

# Population Growth, Local Government Budgets, and the Property Tax in New Hampshire

by Richard W. England

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## Introduction

During the past third of a century, New Hampshire has undergone a number of dramatic changes. The state has experienced rapid population growth and land development, for example, especially in the two counties nearest to Boston. Although New England as a whole has grown fairly slowly since 1970, the rate of population increase in southeastern New Hampshire has been double the national rate (Table 1).

No doubt there were several reasons for that high rate of population growth.<sup>1</sup> One is improved accessibility of the southeastern counties to metropolitan Boston because of the construction of several high-speed roads. By 1972 two federal interstate highways and a state toll road had opened up many southeastern communities to rapid residential and commercial development. Another reason for rapid growth was the absence of state taxes on retail sales and personal incomes, a fiscal situation that helped

<sup>1</sup>See Ashby (2007), Bauer et al. (2006), Cebula (2002), Deller et al. (2001), and Monchuk et al. (2007) for discussions of possible determinants of interstate differences in economic and population growth rates.

to attract higher-income households and tax-free retail stores to towns and cities near the Massachusetts border.<sup>2</sup>

**Table 1. Population Growth, 1970 - 2006**

	2006 population estimate (thousands)	Percentage growth, 1970 - 2006
Rockingham + Hillsborough counties	699.1	92.6
New Hampshire	1,314.9	78.2
New England	14,270	20.5
United States	299,398	46.0
<i>Sources: New Hampshire Office of Energy and Planning and US Census Bureau.</i>		

Rapid population growth has had major implications for land use change and patterns of land development in the state. Developed parcels totaled 379,000 acres, nearly 6.4 percent of the state's land area, in 1982. By 2003 more than 635,000 acres had been developed, almost 10.7 percent of total area. Over the course of two decades, the developed land

<sup>2</sup>Taxes alone, however, cannot explain the location of retail outlets. Kittery, Maine, adjoins New Hampshire and has a large concentration of factory outlet stores that collect a 5 percent retail sales tax. Close proximity of those stores to Interstate 95 helps to explain their ability to compete with tax-free New Hampshire retailers only a few miles away. For tourists from other regions and nations, the mystique of the "Maine brand" might also be an attracter to Kittery.

**Table 2. Evolution of State and Local Government Finances in New Hampshire, 1972 - 1992**

	1992 level	Percent growth, 1972 - 1992
Total population	1,109,911	43.9
Children 5-19 years	226,760	2.1
Per capita disposable income	22,717	77.8
Per capita property tax	1579	70.5
State tax revenue per capita	1039	70.2
Per capita federal grants to state	773	127.9
Per capita state grants to localities	271	40.7
Per capita federal grants to localities	54	29.1
Elementary and secondary spending per child	5103	137.2
Local current operations spending per capita	2283	118.6
Local capital outlays per capita	193	9.8

*Note:* Expenditure and revenue data are 2000 real dollars using the U.S. GDP deflator.  
*Source:* U.S. Census Bureau.

area in New Hampshire grew by more than two-thirds.<sup>3</sup> In the process, the number of residents per developed acre fell from 2.5 to 2, an indicator of suburban development outside the state's traditional small cities.

As Ladd (1994) has argued, one should expect that rapid population growth and extensive land development lasting several decades would have had a variety of effects on local government budgets. That expectation is confirmed by the data. As Table 2 documents, state population grew by almost 44 percent from 1972 to 1992. During those two decades, local real spending per capita on current operations grew by roughly 119 percent. It follows that total real spending by municipal governments and public school districts more than tripled during those 20 years.

Interestingly, real capital outlays per head rose modestly during that period: That suggests that local governments responded to population growth by using existing public infrastructure more intensively instead of investing heavily in additional public capital stock. It is also notable that the population of school-age children grew by only 2.1 percent during the 1970s and 1980s, in part because many recent migrants to the state had just formed households and had not yet produced offspring of school age. Whatever the reasons for the slow growth of school-age population, it permitted a substantial increase in real spending per child on public elementary and secondary education — 137 percent over the course of 20 years.

Those increases in total and per capita real spending at the local level required a major increase

in local revenue during the 1970s and 1980s. In the face of that fiscal challenge, New Hampshire's towns, cities, and school districts resorted to an interesting mix of revenue sources. Major increases in federal grants helped the state government to fund its own expanding expenditure programs and simultaneously expand real per capita state grants to localities by nearly 41 percent from 1972 to 1992. More importantly, property tax revenue per head grew by 70.5 percent in real terms at the same time.<sup>4</sup> That was a sharp increase in the inflation-adjusted property tax payment per resident, but a simultaneous increase in real per capita disposable income of nearly 78 percent gave the *average* taxpayer in the Granite State a more-than-adequate increase in the financial ability to pay his or her annual property tax bill.<sup>5</sup>

One might suppose that local property tax rates must have escalated in New Hampshire during the high-growth era of the 1970s and 1980s. That was not the case, however. From 1970 to 1989, the median *equalized* local tax rate declined from 2.6 percent to 1.54 percent of the market value of taxable buildings and land. During that same period, the mean equalized local tax rate fell to 1.51 percent, a decline of slightly more than a percentage

<sup>4</sup>During that era, almost all property tax payments in New Hampshire went to local jurisdictions. That situation was to change in 1999 with the enactment of a state-level property tax (HB 999) to help finance state education grants to local public school districts.

<sup>5</sup>As *average* income grew, so did *inequality* of income distribution within the state. From 1969 to 1989, the Gini coefficient of family incomes in New Hampshire increased from 0.317 to 0.344. Inequality of income distribution remained well below national levels, however, during that 20-year period. The U.S. Gini coefficient for family incomes increased from 0.361 to 0.414 during the same period (U.S. Census Bureau, Table S4, "Gini Ratios by State").

<sup>3</sup>For other states and U.S. totals, see Natural Resources Conservation Service, *Natural Resources Inventory* for years starting with 1982 and ending with 2003.

point (Table 3). Local property tax rates adjusted to market value increased in only 12 of the state's 234 towns and cities. Hence, most communities in New Hampshire experienced cuts in their property tax rates during the state's era of rapid population growth.<sup>6</sup>

That combination of higher per capita spending levels and lower property tax rates at the local level could not have occurred without a broad expansion in the market value of taxable real property across the state. Analysis of New Hampshire Department of Revenue Administration data on local property assessments confirms that an expansion of the property tax base of epic proportion took place during the 1970s and 1980s. From 1970 through 1989, total equalized assessed values in current dollars grew by a factor of nearly 13.5. In the two counties closest to Boston, the growth of the equalized property tax base was even faster: Those counties increased their share of the state's total property valuation from 46.2 percent in 1970 to 53.4 percent in 1988.

	1970	1989	1993
highest	5.14	2.92	4.21
median	2.60	1.54	2.50
mean	2.55	1.51	2.44

*Source:* New Hampshire Department of Revenue Administration.  
*Note:* Tax rates are expressed as a percentage of market value of buildings and land.

Of course, the capacity of any *dollar volume* of property values to finance local public *services* depends on the price level and the size of the population being served. If one uses the gross domestic product deflator in various years to adjust for price inflation and divides real equalized valuation by total population, one finds that real equalized assessed valuation per capita grew from \$27,000 in 1970 to \$85,000 in 1989, an increase of 214 percent (Table 4).

How could the *per capita* real value of the property tax base more than triple in less than two decades while the state's population was growing so rapidly? One answer is that the state's economic growth during the 1970s and 1980s was rooted heavily in *construction activity*. During those decades, value added in the construction industry was consistently much higher as a percentage of gross state product than in the other New England states

or the nation as a whole (Table 5). More concretely, persistently high real investments in new residential subdivisions, office parks and regional malls, urban mill renovations, vacation homes, and the Seabrook nuclear power plant increased the state's taxable real capital stock dramatically from 1970 through 1989.

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Another factor driving up the real value of the property tax base was *market revaluations* of existing real properties. Trends specific to New Hampshire (an influx of new residents, a rising median family income, growth of the tourism and retail sectors, and so forth) combined with rising inflation expectations in the nation as a whole drove up market prices of newly developed and existing properties alike (Chart 1). For example, the average sales price of an existing single-family home in New Hampshire increased by 316 percent in nominal terms from 1975 Q1 through 1989 Q4. Ominously, that latter quarter was the peak of a boom in the New England real estate market that had taken off in 1982. While they lasted, however, a sustained construction boom and years of price appreciation in the real estate market bolstered the revenue capacity of most, but not all, local governments by increasing the market values of taxable buildings and land within their jurisdictions.<sup>7</sup>

Although family incomes, property values, and local public spending grew rapidly across much of southern and central New Hampshire before 1989, not all towns and cities shared fully in the benefits of state economic development. In the five communities that were to become plaintiffs in the state's school finance court cases (*Claremont I* and *II*), real equalized valuation per resident did increase but remained far below the state average during the 1970s and 1980s (Table 6). Hence, uneven development within the state's economy during those decades foreshadowed the legal and political battles that were to emerge during the nineties.

In July 1990 the U.S. economy entered a recession that lasted eight months until the spring of 1991. The national unemployment rate rose from 5.2

<sup>6</sup>Nineteen towns and cities (including larger ones such as Dover, Exeter, and Salem) witnessed cuts in their equalized tax rates of two percentage points or more.

<sup>7</sup>Of course, local assessors do not continuously mark up property assessments for tax purposes to current market values. As we shall see, there were lengthy assessment lags in some New Hampshire towns and cities during that era.

**Table 4. Equalized Assessed Valuation in New Hampshire, 1970 - 1993**

	1970	1989	1993
Nominal EAV (billions current \$)	5.50	74.03	58.25
GDP deflator (2000 = 1)	0.275	0.786	0.884
Real EAV(billions 2000 \$)	19.97	94.24	65.90
State population (thousands)	737.6	1107	1125
Real EAV per capita(2000 \$)	27,079	85,127	58,580

*Source:* New Hampshire Department of Revenue Administration and New Hampshire Office of Energy and Planning.

**Table 5. Value Added in the Construction Sector as a Percentage of Gross State Product, 1977 - 2006**

	United States	New England	New Hampshire
1977	4.8	3.6	5.6
1982	4.1	3.7	5.9
1989	4.5	5.0	6.4
1997	4.7	4.2	4.8
2000	4.5	3.9	4.1
2003	4.1	3.7	4.3
2006	4.0	3.3	3.8

*Note:* Data down the columns are not comparable because of a U.S. Bureau of Economic Analysis shift in the definition of the construction industry in 1997. For 15 years beginning in 1991, the New England percentage was elevated by the "Big Dig" public works project in Boston.

*Source:* *Survey of Current Business*, December 1993, for 1977-89 data. For 1997-2006, see <http://www.bea.gov/regional/gsp>.

**Table 6. Equalized Assessed Valuation Per Capita in Plaintiff Towns, 1970 - 2005 (thousands of 1982 - 84 dollars)**

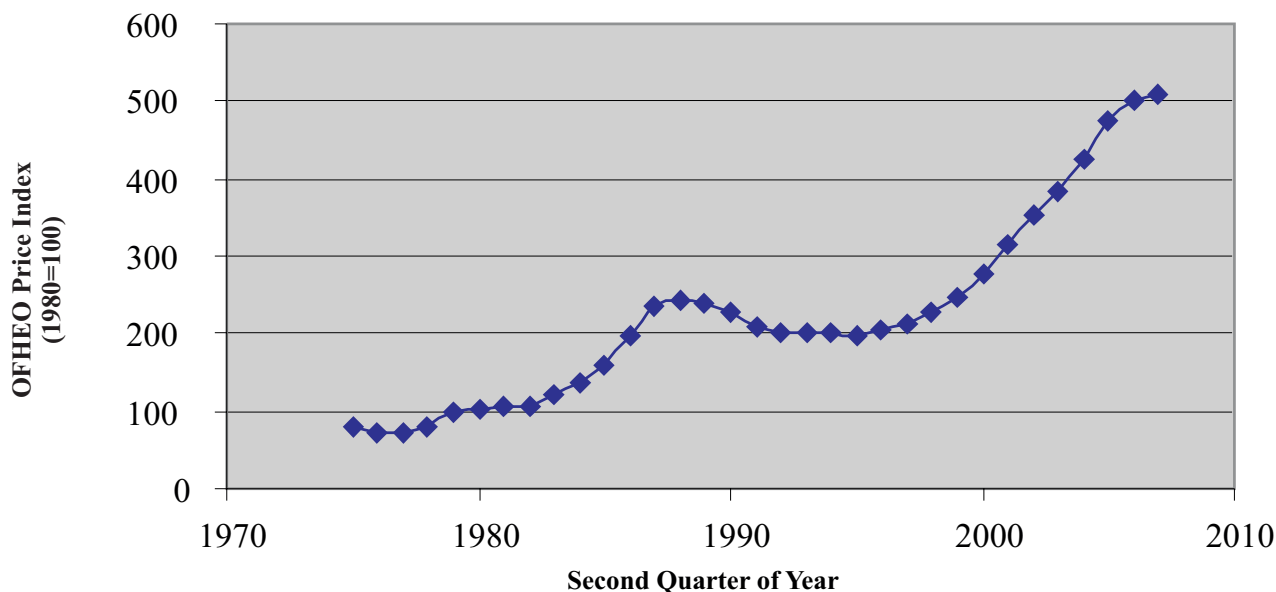
	1970	1980	1990	2005
Allenstown	11.49	12.66	19.68	27.57
Claremont	11.82	18.29	26.79	28.09
Franklin	12.74	16.96	25.37	32.49
Lisbon	10.67	17.77	27.40	30.19
Pittsfield	11.99	19.48	27.78	32.05
New Hampshire	18.55	27.58	46.20	56.96

*Source:* New Hampshire Department of Revenue Administration and NH Office of Energy and Planning

percent in February 1989 to a peak of 7.8 percent in June 1992. That recession hit New Hampshire harder and lasted longer. During the opening months of 1989, the state's jobless rate had been a mere 2.6 percent. Thereafter, the unemployment rate in the Granite State remained at a substantially higher level for several years. (The rate persisted at 7.5 percent or more of the state's labor force for 15 months during 1991 and 1992.) Not until the fall of 1992 did employment prospects begin to improve. Hence, employment insecurity haunted many of New Hampshire's workers for more than a year.

The severity and duration of New Hampshire's recession during the early 1990s was particularly acute in the construction and real estate sectors. Sales prices of existing single-family homes dropped 20 percent from their peak at the end of 1989 to their trough at the end of 1994 (Chart 2). Municipal permits to construct new residential units (single- and multifamily) began to decline even earlier, from a peak of 18,000 new permits during 1986 to fewer than 5,000 annual permits from 1990 through 1996 (Chart 3). That deep and prolonged slump in construction activity and real estate prices reflected the

Chart 1. New Hampshire House Prices, 1975-2007



Source: Office of Federal Housing Enterprise Oversight.

high volume of bank-financed speculative building that preceded the downturn.

During that prolonged slump in the construction industry and real estate market, one of the few bright spots was the relatively high purchase prices of newly constructed houses and condos: New home prices slumped briefly at the start of the 1990s but began to climb as the prices of existing homes continued to stagnate (Chart 4). Thus, a low volume of high-priced newly constructed homes helped to insulate the property tax base to a limited extent from the broader decline in the real estate market.

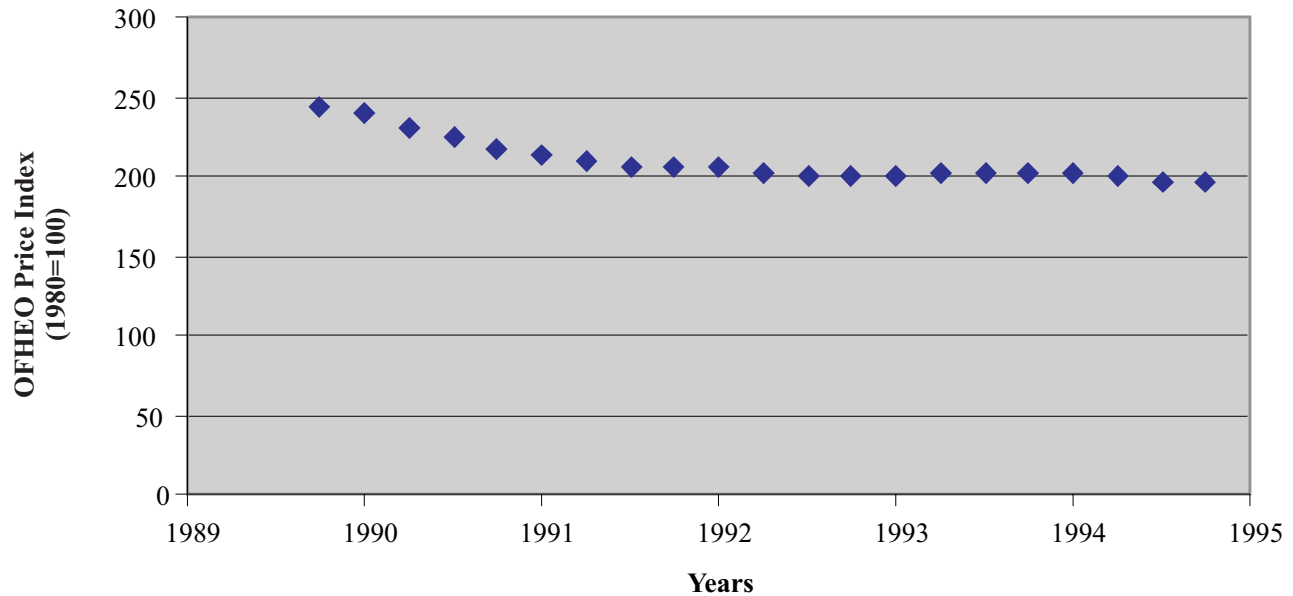
***A prolonged recession centered in the construction and real estate sectors took its toll on the local property tax bases shared by municipal governments and public school districts across the state.***

A prolonged recession centered in the construction and real estate sectors took its toll on the local property tax bases shared by municipal governments and public school districts across the state. From 1989 through 1993 the equalized assessed value per resident declined from more than \$85,000 to less than \$56,000 in 2000 dollars, a decline of more than 31 percent (Table 4). However, in most cities and towns, local assessors did not cut assessed values of real properties as their market values

declined. Indeed, upward revaluations of property values proceeded in some communities based on sales data from the peak of the real estate market. Hence, assessment ratios rose sharply in many of New Hampshire's towns and cities during the early 1990s (Chart 5). 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. Economic circumstances such as those help to fuel protest movements, electoral campaigns, and court cases.

If local property assessments and local property tax rates levied on assessed values are sticky for administrative and budgetary reasons, falling real estate prices inevitably result in higher assessment ratios and higher equalized tax rates. That is, annual property tax bills rise compared with the (falling) market values of taxable properties. That is exactly what happened in nearly all New Hampshire communities during the early 1990s (Chart 6). In the five communities that were to become plaintiffs in the *Claremont* education finance legal suit, the average equalized local tax rate rose from 2.17 percent of market value in 1989 to 3.68 percent in 1993. In Rochester, one of the state's cities, the equalized rate more than doubled to 3.16 percent by 1993.

The combined effect of prolonged recession, declining real estate prices, and rising property tax rates in the early 1990s was the creation of a perfect

**Chart 2. New Hampshire House Prices, Peak to Trough, 1989 - 1994**

Source: Office of Federal Housing Enterprise Oversight

storm in the state's political and legal arenas. In June 1991 five school districts filed suit in state court alleging a financial responsibility of the state government to support public education and a past failure to meet that constitutional obligation. In December 1993 the New Hampshire Supreme Court ruled (*Claremont I*) that the state constitution "imposed a duty on the State to provide [an] adequate education to every educable child in the public schools . . . and to guarantee adequate funding."<sup>8</sup>

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The state government resisted that ruling for several years, which ultimately led to a second supreme court ruling (*Claremont II*) in December 1997. In that decision, the majority held that the

state was obligated to provide an adequate education to every public school pupil and that New Hampshire's heavy reliance on local property taxation to pay for primary and secondary public schooling violated the state constitution's requirement that state responsibilities be financed by equal and proportionate taxation.

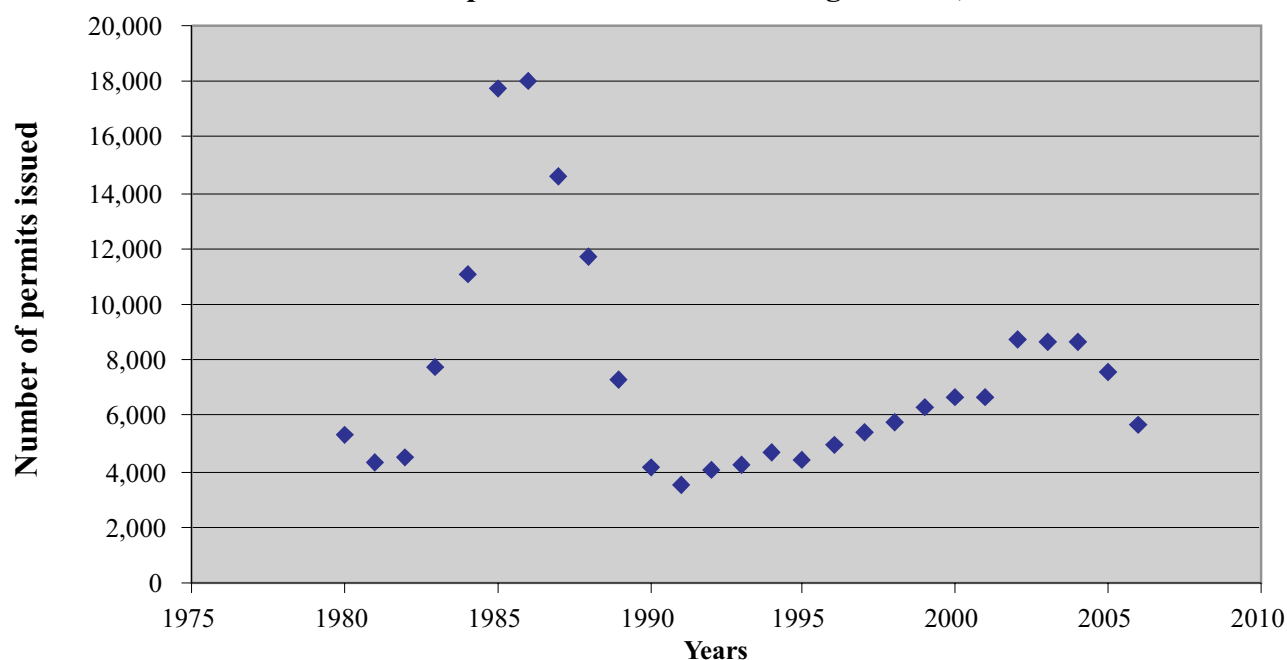
Even before the pair of *Claremont* supreme court decisions on public education funding, New Hampshire's state tax system had begun to evolve in response to various fiscal and political forces. In 1970 the state had begun to move beyond its traditional reliance on excise taxation by enacting a business profits tax. The BPT, as it is known, was originally levied at a rate of 6 percent on taxable profits and applied to all business organizations, not just to corporations. However, in part because of a generous BPT deduction for "reasonable compensation" of employees, many partnerships and proprietorships paid little or no tax to the state treasury in the years that followed. Hence much of the BPT revenue was (and still is) collected from a small number of larger corporations doing business in the state.<sup>9</sup>

The recession of the early 1990s forced the governor and legislature to raise rates on existing taxes

<sup>8</sup>For detailed accounts of the legal and political history of public school finance reform in New Hampshire, see Kenyon (2007), Olabisi (2006), and Swaine (2001).

<sup>9</sup>In 1988, for example, unincorporated businesses filed 66 percent of BPT tax returns but paid only 11 percent of BPT revenues (Kenyon 1996, 386).

Chart 3. New Hampshire Residential Building Permits, 1980 - 2006



Source: New Hampshire Economic and Labor Market Information Data System.

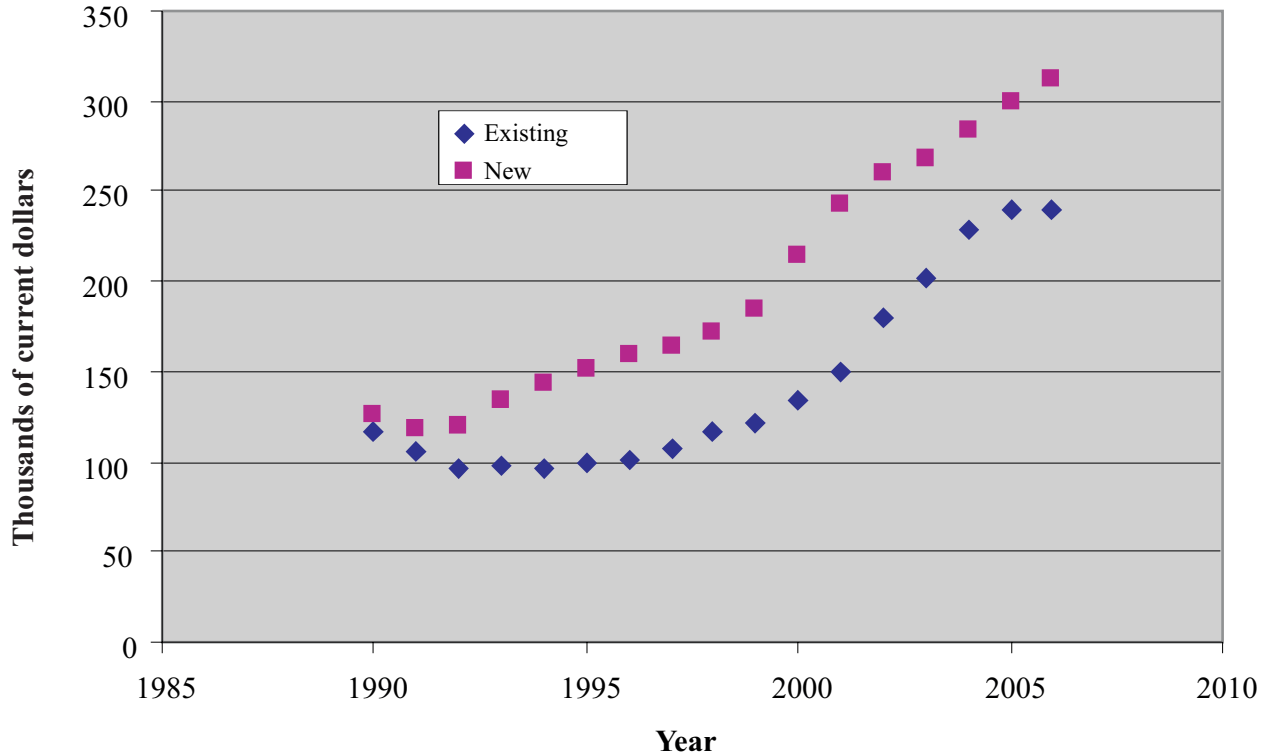
and to enact several new revenue sources to avoid even more severe expenditure cuts. In 1990, for example, the tobacco tax rate jumped from 17 cents to 21 cents a pack. A year later, that rate increased again to 25 cents a pack. Also in 1991, the tax on rooms and meals increased from 7 percent to 8 percent.

Because of declining BPT revenue during the recession and also because of a corporate lawsuit in 1992 alleging that the BPT was discriminatory and unconstitutional, the state enacted a business enterprise tax (BET) in 1993. The BET was levied on employee compensation plus interest and dividend payments of all partnerships, proprietorships, for-profit corporations, and even some nonprofit corporations. Although rents and retained earnings were omitted from the BET tax base, there is a negligible quantitative difference between the BET and an income-type value added tax (Kenyon 1996, 383). When the state implemented the BET with a rate of 0.25 percent, it simultaneously cut the BPT rate from 8 percent to 7.5 percent. Coincidentally, as the first of two rulings on public school finance was handed down by the state's supreme court, the legislature and governor added the first-ever broad-based revenue source to New Hampshire's tax structure in an effort to resolve other fiscal and legal challenges.

An ingenious, but unsavory, response by the state government to its fiscal difficulties during the early 1990s was the enactment of a "Medicaid enhancement tax" in 1991. That state revenue source exploited a loophole in federal Medicaid regulations by levying a 6 percent tax on net patient services revenue of hospitals in the State. After collecting additional Medicaid reimbursement dollars from Washington, the state compensated hospitals for the tax. For several years after its discovery, that "discretionary intergovernmental grant" added almost \$200 million per year to the state's general fund. By 2001 Medicaid still provided \$98.2 million to general purpose expenditure by the state government (Hall 2002, 3).

Fiscal ferment continued and intensified in the late 1990s when the state's supreme court issued its *Claremont II* ruling. That decision imposed an April 1, 1999, deadline on the state government to find a constitutionally acceptable alternative to the local property tax as a means to pay for adequate public education. After more than a year of sometimes rancorous debate and after missing the court's deadline by almost a month, the legislature finally passed a temporary statewide property tax (SPT) with a rate equal to 0.66 percent of equalized value and a six-year phase-in provision to help finance an

**Chart 4. Median Purchase Price of New Hampshire Primary Homes**



Source: New Hampshire Housing Finance Authority Purchase Price Database.

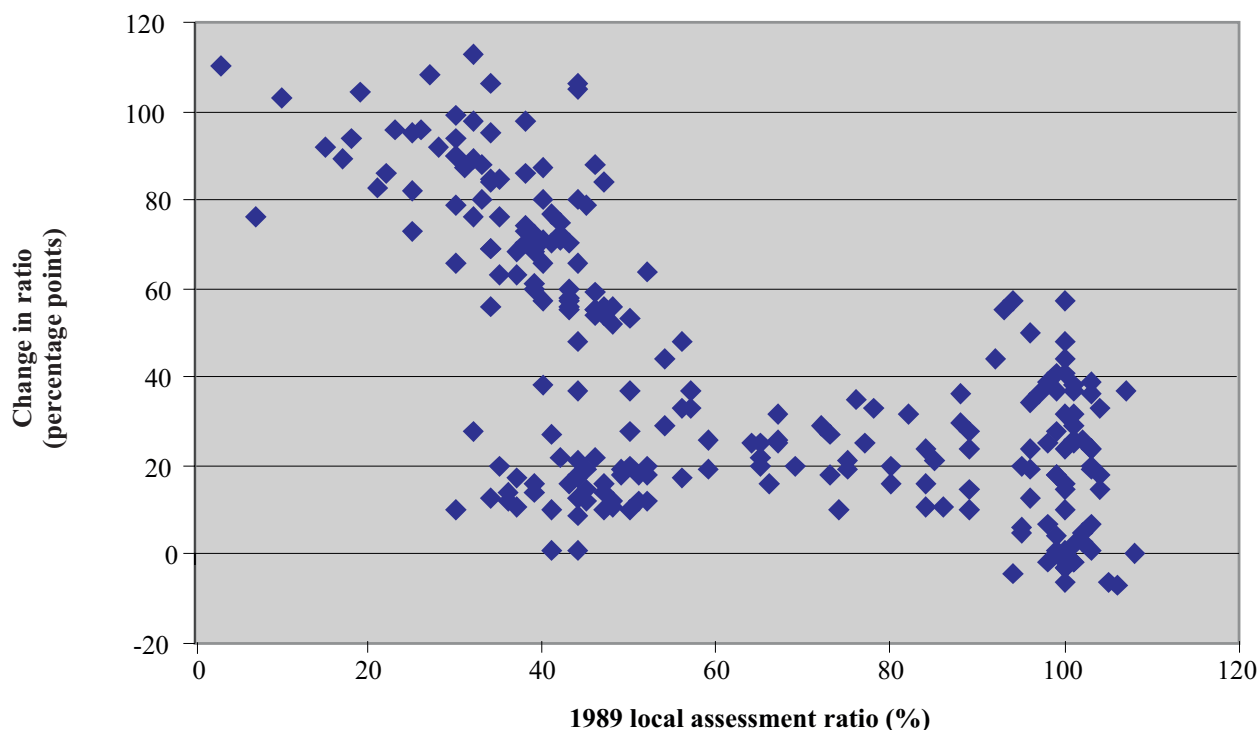
adequate education for every public school pupil.<sup>10</sup> (The legislature had to eliminate the phase-in provision that November because of continuing constitutional problems.)

Because the SPT was estimated at the time to yield less than 54 percent of the (legislatively defined) cost of adequate public education, lawmakers turned next to finding other revenue sources to help finance the newly created education trust fund. HB117, enacted in May 1999, increased the BPT and BET rates to 8 percent and 0.5 percent, respectively. It also raised the tax on real estate transfers from 5 percent to 7.5 percent of appraised value. A new 8 percent tax on motor vehicle rentals went into effect. The legislature even turned to temporary funding of the state’s adequate education obligation by resorting to a one-time allocation of that year’s tobacco settlement money to the education trust fund.

<sup>10</sup>A threat by Moody’s Investors Service to place \$854 million of municipal and school bonds on its watch list probably helped the legislature to finally take action (Kruger 1999). The legislative history that follows comes from Swaine (2001).

That fiscal patchwork adopted by the state legislature in 1999 was to have several major consequences that many observers did not expect. One was the emergence of serious political tension between “donor” and “receiver” communities over who should pay for adequate public education throughout the state. Looking back, that divisive outcome of school finance reform is somewhat surprising because the *Claremont II* court decision did not require equalization of per-pupil spending levels across school districts or a massive redistribution of tax dollars from richer to poorer communities. Rather, it simply required the state government to place a floor under local school spending per pupil in all districts by distributing “adequate education grants” linked to student populations and taxable property per pupil in the various towns and cities.

As Table 7 shows, the state’s total equalized valuation in 1999 generated roughly \$442 million in SPT revenue. That revenue was collected by local tax collectors, deposited in the state’s education trust fund, and distributed by the state education department to the local school districts as adequate education grants. Most of the grant dollars financed by the SPT simply returned to the communities from

**Chart 5. Changes in local assessment ratios, 1989 - 1993**

Source: New Hampshire Department of Revenue Administration

which they had been collected. Only \$24 million of “excess education taxes” collected in property-wealthy towns were used to finance grants in other communities. However, for the 15 towns and cities that contributed at least \$500,000 of SPT revenue to other communities in 1999, school finance reform was a bitter pill to swallow.

**Most of the grant dollars financed by the SPT simply returned to the communities from which they had been collected.**

The heated debate over implementation of the statewide property tax helped to shape HB170, another revenue bill enacted in June 2001. The legislature repealed the sunset provision of the SPT because, in the absence of a personal income or retail sales tax, there was no other obvious revenue source that could raise over \$400 million a year to help satisfy the state’s educational obligation. However, the legislature lowered the SPT rate from 0.66 percent to 0.58 percent, a concession perhaps to the vocal opponents of property taxation at the state level. To increase general revenue and education trust fund contributions, the legislature once again

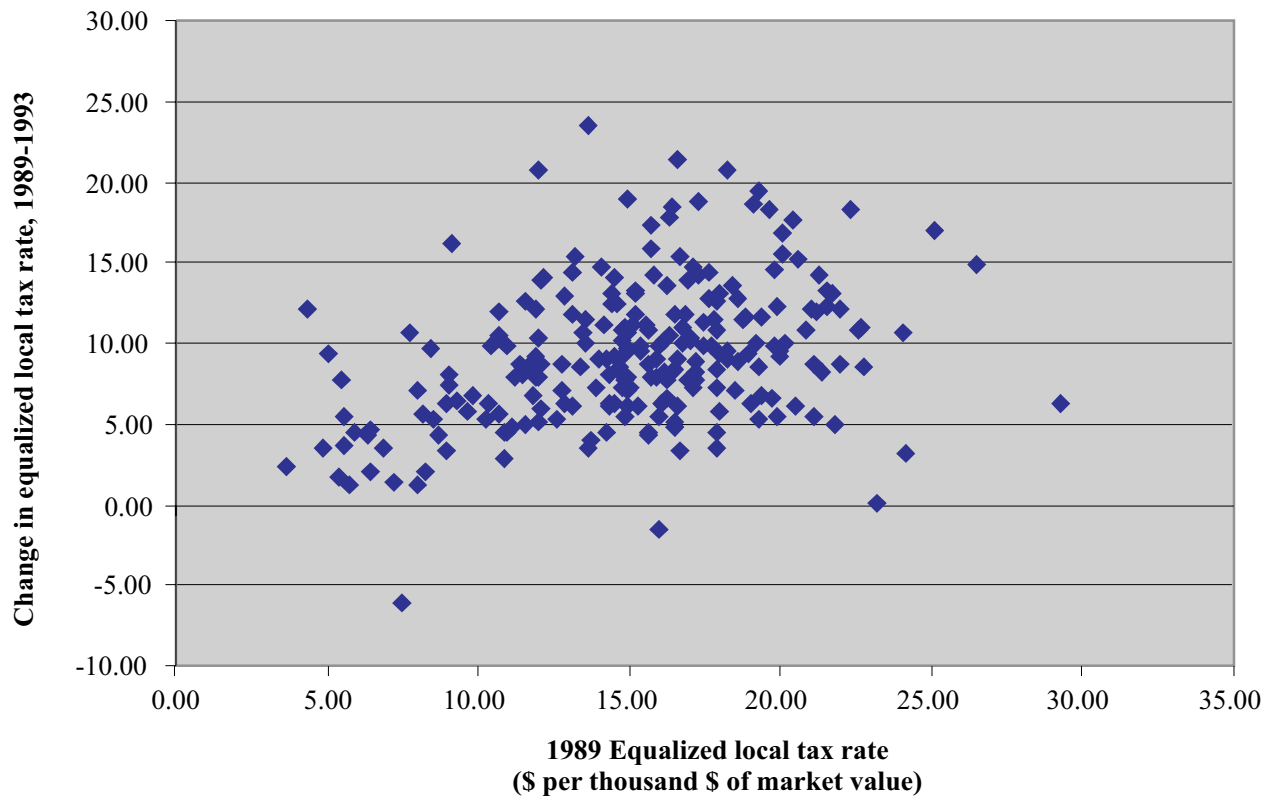
raised the BPT and BET rates, to 8.5 percent and 0.75 percent respectively. The tax on telecommunications services also increased from 5.5 percent to 7 percent. In an effort to find a temporary revenue source, HB170 also declared a general tax amnesty.

By 2001 a decade or more of recession followed by a real estate market slump and an education funding crisis had altered the New Hampshire revenue structure in fundamental ways. In addition to enacting the business enterprise tax in 1993 and the statewide property and car rental taxes in 1999, the state had increased its business profits tax rate from its original rate of 6 percent to a 2001 rate of 8.5 percent. Federal Medicaid reimbursements had become an important, but potentially unreliable, source of general revenue.

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Those alterations in the state and local fiscal system are significant for several reasons. One is

**Chart 6. Tax Rate Impact of Real Estate Slump, 1989 - 1993**



Source: New Hampshire Department of Revenue Administration.

**Table 7. Adequate Education Costs and Grants in New Hampshire, 1999**  
(Millions of current dollars)

Total equalized valuation	66,989
Statewide property tax revenue (0.66 percent rate)	442.1
Cost of adequate education	824.7
Excess education taxes	\$24.15

Source: New Hampshire Department of Revenue Administration.

that New Hampshire stands almost alone as a state in which state corporate tax revenue grew at the same rate as gross state product from 1981 through 2000. During those two decades, state corporate income tax receipts as a share of reported corporate profits declined significantly across the nation as a whole (Cornia, Edmiston, and Sjoquist 2005). From the perspective of future personal income and employment growth in New Hampshire, that shift toward business taxation (Table 8) is troubling. As Rork (2003) has found by looking at state tax data for the 30 years ending in 1996, corporate income is a more mobile tax base than either retail sales or personal income. 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.<sup>11</sup>

On a less somber note, a decade of fiscal change has had the unintended effect of improving property tax administration throughout the state. One reason for recent improvements in local property assessment is that adoption of the SPT forced the state

<sup>11</sup>From an economic development perspective, it would be advisable to cut the BPT rate, raise the BET rate, and perhaps broaden the base of the BET even more by including imputed rents on commercial and industrial properties. That latter reform could be approximated by taxing the equalized value of commercial and industrial land.

**Table 8. New Hampshire General Revenue Per Capita (1983-84 dollars)**

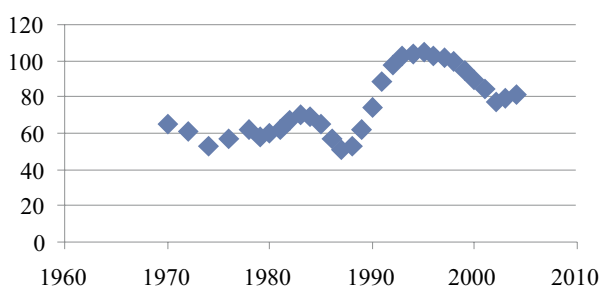
	1990	2001
Beer and liquor	43.67	41.91
Tobacco	24.78	25.32
BPT	72.04	74.54
BET	0	50.70
Meals and rooms	54.40	65.23
Securities, insurance and banks	36.16	39.20
Medicaid	0	40.74
Communications services	8.30	20.35
<b>Total</b>	<b>364.93</b>	<b>479.65</b>

*Source:* Hall (2002, 3) and New Hampshire Office of Energy and Planning

**Table 9. New State Powers to Regulate Local Property Assessment**

Chapter 297
• Creation of Assessing Standards Board.
• Creation of Equalization Standards Board.
• Provision for certification of local assessing officials.
• Procedures for creation of cooperative assessing districts.
Chapter 158
• Requirement of annual adjustments in local assessments for properties with material physical changes, changes in ownership or zoning changes
• Creation of certification program for local assessment programs to ensure uniformity and quality of local practices.

*Source:* New Hampshire Department of Revenue Administration.

**Chart 7. Average of Median Ratios**

*Source:* New Hampshire Department of Revenue Administration.

government to acknowledge the diversity of local assessment practices across the state and the poor quality of property assessment in some jurisdictions. In a January 2001 superior court decision, the judge found the SPT to be unconstitutional for two reasons:

- The state constitution requires that “there shall be a revaluation of all the properties within the state once in every five years” and

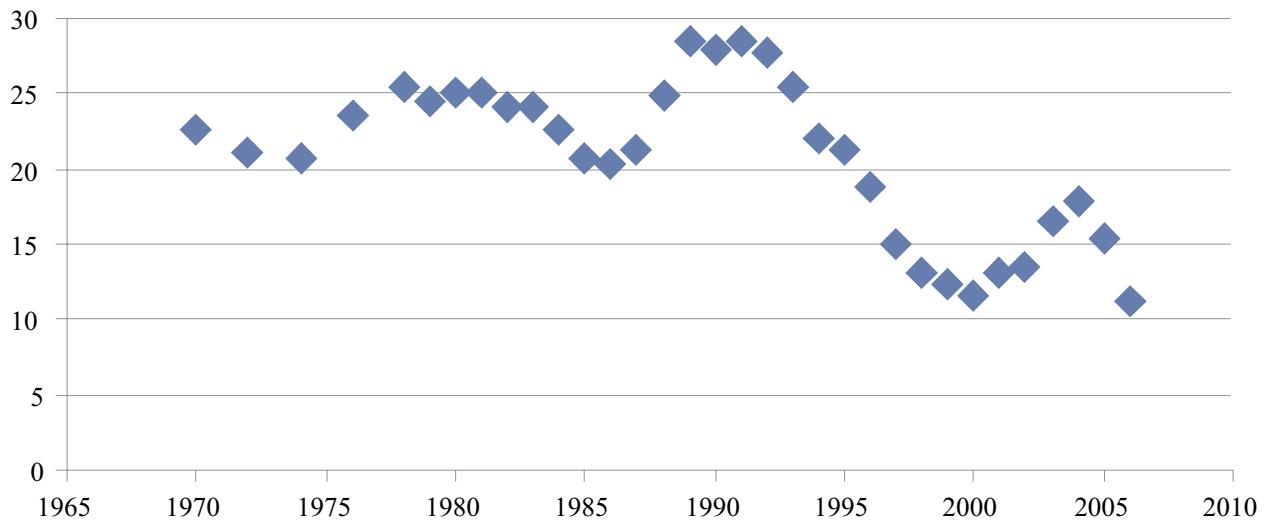
yet testimony had revealed that 30 percent of local assessors had violated that constitutional provision.

- Evidence had revealed a wide dispersion of individual assessed value-to-market value ratios within several local jurisdictions. That implied a violation of the constitution’s requirement that state taxes be “reasonable and proportionate” across all individual taxpayers (Swaine 2001, 5).

The state government appealed that decision and in its May 2001 *Sirrell* ruling, the supreme court retained the SPT but gave the state until 2003 to “implement appropriate enforcement measures to ensure that each municipality assesses property within its borders every five years.” That ruling resulted in legislative action granting the Department of Revenue Administration and two new state boards additional powers to regulate local administration of property assessments (Table 9).

Even before those recent state reforms of local property tax administration, however, it appears as though local assessment practices in New Hampshire had already begun to change in fundamental ways. During the 1970s and 1980s, the median ratio

Chart 8. Standard Deviation of Median Ratios



Source: New Hampshire Department of Revenue Administration.

of assessed value to sales price had averaged only 60 percent across local jurisdictions (Chart 7). No doubt that widespread underassessment of properties reflected infrequent property revaluations in many towns and cities during an era of booming real estate prices. Since 1990, however, the average assessment-to-sales price ratio has normally exceeded 80 percent. Hence, local assessors seem to be tracking market values more closely than they did traditionally. Another reflection of evolving assessment practices is the growing uniformity of the median assessment-sales ratio among towns and cities. Since 1995 the standard deviation of that ratio has been substantially lower compared with the previous quarter century (Chart 8).

**New Hampshire stands almost alone as a state in which state corporate tax revenue grew at the same rate as gross state product from 1981 through 2000.**

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 responsibility for adequate public education. The icing on that fiscal cake is that property tax administration finally reached modern professional standards at the dawn of the 21st century.

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