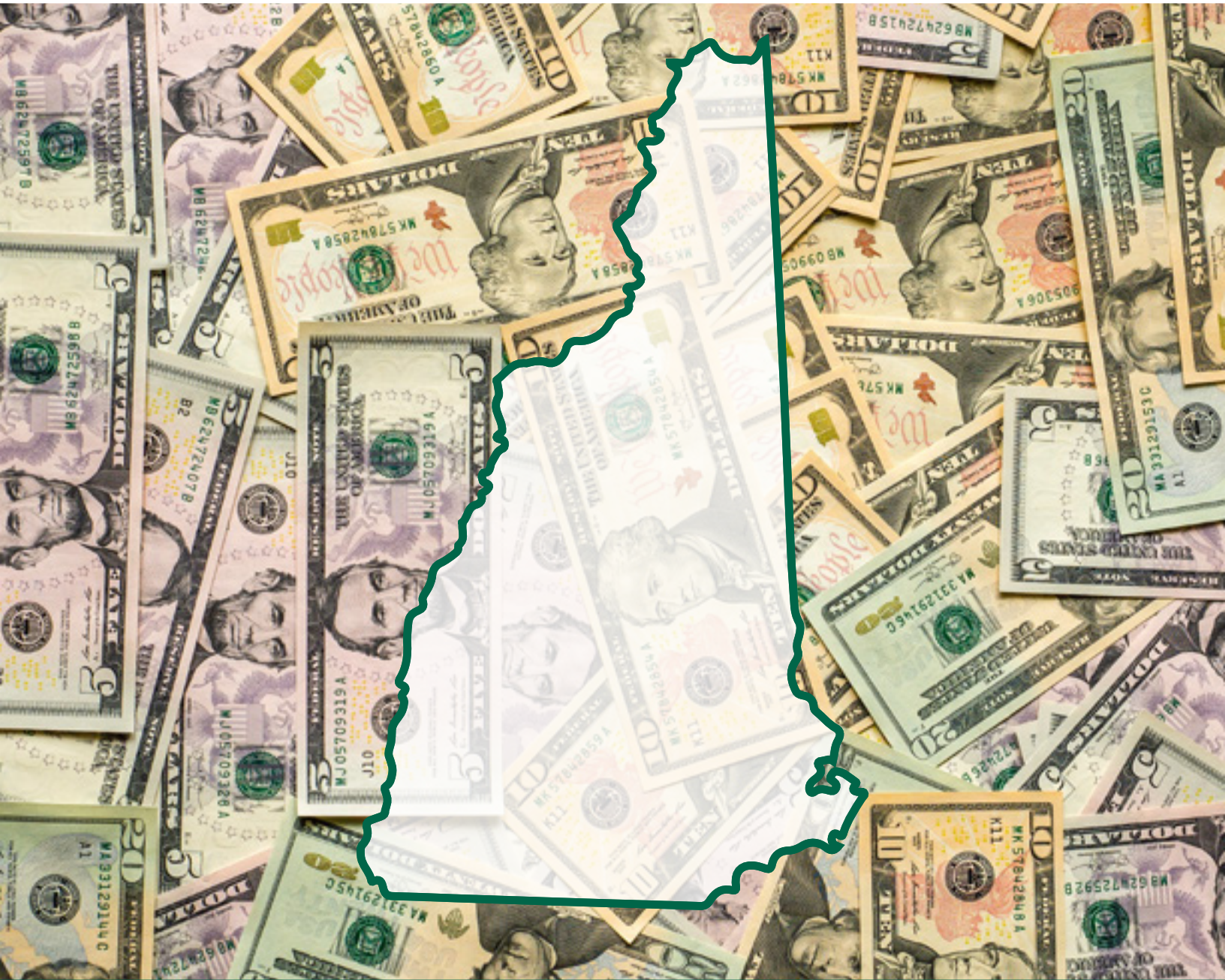


# Municipal State Aid and Revenue Sharing



## History & Trends

# **State Aid to Cities, Towns and School Districts**

**Prepared by the  
New Hampshire Municipal Association  
October, 2022**



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# MUNICIPAL STATE AID AND REVENUE SHARING

## State Budget Decisions Affect Local Property Taxes

*Prepared by the New Hampshire Municipal Association  
October, 2022*

### State Budget Decisions Affect Local Property Taxes

Understanding the various types of revenue sharing and aid provided by the state to local governments is critical to understanding the effect that state-level budgetary decisions have on local property taxes. With the property tax as the primary source of local revenue, reductions in any state revenue sharing or aid program, or the shifting of state costs to municipalities, most often result in increased property taxes. This report explains the state revenue sharing and aid programs relied upon by cities and towns as well as recent trends in funding those programs.

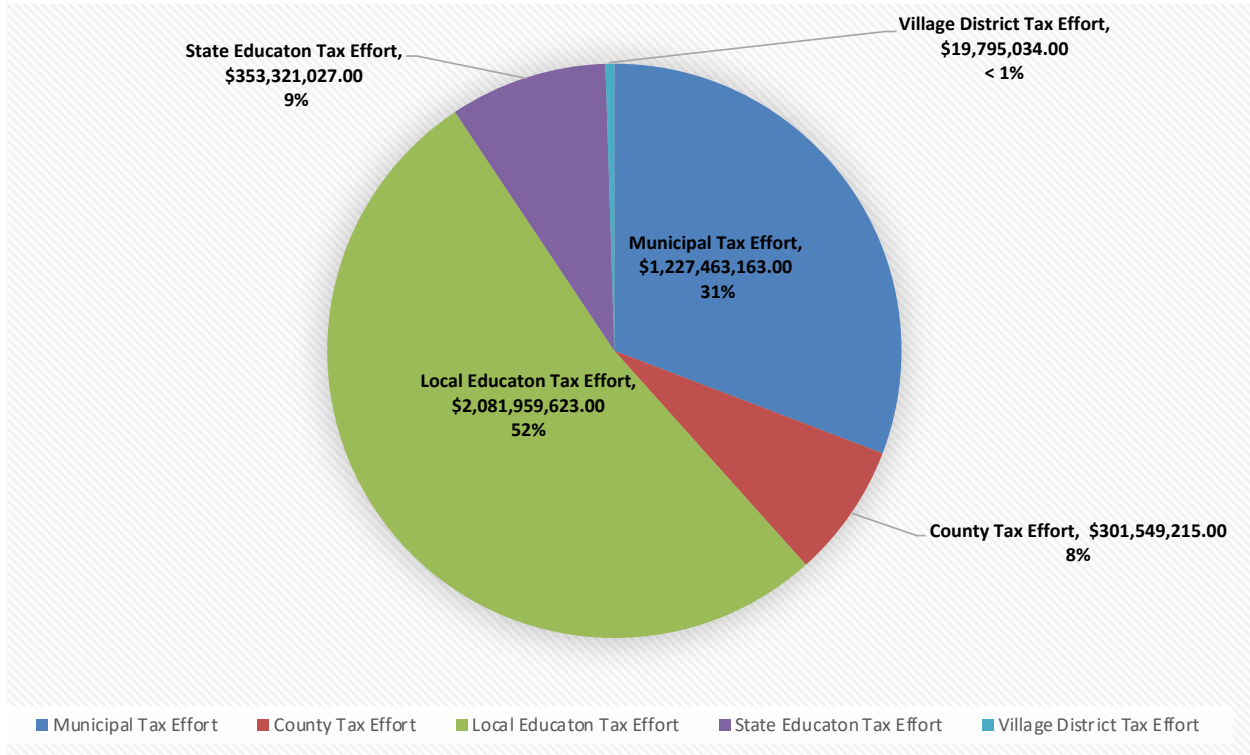
In 2021, the State of New Hampshire 2022-2023 biennium budget was adopted during a time of economic uncertainty and a dynamic public health emergency. Even with the help of unprecedented levels of federal stimulus funds, significant cuts and shifts were made to fund key areas of priority. State funding cuts were made to the Highway Block Grant, Water and Wastewater Projects and increases to the employer contribution rate in the New Hampshire Retirement System were enacted. However, through the budget process, the meals and rooms tax statute was changed to require the municipal distribution be set at 30 percent of the actual revenue collected and placed in a dedicated fund—far better than what had been distributed back to municipalities over the past several decades.

During the 2022 legislative session, state revenue was reported at a record surplus of \$283.8 million. In response to the surplus, several pieces of legislation were enacted in a non-budget year to provide an additional \$106.1 million in direct one-time payments to municipalities. As deliberation will begin in January 2023 for the 2024-2025 state biennium budget, understanding the impact of state budget decisions on local property taxes will help alleviate unintended consequences on property taxpayers statewide.

# Where Do Municipal Revenues Come From?

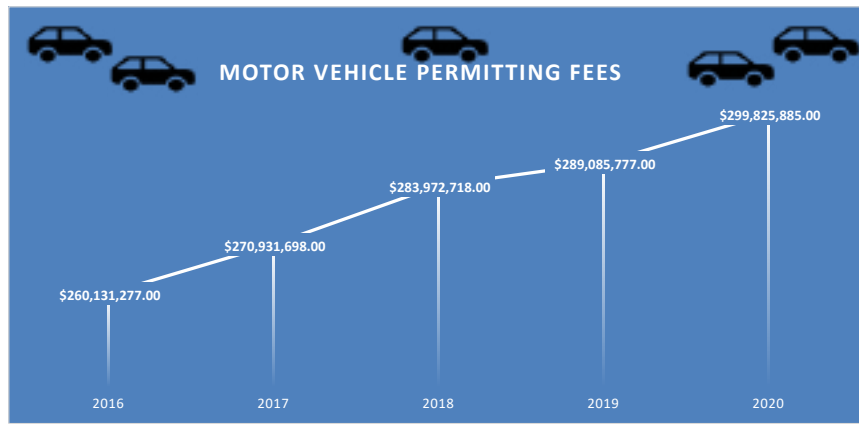
Overall, property tax assessments, which include property taxes raised to support municipal, county, local school and state education purposes comprise the majority of municipal revenues.

## 2020 PROPERTY TAX ASSESSMENTS



New Hampshire municipalities are limited in the options available to raise revenues for the support of city and town services, such as fire, police protection, road maintenance, waste management, planning and development and welfare assistance. Once the annual budgets are approved by the local legislative body, which is the town meeting or the town/city council, those budget appropriations are offset by local revenues with the balance raised by property taxes. Since New Hampshire is not a home rule state, all authority for municipal operations must be granted by the state legislature, including the authority to raise revenues.

## MOTOR VEHICLE PERMITTING FEES

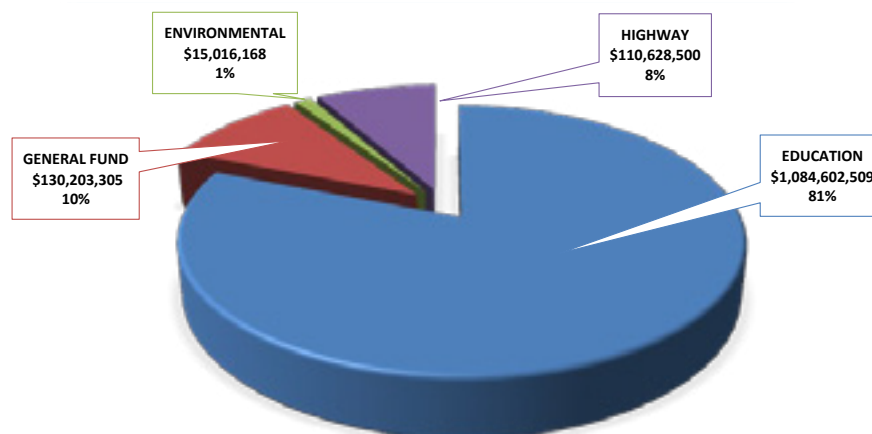


After property taxes, the second major source of revenue available for *general* municipal operations is motor vehicle registration and fees. Estimated at almost \$300 million in 2020, this revenue stream demonstrates a consistent increase over the last five years. In 2020, licenses, permits (including building permits) and other miscellaneous fees also increased with the recent influx of new residents and the booming real estate market trend over the past several years. However, as 2022 draws to a close, a sign of more recent economic times indicates that interest on investments will start trending upward and revenue generated on interest and penalties on delinquent taxes, may also begin to increase as inflation continues to spur an economic downturn. With supply chain issues continuing to impact new vehicle and equipment production, building materials and the cost to borrow rising with inflation, and a softening real estate market, revenues generated from motor vehicle registrations, building permits and land use change tax may decline. If funding from local revenue sources declines, the alternatives are to reduce the cost of municipal services, reduce the level of service provided, or increase property taxes, or some combination of all three.

## 2022 State Aid to School Districts vs. Municipalities

A major category of state aid is educational funding to school districts. This is comprised of a number of programs, the most significant of which are adequate education aid to meet the state's constitutional obligation, school building aid and catastrophic aid (special education). Education funding goes directly to school districts, not to cities or towns, except in the nine cities (Berlin, Dover, Franklin, Laconia, Manchester, Nashua, Portsmouth, Rochester and Somersworth) where the school district operates as a department of the city. Education funding received by school districts affects the local school property tax rate, not the municipal property tax rate. The pie chart below shows the amount of education funding provided by the state in fiscal year 2023 versus the funding provided to cities and towns for municipal needs.

## FY 2023 BUDGETED STATE AID TO SCHOOL DISTRICTS VS. MUNICIPALITIES



Data Source: NHLBAO

# State Aid to Municipalities: 2008–2023 (Excluding Education)

As summarized by the state aid schedule prepared by the New Hampshire Legislative Budget Assistant's Office (LBAO) and included in Appendix A, reports the three major categories of state revenue sharing and aid to cities and towns:

## **General Funds:**

- Meals and Rooms Tax Revenue Distribution
- State Revenue Sharing (Suspended 2010-2022)
- State Normal Retirement Contribution (Repealed 2013)
- Railroad Tax Distribution
- State Municipal Aid Grants (One-Time Surplus: Added 2020–2022)

## **Environmental:**

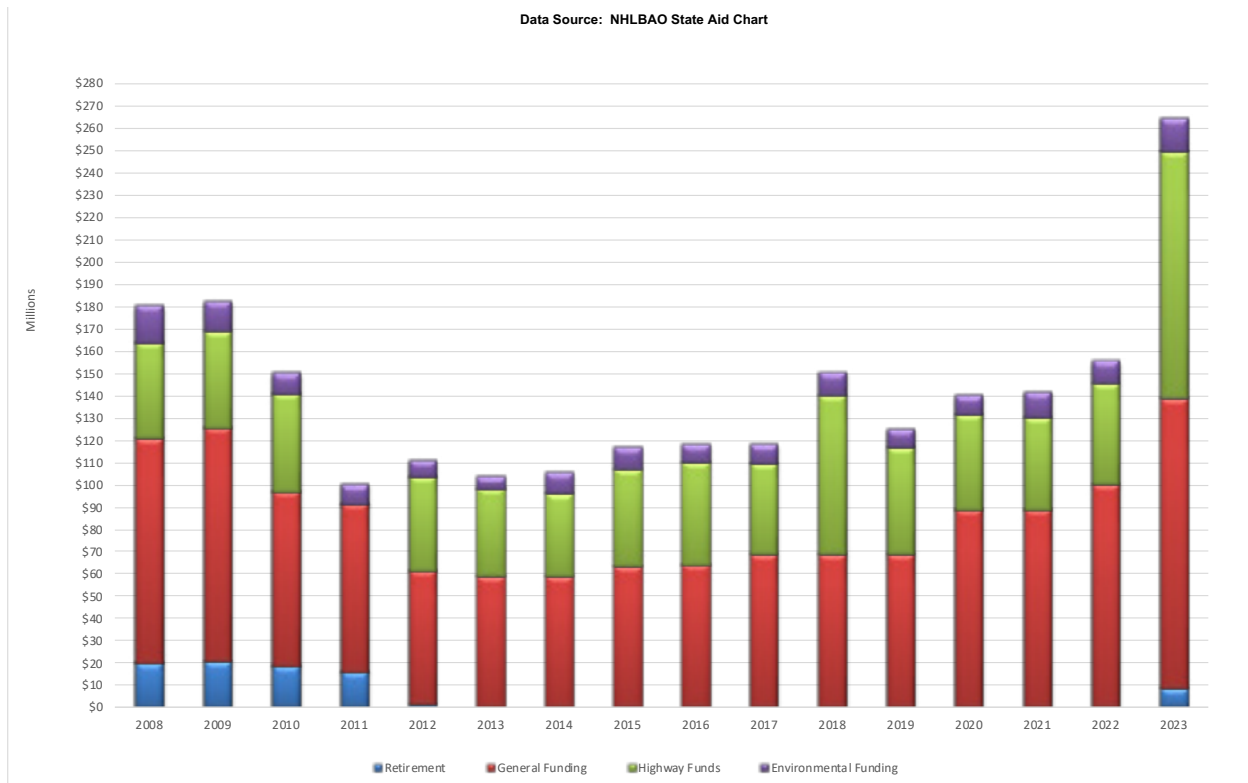
- Flood Control
- Landfill Closure Grants
- Public Water System Grants
- Pollution Control Grants – State Aid Grants (SAGs)
- Water Supply Land Protection Grants

## **Highway**

- Highway Block Grants
- Highway Construction Aid
- State Municipal Bridge Aid

## STATE AID TO MUNICIPALITIES: 2008–2023 (EXCLUDING EDUCATION)

As illustrated in the following graph and explained in further detail, state revenue sharing and aid to municipalities decreased significantly in 2010-2014 as the state struggled to balance its own budget following the 2008-2009 recession. The use of one-time revenues or surplus accounts for the \$30 million increase in 2018 highway funding, the addition of \$20 million ‘state municipal aid grants’ in fiscal years 2020 and 2021 and \$131 million in fiscal year 2022 for bridges, roads, environmental grants and a state contribution to the employer costs associated with the New Hampshire Retirement System.



## Meals and Rooms Tax Distribution

**History.** The 2021 legislative session resulted in a major change to the meals and rooms tax rate and how meals and rooms revenue sharing would be calculated. Through the state budget process, the meals and rooms tax statute was changed to create a new State Treasury “dedicated fund” to which 30 percent of total meals and rooms tax revenue would be deposited for distribution to towns and cities based on population. The dedicated fund formula is now based on the percentage of actual revenue collected in the prior fiscal year, rather than the previous distribution-which was a set number in the budget based on conservative revenue estimates. Due to the creation of the dedicated fund, if the state continues to exceed revenue projections for meals and rooms, municipalities will continue to see an increased benefit. It is of note that at the same time the legislature increased revenue sharing with municipalities, they decreased the tax itself from 9% to 8.5 % which took effect on October 1, 2021.



## 2021 Meals and Rooms distribution changes created by House Bill 2:

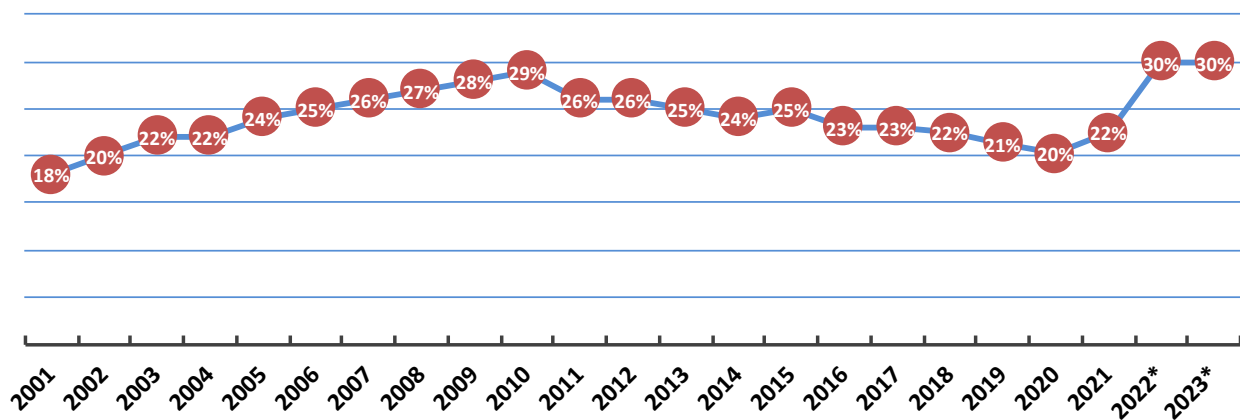
*Suspends revenue sharing with cities and towns for the biennium.*

*Suspends the crediting of meals and rooms tax revenue to the division of travel and tourism.*

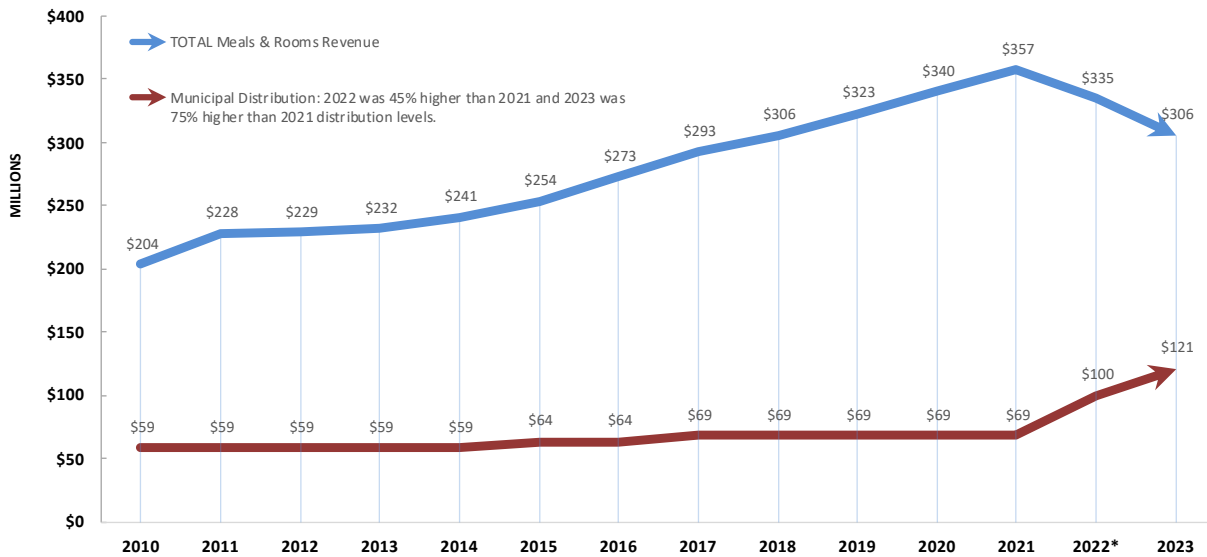
*Establishes the meals and rooms municipal revenue fund for the distribution of meals and rooms tax revenues by the state treasurer to towns, cities, and places.*

**Trends.** In 2001, the state/municipal share was 82%/18%. As the meals and rooms tax revenues gradually increased, so did the municipal share of those revenues due to the catch-up formula described above. In fact, in 2010 the state/municipal apportionment reached 71%/29%. However, the catch-up formula was suspended in 10 of the past 12 years, while the tax revenue continued to increase through 2020. As a result, the municipal distribution dropped from the high of 29% in fiscal year 2010 to 20% in fiscal year 2020. Due to the COVID-19 pandemic, the total meals and rooms tax revenue dropped 10.1% in 2021. The 2021 municipal distribution remained level at the 2017, \$68.8 million distribution amount, representing a 23% share of the total revenue in 2021. The 2022 estimated distribution was \$92.5 million, but with the state exceeding revenue projections and a new distribution formula in place, municipalities received \$100.1 million because of the change in the law. This amount represents a 45% +/- increase over 2021 levels. The state estimate for fiscal year 2023 was \$95.6 million, however, the actual municipal distribution was over \$121 million, a 19.8% increase over 2022 distribution amounts and a 75% increase over 2017–2021 distribution amounts.

## MEALS & ROOMS TAX: MUNICIPAL PERCENTAGE



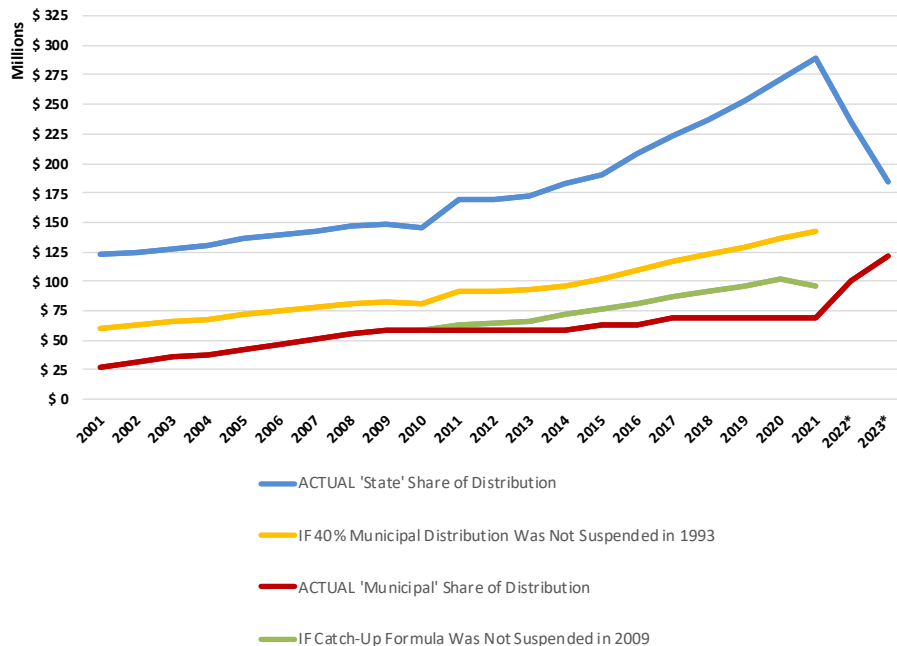
## MEALS & ROOMS TAX TOTAL REVENUE VS. MUNICIPAL DISTRIBUTION 2010–2023



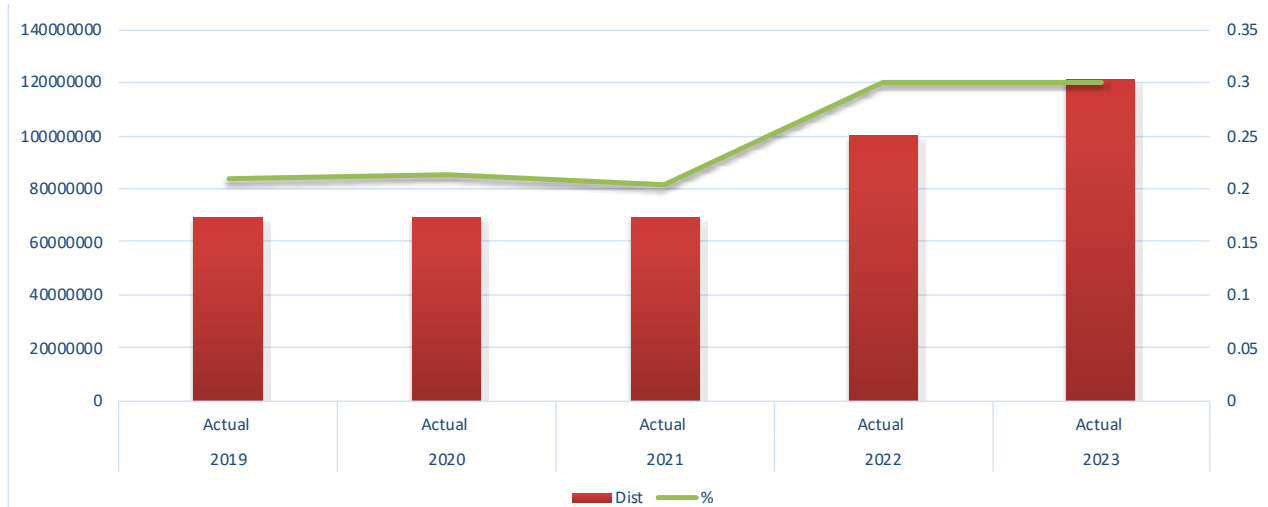
\* 2021 [Chapter 91 \(HB 2\)](#) created a new treasury “dedicated fund” to which 30 percent of total meals and rooms tax revenue will be deposited for distribution to towns and cities.

As illustrated in the following graph, since the 2010 distribution, the meals and rooms tax revenues grew by 67% from approximately \$204 million in 2010 to just over \$357 million at its peak in 2021 with the last two years seeing a downward trend in revenue collection. Factors that may be attributed to the downward trend include, but are not limited to, current inflationary pressures on the economy and the 2021 reduction to the meals and room tax itself from 9% to 8.5 % which took effect on October 1, 2021.

## DISTRIBUTION HISTORY: MEALS & ROOMS REVENUE 2001–2023



## M&R DISTRIBUTION — 5 YEAR TREND



## Revenue Sharing

**History.** In 1969, reform in how the state taxed businesses led to the implementation of the Business Profits Tax (BPT). This eliminated antiquated taxes which were more reflective of an agricultural economy of the past. These taxes, however, were assessed and collected by municipalities and were part of the property tax base for municipalities, school districts and counties (including tax on stock in trade, taxes on studhorses, poultry, domestic rabbits, fuel pumps/tanks and other taxes). The initial intent of the revenue sharing statute, RSA 31-A, was stated as follows:

*In consideration of the removal of certain classes of property from taxation, which would otherwise have the effect of reducing the tax base of cities and towns of the state, it is hereby declared to be the policy of the state to return a certain portion of the general revenues of the state to the cities and towns for their unrestricted use...Chapter 5, Laws of 1970.*

On March 31, 1970, in testimony on House Bill 1, then New Hampshire Attorney General Warren Rudman responded to concerns that future legislators may choose not to honor this commitment to municipalities to fund revenue sharing, stating:

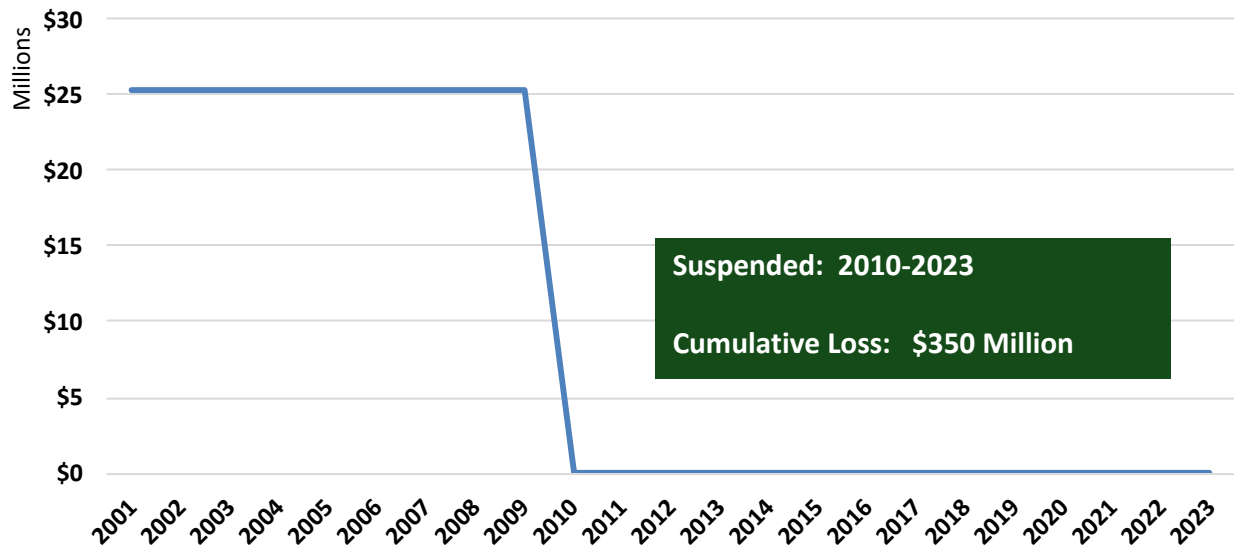
*...this bill creates a new chapter in the statutes of the state of New Hampshire which is specifically entitled "Return of Revenue to Cities and Towns". And it says "there is hereby appropriated for each fiscal year a sum sufficient to make the payments provided for by this section." Now the charge has been leveled that future legislators might choose not to honor this pledge...It seems quite doubtful to me that once this bill is passed that any legislator would go back on its pledge to return revenue to cities and towns that originally belonged to those cities and towns. And I might also add, in passing, that I could hardly see a Governor signing a bill which would deprive cities and towns of the revenue which they once had."*

When enacted in 1970, RSA 31-A included a provision to increase revenue sharing by 10% each year. This 10% provision was short-lived; it was amended to 5% the following year with further reductions in subsequent years. In 1983, RSA 31-A was again amended to incorporate other revenue sharing formulae then in existence (such as the interest and dividend tax and the savings bank tax), thereby consolidating all such funding to municipalities under one statute.

**Trends.** Total revenue sharing in 1999 was \$47 million. In 2000, as part of statutory changes to fund the state's adequate education obligations, \$22 million of revenue sharing that had been allocated to

school districts became part of the state adequate education aid funding. This left the balance of \$25 million annually as general revenue sharing for municipalities and counties, which remained constant through fiscal year 2009. Since 2010, revenue sharing has been completely suspended resulting in a loss to municipalities and counties of \$25 million per year, or \$350 million cumulatively from fiscal year 2010-2023. Although clearly not the intended outcome, as Warren Rudman articulated (above), by continuing to suspend this statutory provision, cities and towns are deprived of the revenue they once had before their property tax base was statutorily reduced.

## REVENUE SHARING (RSA 31-A)



Data Source: NHLBAO, 10/01/22

## Highway Block Grants

**History.** Twelve percent (12%) of the total road toll (gas tax) and state motor vehicle fees revenue collected in the preceding state fiscal year are distributed to municipalities through a local highway aid formula. This money comes from the state highway fund, not the state general fund, and provides funding to maintain and improve Class IV and Class V municipal roads and highways. In addition, supplemental funds totaling \$400,000 provide assistance to those municipalities who have high roadway mileage and lower property valuations.

**Trends.** From fiscal years 2006 through 2010 the total amount of annual highway block grants varied from \$28.5 to \$30.5 million. In 2009 the legislature enacted a temporary 2-year state motor vehicle registration fee surcharge which increased the state highway fund, resulting in approximately \$5 million more for municipalities each year. This highly unpopular surcharge was repealed, and block grant funding to municipalities returned to approximately \$30 million per year from 2013 through 2015.

In 2014 the legislature raised the road toll for the first time in 23 years, increasing the rate by approximately 4 cents from 18 to 22 cents per gallon of gasoline effective July 1, 2014. This raised an additional \$33 million per year in highway funding of which 12%, or an additional \$4 million, has been distributed to municipalities. This is reflected in the highway block grant increase in state fiscal year 2016.

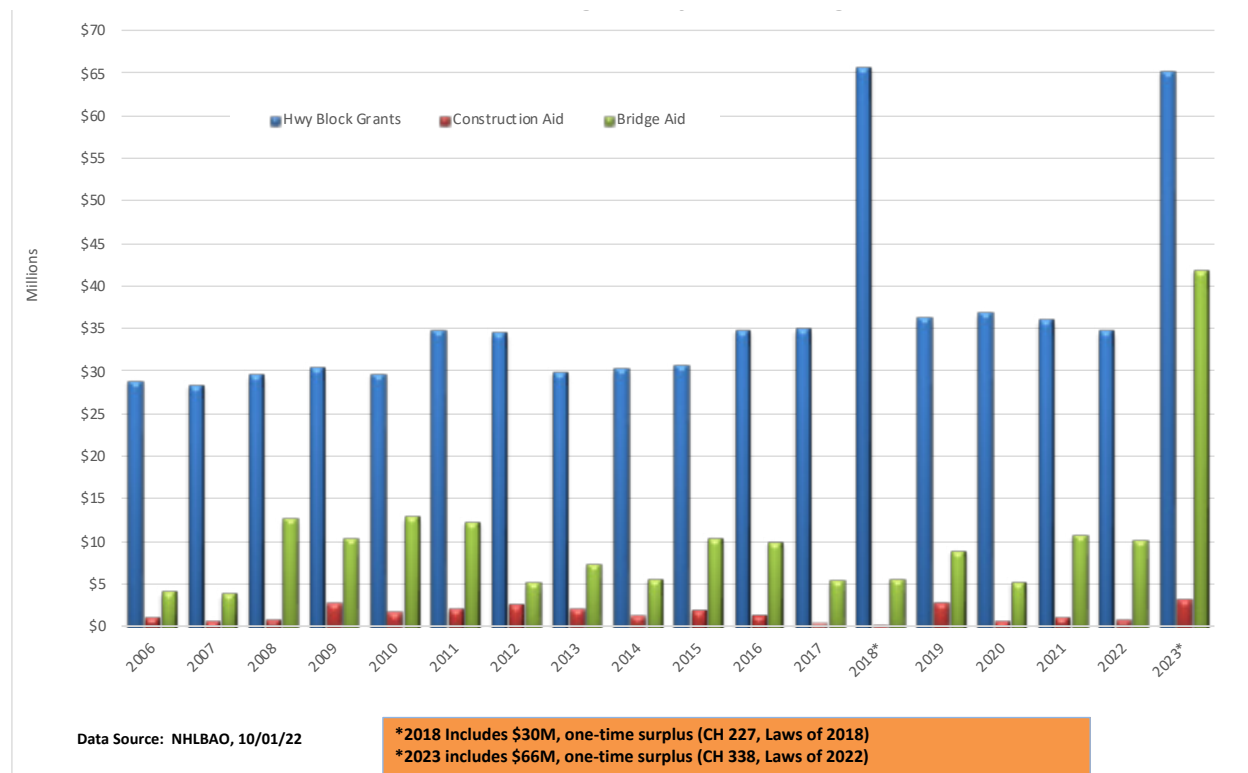
In the current state budget the New Hampshire Department of Transportation (NH DOT) requested \$34.3 million and \$35.4 million in fiscal years 2022 and 2023, respectively, for highway block grants. This represents a \$2.8 million *decrease* in distribution from the prior budget. The requested funding amounts



are based on NH DOT estimates of state highway fund revenue per NH DOT's highway funding model.

Following a principle of “using one-time revenue for one-time expenses,” in 2017 and again in 2022, the state appropriated an additional \$30 million for municipal highways from general fund surplus. This additional money was apportioned to municipalities based on the same formula as highway block grants and was available for the same municipal highway purposes as the block grants. This additional funding is reflected in fiscal year 2018 and 2023 and accounts for the significant increase that year in the following graph. In fiscal year 2019, four municipalities received a total of \$2.8 million in state construction aid (totaling 2/3 of project cost) pursuant to RSA 235:15.

## HIGHWAY FUNDING



## State Bridge Aid

**History.** The State Bridge Aid program under RSA 234 provides that funding for construction or reconstruction of municipally owned bridges shall be borne 80% by the state and 20% by the municipality, subject to the available level of funding each year. In 2015, 338 (20%) of municipally-owned bridges were classified as “red listed” meaning the bridge was in poor condition, critically deficient and/or functionally obsolete. In 2017 under Senate Bill 38, the definition was modified to be “a bridge with a primary element in poor or worse condition (National Bridge Inventory rating of 4 or less)”. Previously the red list also included bridges with posted weight limits (e.g. “Weight Limit 15 Tons”) regardless of condition. This statutory change resulted in 71 bridges being removed from the municipal red list. As of December 30, 2021, there were 222 municipal red list bridges out of 1,688. Below is the progress chart from the New Hampshire Department of Transportation’s Municipally-Owned Red List Bridges Report dated March 28, 2022:

*New Hampshire Department of Transportation*  
**2022 MUNICIPALLY-OWNED RED LIST PROGRESS CHART**

YEAR	YEAR START TOTAL	NUMBER ADDED	NUMBER REMOVED	YEAR END TOTAL
2004	397	5	29	373
2005	373	2	10	364
2006	364	33	34	363
2007	363	34	27	370
2008	370	21	33	358
2009	358	30	22	366
2010	366	25	32	359
2011	359	27	33	353
2012	353	26	27	352
2013	352	15	23	351
2014	351	20	27	344
2015	344	27	33	338
2016	338	15	29	324
2017	324/253*	16	17	252
2018	252	7	18	241
2019	241	15	13	243
2020	243	7	27	223
2021	<b>223</b>	<b>16</b>	<b>17</b>	<b>222</b>
2022	<b>222</b>			

\*71 bridges were removed from the 2017 Municipal Red List to comply with the amendment (known as Senate Bill 38) made to RSA 234:25-a Red List Bridges.

**Trends.** Historically, State Bridge Aid had been budgeted at approximately \$6.8 million annually which resulted in about a 10-year waiting list for state aid. Part of the revenue from the 2014 increase in the road toll discussed above was intended to double the amount of funding appropriated for municipal bridge aid, helping to reduce the 10-year waiting period to a more reasonable timeframe. The increase in State Bridge Aid in fiscal year 2015 reflects funding from the road toll increase which allowed the replacement or repair of more bridges than typically done in a year. However, this was short-lived with the fiscal year 2016-2023 budget appropriations dropping back down to the historic level of \$6.8 million per year – with all of the appropriation coming from the 4 cent road toll increase, which was supposed to supplement, not supplant, the bridge aid provided through the highway fund.

In 2016, the state 10-year transportation improvement program was amended to provide an additional \$2.5 million in municipal bridge aid for fiscal year 2017. Funding for this additional appropriation came from surplus funds in the Department of Transportation's winter maintenance budget due to the mild winter. In 2018, an additional \$6.8 million\* was appropriated for municipal bridge aid, coming from the

anticipated June 2017 state general fund surplus similar to the additional highway block grant funding explained above. For 2019 an additional \$10.4 million\* was appropriated for “high traffic volume” municipal bridge projects. In 2022, the state appropriated an additional \$36 million for the repair and maintenance of municipally-owned bridges from general fund surplus. This influx of additional state funding for municipal bridges over the past several years has helped to reduce the waiting period for all municipalities on the list for state bridge aid.

\*Note: Actual expenditure of this additional aid lags from the time of appropriation since state bridge aid is administered as a reimbursement program. This means that municipalities incur 100 percent of the bridge repair/replacement costs, then seek reimbursement from the state periodically during or following construction. Hence, actual expenditures reported in fiscal year 2018-2019 are significantly lower than the total amount of state bridge aid appropriated that year.

## Environmental Grants

**History.** Municipalities receive grants from the NH Department of Environmental Services (NHDES) for the construction, improvement and expansion of municipal wastewater and public drinking water facilities and also for assistance with the cost of landfill closures. Under these programs, municipalities finance the full cost of the project up-front, complete construction and then apply for payment of the state share, which is 20% to 30% of the eligible project costs, usually paid by the state over the amortization period of the municipal financing (bonding or borrowing from the state revolving loan fund).

**State Aid Grants (SAG)—Pollution Control.** M RSA 486 provides financial assistance in the form of a grant to NH communities to off-set the planning, design and construction costs of certain sewage disposal facilities. The wastewater SAG program provides a 20 to 30 percent grant, depending on the community’s sewer user fee, to NH communities for eligible sewage disposal facilities.

The amount of state aid grants from the state general fund began declining in 2008 with funding in 2013 being less than 32% of the funding in 2005 (\$5.6 million vs. \$17.6 million). As part of the 2010-2013 budget reductions, the state only funded its obligations for grants approved through 2008. This left municipalities to pick up the anticipated state share (\$53 million) for 127 previously approved and completed infrastructure projects - projects which were “sold” to property taxpayers based on financial commitments from the state.

Projects that were approved to receive funding by the Governor and the Executive Council prior to November 2008 continued to receive grant payments. However, State Aid Grant (SAG) pre-applications received after November 2008 were placed on the NHDES “Delayed and Deferred List” and received grants only as funding was restored to the program.

As part of the fiscal year 2014–2015 biennial budget, funding was restored for all projects on the Delayed and Deferred list. With the state making payments of \$53 million over the amortization period of the municipal financing, the net effect on the 2014 and 2015 state budgets compared to 2013 was an increase of approximately \$4 million and \$4.4 million, respectively. However, also as part of the fiscal year 2014/2015 biennial state budget, a moratorium was placed on funding any new environmental infrastructure projects that did not have local financing authorization by December 31, 2008.

In 2016 and 2017 funding was eventually provided for 8 and 19 additional projects, respectively, that had received local financing approval prior to the December 2008 moratorium. This left unfunded, nearly 50 wastewater projects qualifying for state aid of \$90 million over the next ten years if the moratorium was lifted.

In 2021, the state budget appropriated almost \$8.1 million and \$7.4 million for 2022 and 2023 respectively.

During the budget process, projects that qualified for state funding in the current biennium but were not funded due to the pandemic budget freeze. In the 2022 legislative session, the state approved \$5.7 million for fiscal year 2022 and \$6.9 million for fiscal year 2023 to fund the 11 forgotten, eligible wastewater projects not funded in the current biennium, plus 110 new projects that are expected to be eligible for grant funding in fiscal years 2022 and 2023.

**Public Water System Grants.** RSA 486-A provides a state contribution to aid public water systems to comply with requirements of the federal Safe Drinking Water Act through two separate programs:

- 1) **1) Public Water System Grants** are equal to 20-30 percent of annual amortization charges (principal and interest) of eligible costs for surface water treatment, regional water systems, and groundwater investigations pay for previously approved projects. The program has not been funded for new projects since 2013. Current budgeted amounts represent grant payments for previously approved projects.
- 2) **2) Water Supply Land Protection (WSLP) Grant Program**, created by the Legislature in 2000, provides municipalities and non-profit water suppliers the opportunity to purchase land or conservation easements. The legislature appropriated \$1.5 million per year in the first few years of the program, but has not appropriated any funds since 2008. When the program was funded, the average appropriation was \$768,521 per year. In 2011, the program received \$3 million from a NH Department of Transportation (DOT) mitigation fund associated with the widening of I-93. Under a Memorandum of Understanding (MOU) between NHDES and DOT, the funds are limited to the protection of water supply lands in the communities (Salem, Windham, Derry, Londonderry and Manchester) directly impacted by the I-93 project and land in the watershed of Lake Massabesic, which provides drinking water to the City of Manchester. The final grant was awarded in 2018.

**Landfill Closure Grants.** RSA 149-M:41-50 authorizes grants to reimburse municipalities 20 percent of eligible capital costs to encourage and assist in closing unlined solid waste landfills and certain municipal incinerators.

**Flood Control.** RSA 122:4 provides flood control reimbursement to those municipalities in interstate flood control compacts. Under the compacts, municipalities receive a payment in lieu of taxes (PILOT) for taxable land that was taken to help mitigate downstream flooding from both the Merrimack and Connecticut rivers. Up until 2012, the state reimbursed the full amount of the PILOT, even if the other states in the compacts (Massachusetts and Connecticut) did not make their payments under the compact terms. In 2012 and 2013, the state only paid its share (approximately 30%) of the PILOT when the other states did not make payments. However, in 2014 funding of \$542,672 was provided to compensate municipalities for the PILOT shortfall in 2012 and was paid to municipalities in 2015. Similarly, \$163,285 was appropriated in 2016 to partially compensate for the 2013 shortfall. Full funding of the PILOT was made from 2014 to 2021, and the state budget for 2022 and 2023 also included full PILOT funding, regardless of payments from other states.

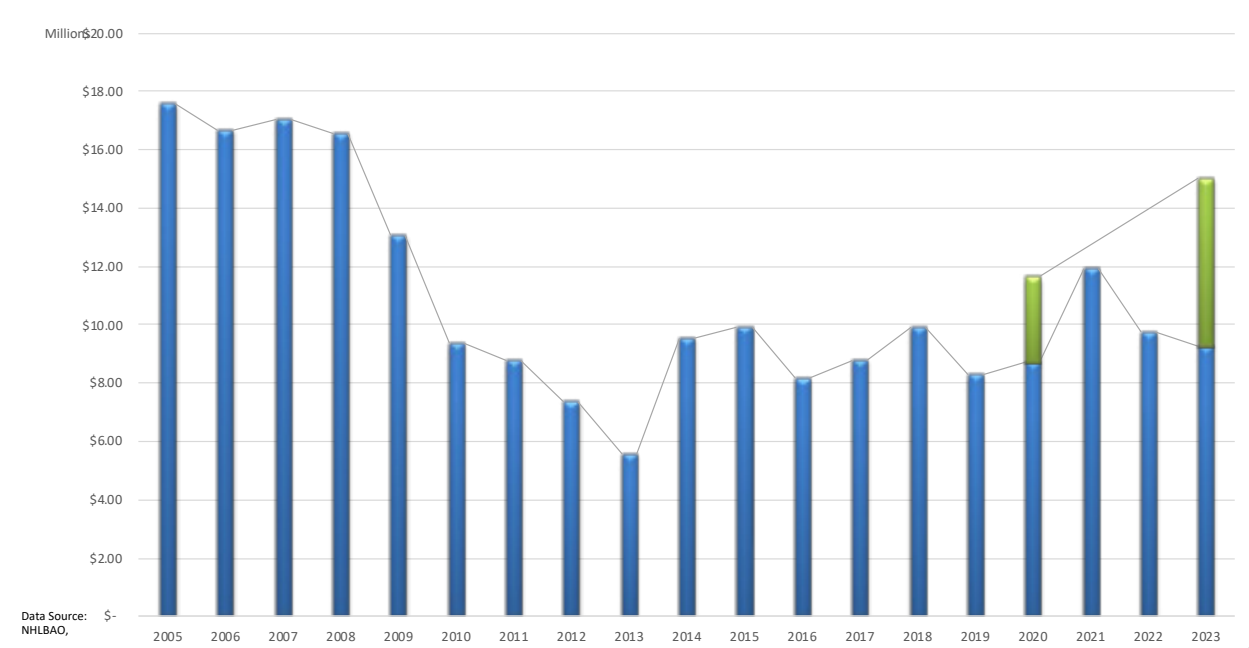
**NH Drinking Water and Groundwater Trust Fund.** Established in 2016, RSA 6-D, to provide for the protection, preservation and enhancement of the drinking water and groundwater resources of the state, this trust was initially funded with \$276 million from a 2016 lawsuit against Exxon-Mobil involving the gasoline additive MtBE. Authorized expenditures from the trust include competitive cost-sharing grants and low interest loans to municipalities and municipally-owned water utilities, with administration of the trust fund vested in an 18-member commission comprised of state and local officials, as well as business and public members.

The NH Drinking Water and Groundwater Trust Fund Commission reports it has awarded \$125 million in grants and loans for the period 2017-2021. Since a significant portion of these awards were for low

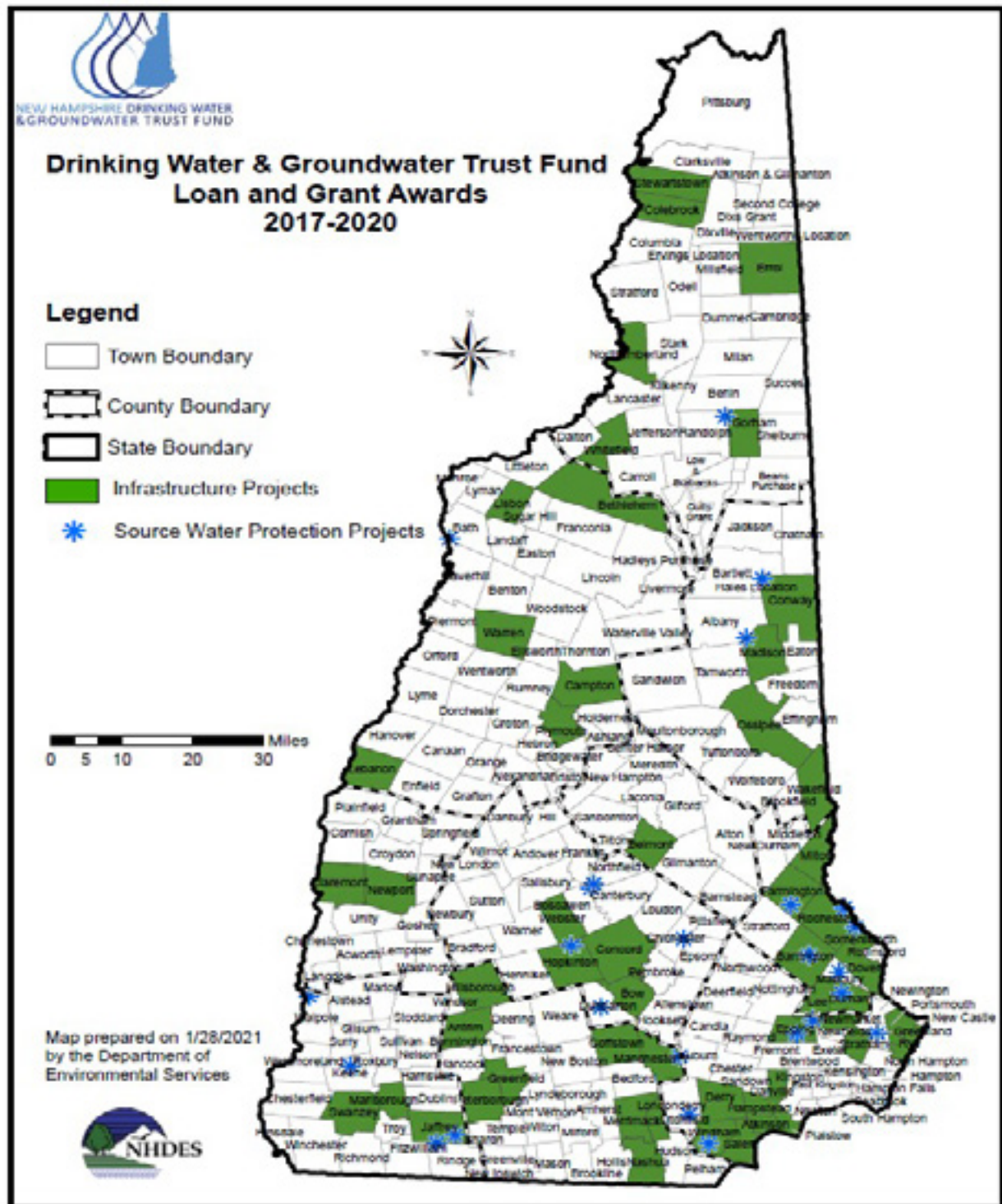


interest loans that will be paid back into the trust fund over time, it is planned that trust fund assets will be available to fund similar projects for at least the next two decades.

## STATE AID TO MUNICIPALITIES: ENVIRONMENTAL GRANTS



# DES STATE OF NH DRINKING WATER & GROUNDWATER TRUST FUND INFRASTRUCTURE CONSTRUCTION LOAN AND GRANT AWARDS 2017–2020



**PFAS Remediation Loan Fund.** Chapter 30, Laws of 2020, authorizes the state treasurer to borrow up to \$50 million for a 'PFAS Fund' (RSA 485-H) to be administered by NHDES and authorizes NHDES to provide low-interest loans, with the possibility of partial loan forgiveness, to assist certain public water systems with the cost of complying with state maximum contaminant levels (MCLs) for per and polyfluoroalkyl substances (PFAS) as established in RSA 485:16-e. In 2022, the legislature authorized an additional appropriation of \$25 million to the existing perfluorinated chemical (PFAS) remediation loan fund from state surplus.

# New Hampshire Retirement System

**History.** The New Hampshire Retirement System (NHRS) was established in 1967 to consolidate and replace four separate pension plan systems: the New Hampshire Teachers Retirement System, the New Hampshire State Employees Retirement System, the New Hampshire Policemen's Retirement System, and the New Hampshire Permanent Firemen's Retirement System. NHRS is a public employee retirement system that administers one cost-sharing, multiple-employer pension plan providing a defined benefit annuity based upon a statutory formula, disability, and survivor benefits, for all full-time state employees, public school teachers and administration, permanent police officers, and permanent firefighters. Full-time employees of political subdivisions (such as county, municipal or school district employees) are also eligible to become members of the NHRS if the local governing body elects to participate, which most have. NHRS also administers cost-sharing multiple-employer healthcare plans, known as Other Post-Employment Benefit (OPEB) plans, which provide a medical insurance subsidy to qualified retired members. As of June 30, 2022, NHRS reported approximately 48,500 active members and 41,000 benefit recipients representing more than 460 local government employers.

**Trends.** Funding for the NHRS comes from three sources: investment earnings, employee contributions, and employer contributions. Investment earnings fluctuate from year to year, with annual returns in the past 20 years reaching as high as 23% and as low as -18%. Over the long term, investment earnings provide anywhere from two thirds to three quarters of the funds needed to pay for pension benefits. For projection purposes, an "assumed rate" of investment return is adopted by the NHRS Board of Trustees. This assumed rate had been as high as 9.5% and was lowered to 8.5% in 2005, to 7.75% in 2011, to 7.25% in 2015, and then to the current rate of 6.75% in 2022. Lowering the assumed rate of future investment earnings resulted in higher employer contributions as explained below. In fiscal year end 2021, retirement system realized a 29.4% return on investments despite economic conditions, however NHRS reported a negative 6.1 percent return on investments in fiscal year 2022.

**Employee Contribution Rates.** The employee contribution rates are set by statute and were 5% of compensation for Group I (employees and teachers) and 9.3% of compensation for Group II (police and firefighters) until June 30, 2011. Legislation enacted in 2011 changed the employee contribution rates to 7% for employees and teachers, 11.55% for police and 11.8% for firefighters effective July 1, 2011.

**Employer Contribution Rates.** Employer rates are adjusted every two years based upon an actuarial valuation to ensure adequate funding for future pension liabilities. Through these biennial rate adjustments, employers not only contribute toward their current employees' retirement, but also bear the full financial burden of any funding shortfalls in the system, whether those shortfalls are the result of poor investment returns, insufficient funding in the past, losses from actuarial assumptions regarding member demographics (such as when employees will retire, their age at retirement, how long they will live after retirement, and their earnable compensation), or increases in liabilities from statutory changes to the plan design. As previously mentioned, lowering the assumed rate of future investment returns has a direct impact on future employer rates, since it is the employer rates that fluctuate biennially to ensure the system is adequately funded.

The following graph shows the 20-year history of annual employer and employee contributions along with the number of active employees participating in the system.

## EMPLOYER AND EMPLOYEE NHRS CONTRIBUTIONS AND ACTIVE MEMBERS



Note: Member contributions increased 84% in FY07 due primarily to voluntary purchases of nonqualified service.

**State Employer Contribution for Teachers, Police and Firefighters.** The State of New Hampshire had funded a portion of the normal retirement costs for teachers, police and firefighters, a practice that dated back to 1940 under the predecessor retirement systems. Since 1977, the state contribution had been set by statute at 35% of the cost, with municipalities, counties and school districts paying 65% of the cost for teachers, police and firefighters. (Municipalities, counties and schools paid 100% of the cost for all other employees enrolled in the NHRS.)

The state contribution rate was lowered to 30% in 2010, to 25% in 2011, to \$3.5 million in 2012 and then eliminated in 2013. This resulted in local governments paying 100% of the retirement costs for teachers, police and firefighters from 2013-2022. During the 2022 legislative session, the state allocated \$27.7 million for the employer share of the New Hampshire Retirement System (NHRS) contribution for Group I teachers and Group II police and fire employees. This represents a *one-time* payment by the state of 7.5 percent of the employer contribution costs for teachers, police, and firefighters in fiscal year 2023.



The significant increases in the rates from 2010 to 2015 are primarily the result of:

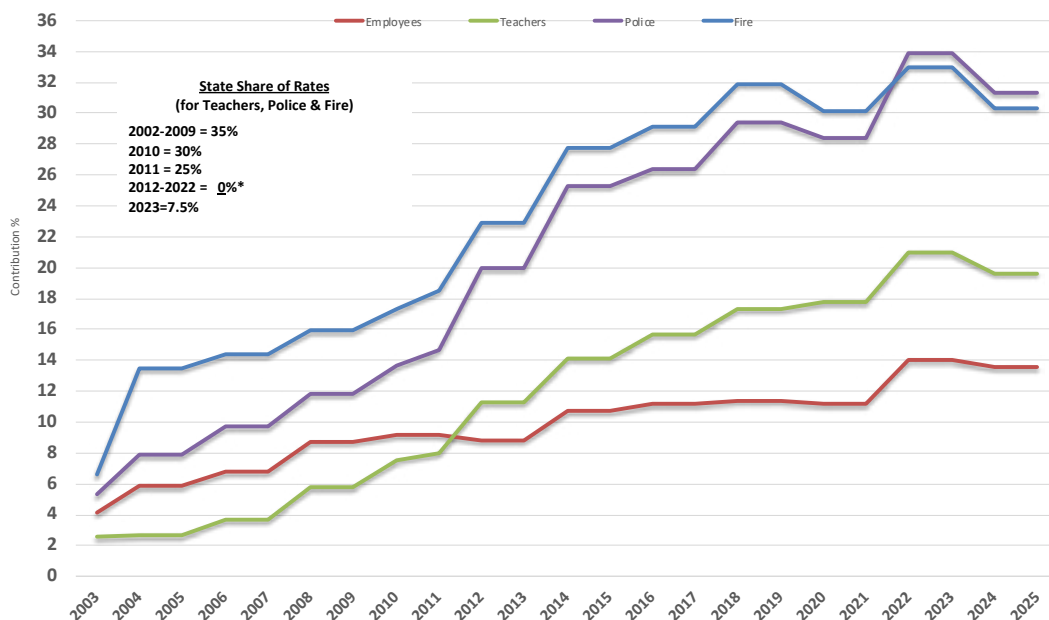
- elimination of the state contribution,
- reductions in the assumed rate of return, and
- investment losses from the 2008-2009 recession.

On July 1, 2021, employer contribution rates for fiscal years 2022-23 increased an aggregate 19.6% over the 2020-21 fiscal year biennium. The NHRS Board of Trustees certified these rates and noted the most significant drivers of this rate increase, in order of impact, were:

- the reduction of the assumed rate of return from 7.25% to 6.75%;
- the adoption of post-retirement mortality assumptions; and
- a reduction in the payroll growth factor.

In fiscal years 2024 and 2025, employer contribution rates for the four membership classifications will decrease from the current rates. According to the NHRS Board of Trustees the rate decrease, which varies between 3.75% and 8% depending on the member group, was largely the result of strong investment performance over the five-year period ending June 30, 2021. Current actuarial valuations estimate that the unfunded liability accounts for more than 70 percent of current employer rates.

## LOCAL EMPLOYER RATES (PER \$100 OF COMPENSATION)



**Funding Status.** A primary measure of the health of a public pension system is the funding ratio, which indicates the extent to which assets are available to cover current and future benefits. While a funding ratio of 100% or greater (meaning there are sufficient assets to fund all liabilities) is desirable, it is not a necessity since all benefits are not immediately due and payable but generally stretch over a 25- to 30-year horizon. Therefore, a more realistic benchmark is a funding ratio of 80%. As reported in the NHRS Actuarial Valuation Report as of June 30, 2021, the funded ratio for the pension plan (after reflecting the newly adopted actuarial assumptions) is 64.2%, with \$11.5 billion in assets and \$5.72 billion in unfunded actuarial accrued liabilities. Several factors have contributed over the years to this low funding ratio including:

- significant investment losses in 2008 and 2009;
- the practice of “gain-sharing” which diverted over \$900 million from the corpus of the pension trust to fund additional benefits such as cost-of-living adjustments and medical subsidies, (a practice which has been terminated);
- an actuarial valuation methodology prior to 2007 which masked the true financial condition of the system, resulting in artificially low employer rates during the years it was in effect; and
- legislative benefit changes in 2019. House Bill 616 was enacted granting a one-time 1.5% COLA on the first \$50,000 of an annual pension benefit to members (or beneficiaries receiving survivorship benefit) who retired on or before July 1, 2014. The COLA took effect on the retired member’s first anniversary date of retirement occurring after July 1, 2020. The impact of this change was an increase in actuarial accrued liabilities of approximately \$65 million, a decrease in the funded status of 0.2%, and an increase in the employer contribution rate of 0.19% of pay for political subdivisions (varying by employee classification)

**Since 2010, many statutory changes to the NHRS laws have occurred to mitigate these unsustainable rate increases to employers. The more significant statutory changes included:**

- change in the actuarial methodology to shed a brighter light on the true financial status of the system;
- elimination of the “gain-sharing” provision;
- increases in the employee contribution rates;
- increases in the retirement age and years of service;
- repeal of the automatic medical subsidy escalator;
- changes to the definition of “earnable compensation” to limit or eliminate provisions that allowed for pension spiking; and
- changes in the composition and qualifications of NHRS Board members and establishment of an independent investment committee.

*It is noteworthy, that since 2007 the state legislature has made over 100 changes to the statute that governs the retirement system (RSA 100-A).*

Looking beyond these so-called “sins of the past” and despite increases in annual employer contributions from \$88.5 million in 2003 to \$507.3 million in 2021, the retirement system has implemented several initiatives to address the unfunded pension and OPEB liabilities and the unsustainable increases in employer rates. By effectively managing operations, maximizing yield on investments, and working to implement legislative changes that will preserve and stabilize NHRS benefits to members and beneficiaries, the retirement system will remain, solvent and fiscally healthy for the foreseeable future despite fluctuations in investment earnings due to current economic conditions.

The graph below illustrates future funding progression for paying down the unfunded liabilities (UAAL).

## FUNDING PROGRESS, 2020–2041



# APPENDIX A—LBA SCHEDULE OF STATE AID TO CITIES, TOWNS, AND SCHOOL DISTRICTS

AID BY CATEGORY		FY 2013	FY 2014	FY 2015	FY 2016
		Actual	Actual	Actual	Actual
<b>EDUCATION</b>					
1	Adequate Education Aid	941,911,353	929,874,227	926,031,426	933,258,763
2	Building Aid	47,076,655	44,178,887	43,286,408	40,774,253
3	Court Ordered Placements	1,333,893	1,168,277	1,147,392	1,139,319
4	Dropout Prevention	711,635	373,782	820,126	350,400
5	Kindergarten Aid	1,776,750	-	-	-
6	Kindergarten Construction	798,100	-	841,000	-
7	Retirement Normal Contribution - Teachers	-	-	-	-
8	School Breakfast	105,289	122,053	102,532	108,380
9	School Lunch	832,003	832,003	832,003	832,003
10	Special Education	21,590,533	22,684,440	21,757,160	22,379,896
11	Tuition & Transportation	6,900,000	7,422,619	7,027,000	7,400,000
12	Public School Infrastructure Fund	-	-	-	-
	<b>Education Total</b>	<b>1,023,036,211</b>	<b>1,006,656,288</b>	<b>1,001,845,047</b>	<b>1,006,243,014</b>
<b>ENVIRONMENTAL</b>					
13	Flood Control	221,952	787,898	1,330,570	811,407
14	Landfill Closure Grants	899,812	1,080,206	886,850	792,116
15	Public Water System Grants	1,131,619	1,170,678	1,073,438	876,821
16	State Aid Grants - Pollution Control	3,327,666	6,519,872	6,610,139	5,711,222
	<b>Environmental Total</b>	<b>5,581,049</b>	<b>9,558,655</b>	<b>9,900,997</b>	<b>8,191,566</b>
<b>OTHER GEN. FUNDS</b>					
17	Meals & Rooms Distribution	58,805,057	58,805,057	63,805,057	63,805,057
18	Railroad Tax - RSA 82-31	36,671	35,822	60,037	132,187
19	Railroad Tax - RSA 228-69	51,849	55,032	58,931	63,693
20	Municipal Aid	-	-	-	-
	Retirement Normal Contribution	-	-	-	-
	less: Teacher Normal Contribution	-	-	-	-
21	Net Police & Fire Normal Contribution	-	-	-	-
	<b>Other General Funds Total</b>	<b>58,893,577</b>	<b>58,895,911</b>	<b>63,924,025</b>	<b>64,000,938</b>
<b>HIGHWAY FUNDS</b>					
22	Highway Block Grants	29,918,270	30,233,035	30,743,994	34,843,581
23	Highway Construction Aid	2,140,210	1,298,657	2,006,027	1,424,102
24	Municipal Bridge Aid	7,428,375	5,637,087	10,361,515	9,953,415
	<b>Highway Funds Total</b>	<b>39,486,855</b>	<b>37,168,779</b>	<b>43,111,536</b>	<b>46,221,098</b>
<b>GRAND TOTAL</b>		<b>1,126,997,691</b>	<b>1,112,279,633</b>	<b>1,118,781,605</b>	<b>1,124,656,616</b>

Source: LBA 10/01/22

FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Actual	Actual	Actual	Actual	Actual	Actual	Budget
936,504,198	926,382,935	915,723,893	962,496,843	1,012,578,424	988,106,670	978,572,145
37,098,071	36,530,219	33,695,932	37,294,872	29,394,930	37,363,272	39,960,075
2,563,504	2,361,189	2,839,879	3,281,971	4,052,835	4,286,191	2,000,000
674,317	714,631	675,132	325,322	203,968	-	-
-	-	10,534,441	178,501	-	155,253	684,786
-	-	-	-	-	-	-
-	-	-	-	-	-	18,140,000
102,339	105,682	109,848	176,927	140,409	191,226	496,500
820,847	832,003	832,003	832,003	831,271	832,023	832,003
22,205,864	21,911,361	22,317,665	30,800,000	29,626,759	31,797,250	33,917,000
7,400,000	7,546,000	7,712,000	9,000,000	9,000,000	9,000,000	9,000,000
-	453,711	11,849,464	3,952,325	10,773,964	-	1,000,000
1,007,369,140	996,837,731	1,006,290,256	1,048,338,763	1,096,602,561	1,071,731,885	1,084,602,509
811,407	844,871	844,871	789,328	745,437	745,437	887,000
776,245	658,248	476,036	388,936	409,513	375,092	368,194
797,661	791,421	701,865	651,960	589,440	550,334	545,225
6,415,756	7,598,938	6,257,397	6,876,737	10,210,766	8,060,441	13,215,749
8,801,070	9,893,479	8,280,169	8,706,960	11,955,155	9,731,303	15,016,168
68,805,057	68,805,057	68,805,057	68,805,057	68,805,057	100,143,752	95,610,000
60,803	61,392	84,793	88,370	100,461	82,715	88,370
72,837	67,680	71,635	75,993	54,074	86,739	80,000
-	-	-	20,000,000	20,000,000	-	-
-	-	-	-	-	-	27,150,000
-	-	-	-	-	-	18,140,000
-	-	-	-	-	-	9,010,000
68,938,697	68,934,129	68,961,486	88,969,420	88,959,592	100,313,206	104,788,370
34,931,513	65,839,183	36,287,968	36,911,575	35,009,311	34,741,082	65,378,500
368,872	331,892	2,853,055	618,339	1,077,268	787,900	3,250,000
5,340,013	5,614,946	8,896,334	5,247,887	10,847,985	10,034,391	42,000,000
40,640,398	71,786,020	48,037,357	42,777,801	46,934,564	45,563,373	110,628,500
1,125,749,304	1,147,451,359	1,131,569,268	1,188,792,945	1,244,451,872	1,227,339,768	1,315,035,547

Questions regarding this report may be directed to NHMA at 603.224.7447  
or [governmentaffairs@nhmunicipal.org](mailto:governmentaffairs@nhmunicipal.org).





## State Aid to Cities, Towns, and School Districts



