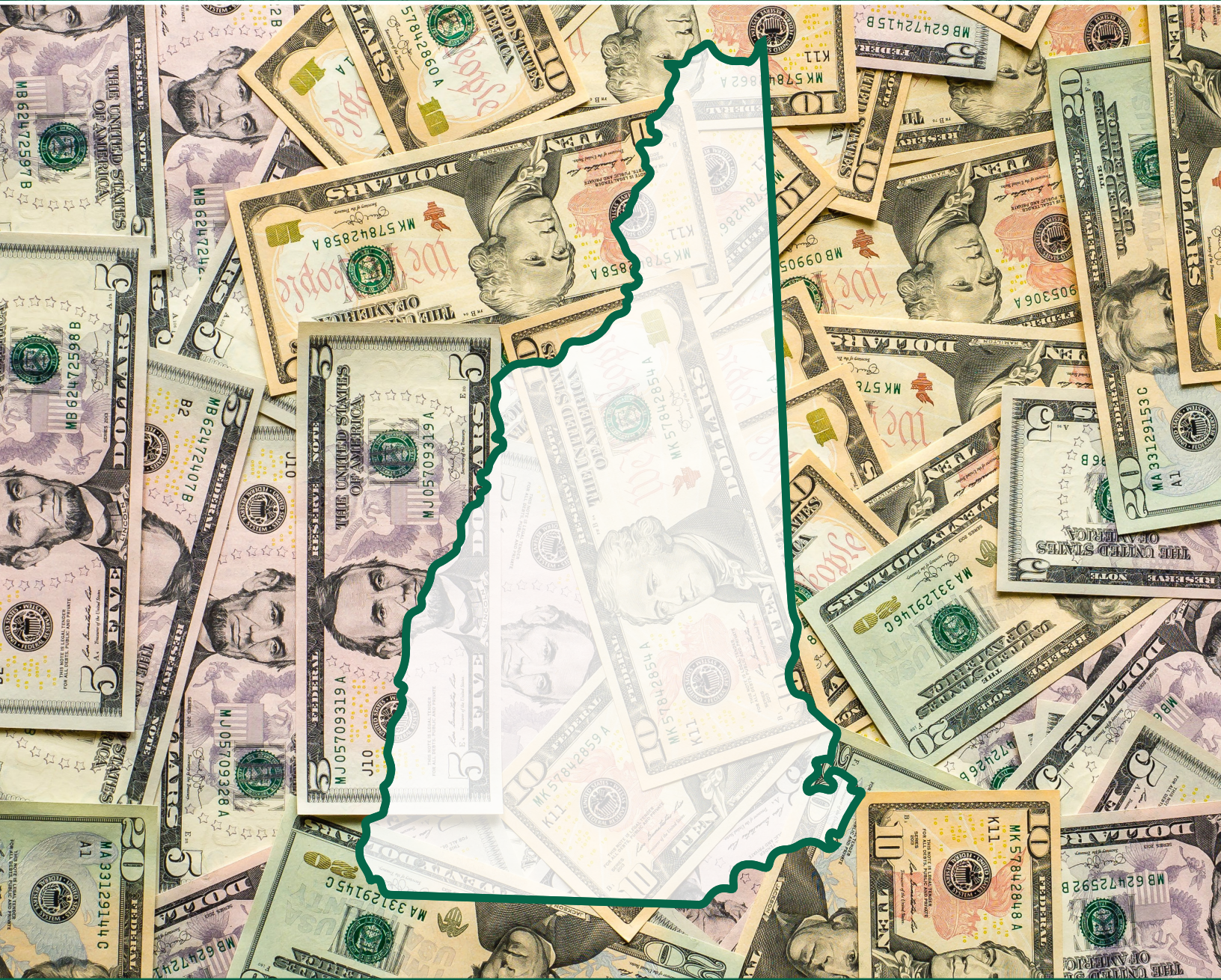




Municipal State Aid and Revenue Sharing



History & Trends

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MUNICIPAL STATE AID AND REVENUE SHARING

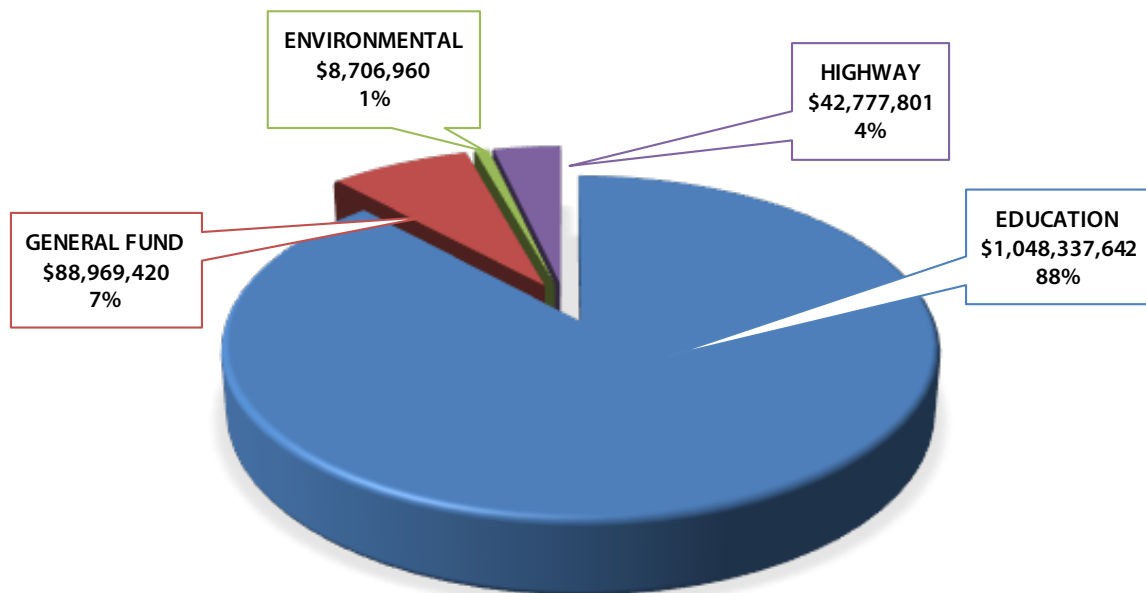
State Budget Decisions Affect Local Property Taxes

*Prepared by the New Hampshire Municipal Association
October, 2020*

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.

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 2020 versus the funding provided to cities and towns for municipal needs.

2020 STATE AID TO SCHOOL DISTRICTS vs. MUNICIPALITIES



Data Source: NHLBAO, 10/20/20

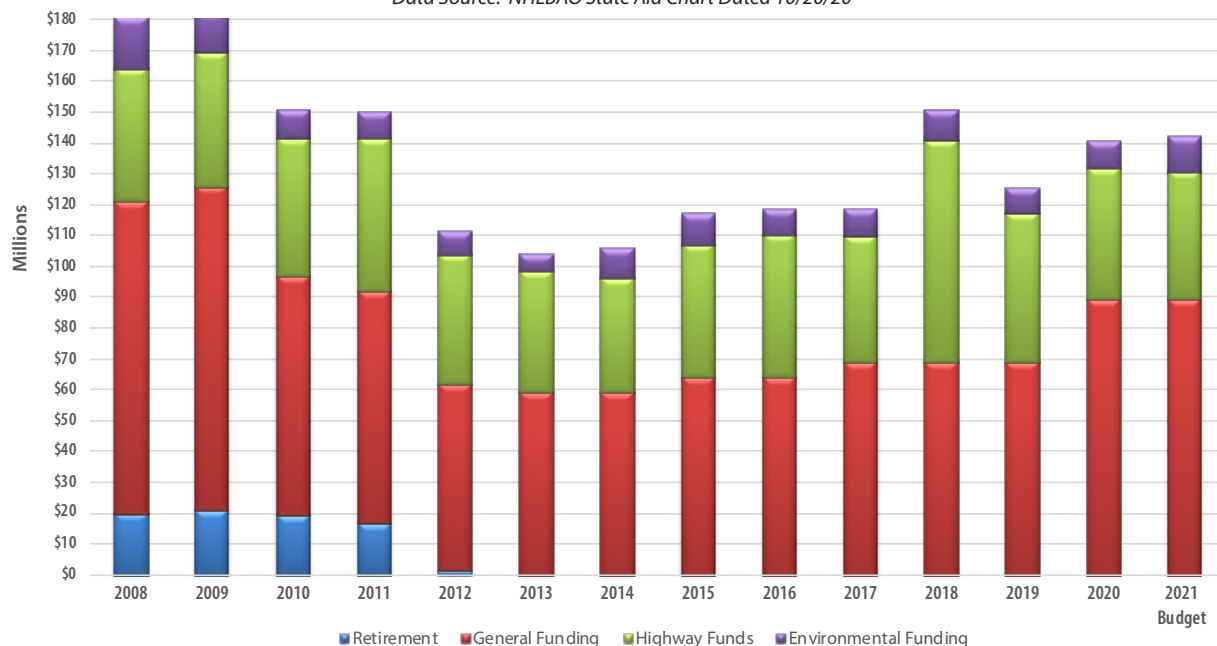
An excerpt of the state aid schedule prepared by the New Hampshire Legislative Budget Assistant's Office (NHLBAO) is presented on page 22, and shows the three major categories of state revenue sharing and aid to cities and towns:

- General Funds:** Meals and Rooms Tax Revenue Distribution
State Revenue Sharing (Suspended 2010-2021)
State Normal Retirement Contribution (Repealed 2013)
Railroad Tax Distribution
State Municipal Aid Grants (One-Time Surplus: Added 2020-2021)
- 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

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. Additionally, the use of one-time revenues or surplus accounts for the addition of \$20 million 'state municipal aid grants' in fiscal years 2020 and 2021.

STATE AID TO MUNICIPALITIES: 2008–2021 (Excluding Education)

Data Source: NHLBAO State Aid Chart Dated 10/20/20



General Funding: Meals & Rooms (catch-up formula suspended FY10-14,16,18-21), Revenue Sharing (suspended FY10-21),
Municipal Aid One-Time Surplus (added FY20-21),
State Retirement Contributions (Reduced FY10, Discontinued in 2013)
Environmental Funding: Excludes Grants from the Drinking Water and Groundwater Trust Fund

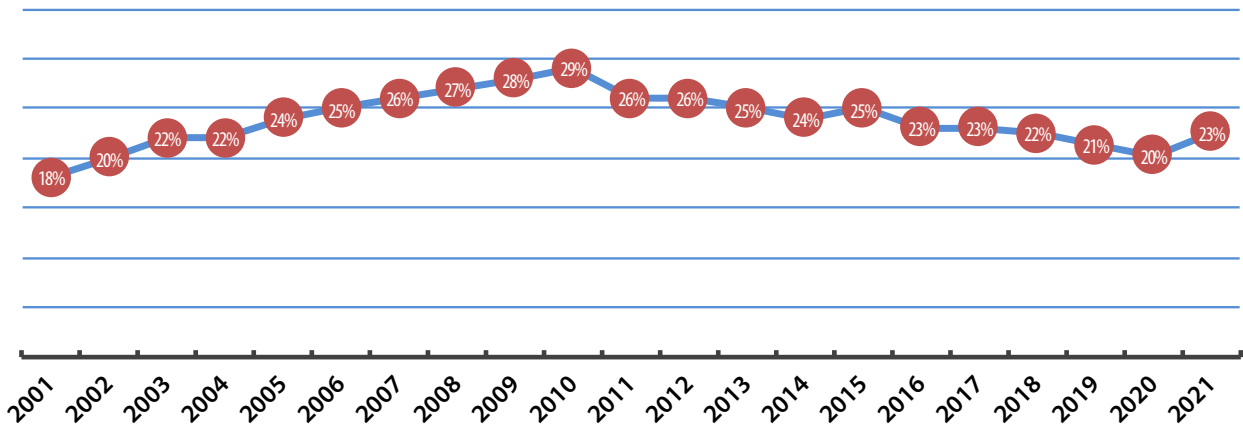
Meals and Rooms Tax Distribution

History. When the meals and rooms tax was enacted in 1967, the intent was to share the revenue with municipalities, with the state retaining 60% and municipalities receiving 40% annually. The legislature decreased the municipal share several times (in 1977 and 1981) virtually freezing the funding below the 1976 level. It was not until 1993 that the meals and rooms tax statute was amended to provide an annual catch-up formula to reach the statutory 60/40 split. The formula provides that each year, the amount to be distributed to municipalities equal the previous year’s distribution amount, plus 75% of the year-over-year increase in revenue from the meals and rooms tax, not to exceed \$5 million.

The municipal share is distributed to cities and towns based on annual population estimates provided by the New Hampshire Office of Strategic Initiatives. In 1999 the Legislature added rental car receipts to the Meals and “Rental” tax, and 100% of these revenues are paid into the education trust fund.

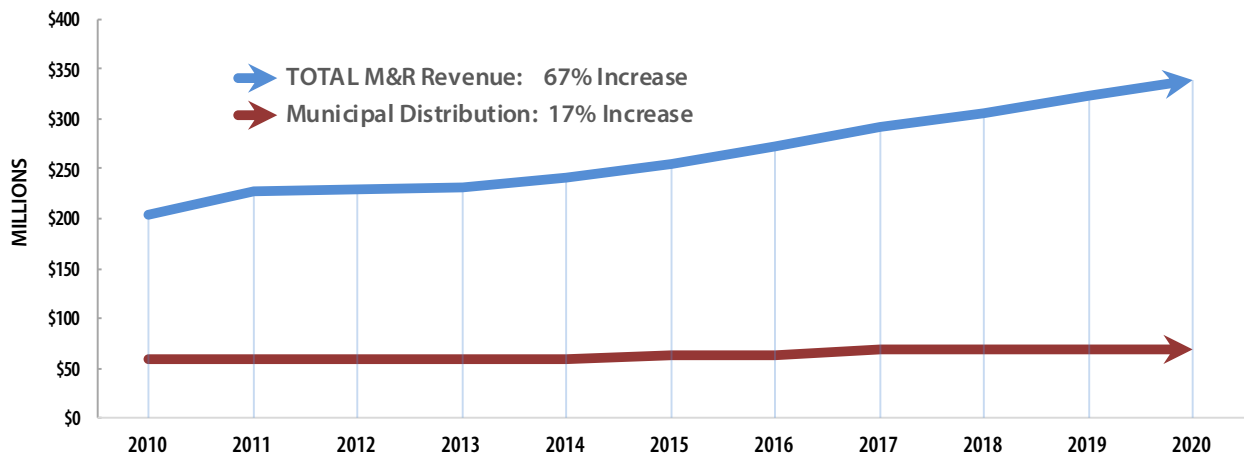
Trends. In 2001, the state/municipal share was 82%/18%. As the meals and rooms tax revenues gradually increased, so did the municipal share of those revenues due to the catch-up formula described above. In fact, in 2010 the state/municipal apportionment reached 71%/29%. However, the catch-up formula 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, which is anticipated to remain level at the 2017, \$68.8 million distribution amount, represents a 23% share of the total revenue in 2021.

MEALS & ROOMS TAX: MUNICIPAL PERCENTAGE



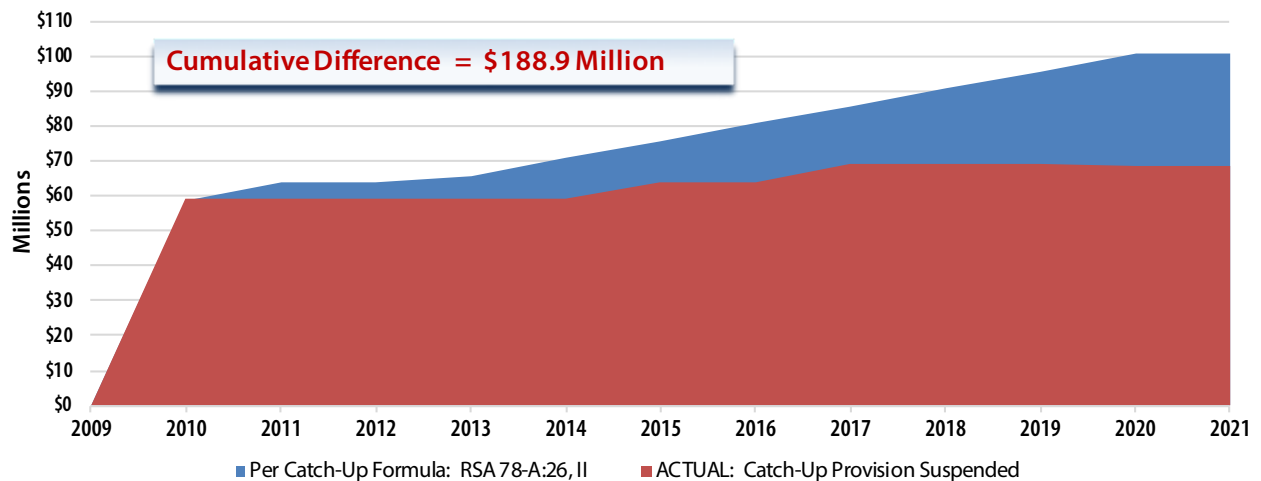
As illustrated in the following graph, since the 2010 distribution, the meals and rooms tax revenues grew by 67% from approximately \$204 million in 2010 to just over \$340 million, which was the basis of the 2020 distribution (pre-pandemic). During this same period, the municipal share increased by only 17% due to the suspension of the catch-up formula for 10 of the past 12 years.

MEALS & ROOMS TAX TOTAL REVENUE VS. MUNICIPAL DISTRIBUTION 2010–2020

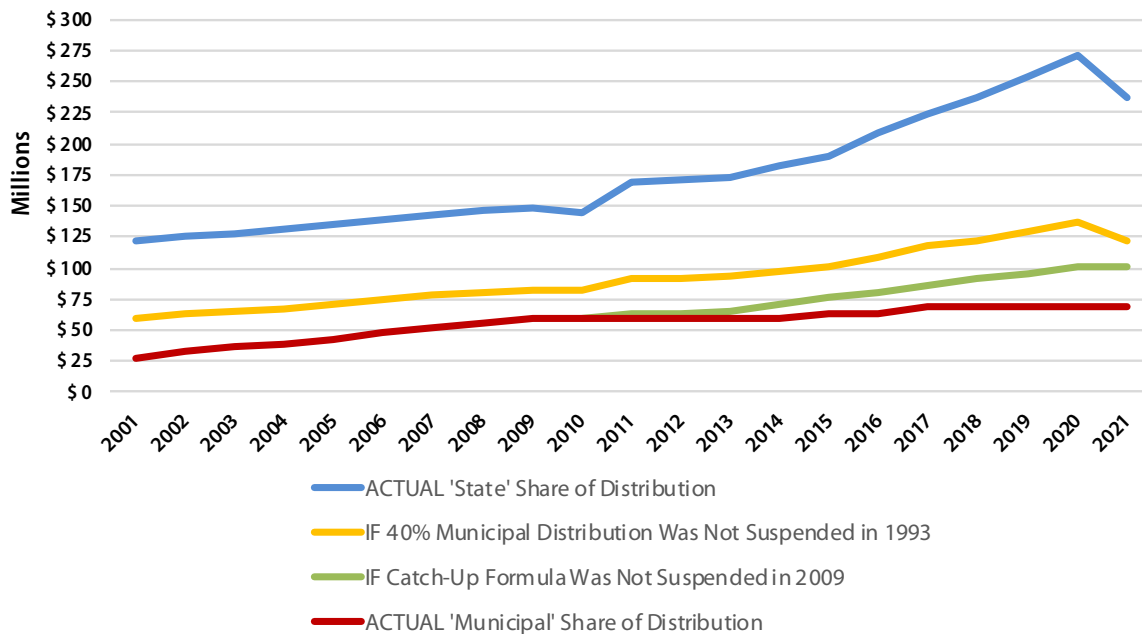


Had the catch-up formula not been suspended for 10 of the past 12 years, the state fiscal year 2021 distribution to cities and towns would have been approximately \$101 million, or 33% of the meals and rooms tax revenues received (\$305 million unaudited), rather than \$68.8 million (23%). Cumulatively, as illustrated below, the suspension of the catch-up formula resulted in a loss to municipalities of approximately \$189 million from fiscal years 2010-2021.

MEALS & ROOMS TAX DISTRIBUTION TO MUNICIPALITIES



DISTRIBUTION HISTORY: MEALS & ROOMS REVENUE 2001 to 2021



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.

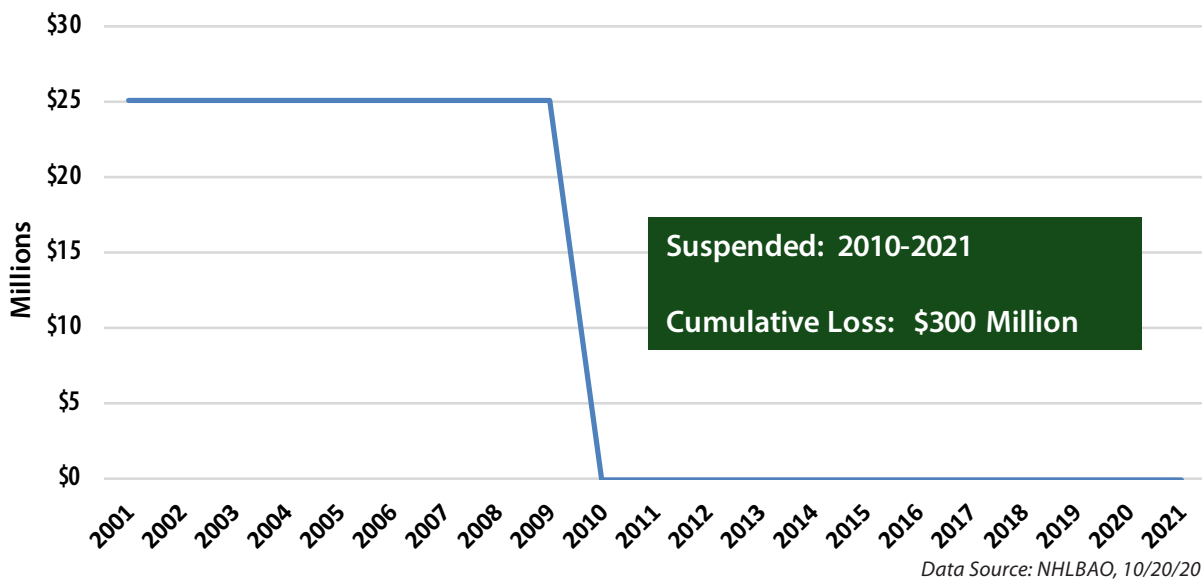
On March 31, 1970, in testimony on House Bill 1, then New Hampshire Attorney General Warren Rudman responded to concerns that future legislators may choose not to honor this commitment to municipalities to fund revenue sharing, stating:

...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 \$300 million cumulatively from fiscal year 2010-2021. 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)



Highway Block Grants

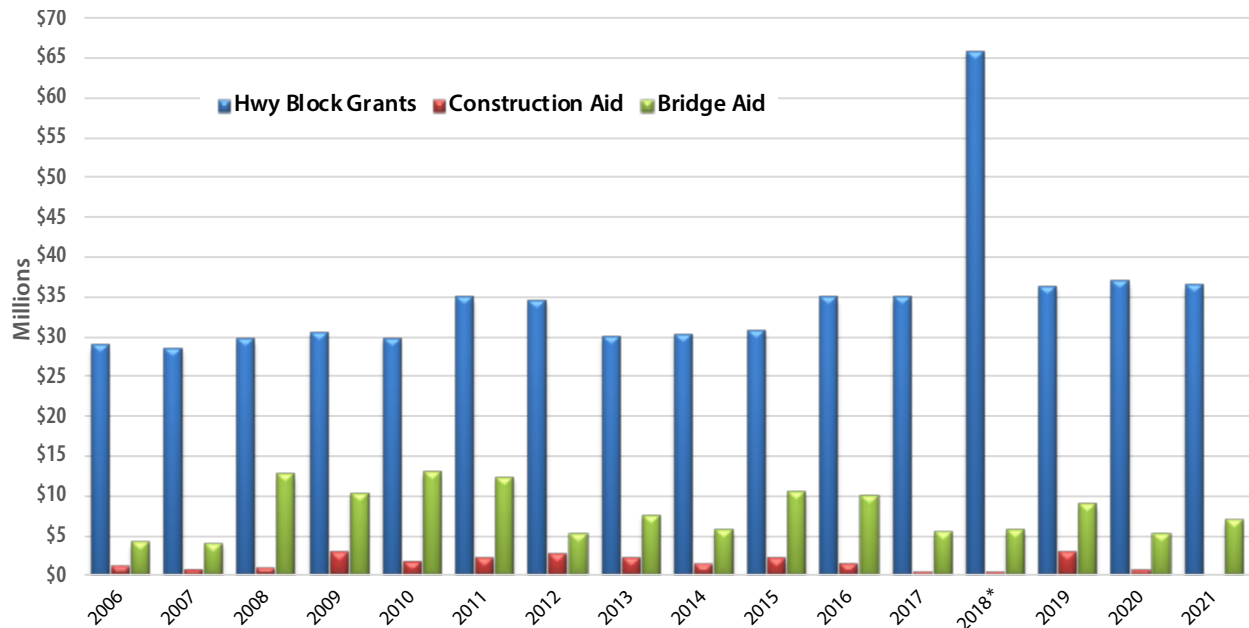
History. Twelve percent (12%) of the total road toll (gas tax) and state motor vehicle fees revenue collected in the preceding state fiscal year are distributed to municipalities through a local highway aid formula. This money comes from the state highway fund, not the state general fund, and provides 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.

Following a principle of “using one-time revenue for one-time expenses,” in 2017 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 accounts for the significant increase that year in the following graph. In fiscal year 2019, four municipalities received a total of \$2.8M in state construction aid (totaling 2/3 of project cost) pursuant to RSA 235:15.

HIGHWAY FUNDING



Data Source: NHLBAO, 10/20/20

*2018 Includes \$30M, one-time surplus (CH227, Laws of 2018)

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, 2019, there were 243 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 20, 2020:

New Hampshire Department of Transportation 2019 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			

*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 2016-2017 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. 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. 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 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 this 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 2019, \$3,652,347 and \$3,781,024 was appropriated for 2020 and 2021, respectively, which match the total fiscal year 2020 and 2021 estimated grant amortization payment amounts reported by NHDES for 70 projects comprising the 'Current Estimate of Need for Wastewater State Aid Grant Projects', revised 3/25/19. This list represented all projects expected to have a required substantial completion date of December 31, 2019. As of publication time, all but 6 of the 70 projects have been submitted to Governor & Executive Council and approved for grant payments. Also, 5 additional projects which met the December 31, 2019 substantial completion date have also not been submitted to Governor & Executive Council. Chapter 346:86, Laws of 2019 provides that no state aid grants shall be made for any projects under **RSA 486**, **RSA 486-A**, or **RSA 149-M** that have not achieved substantial completion by December 31, 2019.

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) **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) **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.

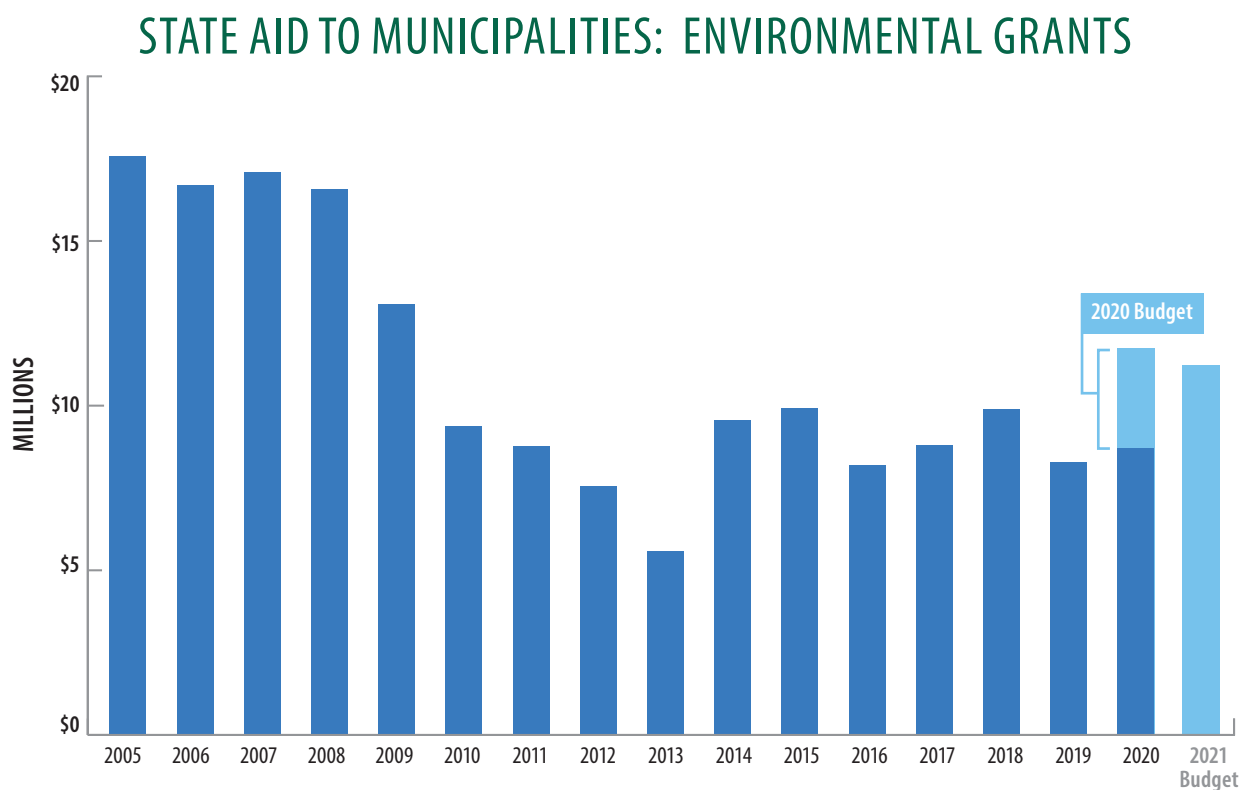
Chapter 346:86, Laws of 2019 provides that no state aid grants shall be made for any projects under **RSA 486**, **RSA 486-A**, or **RSA 149-M** that have not achieved substantial completion by December 31, 2019.

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. Chapter 346:86, Laws of 2019 provides that no state aid grants shall be made for any projects under **RSA 486**, **RSA 486-A**, or **RSA 149-M** that have not achieved substantial completion by December 31, 2019.

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 2019, and the state budget for 2020 and 2021 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 \$112 million in grants and loans for the period 2017-2019. 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.



Data Source: NHLBAO, 10/10/20



NEW HAMPSHIRE DRINKING WATER
& GROUNDWATER TRUST FUND

Drinking Water & Groundwater Trust Fund Infrastructure Construction Loan and Grant Awards 2017-2019

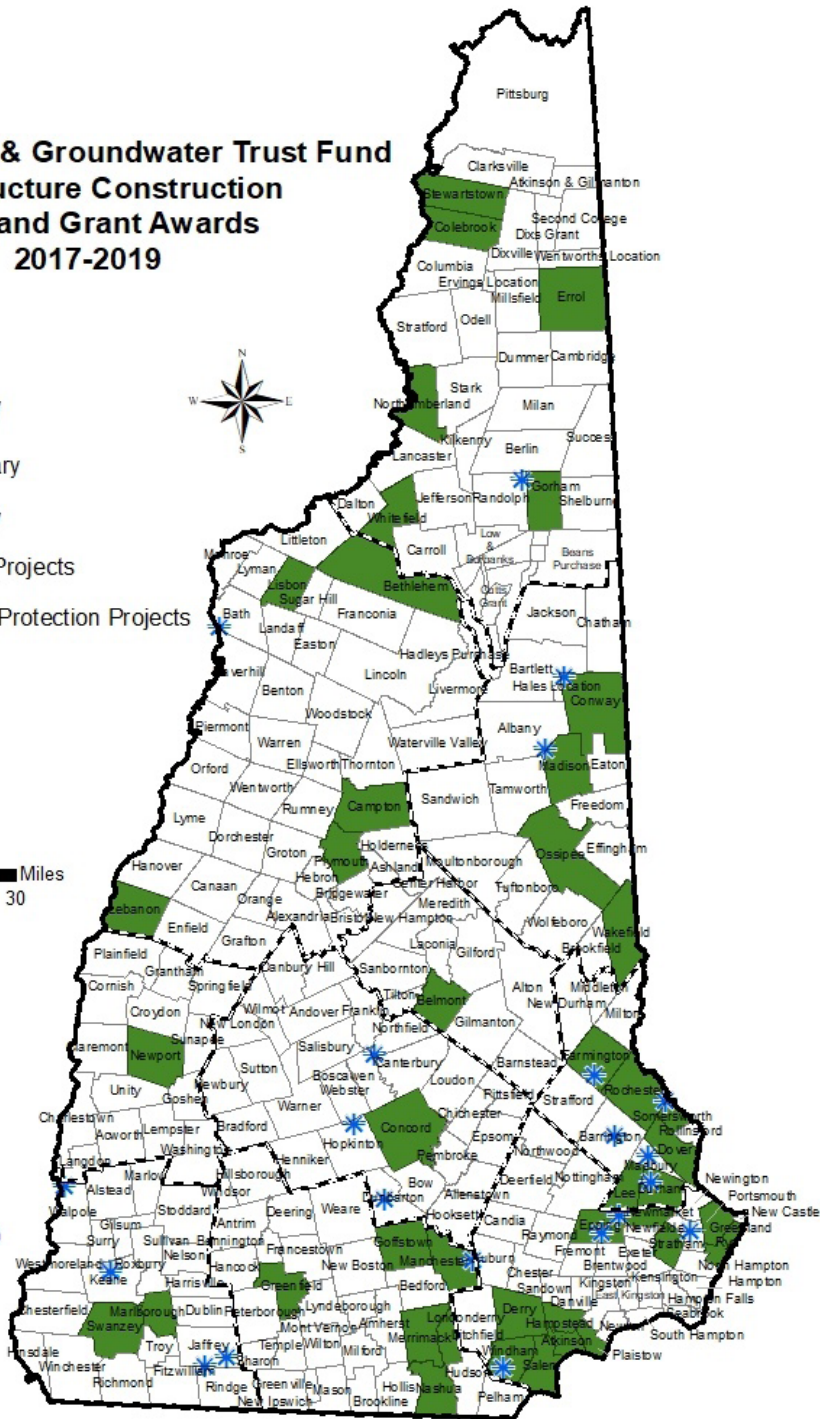
Legend

- Town Boundary
- County Boundary
- State Boundary
- Infrastructure Projects
- Source Water Protection Projects



0 5 10 20 30 Miles

Map prepared on 1/6/2020
by the Department of
Environmental Services



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.

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, 2019, there were 48,288 active members of the NHRS and 38,352 retired members (including beneficiaries).

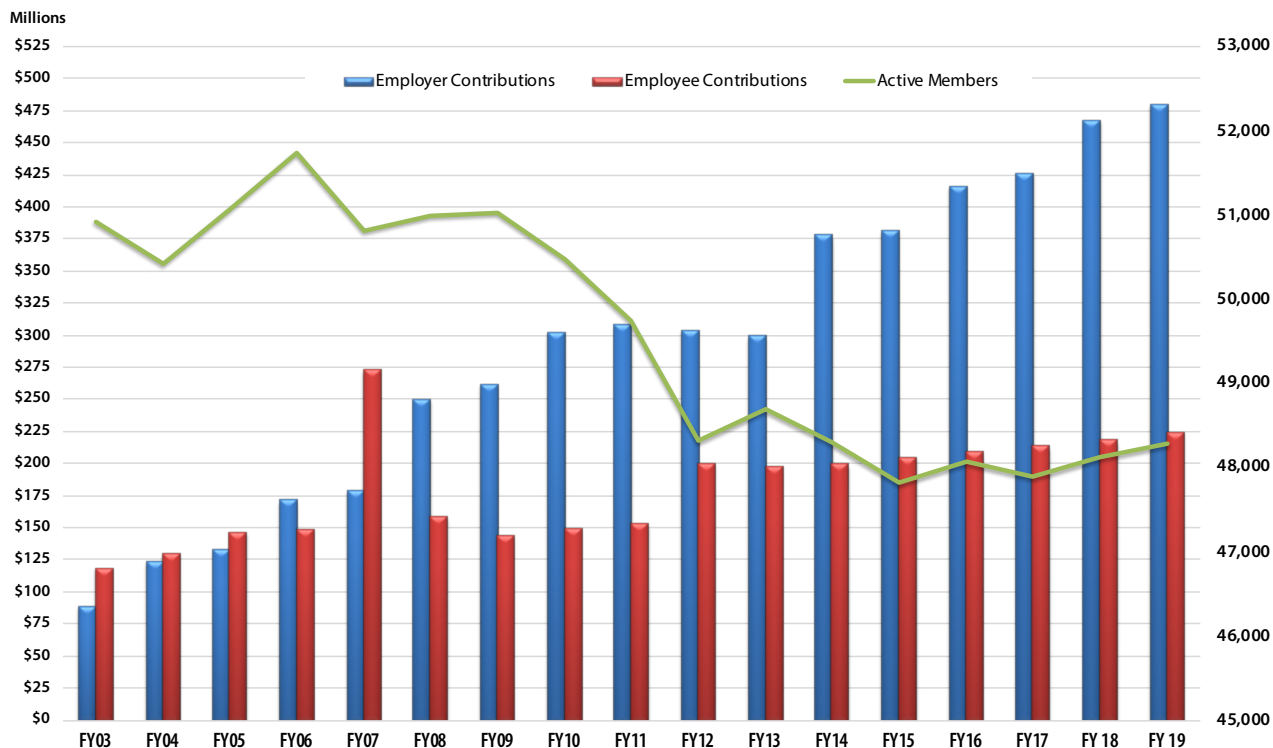
Trends. Funding for the NHRS comes from three sources: investment earnings, employee contributions, and employer contributions. Investment earnings fluctuate from year to year, with annual returns in the past 20 years reaching as high as 23% and as low as -18%. Over the long term, investment earnings 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 2020. Lowering the assumed rate of future investment earnings results in higher employer contributions as explained below.

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 17-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.)

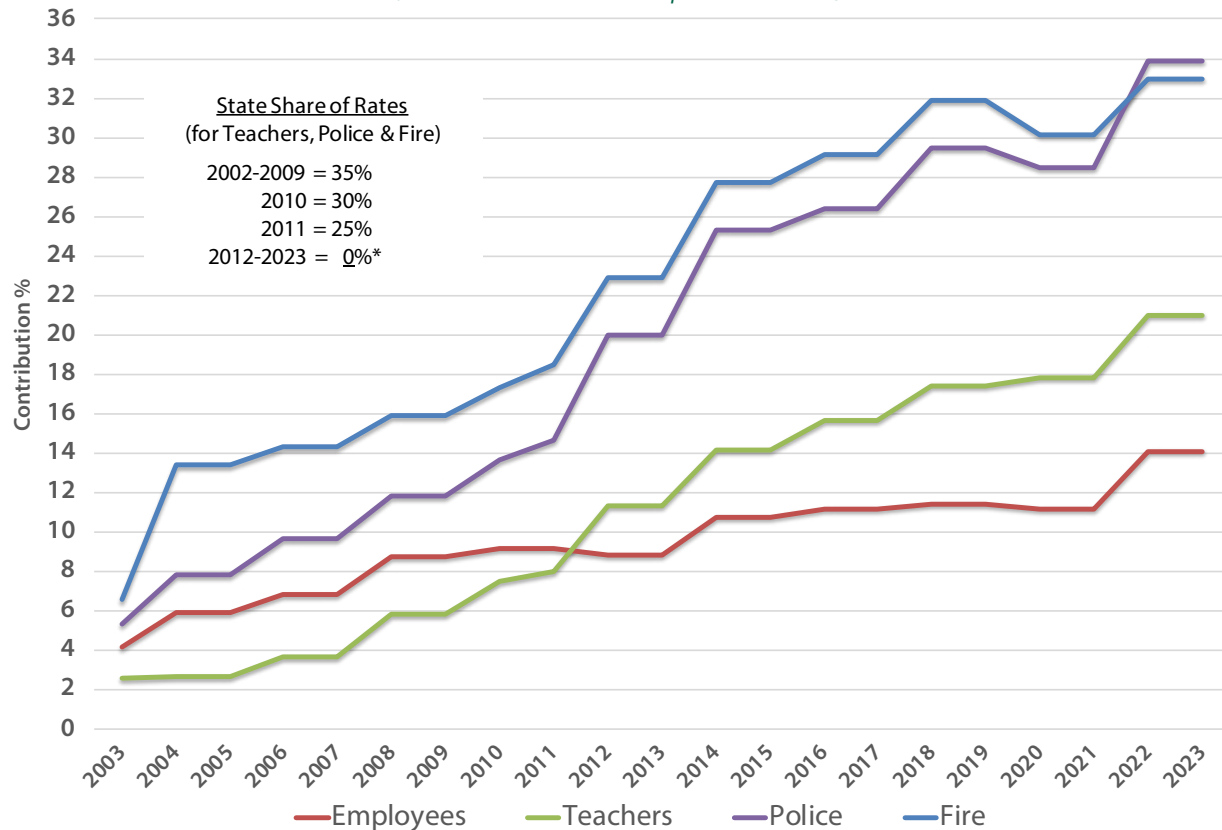
The state contribution rate was lowered to 30% in 2010, to 25% in 2011, to \$3.5 million in 2012 and then eliminated in 2013. This resulted in local governments paying 100% of the retirement costs for teachers, police and firefighters in 2013 and beyond. The following graph illustrates the local government employer contribution rates for every \$100 of compensation from 2002 through 2021.

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 will increase an aggregate 19.6% over the 2020-21 fiscal year biennium. The NHRS Board of Trustees certified these rates on September 8, 2020, and noted the most significant drivers of this rate increase, in order of impact, were: 1) the reduction of the assumed rate of return from 7.25% to 6.75%; 2) the adoption of post-retirement mortality assumptions; and 3) a reduction in the payroll growth factor.

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, 2019, the funded ratio for the pension plan (after reflecting the newly adopted actuarial assumptions) is 60.8%, with \$9.1 billion in assets and \$5.892 billion in unfunded actuarial accrued liabilities.

Several factors have contributed over the years to this low funding ratio including:

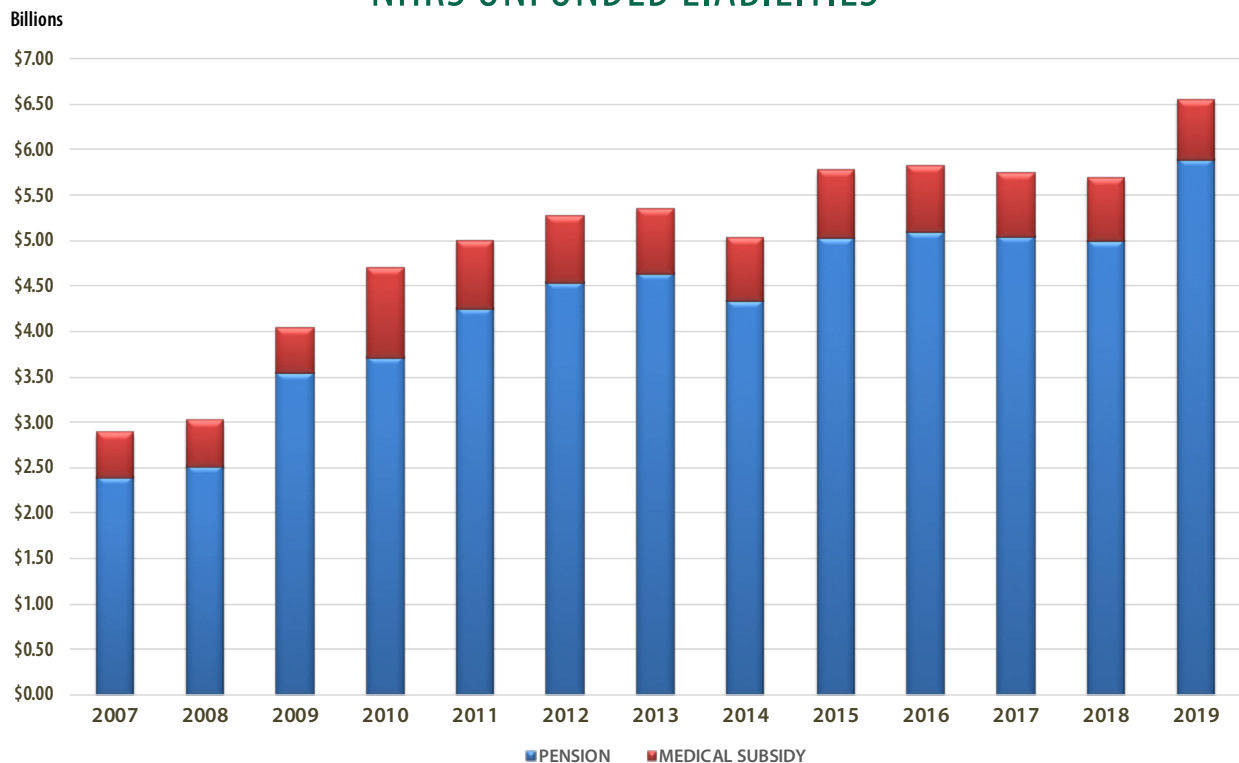
- significant investment losses in 2008 and 2009;
- the practice of “gain-sharing” which diverted over \$900 million from the corpus of the pension trust to fund additional benefits such as cost-of-living adjustments and medical subsidies, (a practice which has been terminated);
- an actuarial valuation 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 takes 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).

Regardless of these so-called “sins of the past” and despite increases in annual employer contributions from \$88 million in 2003 to \$479.9 million in 2019, the unfunded pension and OPEB liabilities continued to grow, resulting in significant biennial increases in employer rates. As of June 30, 2019, the unfunded liability for the pension plan was \$5.892 billion, with another \$659 million for the medical subsidy, and accounted for approximately 76% of the required local employer contributions. 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.

NHRS UNFUNDED LIABILITIES



Source: FY 2007-2019 NHRS Actuarial Valuations and Annual Reports

The following opinion piece appeared in several New Hampshire newspapers in September 2018.

The financial impacts of the COVID-19 pandemic may well rival those of the 2008 Great Recession. The suggestions made by Scott Myers two years ago remain relevant as we move into the next state biennium budget process and seek to prevent even greater property tax increases.

A Clear Way to Provide Municipal Property Tax Relief

By Scott Myers

As we move forward to the general election, we must remember that state leaders can provide municipal property tax relief through their work on the next state biennium budget, and I am asking that they make municipal property tax relief a priority.

Local officials and others are well aware of the state's approach in being fiscally conservative and cautious with revenue projections and spending. The same budgetary challenges are also found at the municipal level as community leaders struggle to find ways to provide needed services and at the same time try not to overburden residents with property tax increases.

State leaders are to be credited over the past several years for looking to live within our means and not always raising fees and taxes. They have also replenished the state's "rainy day fund" with year-end surpluses and distributed one-time revenue to cities and towns for road improvement projects.

While the one-time distribution of road funds was greatly appreciated, what if there was an opportunity for the state to provide ongoing property tax relief at the local level on a predictable, sustainable basis while not having to raise a fee or implement a new tax? At this point I'm sure you're saying that this must be smoke and mirrors or some kind of gimmick, but it's not. In fact, the mechanism is already in place in state law: It is the Meals and Rooms Tax distribution.

When the Meals and Rooms Tax was first enacted by the state in 1967, the policy was to share the revenue with municipalities, with the state retaining 60 percent and municipalities receiving 40 percent. Over many decades, legislative changes reduced the municipal share so that the dollar amount being distributed locally has never reached the 40 percent level. I am requesting that state officials take the necessary incremental steps to restore the municipal distribution to the intended level and without any risk to the state budget.

The Meals and Rooms Tax is a strong source of revenue for the state. In 1993 the Meals and Rooms statute was amended to provide a municipal "catch-up" formula where 75 percent of the year-over-year increase – but not more than \$5 million – is added to the prior year municipal share in order to work toward the 60/40 split. This provided a good remedy as the additional funds were to be distributed only if revenues increased. It worked for the municipalities and protected the state.

In 2001, the state/municipal share was at 82 percent/18 percent, nowhere near the intended 60/40 split. As Meals and Rooms Tax revenue increased over that decade, the catch-up formula resulted in a 71 percent/29 percent split in 2010.

We are all well aware of the serious financial crisis that faced the state and the nation beginning around 2008. It was an extremely painful time for many, many people as well as businesses and government at all levels, and it has taken many years for the economy to recover. It was understandable that during this time the municipal distribution of Meals and Rooms under the catch-up provision was frozen by the

Legislature. However, it is still frozen today even though revenue from this source has been extremely strong for the past five years now. The current municipal share has fallen back to only 21 percent.

In terms of dollars, municipalities are receiving \$68.8 million of the roughly \$322 million being collected. The \$5 million bump under the catch-up provision would increase that amount so that \$73.8 million would be distributed. The following cities would receive an additional first year increase: Concord (\$160,000), Dover (\$115,000), Keene (\$87,000), Portsmouth (\$81,000) and Laconia (\$62,000). The following towns would also receive additional funds: Derry (\$124,000), Goffstown (\$67,000), Hampton (\$57,000), Gilford (\$27,000) and Lancaster (\$13,000). Similar increases based on population would occur in every municipality across the state. Imagine the positive impact on local budgets if increases such as these were to occur over a several-year period. The compounding effect would be significant.

As local residents and officials speak with candidates for statewide office this fall, I hope one of the topics discussed will be restoring the catch-up provision for both years of the state's fiscal 2020/2021 budget. The revenue has been increasing year-over-year as the economy grows, the state is protected in that it doesn't have to distribute the money if it doesn't materialize, and municipalities have a more predictable and recurring source of revenue for budgeting purposes.

If state officials want to support local property tax relief, I can't think of a better approach than this. No new taxes, no increase in fees, the provision is already in current law and the state is protected. Why shouldn't this have broad bipartisan support?

SCOTT MYERS HAS BEEN SERVING AS LACONIA CITY MANAGER SINCE 2011. HE ALSO SERVED FOUR TERMS AS THE MAYOR OF THE CITY OF DOVER FROM 2004 TO 2011.

Questions regarding this report may be directed to NHMA at 603.224.7447
or governmentaffairs@nhmunicipal.org.



LBA Schedule of State Aid to Cities, Towns, and School Districts 10/20/20



SCHEDULE OF STATE AID TO CITIES

AID BY CATEGORY		FY 2011	FY 2012	FY 2013	FY 2014
		Actual	Actual	Actual	Actual
EDUCATION					
1	Adequate Education Aid	941,830,717	941,357,888	941,911,353	929,874,227
2	Building Aid	46,301,048	48,891,283	47,076,655	44,178,887
3	Court Ordered Placements	1,285,791	2,193,744	1,333,893	1,168,277
4	Driver Education	1,563,300	-	-	-
5	Dropout Prevention	2,122,110	486,860	711,635	373,782
6	Kindergarten Aid	2,842,800	1,707,750	1,776,750	-
7	Kindergarten Construction	2,741,088	3,038,661	798,100	-
8	Local Education Improvement	625,396	23,950	-	-
9	Retirement Normal Contribution - Teachers	27,809,968	2,198,706	-	-
10	School Breakfast	113,808	117,845	105,289	122,053
11	School Lunch	832,003	832,003	832,003	832,003
12	Special Education	23,750,920	21,613,130	21,633,843	22,552,381
13	Tuition & Transportation	6,951,048	6,900,000	6,900,000	7,422,619
14	Public School Infrastructure Fund	-	-	-	-
	Education Total	1,058,769,997	1,029,361,819	1,023,079,520	1,006,524,229
ENVIRONMENTAL					
15	Flood Control	811,515	221,952	221,952	787,898
16	Landfill Closure Grants	894,703	927,658	899,812	1,080,206
17	Public Water System Grants	1,149,844	1,184,996	1,131,619	1,170,678
18	State Aid Grants - Pollution Control	5,902,524	5,199,986	3,327,666	6,519,872
	Environmental Total	8,758,586	7,534,592	5,581,049	9,558,655
OTHER GEN. FUNDS					
19	Meals & Rooms Distribution	58,805,057	58,805,057	58,805,057	58,805,057
20	Railroad Tax - RSA 82:31	58,379	36,671	36,671	35,822
21	Railroad Tax - RSA 228:69	47,920	48,735	51,849	55,032
22	Municipal Aid	-	-	-	-
23	Retirement Normal Contribution	44,269,159	3,500,000	-	-
	less: Teacher Normal Contribution	27,809,967	2,198,706	-	-
	Net Police & Fire Normal Contribution	16,459,192	1,301,294	-	-
	Other General Funds Total	75,370,548	60,191,757	58,893,577	58,895,911
HIGHWAY FUNDS					
24	Highway Block Grants	34,897,125	34,538,280	29,918,270	30,233,035
25	Highway Construction Aid	2,075,233	2,663,100	2,140,210	1,298,657
26	Municipal Bridge Aid	12,335,804	5,153,521	7,428,375	5,637,087
	Highway Funds Total	49,308,162	42,354,901	39,486,855	37,168,779
GRAND TOTAL		1,192,207,293	1,139,443,069	1,127,041,001	1,112,147,574

S, TOWNS, AND SCHOOL DISTRICTS

FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>
926,031,426	933,258,763	936,504,198	926,382,935	915,723,893	962,496,843	1,024,052,596
43,286,408	40,774,253	37,098,071	36,530,219	33,695,932	37,294,872	30,500,000
1,147,392	1,139,319	2,563,504	2,361,189	2,839,879	3,281,971	2,000,000
-	-	-	-	-	-	-
820,126	350,400	674,317	714,631	675,132	325,322	500,000
-	-	-	-	10,534,441	178,501	-
841,000	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
102,532	108,380	102,339	105,682	109,848	176,927	496,500
832,003	832,003	820,847	832,003	832,003	832,003	832,003
21,623,196	22,300,014	22,300,002	22,323,179	22,317,665	30,798,879	30,800,000
7,027,000	7,400,000	7,400,000	7,546,000	7,712,000	9,000,000	9,000,000
-	-	-	453,711	11,849,464	3,952,325	-
1,001,711,084	1,006,163,132	1,007,463,278	997,249,550	1,006,290,256	1,048,337,642	1,098,181,099
1,330,570	811,407	811,407	844,871	844,871	789,328	887,000
886,850	792,116	776,245	658,248	476,036	388,936	395,824
1,073,438	876,821	797,661	791,421	701,865	651,960	624,048
6,610,139	5,711,222	6,415,756	7,598,938	6,257,397	6,876,737	9,307,838
9,900,997	8,191,566	8,801,070	9,893,479	8,280,169	8,706,960	11,214,710
63,805,057	63,805,057	68,805,057	68,805,057	68,805,057	68,805,057	68,805,057
60,037	132,187	60,803	61,392	84,793	88,370	84,793
58,931	63,693	72,837	67,680	71,635	75,993	73,000
-	-	-	-	-	20,000,000	20,000,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
63,924,025	64,000,938	68,938,697	68,934,129	68,961,486	88,969,420	88,962,850
30,743,994	34,843,581	34,931,513	65,839,183	36,287,968	36,911,575	36,425,092
2,006,027	1,424,102	368,872	331,892	2,853,055	618,339	-
10,361,515	9,953,415	5,340,013	5,614,946	8,896,334	5,247,887	6,800,000
43,111,536	46,221,098	40,640,398	71,786,020	48,037,357	42,777,801	43,225,092
1,118,647,642	1,124,576,733	1,125,843,443	1,147,863,178	1,131,569,268	1,188,791,824	1,241,583,751

