New Hampshire Department of Revenue Administration

Fiscal Note Quick Guide

25-0505.0

HB 675, *increasing the total revenue raised under the statewide education property tax, requiring municipalities to remit excess statewide education property tax payments to the department of revenue administration, limiting the authority of school districts to make certain appropriations, and increasing base adequacy costs per pupil. to the authority of local school districts to accept federal grants.*

Education Funding

This bill changes the formula for determining statewide adequacy aid, ties education funding increases to the Consumer Price Index, requires municipalities to remit excess education tax revenue back to the state, establishes a tax cap for local school districts, and increases the total revenue raised under the statewide education property tax.

Section 5 of the proposed legislation would amend RSA 198:40-a, II(a) to increase the base amount of the cost of an opportunity for an adequate education from its current level of $4,100 (plus adjustments) to $7,356.01 per pupil, effective July 1, 2025 (the first day of FY 2026).

Because DOE has already calculated and published the adequacy amounts for FY 2026 based upon SWEPT warrants issued by DRA for towns to use in sending tax bills starting in fall of 2025 (TY 2025), DRA assumes that DOE would implement this change in its annual adequacy calculations for FY 2027, to be released in fall of 2025.

Section 1 of the proposed legislation would repeal and re-enact RSA 76:3, effective July 1, 2025. Section III of new RSA 76:3 would set the statewide education property tax (SWEPT) rate at a level sufficient to generate revenue to satisfy the "statewide base adequacy aid paid through the SWEPT" (a new term) beginning July 1, 2026. Section II of new RSA 76:3 would define this new term as an amount calculated by multiplying the base amount under RSA 198:40-a, II(a) by the total average daily membership in residence (ADMR) times 68%. DRA interprets this language to mean that the new target for SWEPT revenue, state-wide, would be sixty-eight percent of the state-wide base adequacy amount. Section II also requires that this calculation be performed by DOE and transmitted to DRA by May 1.[1] Sections II and III indicate that DRA should utilize this new rate beginning July 1, 2026, which DRA assumes means that the rate would be used for the warrants that will issue in fall of 2026, which municipalities will then use to send tax bills starting in fall of 2027 (TY 2027). Finally, Section I of new RSA 76:3 provides that for the fiscal year beginning July 1, 2025 (FY 2026), the statewide base adequacy aid paid through the SWEPT shall be $773,000,000. DRA assumes this is the rate that would be used for

[1] The reference in the last sentence of Section II to the warrant issued *on* December 15 pursuant to RSA 76:8, II might more properly refer to the warrant issued *by* December 15.

the warrants that will issue in fall of 2025 which municipalities will then use to send tax bills starting in fall of 2026 (TY 2026)[2].

Section 4 of the proposed legislation would amend RSA 198, adding a new RSA 198:47-a, which would create a procedure whereby:

(a) DOE is to calculate the amount of excess SWEPT above and beyond [the cost of an opportunity for][3] an adequate education as defined in RSA 198:40-a and report that calculation to DRA by October 1.

(b) DRA is to invoice municipalities the amount reported to it by DOE by January 1.

(c) Municipalities are to pay 30% of the invoiced amount by February 1; and

(d) Municipalities are to pay the balance and make a report to DRA of the total SWEPT amount collected not later than 75 days following the issuance of the municipality's final tax bill notice of the fiscal year[4].

The calculated amount is to be remitted to DRA for deposit in the ETF.[5] Section 4 also empowers DRA to petition the treasurer to withhold distributions from the Meals and Rooms Municipal Revenue Fund (Muni Fund) to delinquent municipalities, empowers DOE to withhold payments of aid to the school districts of delinquent municipalities, and requires DRA to adopt forms relative to the reporting and remitting of excess SWEPT. Based upon an effective date of July 1, 2025, DRA assumes that Section 4 would first apply to FY 2026, with an October 1, 2025, report issuing from DOE to DRA and assessments following by January 1, 2026, related to the adequacy calculations for FY 2027 that use the SWEPT warrant amounts for TY 2026.

Section 2 of the proposed legislation would amend RSA 76:8, II, such that excess SWEPT (as calculated under RSA 198:47-a) would be assessed and paid to DRA for deposit in the ETF[6]. DRA assumes that the timing of the warrant and the assessment are not intended to issue at the same time and that the assessment process would begin after warrants are issued, with the report from DOE to DRA on the October 1 as described in Section 4. However, even that timing is problematic in that, while DRA typically issues the SWEPT warrants in September, it is not statutorily required to do so until December 15, which is after the October 1 report due from DOE in Section 4. Alternatively, the dates in Section 4 could be interpreted to be in the year following the year in which the warrant is issued. DRA suggests that the timing of the assessment in Section 2 and its relation to the procedure outlined in Section 4 should be clarified

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[2] The language used for the single year differs from the language for most years and is missing language that is necessary to perform the calculations needed to set a rate while exempting utilities and railroads under RSA 82 and RSA 83-F and dealing with the decimal places, rounding, and fractions of cents involved in the calculation. DRA suggests that the additional language from paragraph III dealing with those topics be included in this paragraph as well. DRA assumes it would use this methodology in calculating the SWEPT tax rate for FY 2026.

[3] DRA assumes this is the intent of the legislation based upon the statutory reference and suggests inclusion of the bracketed language for clarity. It is also assumed that the described calculation would be done by municipality and would include the total cost of an opportunity for an adequate education--both the base and the additional costs described in RSA 198:40-a.

[4] Although a report of actual collections is required, it does not appear that the invoiced amount is to be reduced by any collection losses. If the amount to be invoiced is the same as the amount of the calculation, this report may be unnecessary.

[5] DRA could certainly receive and distribute these payments as described, or these payments could be made directly to the treasurer.

[6] See footnote 4.

and harmonized. For now, DRA assumes the same applicability timeframes as described in Section 2. DRA notes that it may also be prudent to consider a companion amendment to RSA 198:39 to accommodate this new deposit to the ETF.

Finally, Section 3 of the proposed legislation would add new paragraphs to RSA 76:8 that create caps on local school district appropriations in addition to SWEPT, limiting increases to the change in a district's ADMR and/or a Consumer Price Index 3-year average. School districts would be permitted to exceed the caps upon a 2/3 majority vote or via the emergency procedures in RSA 197:3. DRA would be required to examine such appropriations when received pursuant to RSA 198-4:a, perform calculations to determine the cap[7], notify the school board of any appropriations exceeding the caps within 45 days, and delete those appropriations when computing school district tax rates. Based on an effective date of July 1, 2025, DRA assumes the caps would be applicable to local school district appropriations voted upon in early 2026. It is not clear how these proposed caps would interact with the budget caps in RSA 32:5-3 and 32:5-f.

The proposed legislation would be effective July 1, 2025.

The DRA believes it could implement the proposed legislation without any new positions. However, there would be an indeterminable cost associated with implementing the electronic billing, filing and payment mechanism within DRA's Revenue Information System (RIMS) and the online municipal tax rate-setting portal (MTRSP) the estimated cost of which is $300,000.

Under current law, each municipality collects SWEPT on behalf of the state totaling approximately $363 million and retains the SWEPT locally to fund the State's portion of education funding. Although, the SWEPT is locally retained, the total amount of SWEPT collected by the municipalities is still recognized by the State as revenue to the Education Trust Fund (ETF). The proposed legislation would change this methodology, so that excess SWEPT revenue is deposited to the ETF as state revenue beginning in FY 2026. It would also set SWEPT at $773,000,000 for FY 2026, and at 68% of the state-wide base adequacy amount beginning in FY 2027.

Under current law SWEPT recognized as revenue to the ETF in FY 2026 would be $363 million. Under the proposed legislation SWEPT recognized as revenue to the EFT in FY 2026 would be $773 million, or an increase of $410 million.

For FY 2027, it is not possible to determine the amount of SWEPT which would be recognized as revenue to the ETF under the proposed legislation because that amount is dependent upon the state-wide ADMR. However, utilizing DOE's FY 2026 Estimate – Municipal Summary of Adequacy Aid, and assuming ADMR for 2025-2026 will be the same as ADMR for 2024-2025 (151,990 pupils); and further utilizing the proposed new base adequacy cost in the proposed legislation of $7,356.01, adjusted by 2 % to $7,503.13 as required in RSA 198:40-d, DRA is able to estimate that amount as 68% of $1,140,400,759, or approximately $775.5 million. This would result in an increase over current law of $412.5 million in recognized revenue to the ETF.

For municipalities, revenue impacts will depend upon whether they collect excess SWEPT beginning in FY 2026. For municipalities that do collect excess SWEPT, municipal revenue will decrease by the amount of that excess. For municipalities that do not collect excess SWEPT, the

[7] These calculations will require information to be gathered from municipalities and school districts. DRA may need to develop rules and require submission of forms to gather this information, ideally under authority provided within the proposed legislation.

increase in the base adequacy amount may result in an increased education grant and a corresponding increase in revenue. DRA is unable to quantify these municipal effects with the information available to it.