



New Analysis Focuses On New Hampshire's Population Growth, Local Spending And The Statewide Property Tax

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DURHAM, N.H. – Over the last three decades, New Hampshire has undergone profound changes – dramatic increases in population and developed land, recession, expansion of local and state budgets, changes in school funding, and the advent of the first statewide property tax. These changes and their lasting fiscal effects are the focus of a new analysis by Richard England, professor of economics at the University of New Hampshire Whittemore School of Business and Economics.

England's analysis, "Population Growth, Local Government Budgets, and the Property Tax in New Hampshire," appears in the Jan. 21, 2008, special report of *State Tax Notes*. His study was funded by the Lincoln Institute of Land Policy, Cambridge, Mass.

"After several decades of rapid population growth and expansion of state and local budgets, the property tax is alive and well in New Hampshire. Along the way, its citizens have witnessed a severe real estate slump and an educational funding crisis. Despite those shocks, the property tax has helped to fund higher real spending per pupil and state assumption of the responsibility for adequate public education," England says.

New Hampshire's population grew by more than 40 percent from 1972 to 1992, leading to a tripling of local spending during those 20 years. While cities and towns increased revenues to keep up with spending, according to England, property tax rates actually decreased as New Hampshire homeowners saw the value of their homes skyrocket.

"Analysis of New Hampshire Department of Revenue Administration data confirms that an expansion of the property tax base of epic proportion took place during the 1970s and 1980s," he says. "For example, the average sales price of an existing single-family home in New Hampshire increased by 316 percent in nominal terms from the first quarter of 1975 through the fourth quarter of 1989."

In fact, the per capita real value of the property tax base more than tripled in less than two decades, growth that was heavily rooted in the construction industry. During that period, there was a birth of new subdivisions, office parks, regional malls, urban mill renovations, and vacation homes. The Seabrook nuclear power plant also was constructed.

By 1990, the nation was in a recession, which was particularly acute in the Granite State's construction and real estate sectors, England says. Homeowners saw the market value of their homes decrease, yet local authorities continued to rely on the boom-time values determined at the peak of the real estate market for revenue collection.

"One can imagine the consternation and even anger of many homeowners as their assessed valuations increased, or at best, remained the same even though the market value of their homes was falling, and their labor market prospects were gloomy," according to England. "The combined effect of prolonged recession, declining real estate prices, and rising property tax rates in the 1990s was the creation of a perfect storm in the state's political and legal arenas."

That perfect storm spawned Claremont lawsuits brought by five school districts suing the state for not providing an adequate education to all public school students, as required by the state constitution. The charge was that, because public schools were funded primarily by local property taxes, property-poor school districts were at a disadvantage. The state ultimately lost and instituted the first-ever statewide property tax designed to fund an adequate education for all public school students.

While most communities received back what they contributed under the statewide property tax, a handful of property-rich towns did not. This disparity sparked a political firestorm between "receiver" and "donor" towns that continues today.

By the end of the century, New Hampshire's revenue structure had changed in fundamental ways. The state saw several new taxes added during this period, such as the Business Enterprise Tax (1993), and statewide property tax and car rental taxes (1999). The state also increased the Business Profits Tax rate from 6 percent to 8.5 percent.

"Trying to solve public school funding controversies by taxing business profits more heavily will not be a long-term fiscal solution if it drives value-creating jobs from the state," England says. "Gov. Deval Patrick has just proposed cutting the tax rate on corporate profits in Massachusetts. New Hampshire will lose out in the competition for good jobs if it raises the business profits tax even higher."

On a positive note, the fiscal change has resulted in an overall improvement of property tax administration throughout the state. Timeframes for property revaluations have been standardized, and local assessors appear to be tracking market values for homes more carefully than they once did.

"The icing on that fiscal cake is that property tax administration finally reached modern professional standards at the dawn of the 21st century," England says.

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