's public elementary and secondary schools.

2 New Sections; Targeted Aid Grants; Transition Education Grants. Amend RSA 198 by inserting after section 41 the following new sections:

198:41-a Determination of Targeted Aid Grants.

I. For the biennium beginning July 1, 2003 and every biennium thereafter, except for municipalities where all school districts therein provide education to all of their pupils by paying tuition to other institutions, the department of education shall determine the amount of the targeted aid grant for a municipality as follows:

(a) A municipality's targeted aid grant shall be the difference between its education need less its fiscal capacity, as determined in accordance with this paragraph.

(b) Education need shall mean the sum of a municipality's education operating need plus education transportation need.

(c) Education operating need shall be \$4,870 multiplied by the municipality's total weighted pupils. This product shall be multiplied by the county relative cost of living factor applicable to the municipality. As used in this paragraph:

(1) A municipality's total weighted pupils shall mean the number of its elementary school pupils, including kindergarten pupils, plus 1.1 times the number of its high school pupils, plus the number of its special education pupils, plus the number of its pupils eligible to receive free or reduced price lunch, plus the number of its pupils with limited proficiency in the English language, plus the number of its scale pupils. For the purpose of this calculation, "eligible to receive free or reduced price lunch" shall mean the percentage of a municipality's elementary school pupils so eligible, times the total of its elementary and high school pupils."

(2) The number of a municipality's scale pupils shall be determined by multiplying the number of its elementary pupils, including kindergarten pupils, by a scale factor as follows:

(A) 0.3, if the municipality's 2000 United States census population is less than 1,000 persons.

(B) 0.15, if the municipality's 2000 United States census population is at least 1,000 but less than 2,000 persons.

(C) 0.1, if the municipality's 2000 United States census population is at least 2,000 but less than 3,000 persons.

(D) zero, if the municipality's 2,000 United States census population is 3,000 or more persons.

(3) The county relative cost of living factor is:

(A) Belknap county municipalities: 0.99.

(B) Carroll county municipalities: 0.99.

(C) Cheshire county municipalities: 1.01.

(D) Coos county municipalities: 0.90

(E) Grafton county municipalities: 0.96.

(F) Hillsborough county municipalities: 1.07.

(G) Merrimack county municipalities: 1.03.

(H) Rockingham county municipalities: 1.07.

(I) Strafford county municipalities: 1.00.

(J) Sullivan county municipalities: 0.98.

(d) Education transportation need shall mean the sum of the municipality's number of pupils plus the number of its scale pupils, multiplied by \$322. This product shall be multiplied by the county relative cost of living factor applicable to the municipality.

(e) Fiscal capacity shall mean the sum of the municipality's equalized property valuation as determined by the department of revenue administration as of April 1, 2001, excluding property subject to taxation under RSA 83-F, plus the municipality's total household income, divided by 2. The result shall then be multiplied by 0.01923. Total household income shall



mean the municipality's median household income multiplied by the number of its households, as determined by the 2000 United States census.

(f) The calculation required under this paragraph shall be performed and distributed to school districts no later than November 1 of the year before the beginning of the biennium for which it is made.

II.(a) For the biennium beginning July 1, 2005, and every biennium thereafter, the department of education shall perform the calculations required under this section based on the most recent available data representing the number of elementary and high school pupils, special education pupils, pupils eligible for free or reduced price lunch, pupils with limited proficiency in the English language in each municipality, and the equalized property valuation, excluding property subject to taxation under RSA 83-F.

(b) For the biennium beginning July 1, 2005, and every biennium thereafter the amount of \$4870 in the calculation of operating need and the amount of \$322 in the calculation of transportation need shall each be adjusted according to the change in the consumer price index as calculated by the United States Department of Labor. Furthermore, the department shall recalculate a municipality's population, median household income, and number of households by reference to the most recently available data from the United States decennial census.

III. For municipalities where all school districts therein provide education to all of their pupils by paying tuition to other institutions, the amount of the targeted aid grant for each municipality shall be the lesser of the following:

(a) The amount calculated in accordance with paragraph I or paragraph II of this section, as applicable; or

(b) The total amount paid for education expense as determined by the department of education.

#### 198:41-b Transition Education Grants.

I. Notwithstanding the provisions of RSA 198:41-a, for the fiscal years 2004 through 2008, each municipality shall receive a transition education grant determined as follows:

a. For fiscal year 2004, if a municipality's targeted aid grant calculated under RSA 198:41-a is greater than the adequate education grant it would be entitled to receive under the version RSA 198:41 in effect one day prior to the effective date of this section, the municipality shall be entitled to receive an amount equal to the amount of its adequate education grant. However, if a municipality's targeted aid grant is less than its adequate education grant, the municipality shall be entitled to receive 84.4 percent of the adequate education grant.

b. For fiscal year 2005, if a municipality's targeted aid grant calculated for the fiscal year ending June 30, 2004 under RSA 198:41-a is greater than the adequate education grant it would have been entitled to receive for the same fiscal year under the version of RSA 198:41 in effect one day prior to the effective date of this section, the municipality shall be entitled to receive an amount equal to such adequate education grant, plus 15 percent of the difference, if any, between the amount of the fiscal year 2004 targeted aid grant and the fiscal year 2004 adequate education grant. However, if the municipality's fiscal year 2004 targeted aid grant is less than the fiscal year 2004 adequate education grant, the municipality shall be entitled to receive 84.4 percent of such adequate education grant.

c. For fiscal year 2006, a municipality shall be entitled to receive a transition education grant in an amount equal to the amount it was entitled to receive for fiscal year 2005 under this paragraph, plus 25 percent of the difference, if any, between the amount of the targeted aid grant it would be entitled to receive in fiscal year 2006 under RSA 198:41-a and the amount it was entitled to receive in fiscal year 2005.

d. For fiscal year 2007, a municipality shall be entitled to receive a transition education grant in an amount equal to the amount it was entitled to receive for fiscal year 2005 under this paragraph, plus 50 percent of the difference, if any, between the amount of the targeted aid grant it would be entitled to receive in fiscal year 2006 under RSA 198:41-a and the amount it was entitled to receive in fiscal year 2005.

e. For fiscal year 2008, a municipality shall be entitled to receive a transition education grant in an amount equal to the amount it was entitled to receive for fiscal year 2007 under this paragraph, plus 50 percent of the difference, if any, between the amount of the targeted aid grant it would be entitled to receive in fiscal year 2008 under RSA 198:41-a and the amount it was entitled to receive in fiscal year 2005.

II. For fiscal years following 2008, a municipality shall be entitled to receive an amount determined in accordance with RSA 198:41-a.

3 Distribution Schedule and Appropriation. RSA 198:42 is repealed and reenacted to read as follows:

198:42 Distribution Schedule of Adequate Education Transition Education and Targeted Aid Grants; Appropriation.

I. The transition education grant determined in RSA 198:41-b, and beginning in fiscal year 2009, the targeted aid grant determined in RSA 198:41-a, shall be distributed to each municipality's school district or districts legally responsible for the education of the pupils who attend approved public schools within the district or in other districts or who attend approved programs for educationally disabled children, as the case may be, from the education trust fund in 4 payments of 20 percent on August 1, 20 percent on September 1, 30 percent on January 1, and 30 percent on April 1 of each school year; provided that for a dependent school district, the grant determined in RSA 198:41-a or RSA 198:41-b shall be distributed to the municipality, which shall appropriate and transfer the grant funds to its dependent school department.

II. For the fiscal year beginning July 1, 1999, and every fiscal year thereafter the amount necessary to fund the grants under RSA 198:41 is hereby appropriated from the education trust fund created under RSA 198:39 to the department of education. The governor is authorized to draw a warrant from the education trust fund to satisfy the state's obligation under this section. Such warrant for payment shall be issued regardless of the balance of funds available in the education trust fund. If the balance in the education trust fund, after the issuance of any such warrant, is less than zero, the commissioner of the department of administrative services shall inform the fiscal committee and the governor and council of such balance. This reporting shall not in any way prohibit or delay the distribution of adequate education grants.

III. The department of education shall certify the amount of each grant to the state treasurer and direct the payment thereof to the school district. When a payment of a grant is made to a school district, the municipality on whose behalf the payment is made, shall receive notification from the state treasurer of the amount of the payment made to its school district or districts.

4 Maintenance of Local Control. RSA 198:48 is repealed and reenacted to read as follows:

198:48 Maintenance of Local Control. Distributions under RSA 198:42 depend only on the provisions of RSA

198:41-a and RSA 198:41-b, and are independent of how the municipalities decide to spend the distributions or other funds they may raise for education. Notwithstanding any other provision of law, nothing in this subdivision is intended in any way to limit or control how school districts operate or spend their budgets except that adequate education grants must be expended for educational purposes. Transition education grants and targeted aid grants shall not be considered unanticipated funds under RSA 198:20-b.

5 Repeals. The following are repealed:

I RSA 21-I:18, I(1), relative to the purchase of services by the department of administrative services for the administration of low and moderate income homeowners property tax relief.

II. RSA 76:3 , relative to the education property tax.

III. RSA 83-F:9, relative to exemption from the education property tax

IV. RSA 198:38, I, V-X, and XII, relative to certain definitions regarding state aid for educational adequacy.

V. RSA 198:39, I(g), relative to deposit of excess property tax payments

VI. RSA 198:40-41, relative to determination of per pupil adequate education cost and adequate education grant.

VII. RSA 198:44, relative to duties of the department of education and the board of education.

VIII. RSA 198:46-47, relative to excess education property tax payment and forms.

IX. RSA 198:49, relative to the adequate education and education financing commission.

X. RSA 198:56-61, relative to low and moderate income homeowners property tax relief.

6 Effective Date.

This act shall take effect July 1, 2005.\*

***\*NOTE: The proponents support immediate implementation, but the House Finance Committee added a 2-year-delay.***

# CACR 13

## The Proposed Constitutional Amendment

CACR13 exclusively defines the extent of the State's constitutional responsibility to provide aid to local school districts in support of public elementary and secondary education, replacing the "adequacy aid" approach of the *Claremont decisions* with a more efficient means of guaranteeing equal education opportunity by sending funding to the neediest communities.

It requires the State to provide targeted aid grants in a total amount at least equal to 31% of the average expenditure per pupil, calculated on the basis of 2000-2001 data, with updates required at least every 5 years based on the U.S. Department of Labor Consumer Price Index and the number of pupils. The Legislature could provide more funding if it so desired.

## CACR 13

### Relative to defining state responsibility to provide certain education aid

#### **Providing that the state shall promote equality of educational opportunity by providing targeted aid to school districts with fiscal capacity that is less than their education need**

#### **Art. 83-a. [State Responsibility to Provide Certain Education Aid.]**

- I. The purpose of this article is to exclusively define the extent of the state's constitutional responsibility to provide financial aid to local school districts within the state, in support of public elementary and secondary education.
- II. The state shall promote equality of educational opportunity by providing targeted aid to school districts with fiscal capacity that is less than their education need, as defined and determined by the general court in accordance with this article.
- III. Targeted aid provided by the state shall be provided annually in a total amount at least equal to 31 percent of the state average expenditure per public elementary and secondary pupil multiplied by the number of such pupils, calculated for the year 2000-2001. Not less than once in every 5 years, the general court shall recalculate this amount based on the number of such pupils in the year preceding recalculation, and the cumulative intervening change in the United States Department of Labor Consumer Price Index or its current official equivalent applied to the state average expenditure per public elementary and secondary pupil for the year 2000-2001.
- IV. Nothing in this article shall prevent the general court, by law and in its sole discretion, from providing aid to education in excess of the minimum prescribed in this article.
- V. This article shall take effect on January 1 in the year following its adoption by the voters. The first appropriation of funds to meet the responsibility imposed in this article shall be for the state's first fiscal year beginning thereafter. For the first five fiscal years in which aid is distributed in accordance with this article, the general court shall have authority to provide by law for reasonable transition measures, so long as the total sum appropriated is sufficient to fully fund the responsibility specified in paragraph III of this article.