

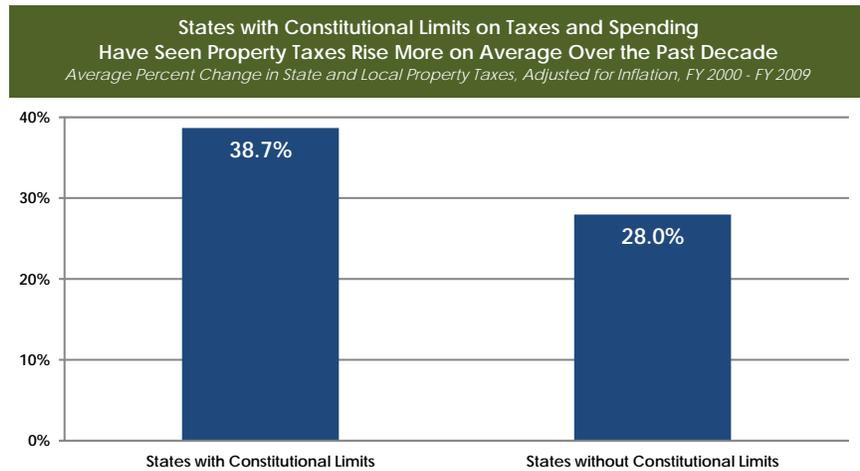
March 20, 2012

Constitutional Limits on Taxes or Spending Would Increase Pressure on Local Property Taxes

Local governments across New Hampshire have received less aid from the state to meet the needs of local citizens and businesses in recent years. As a result, they have been forced to increase local property taxes to preserve the education, public safety, transportation, and other services that make New Hampshire's communities desirable places to live, work, and visit. Competing versions of a constitutional amendment now before the Legislature risk adding to these pressures when New Hampshire already relies on local property taxes more than any other state.

In March of last year, the House of Representatives passed CACR 6, an amendment to the New Hampshire Constitution that would require a three-fifths supermajority vote on any future tax or fee increase. Just last month, the Senate adopted an entirely different version of the amendment, one that would prohibit any increase in the state budget that exceeded the rate of inflation, unless approved by a similar three-fifths supermajority of both chambers of the Legislature.

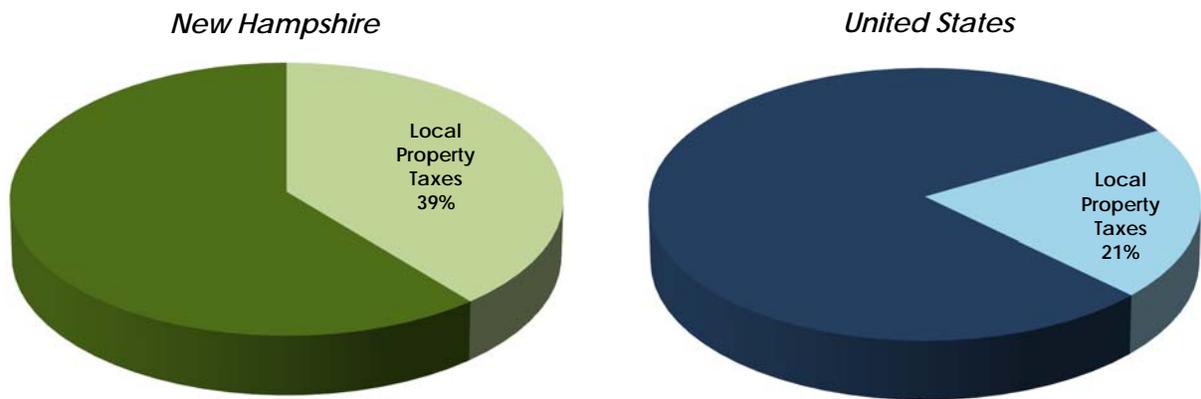
While the approaches the House and Senate have taken in their respective versions of CACR 6 differ significantly, their consequences for local communities would be similar. If either version becomes part of New Hampshire's Constitution, state government would find it increasingly difficult – if not impossible – to deliver the programs and services it does today. Under such circumstances, policymakers would likely reduce spending in a range of areas, including aid to cities and towns. In turn, municipalities and school districts would be forced to compensate for the losses and raise property taxes further to provide necessary services.



Source: NHFPI calculations based on US Census Bureau and US Bureau of Labor Statistics data

Indeed, data from the US Census Bureau suggests that, on average, those states with constitutional limits on taxes or spending have seen substantial growth in property taxes over the past decade. At present, twenty-one states have supermajority requirements for tax increases, strict limits on the rate of growth in the amount of funds they expend, or some combination thereof enshrined in their constitutions.ⁱ As the graph above indicates, between fiscal year 2000 and fiscal year 2009, state and local property taxes in those states with constitutional limits rose nearly 39 percent on average, after adjusting for inflation. Over the same period, state and local property taxes climbed 28 percent on average in states without such constraints.

New Hampshire Relies on Local Property Taxes More Than Any Other State
Local Property Taxes as a Share of Total State and Local Own Source Revenue, FY 2009



Source: NHFPI calculations based on US Census Bureau data

Additional pressure on local property taxes would only deepen New Hampshire’s reliance on that source of revenue. As the graph above illustrates, New Hampshire counted on local property taxes for nearly 40 out of every 100 dollars it generated in state and local revenue in FY 2009. Nationally, the comparable figure was just 21 out of every 100 dollars. Perhaps even more telling, only three other states relied on local property taxes to provide even 30 out of 100 dollars in state and local revenue, but none of them exceeded the 35 dollar mark.

In sum, the national recession that began in 2007 led state policymakers to shift a variety of costs onto New Hampshire’s cities and towns, placing greater pressure on local property taxes. The state’s ability to contribute to priorities like education and public safety will only deteriorate further if efforts to amend the New Hampshire Constitution are successful in imposing inflexible limits on taxes or spending.

ⁱ The twenty-one states with constitutional limits on taxes and spending are Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Hawaii, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Nevada, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, and Wisconsin. However, in the comparison above, Wisconsin has been classified as lacking a constitutional limit, since its limit was not enacted until 2011.