

# MUNICIPAL AID AND THE STATE BUDGET

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## Agenda / Topics



State Budget  
Process



Key Budget  
Proposals



State Aid to  
Municipalities



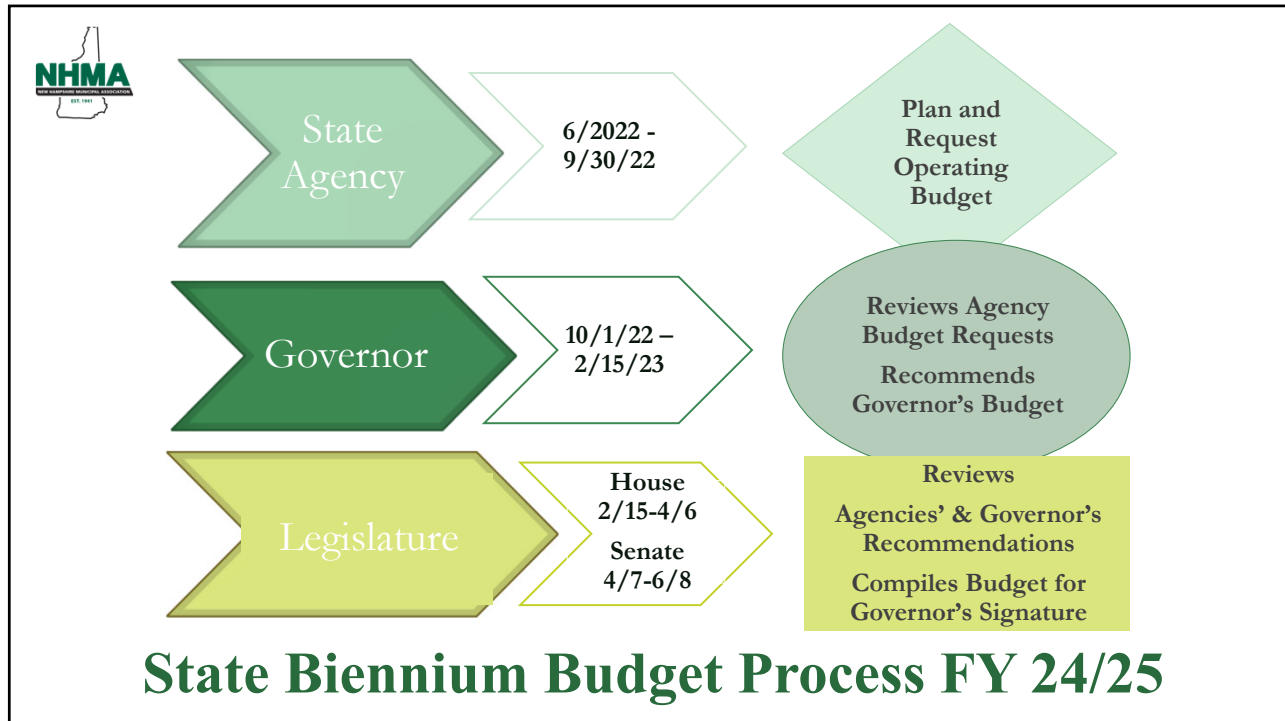
2023 Legislative  
Proposals



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**STATE BUDGET**

**House Bill 1/  
House Bill 2**

**Fiscal Years  
2024/2025**

*Biennial State Operating Budget and Trailer Bill- two separate pieces of legislation.*

- **HB 1** and **HB2** comprise the state operating budget
- Appropriations are contained in HB1, which provides dollar amounts in line-item detail.
- The trailer bill, HB2, contains statutory changes necessary to implement the budget and any policy changes to enact the budget for the two-year period of July 1, 2023, through June 30, 2025.
- **The FY 24/25 budget process has begun and will be decided in this legislative session with an effective date of July 1, 2023.**
- *The current state budget had an effective date of July 1, 2021.*

**NHMA**  
NEW HAMPSHIRE MUNICIPAL ASSOCIATION  
EST. 1941

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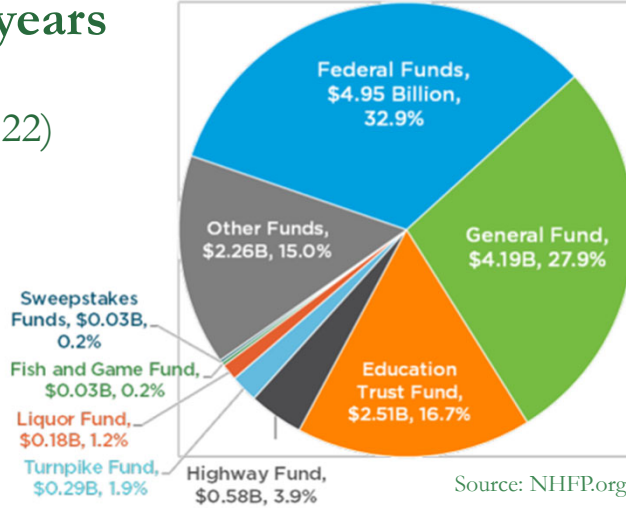
## HB 1 proposes a \$14.88 billion budget over 2 years

(increase= \$12% over FY21/22)

NH total expenditures FY 2022 = \$7.8 billion, including general funds, other state funds, bonds, and federal funds.



### GOVERNOR'S PROPOSAL FOR THE SFYs 2024-2025 STATE BUDGET Includes Operating Budget and Known Trailer Bill Appropriations



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## HB 2- Proposed Policy Changes

HB 2 estimates \$581 million in additional appropriations.

- Use of state surplus
- One time initiatives

Proposed policy language includes:

- state aid and revenue sharing with municipalities
- school building aid
- housing initiatives
- state employee pay increases
- Medicaid reimbursement rate increases

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## MUNICIPAL STATE AID AND REVENUE SHARING & THE STATE BUDGET

Property tax *is* the primary source of local revenue.

- Education funding received by school districts affects the local school property tax rate, not the municipal property tax rate.

Reductions in any state aid program, or the shifting of state costs to municipalities, most often results in increased property taxes.

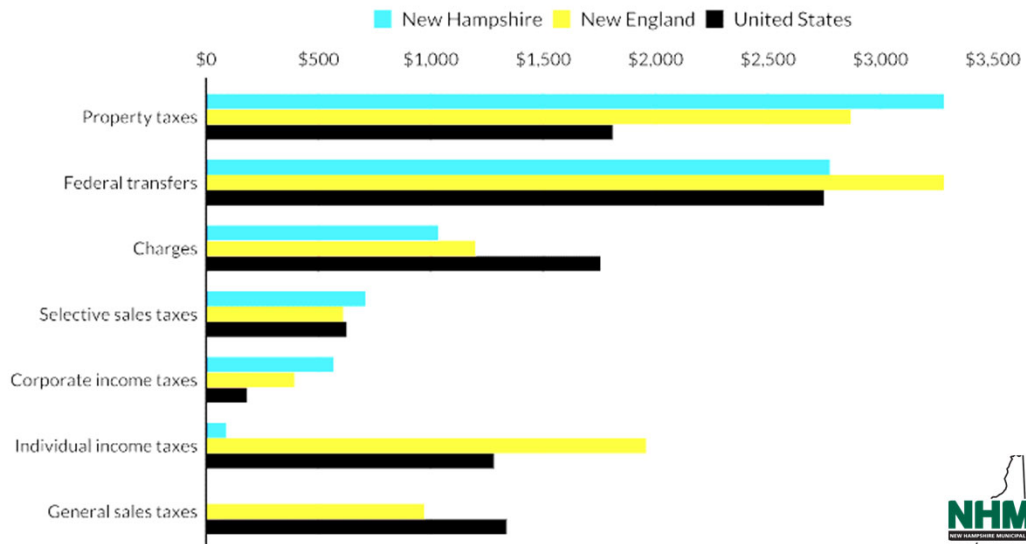
Conversely, increased or additional state aid or revenue sharing will decrease the local tax effort.



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### New Hampshire's State and Local Per Capita Revenue, Fiscal Year 2020

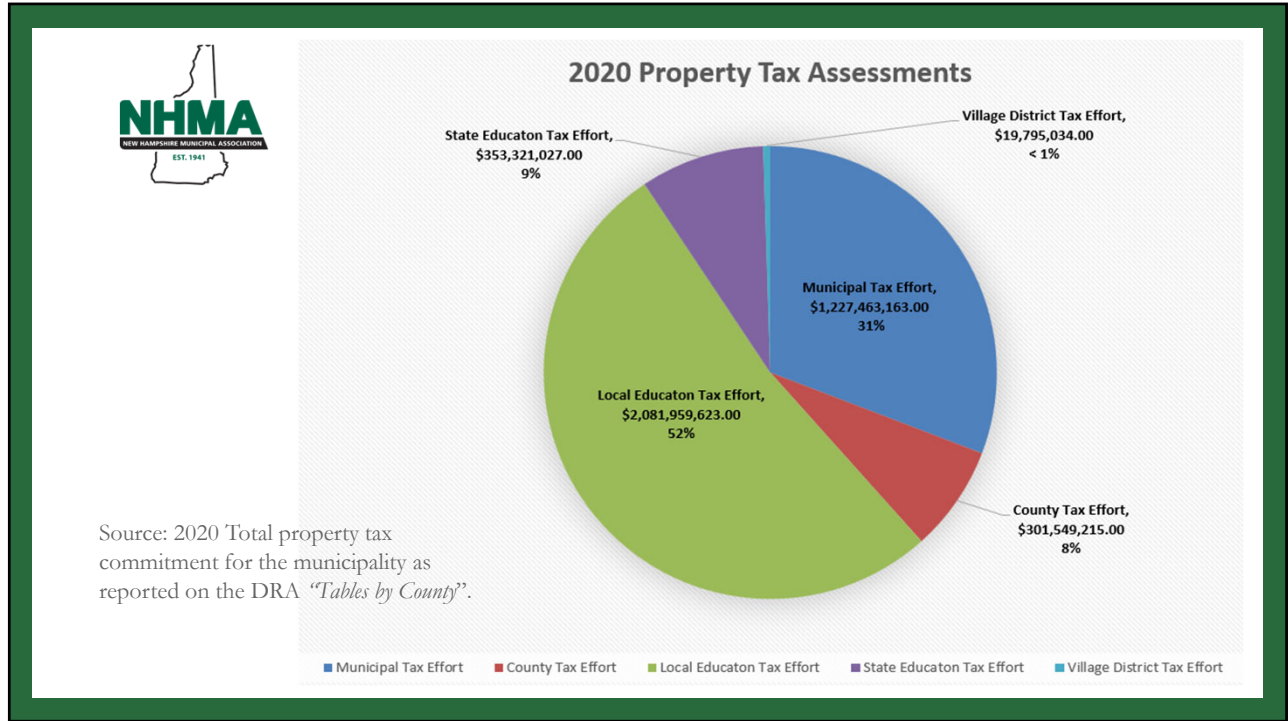
Compared with national and regional averages



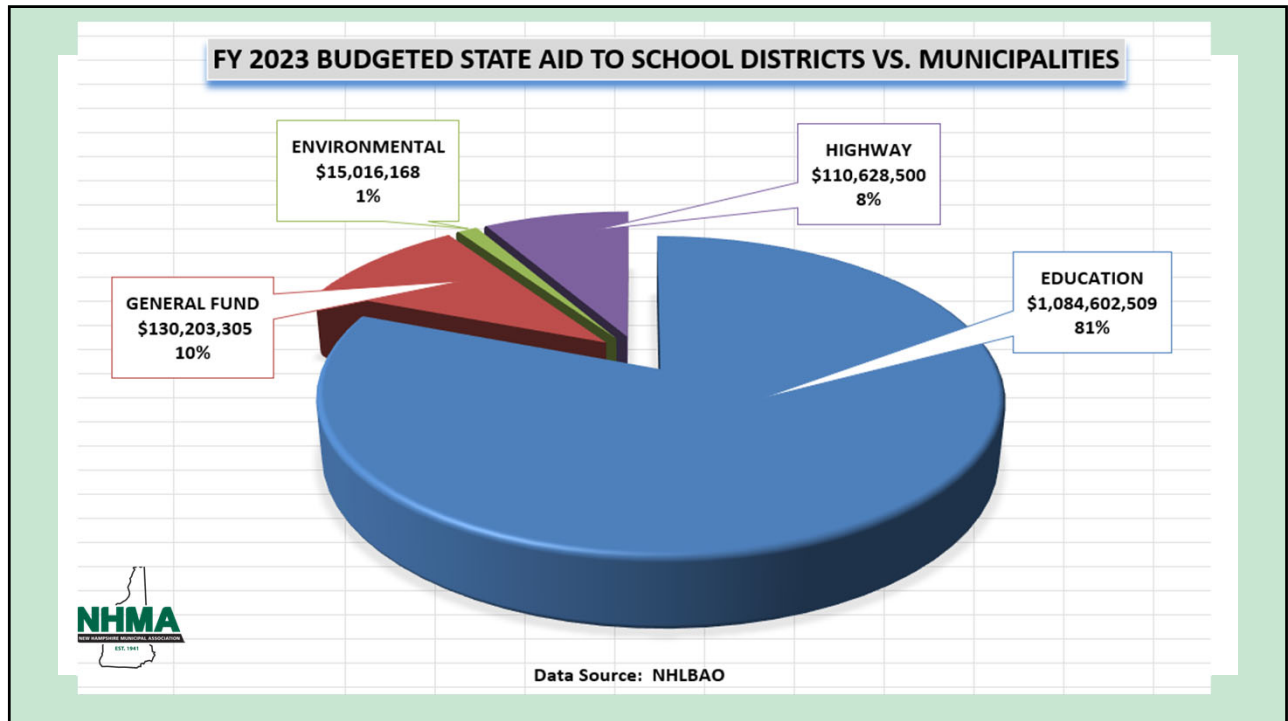
Source: US Census, Fiscal Year 2020.




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## MUNICIPAL REVENUE SHARING and STATE AID SOURCES

### Types of State Aid to Cities & Towns

#### General Funds:

- Meals and Rooms Tax Revenue Distribution
- State Revenue Sharing (Suspended 2010-2023)
- State Normal Retirement Contribution (Repealed 2013)
- Railroad Tax Distribution
- State Municipal Aid Grants (One-Time Revenue: Added 2020-21 and 2022)

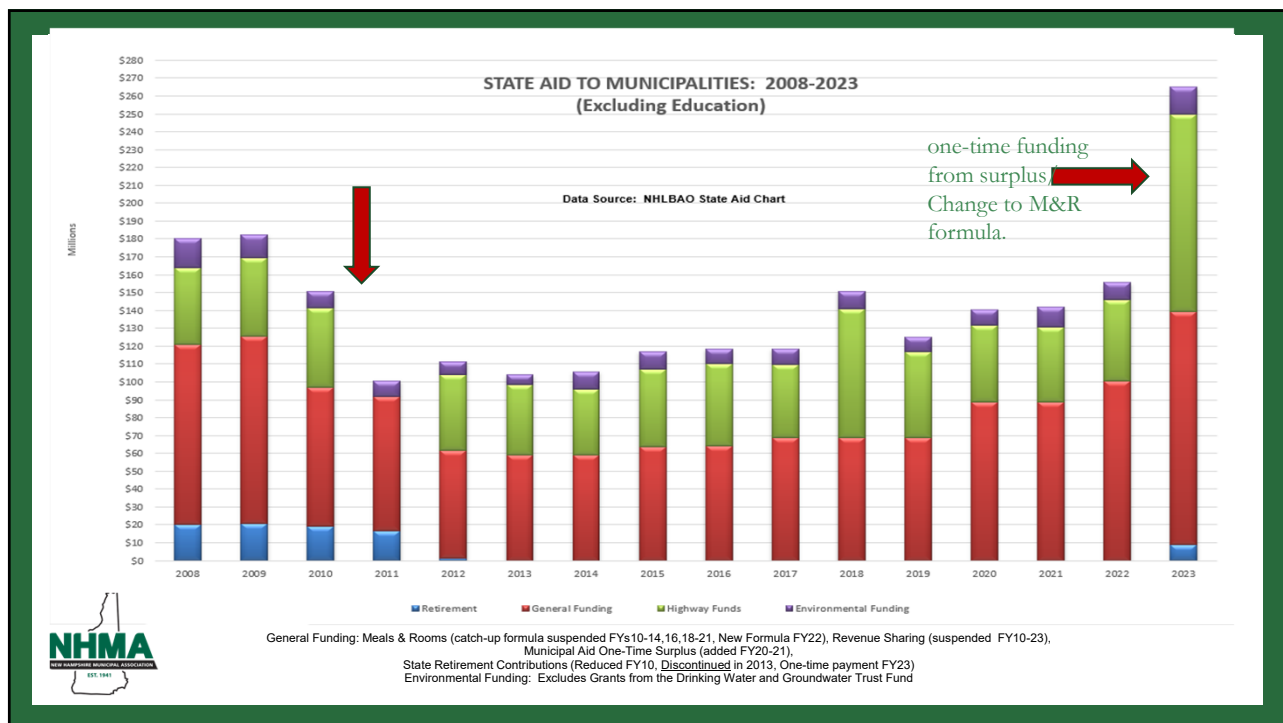
#### Environmental:

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

#### Highway:

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

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## SIGNIFICANT CHANGES MADE - 2021 MEALS & ROOMS (RENTALS) TAX DISTRIBUTION

### PREVIOUS DISTRIBUTION

**9% tax** levied on food or beverages from restaurants, hotel rooms, and car rentals; The tax was raised from **8%** in 2010.

↓

Funds the General Fund, Education Trust Fund (car rentals portion), certain school building aid, and municipalities.


↓

**Municipal Distribution:** set by law at **40% of revenue**, but the formula enacted in 1993 to reach that percentage has been suspended – 10 of the last 14 years

### CURRENT DISTRIBUTION

- What changed? 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.*

- The Meals and Rooms tax levy dropped from **9% to 8.5 %** which took effect on October 1, 2021.
- Distributed of 30 percent of the revenue to municipalities and moved the funds to a dedicated fund, based on 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 estimated revenues.
- 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.



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## Changes to Meals and Rooms Revenue Sharing

FY 19 - FY 21  
Meals and Rooms  
Tax Distribution –  
  
**\$68.8 million** per  
year (distributed  
based on population  
estimates).

FY 22 ESTIMATED  
The *ESTIMATED* Meals and Rooms Tax Distribution – **\$92.5 Million**

**FY 22 ACTUAL - Under the New Dedicated Fund**  
✓ **\$100.5 million** was distributed based on population estimates.


✓ **A 45% +/- Increase over 2021 Distribution**

FY 23 ESTIMATED  
The *ESTIMATED* Meals and Rooms Tax Distribution – **\$95.6 Million**

**FY 23 ACTUAL- Under the New Dedicated Fund**  
✓ **\$121.5 million** was distributed based on population estimates.

✓ **A 75% +/- Increase over 2021 Distribution**

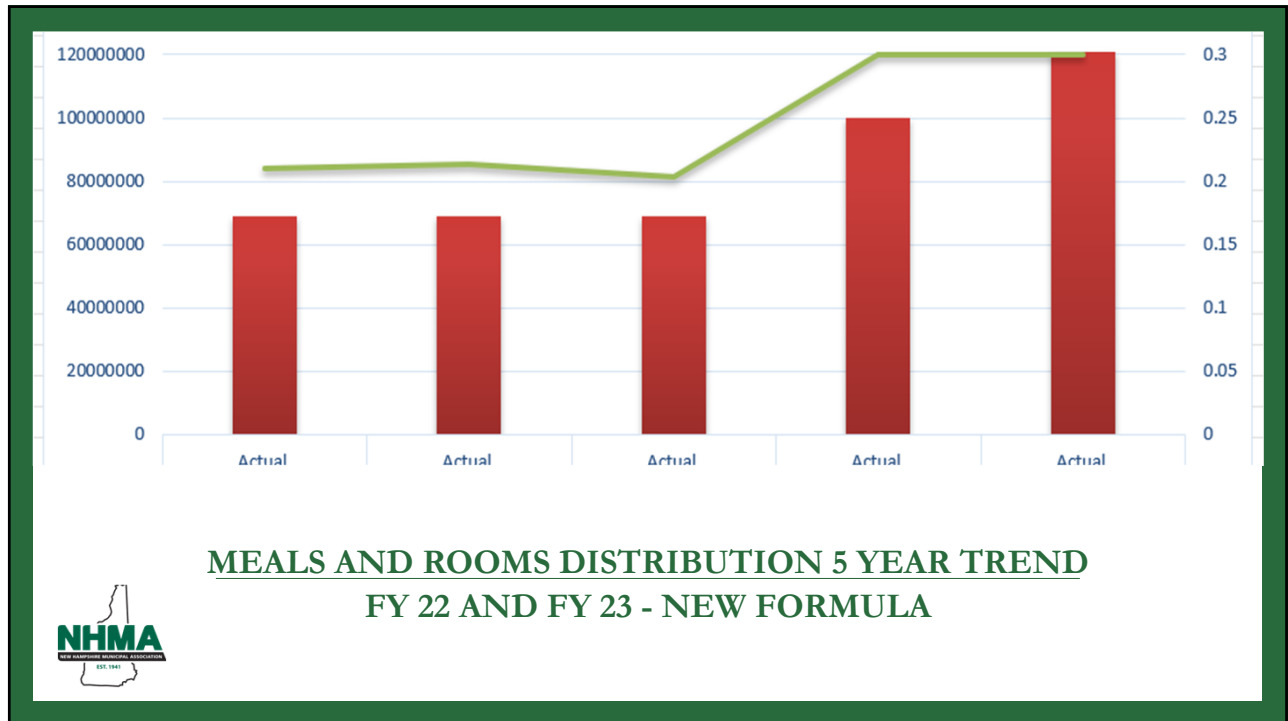
**HB 1 - FY 24/25- ESTIMATES ONLY**  
✓ **\$121.1 million in FY 24 & \$123.5 million in FY 25**



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## HB 2 *SUSPENDS* REVENUE SHARING – RSA 31-A

- In 1969, the state reformed how businesses were taxed . . .
- Business Profits Tax (BPT) was implemented, REPLACING:
- Antiquated Taxes: Eliminated
  - Assessed and Collected by Municipalities
  - including tax on machinery, stock in trade, taxes on studhorses, poultry, domestic rabbits, fuel pumps/tanks and other taxes...which were part of the Property Tax Base for municipalities, school districts, and counties

*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.*

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### CHAPTER 31-A RETURN OF REVENUE TO CITIES AND TOWNS

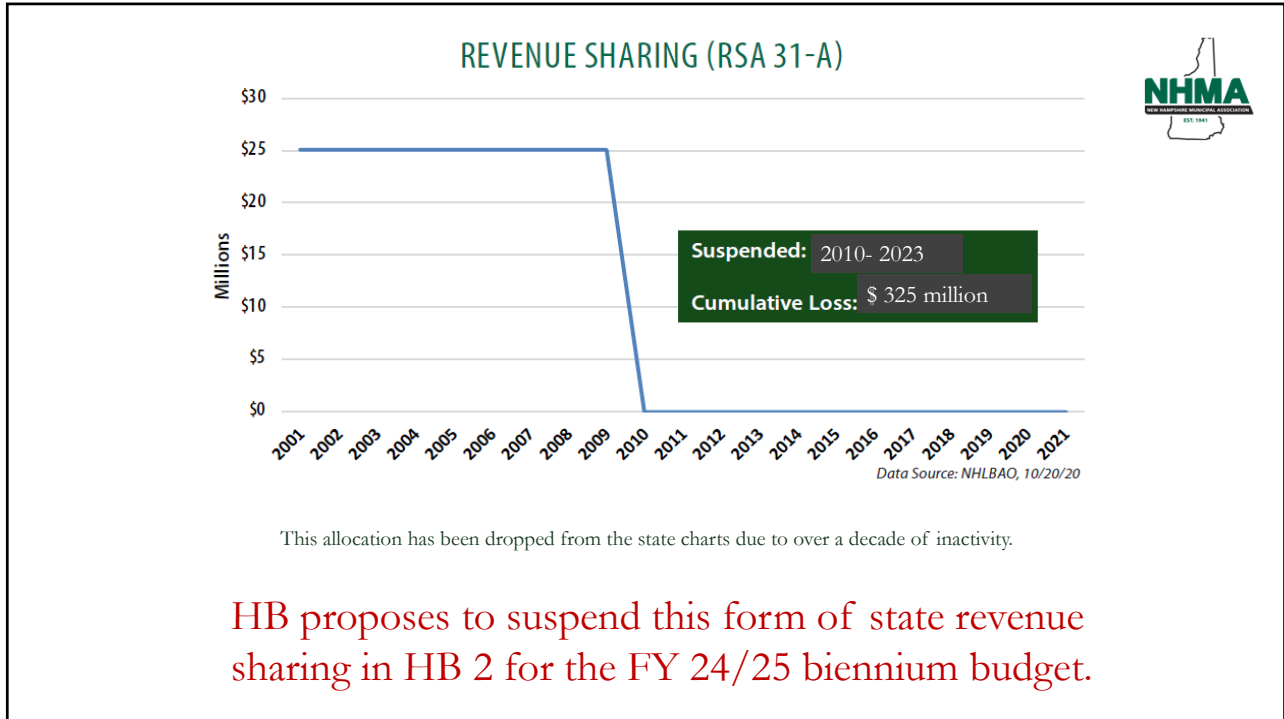
**31-A:1 Return of Revenue.** – Commencing in 1970 and in each year thereafter, a portion of the general revenue of the state shall be returned to each city and town of the state.

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:

RSA 31-A:5

*...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."*

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## HB1/HB2 - FY 24/25 Budget

### Highway Block Grants

\$34.3 Million FY22	\$32.0 Million FY24
\$35.4 Million FY23	\$32.1 Million FY25

**\*ESTIMATED** decrease of \$5.9 Million in the next budget cycle.

### Municipal Bridge Aid

**\$6.8 million/year** -from 2016 to 2034.

10 year waiting list based on priority need and acceptance of aid.

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## Highway Block Grant - Eligible Uses - RSA 235:25



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## Municipal Bridge Aid

### Red-Listed Bridge Program

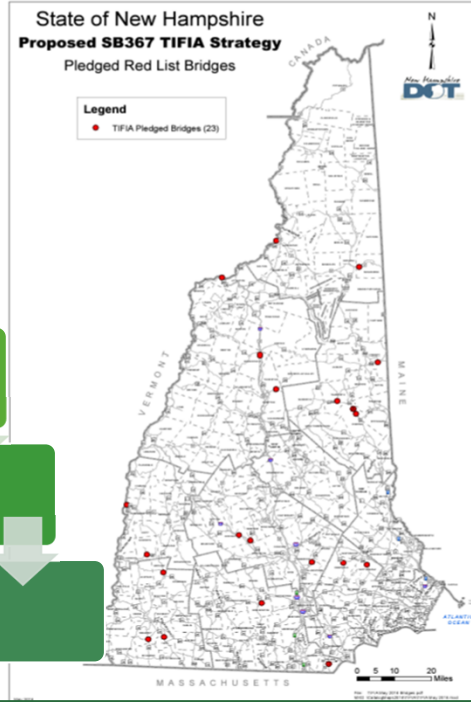
- \$6.8 million/year

Level funding from 2016 to 2034 based on 2014 legislative policy to raise the Road Toll by 4.2 cents per gallon.


As of 2022 14% of municipally owned bridges are classified as “red listed.”

RSA 234 consists of an 80% rate of all qualifying costs that are found in compliance with the process, which includes costs incurred for design, construction, and construction engineering.

Reimbursement will occur after approval of the finalized plans and specifications and submittal of “municipality-paid” invoices.



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## Red-listed Bridges

### 2021 Municipally-Owned Red List Progress Chart

- Historically, a 10-year waiting list
- One-time state and federal funding have decreased wait time.
- Fiscal Year 2022 - 17 bridges were removed from the Municipal “Red List,” while 16 bridges were added.
- *NHDOT Notice #2023-02*: Local bridge funding available for 65 poor condition red list bridges beginning 2027-2032.


**NHDOT Red-listed Bridges:**  
<https://www.nh.gov/dot/org/projectdevelopment/bridgedesign/documents/municipal-red-list.pdf>

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	223	16	17	222
2022	222			

\* 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*.

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## Bridge Aid - Process



- 1 Municipality requests a preliminary cost estimate
- 2 DOT completes estimate and identifies potential funding
- 3 NHDOT prioritizes projects and extends opportunity for municipality to apply for construction project
- 4 Municipality hires consultant to complete design
- 5 Design costs reimbursed at 80% upon completion
- 6 Municipality advertises project for construction 50% payment made with award of contract
- 7 50% (final) payment made at contract completion

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## Additional Road and Bridge Funding Proposals in 2023

### 2022 Legislative Session

- **SB 401** - Using state general fund surplus generated in fiscal year 2022:
  - \$36 million in municipal bridge aid;
  - \$30 million in municipal highway block grants;
  - \$1 million toward the body worn and dashboard camera fund.\*

### 2023 Legislative Session

- **SB 270 – Additional budget request:**
  - \$20 million in municipal bridge aid;
    - (45% of 2022 distribution)
  - \$20 million in municipal highway block grants;
    - (2/3 of 2022 distribution)

**Contact your state senators and representatives to support SB 270!**

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## One-Time State Aid Payments – Guidance

**RSA 31:95-b, II-IV** - Categorized as “unanticipated revenue,” governing body must hold a public hearing for amounts of \$10,000 or more, to accept and expend the funds.

- For unanticipated money less than \$10,000, the governing body must post notice of the funds in the agenda and include notice in the minutes of the public meeting at which the money is discussed.

**RSA 32:7, IV** provides that money from a state grant for a specific purpose is non-lapsing;

- This additional grant was not reported as “Highway Block Grant Revenue” on the municipalities 2022 MS-434 Report of Revised Estimated Revenue;

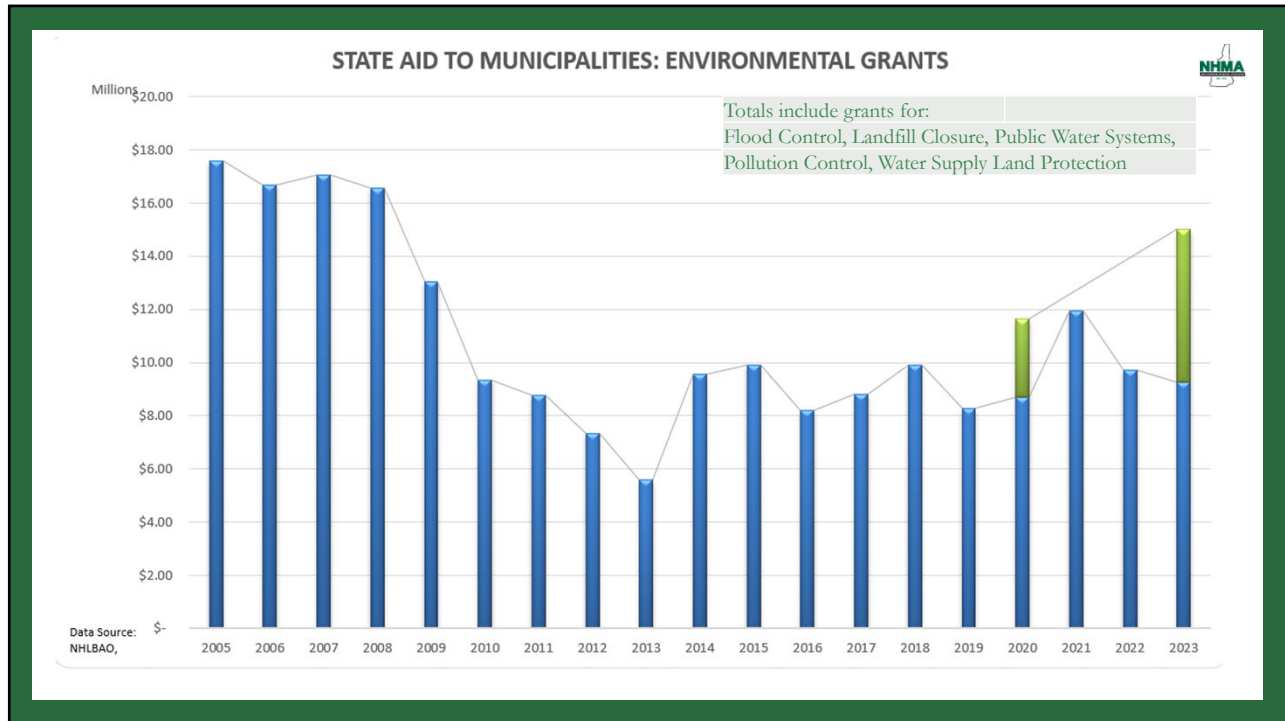
As dedicated state grant funds with a specific purpose outlined in the law, the additional funds will not become part of the unassigned fund balance;

Not recommended to place into a capital reserve Fund: funds are already restricted in their eligible use and may not be redesigned at any point in time.

Should be spent to follow the intent of the legislation, for immediate repair and maintenance and to reduce taxation.



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**State Aid Grants – Water Pollution Control (RSA 486)**

- 10-year average grant payments: \$7,000,000;

**Public Water System Grants (RSA 486-A)**

- Water Supply Land Protection (WSLP) Grant Program
- 10-year average grant payments: \$953,000;
- *(No appropriations for "new" projects since 2008- decline in funding)*

**Landfill Closure Grants (RSA 149-M:41-50)**

- 10-year average grant payments: \$778,000; (2020: \$388,936 vs 2023: \$368,194)

**Flood Control (RSA 122:1)**

- 10 year average grant payments:

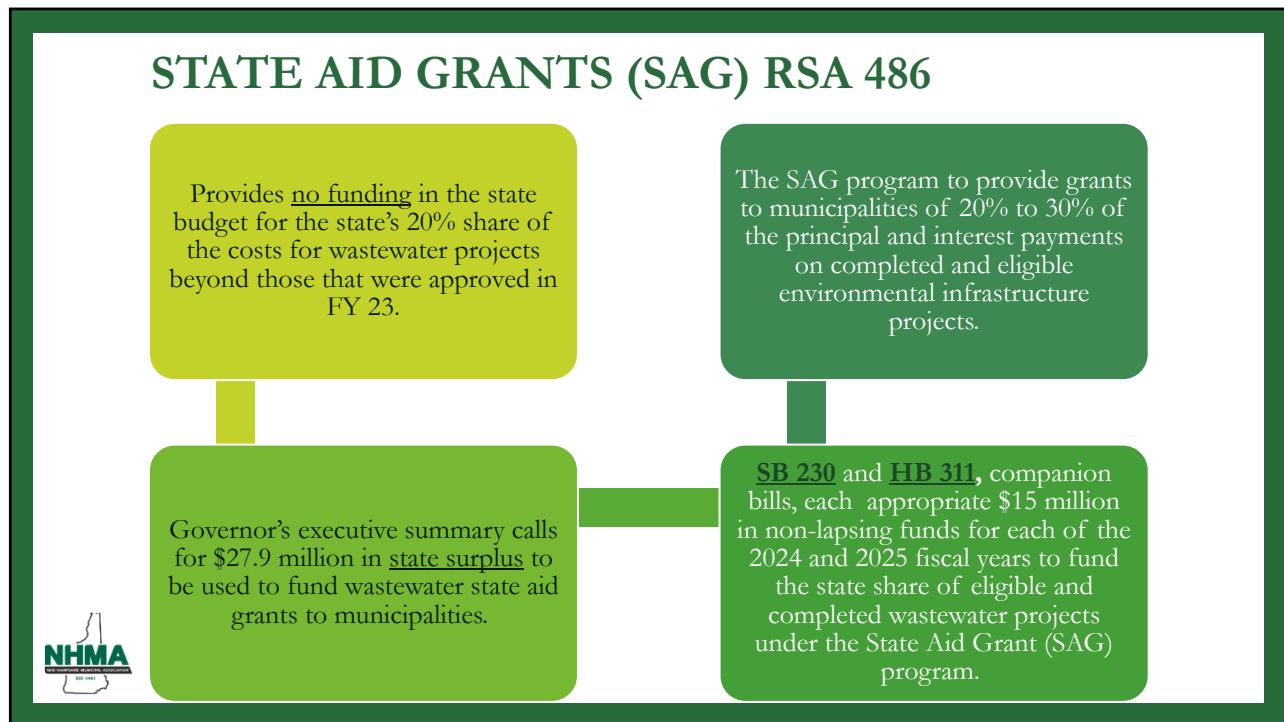
**NH Drinking Water and Groundwater Trust Fund (RSA 6-D, 485-F)**

- Created in 2016 - \$276 Million from MtBE lawsuit against Exxon-Mobil

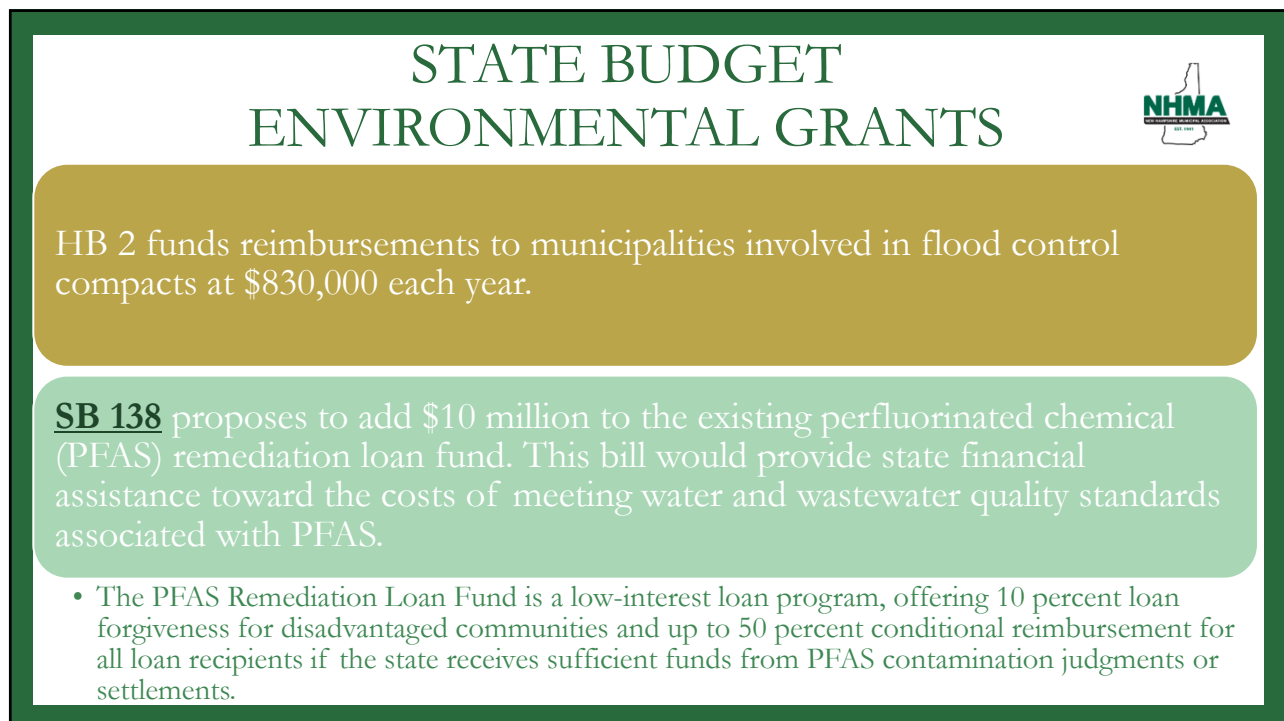
**PEAS Remediation Loan Fund (RSA 485-H:9)**

- Created in 2020 - \$50 Million for low-interest loans
- \$25 Million added in 2022

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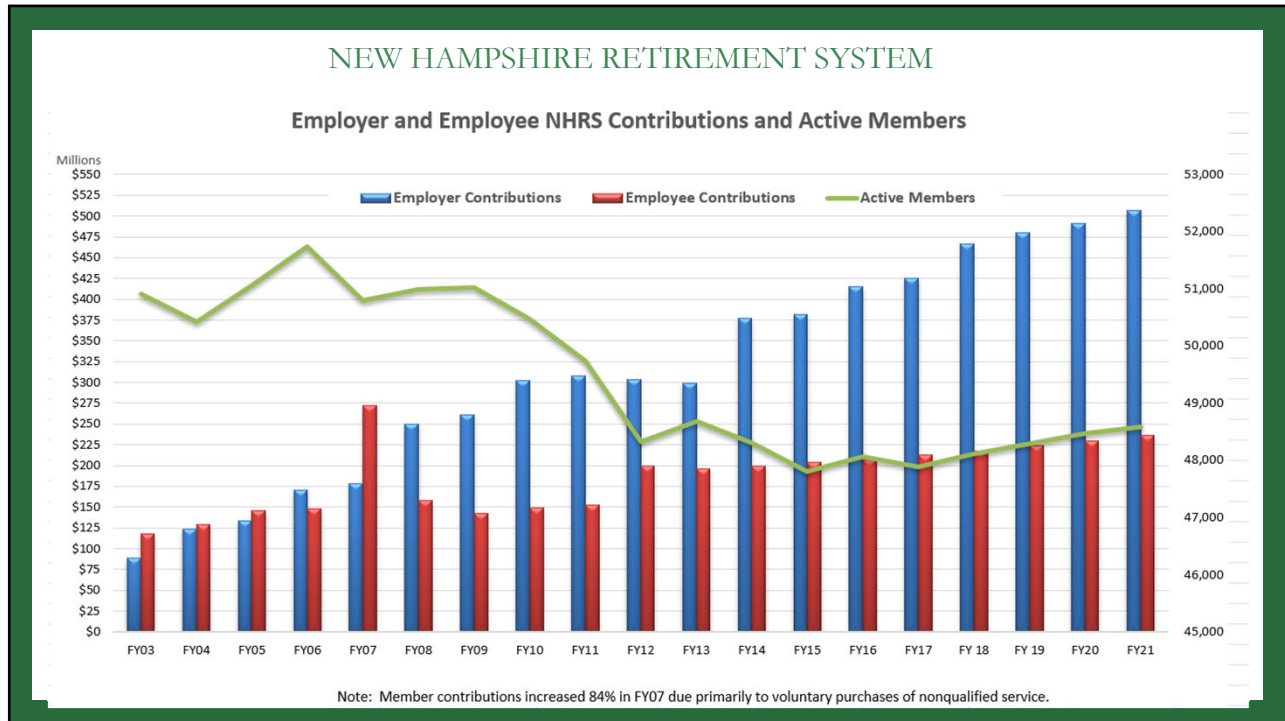


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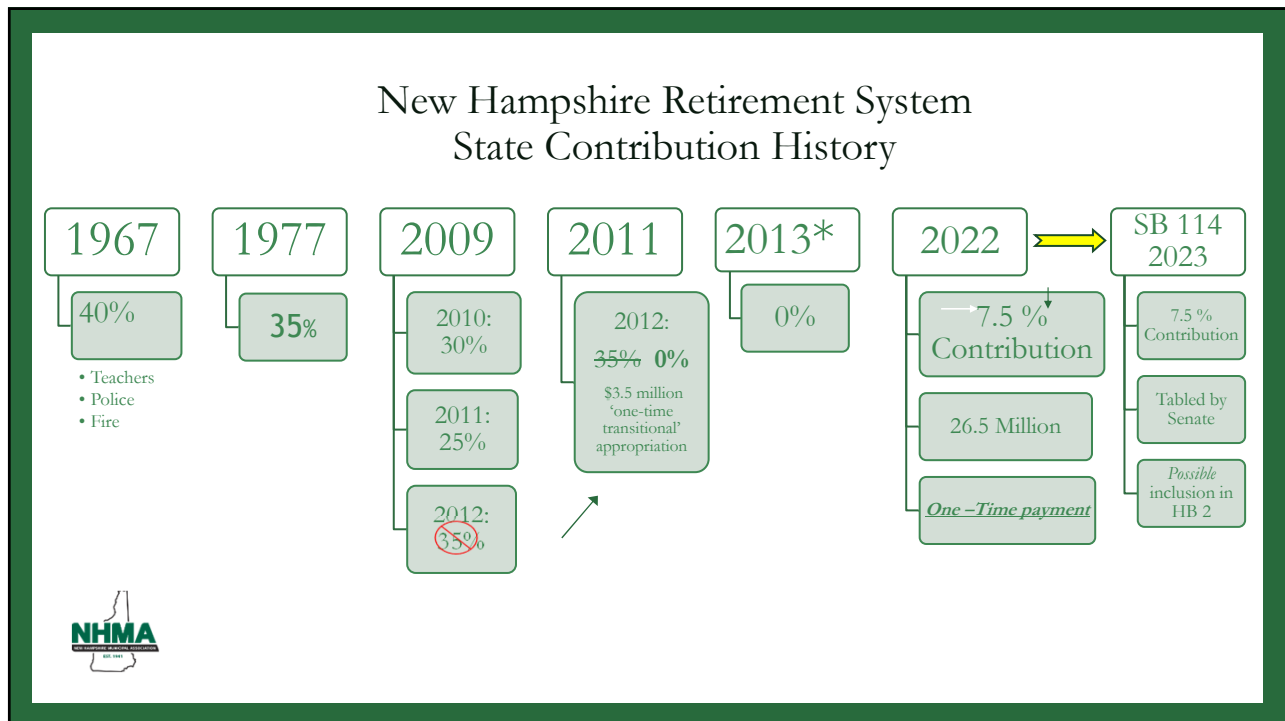


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## Legislative Proposals with Impact on Employer Rates

- Since 2010 over 100 changes have been made to RSA 100-A (NHRS).
- 75% of employer costs are attributed to the Unfunded liability (\$5.69 billion)

FY 22: 16 bills filed-

- HB 1221 = one time 7.5% state contribution to the employer's share of Group I, teachers, and Group II Police and Fire .

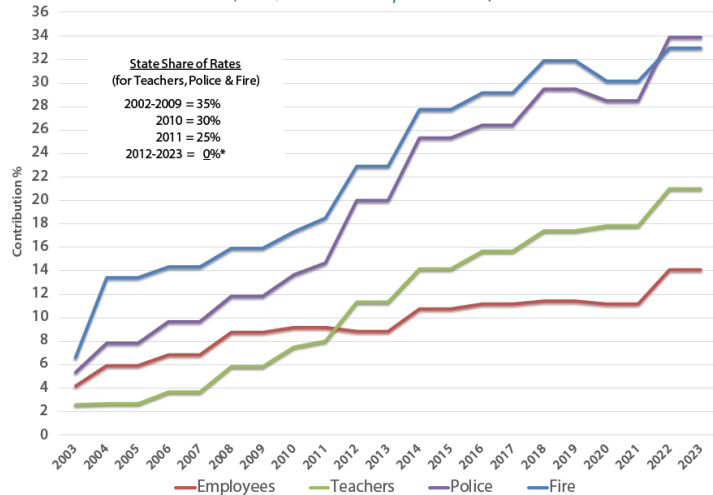
FY 23 using FY 22 state surplus (\$26.5 million)

**FY 23- 17 bills filed**

4 with a concerning impact on employer rates  
SB 205, HB 461, HB 250, HB 436

SB 114 - restoration of state contribution at 7.5% has been TABLED.

### LOCAL EMPLOYER RATES (Per \$100 of Compensation)

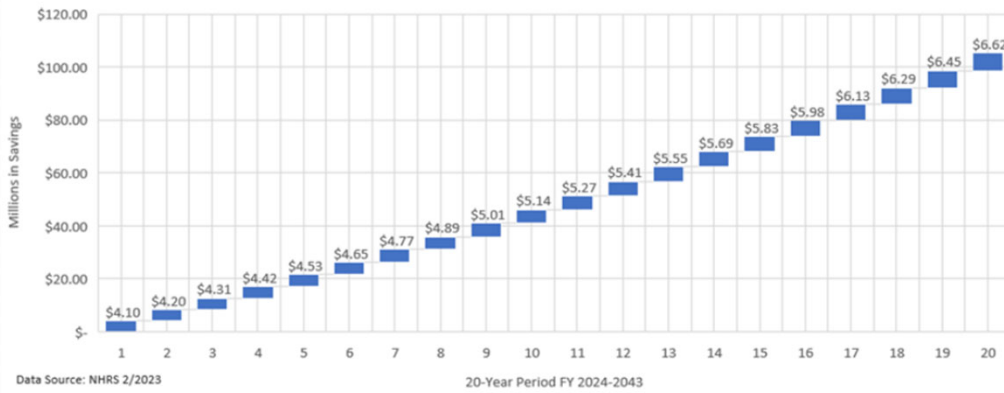


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## NHRS Legislative Proposals

### Compounded Impact of HB 50 as Amended

Employer contribution savings resulting from a \$50M appropriation toward the UAAL



- HB 50 would appropriate \$50 million to pay off the UAAL
- HB 555 policy change would use state surplus to pay down the UAAL

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## State Surplus Related Legislation



From January to June 2022, the Legislature spent **\$261.7 million** — or 60% — of the **\$430.1 million** surplus.

**Almost \$150 million was made available to municipalities in the 2022 Legislative Session.**

### Next Budget Proposal:

- Calls for a one-time appropriation of \$30 million to InvestNH for housing and \$25 million to the Affordable Housing Fund using state surplus.
- Governor's executive summary calls for \$27.9 million in state surplus to be used to fund wastewater state aid grants to municipalities.
- Adds \$181.4 million to the Rainy Day Fund (Stabilization Fund)

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HB 2 Establishes a new regulatory review process.

Governor's budget removes 34 licenses currently required by the state and eliminates 14 regulatory boards

Medicaid reimbursement rate increases.

Funds \$5 million each year for the Land and Community Heritage Investment Program (LCHIP).

- Maintaining the current funding level.

Creates a State and Local Cybersecurity Grant Program.

- Appropriates \$1.2 million for FY 24 and
- \$1.6 million for FY 25 for the state and local cybersecurity grant program.

Proposes elimination of the Second Injury Fund (SIF) after September 1, 2024:

- The SIF serves to equalize the compensation costs that an employer must pay for impaired and non-impaired workers, removing a potential cost barrier to the employment of impaired workers. Elimination of the SIF creates additional costs for municipal employers, especially in a tight labor market.

## Additional HB 2 Highlights



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# Stay Informed & Get Involved

The Legislative Bulletin is NHMA's primary means of communicating legislative information to member towns and cities.

- Sent via email and posted on the [NHMA website](#).
- Using [NHMA's Online Bill Tracker](#).
- Watching Senate and House Committee hearings and Full Sessions.
  - [NH Senate Livestream](#)
  - [NH House Livestream](#)

It also serves as a communication vehicle for action needed from your municipality, including:

- Requests for letters or calls in support or opposition.
  - In person testimony.
  - *If you would like to speak on a bill, you do need to sign up in-person on the day of the hearing at the noticed time and location.*
  - If you do not wish to speak on the legislation but would like to have your position registered in the official record of the bill you may do so.
- [Register Position for Senate Bills/Hearings](#)
- [Register Position for House Bills/Hearings](#)

## How to Participate in New Hampshire Legislative Hearings:

- For the NH HOUSE, a link to sign in and register a position or to submit a PDF of written testimony, can be found here:
  - [NH House of Representatives Upload Testimony](#)
  - [Submit emailed/written testimony to House committees](#)
- For NH Senate bills, a copy of your written testimony may be emailed to the committees.
  - If you do not wish to speak on the legislation would like to have your position registered in the official record of the bill you may do so using the following links:
    - [Submit emailed/written testimony to Senate committees](#)



# NHMA Bill Tracker: FastDemocracy

The New Hampshire Municipal Association (NHMA) represents the interests of cities and towns before the New Hampshire General Court (House and Senate) and various state agencies based on its member-adopted [principles and policies](#). The New Hampshire legislative session happens each year between the months of January and June. Each legislative cycle, NHMA tracks state actions that could significantly affect New Hampshire's 234 municipalities.

In addition to the weekly Legislative Bulletin, NHMA provides members access to FastDemocracy, an online bill tracking platform, for efficient, real-time updates to legislative activity of interest to members. Members do not need to create a FastDemocracy account to access this information, but they are able to create an account if they wish.

Click on the subgroups below to see information on bills from either the previous, or current legislative cycle within each category, and view the NHMA's stance on the measures. Subscribe to the bill list(s) to receive daily or weekly email updates, including new bill actions and upcoming hearings.

- ALL BILLS
- ECONOMIC DEVELOPMENT
- EDUCATION FUNDING
- ELECTIONS
- ENERGY AND ENVIRONMENT
- INFORMATION TECHNOLOGY
- LABOR
- LAND USE
- LOCAL AUTHORITY
- PROPERTY TAX
- RETIREMENT
- RIGHT-TO-KNOW
- STATE AID
- SUBSTANCE USE
- TRANSPORTATION



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OUR BILL TABLE IS NOW ONLINE



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Daily  Weekly



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# QUESTIONS?

Municipal officials can also access NHMA's updated publication  
[State Aid to Municipalities: History and Trends](#)  
 available on our website!

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Thank you for attending today's webinar!

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