NHMA
NEW HAMPSHIRE MUNICIPAL ASSOCIATION
EST. 1941

Municipal State Aid and Revenue Sharing

History & Trends

State Aid to Cities, Towns and School Districts

Prepared by the
New Hampshire Municipal Association
October, 2024

TABLE OF CONTENTS

MUNICIPAL STATE AID AND REVENUE SHARING

MUNICIPAL STATE AID AND REVENUE SHARING
State Budget Decisions Affect Local Property Taxes

Prepared by the New Hampshire Municipal Association
October, 2024

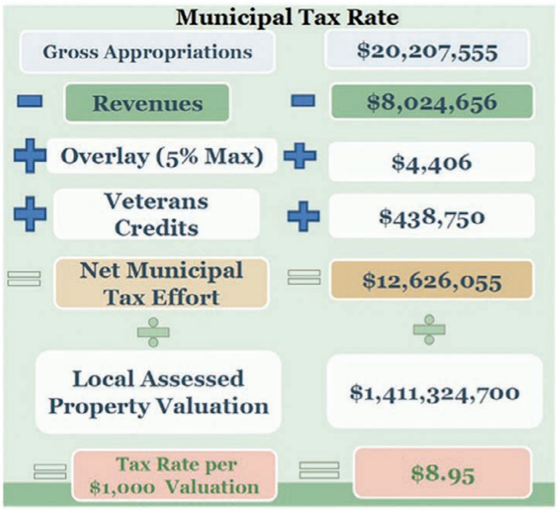
State Budget Decisions Affect Local Property Taxes

In New Hampshire, the property tax is a tax based on the value of real property. Counties, cities, towns, villages, school districts, and special districts each raise money through the property tax. The money each municipality raises in property taxes funds schools, pays for police and fire protection, maintains roads, and supports many other municipal programs and services enjoyed by residents. Local property tax also pays for a portion of the costs necessary to support county services, as well as the state education tax which every municipality is required to collect.

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 (the town meeting, the town/city council, or board of aldermen), 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.

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 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. Conversely, any increase in state aid and revenue sharing works to decrease the local property tax.

How does State Aid work to decrease the local property tax?



At the local level, property tax makes up the majority of local revenues. If any source of revenue is decreased—whether local revenue or state aid—the tax rate will increase because property taxes are the only source that can be used to make up the difference. The inverse if also true. If there is an increase in local revenues, state aid, or revenue sharing, the tax rate will be decreased. However, a "decrease" can mean different things: while it could mean a lower property tax rate, it can also mean offsetting municipal cost increases to prevent a property tax rate increase, keeping the tax rate more stable.

The tax rate is determined by the amount of the tax levy (the amount of tax to be raised). There are several steps involved in determining the tax levy. Each city/town, school and county independently develops and adopts a budget. Revenue from all sources other than the property tax (state aid, motor vehicle registration fees, permits and licenses, income from investments, etc.) is determined. These revenues are subtracted from the original budget and the remainder becomes the tax levy. When revenues are greater than estimated when the budget is adopted, the tax rate will decrease by the difference. When revenues do not meet the revenue estimates used when the budget is approved by the legislative body, the difference is made up by taxation.

What Determines the Tax Rate?

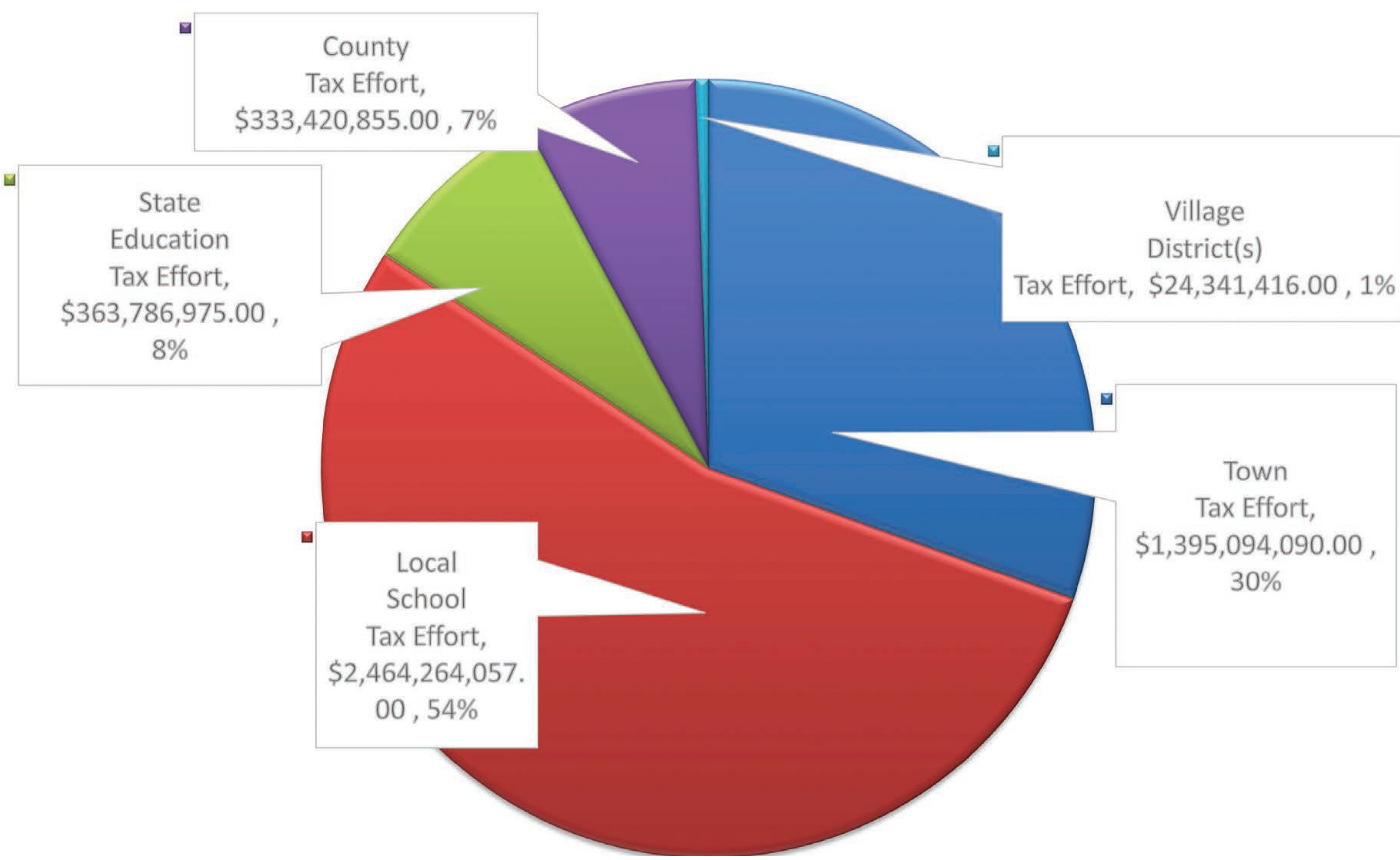
- Starting with - Gross appropriations (MS-232) is the Amount of Budget approved by the legislative body
- Less Revenues (MS-434) - Raised from all other sources
- Plus Overlay (abatements) - Tax for revenue Amounts that may have to be given back to qualified taxpayers
- Plus War Service Credits - Credit to the Veterans' tax bill amount*
- Net Municipal Tax Effort - This is the actual amount you need to raise from all taxpayers
- Divided by local assessed property valuation (MS-1) - After all property tax exemptions have been deducted
- Equals municipal tax rate per $1,000 valuation
- *Overlay - Affects "MUNICIPAL" tax rate only
- Veterans Credits that are Given: - Affects "MUNICIPAL" tax rate only.
- Elderly, Blind, Disabled, and other Exemptions:
    - Affects All Tax Rates - School, County, State Education, Municipal, and is equalized under RSA 21-J:3 to ensure any exemption does not distort any other community for the purpose of County, State Education or in the case of a co-operative school district.

Remember, cities and towns also collect taxes on behalf of the county, the school district, and the state-wide education tax. Each of the four components of the tax bill have independent budgets with appropriation and revenues to consider which contribute to the total property tax bill.

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. In 2023, the overall property tax effort, which include property taxes raised to support municipal, county, village district and local school and state education purposes, totaled $4.5 billion. Education funding (local and state combined) comprised 62 percent of the property tax effort while 30 percent or $1.4 billion was raised to support municipal operations, seven percent to support county operations and one percent to support village districts.

2023 TOTAL PROPERTY TAX COMMITMENT $4,545,420,773 BILLION



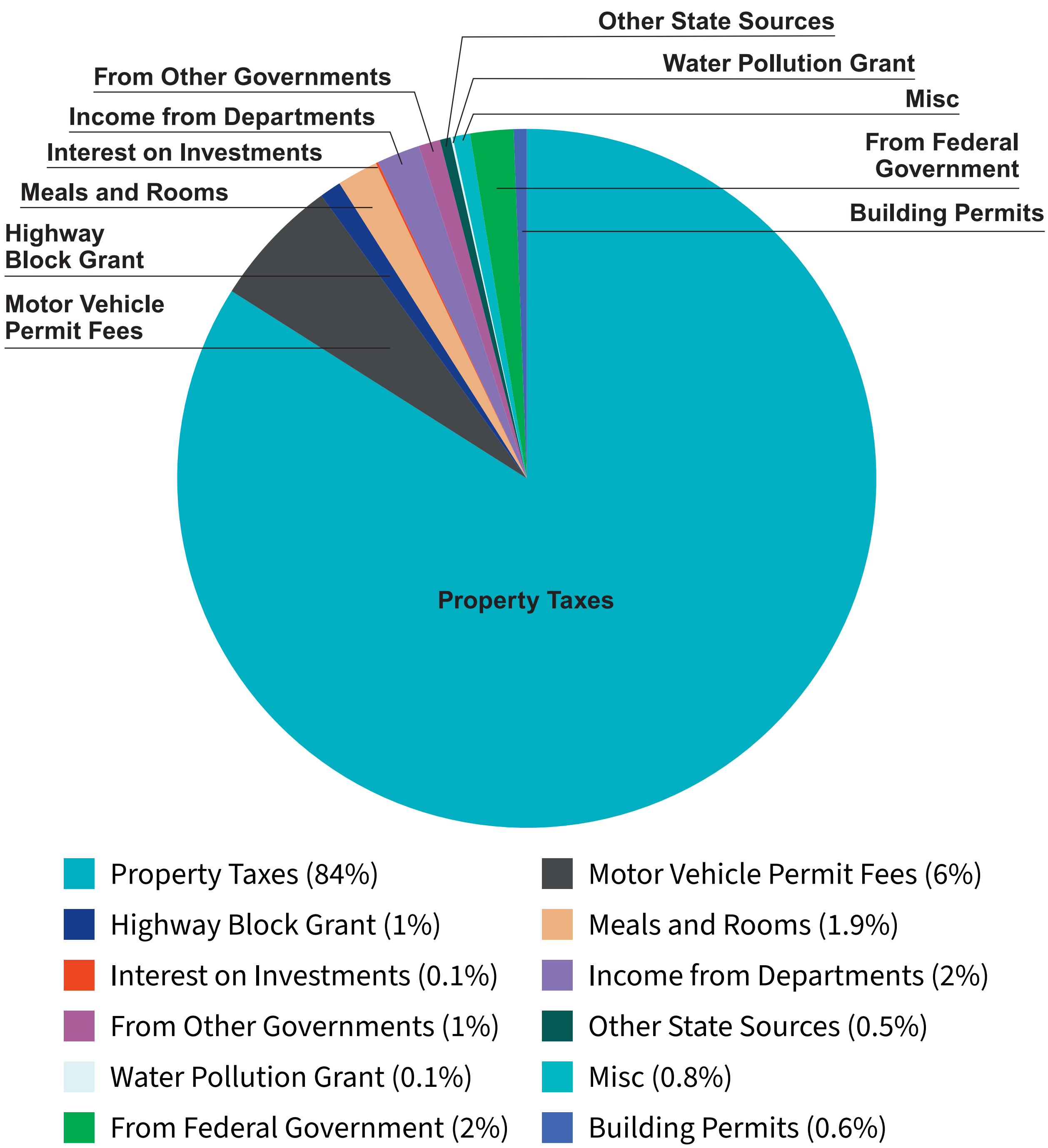
Source: NH DRA Tax Rates

After property taxes, the second major source of revenue available for general municipal operations is motor vehicle registration and fees. Estimated at $304 million in 2021 (the year of the most recent data compiled), this revenue stream has demonstrated it is consistent and reliable.

In 2021, local town property tax accounted for 84 percent of municipal revenue. Motor vehicle registration contributed 6 percent, while income from local government departments, meals and rooms tax, and federal grants each averaged 2 percent. The state highway block grant, other state sources, building permits, payments from other governments, and PILOTs each contributed about 1 percent.

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.

2021 CITY AND TOWN MAJOR SOURCES OF REVENUE



State Aid to Municipalities: 2008–2025 (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, the three major categories of state revenue sharing and aid to cities and towns are as follows:

General Funds:

- Meals and Rooms Tax Revenue Distribution
- State Revenue Sharing (Suspended 2010-2025)
- State Normal Retirement Contribution (Repealed 2013- One time Contribution 2023)
- 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

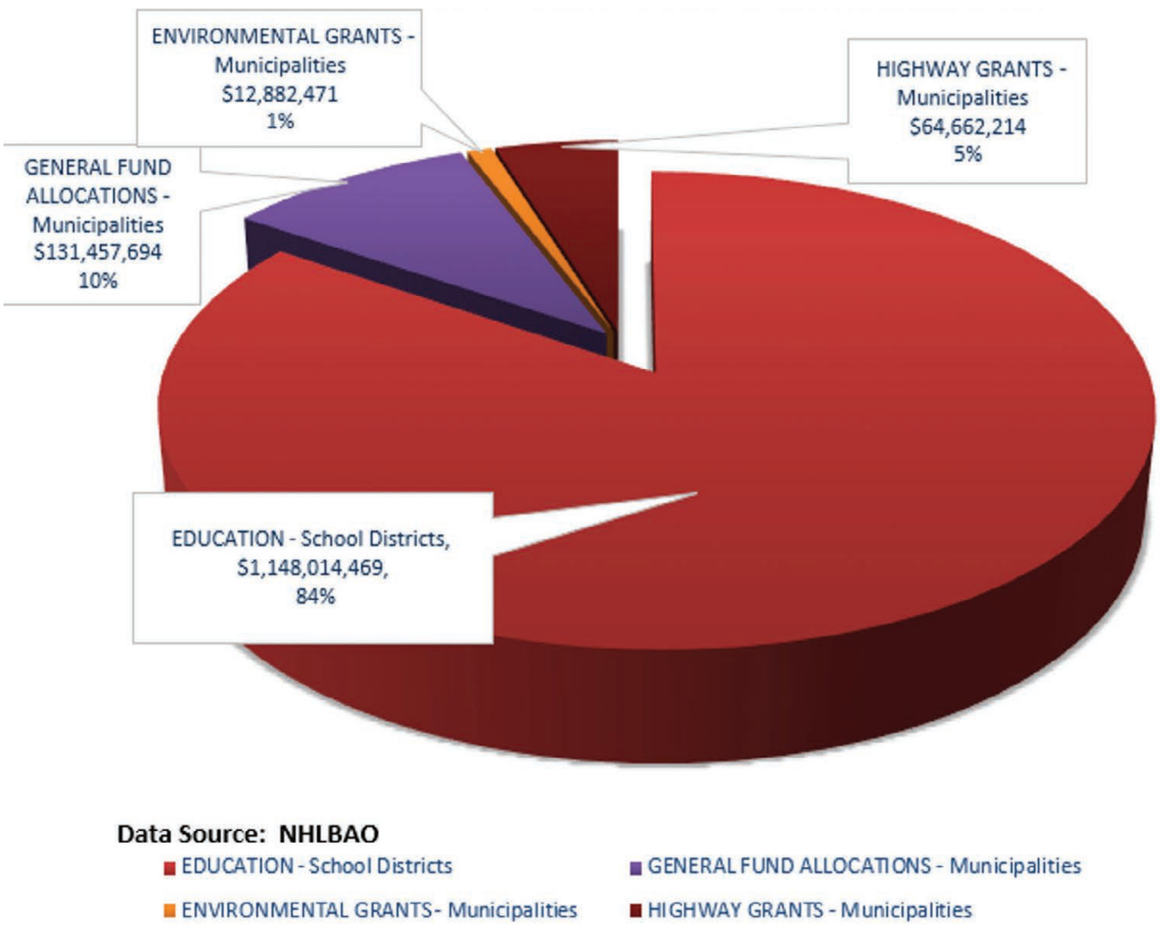
Highway

- Highway Block Grants (One-time aid in 2018, 2023, 2024)
- Highway Construction Aid
- State Municipal Bridge Aid (One-time aid in 2018, 2023, 2024

2024 State Aid to School Districts vs. Municipalities

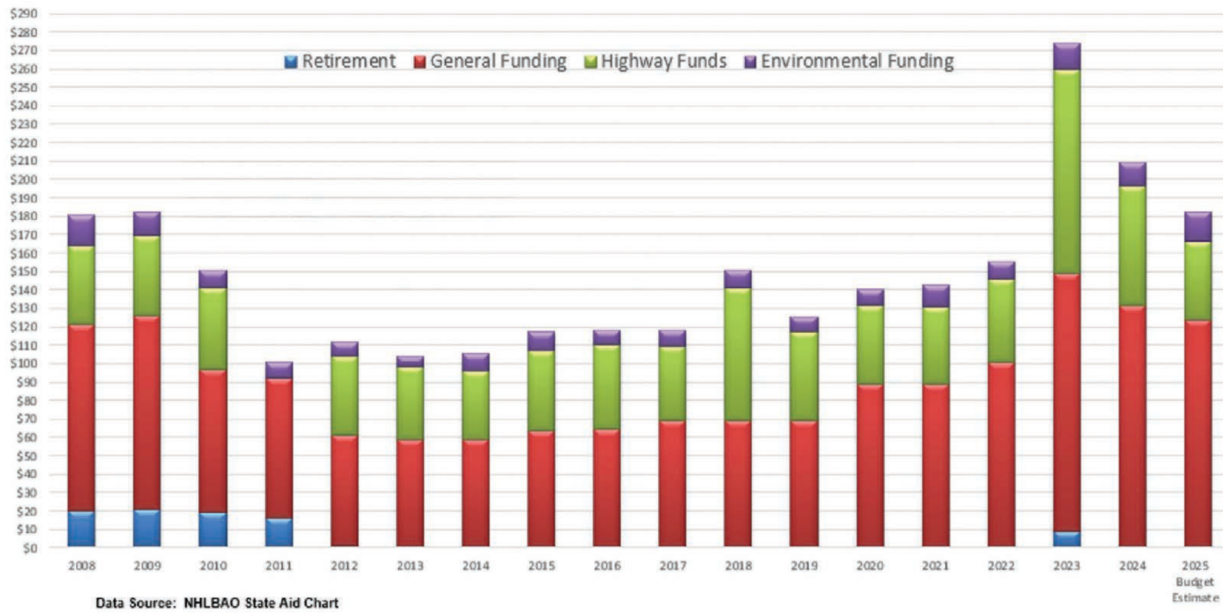
A major category of state aid is educational funding to school districts. This is comprised of a number of programs, the most significant of which are adequate education aid to meet the state's constitutional obligation, school building aid, and catastrophic aid (special education). Education funding 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 2024 versus the funding provided to cities and towns for municipal needs.

FY 2024 STATE AID TO SCHOOL DISTRICTS VS. MUNICIPALITIES



STATE AID TO MUNICIPALITIES: 2008–2025
(EXCLUDING EDUCATION)

State revenue sharing and aid to municipalities significantly decreased from 2010-2014 due to budget balancing efforts after the 2008-2009 recession. One-time revenues or surplus accounts explain the $30 million increase in 2018 highway funding, $20 million in state municipal aid grants for state fiscal years 2020 and 2021, and $151 million in state fiscal years 2023 and 2024 for infrastructure and environmental projects, and contributions to the New Hampshire Retirement System.



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 municipal share is distributed to cities and towns based on annual population estimates provided by the New Hampshire Office of Strategic Initiatives. 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. This formula provided 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. 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. Between 2010 and 2021, the municipal share increased by only 17% due to the suspension of the catch-up formula for 10 of the 13 years.

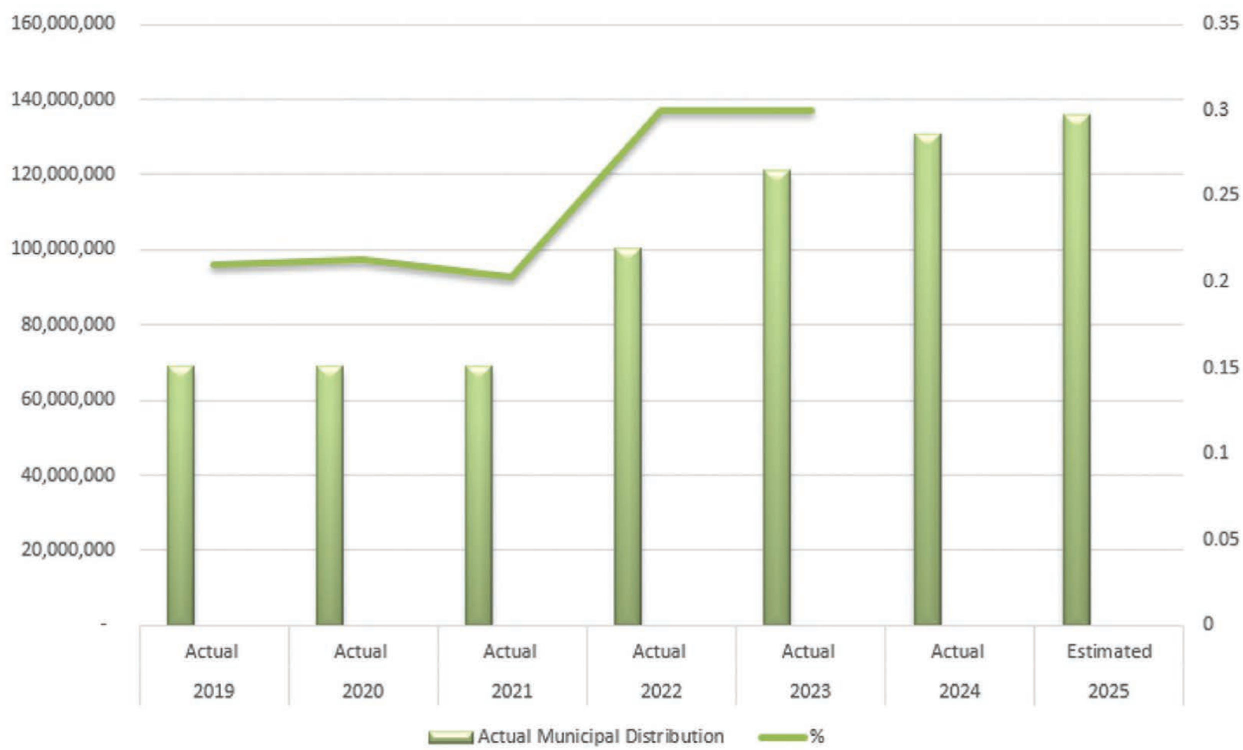
The 2021 legislative session resulted in a major change to the meals and rooms tax rate and how meals and rooms revenue sharing would be calculated. Through the state budget process, the meals and rooms tax statute was changed to create a new state treasury "dedicated fund" to which 30 percent of total 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, it 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 30 percent of meals and rooms tax revenues by the state treasurer to towns, cities, and places.

MEALS AND ROOMS DISTRIBUTION- 7 YEAR TREND



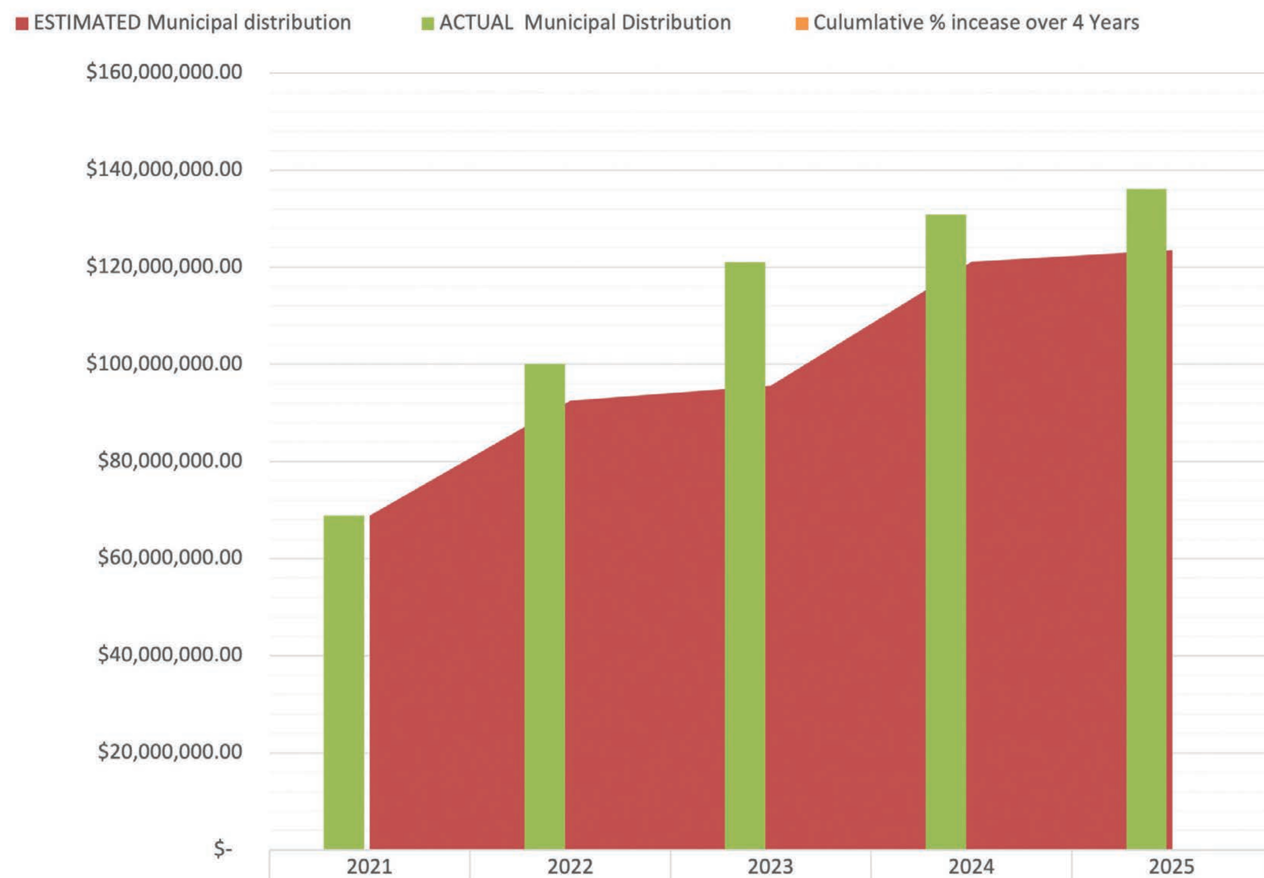
Trends. In 2001, the state and municipal shares of meals and rooms tax revenues were 82% and 18%, respectively. As these revenues gradually increased, the municipal share also grew due to the catch-up formula. By 2010, the state/municipal apportionment had reached 71%/29%. However, the catch-up formula was suspended in 10 of the 12 years leading up to 2020, during which tax revenues continued to rise. Consequently, the municipal distribution fell from a high of 29% in fiscal year 2010 to 20% in fiscal year 2020.

The COVID-19 pandemic caused a 10.1% drop in total meals and rooms tax revenue in 2021. Despite this, the municipal distribution remained at the 2017 level of $68.8 million, representing a 23% share of the total revenue in 2021. For 2022, the estimated distribution was $92.5 million, but due to the state exceeding revenue projections and a new distribution formula, municipalities received $100.1 million, marking a roughly 45% increase over 2021 levels.

The state estimated the fiscal year 2023 distribution at $95.6 million, but the actual municipal distribution exceeded $121 million, a 19.8% increase over 2022. In 2023, the estimated distribution was $121.1 million, but the actual amount was higher at $130.9 million. For 2024, the distribution is estimated at $136 million, reflecting a 97% increase over the 2017-2021 distribution amounts. In the three years since the law change, the meals and rooms distribution has nearly doubled. This unrestricted revenue is reported to the Department of Revenue Administration (DRA) each November when the tax rate is set, helping to offset local property taxes.

As shown in the following graph, since the 2021 law change, the past four years has resulted in a cumulative increase of $212.9 million in municipal meals and rooms tax distributions compared to the previously budgeted amounts.

2021 - 2025 PERFORMANCE OF MEALS AND ROOMS DISTRIBUTION



	2021	2022	2023	2024	2025
ESTIMATED Municipal distribution	$68,805,057.00	$92,500,000.00	$95,610,000.00	$121,128,647.00	$123,527,194.00
ACTUAL Municipal Distribution	$68,805,057.00	$100,143,752.00	$121,024,935.00	$130,907,267.00	$136,083,597.00
Culumlative % incease over 4 Years	0	45.55%	75.89%	90.26%	97.78%

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.

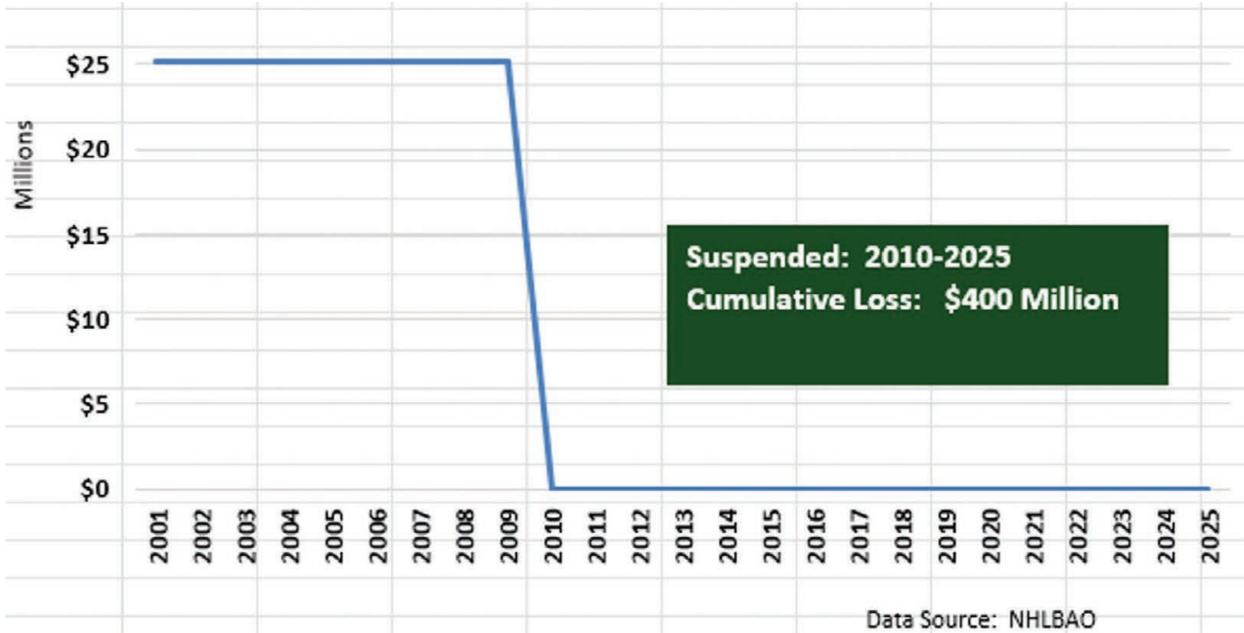
On March 31, 1970, in testimony on House Bill 1, then New Hampshire Attorney General Warren Rudman responded to concerns that future legislators may choose not to honor this commitment to municipalities to fund revenue sharing, stating:

…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 RSA 31-A was enacted in 1970, it included a provision to increase revenue sharing by 10% annually. However, this provision was short-lived and was reduced to 5% the following year, with further reductions in subsequent years. In 1983, RSA 31-A was amended again to incorporate other existing revenue sharing formulas, such as the interest and dividend tax and the savings bank tax, thereby consolidating all such funding to municipalities under one statute.

Trends. In 1999, total revenue sharing amounted to $47 million. In 2000, statutory changes redirected $22 million of this revenue, previously allocated to school districts, to fund the state's adequate education obligations. This left $25 million annually for general revenue sharing with municipalities and counties, a figure that remained constant through fiscal year 2009. However, since 2010, motivated by the impacts of the Great Recession, revenue sharing has been suspended in every state budget, effectively eliminating the statutory mandate and resulting in an annual loss of $25 million for municipalities and counties, totaling $400 million from fiscal year 2010 to 2025. The suspension of this statutory provision deprives cities and towns of the revenue they once had before their property tax base was reduced by law.

REVENUE SHARING (RSA 31-A)



Highway Block Grants

History. RSA 235:23 allocates twelve percent (12%) of the total road toll (gas tax) and state motor vehicle fees revenue collected in the previous state fiscal year to municipalities through a local highway aid formula. This funding, sourced from the state highway fund rather than the state general fund, supports the maintenance and improvement of Class IV and Class V municipal roads and highways. Additionally, supplemental funds totaling $400,000 are provided to assist municipalities with extensive roadway mileage and lower property valuations.

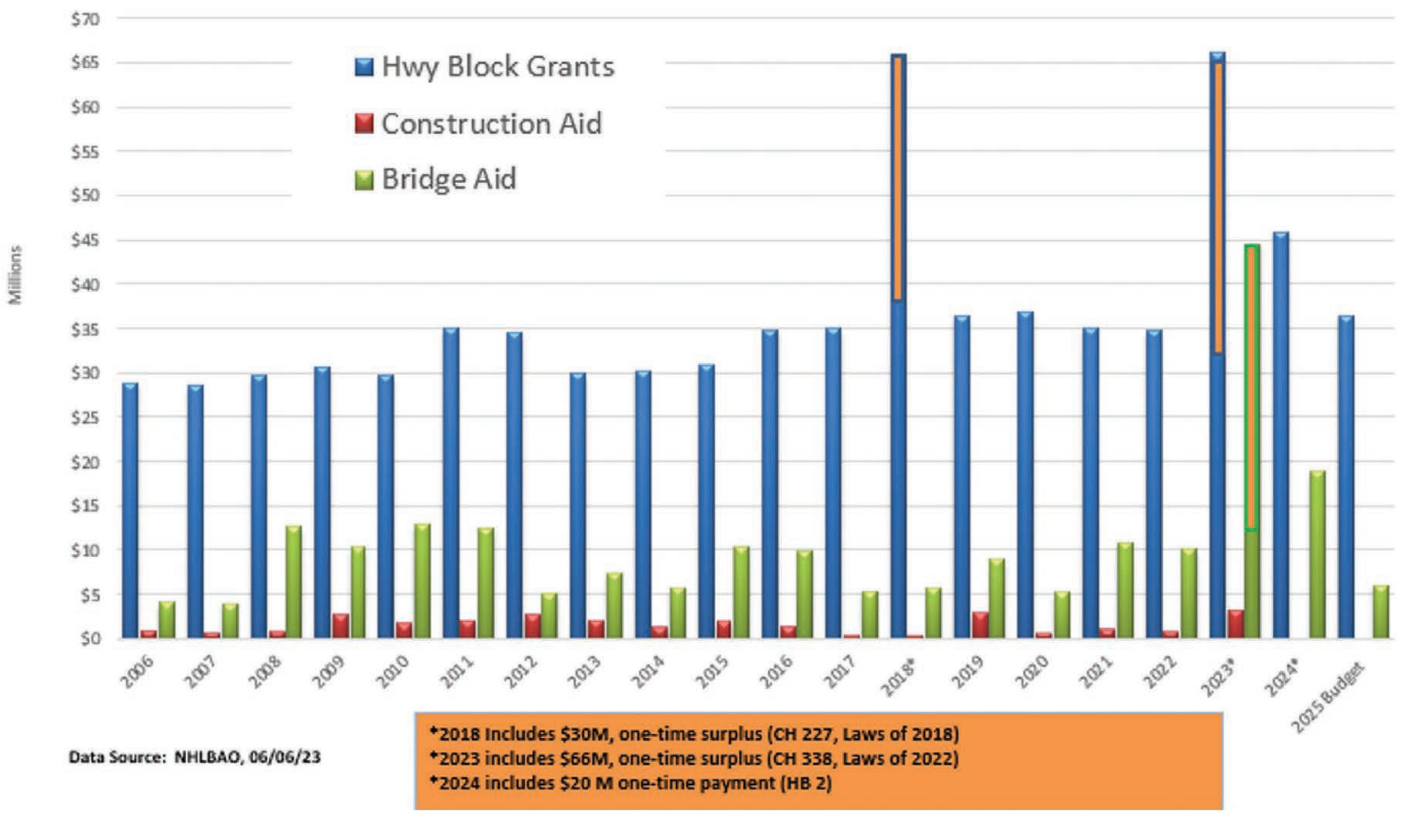
Trends. From fiscal years 2006 to 2010, the annual highway block grants ranged from $28.5 million to $30.5 million. In 2009, the legislature introduced a temporary 2-year state motor vehicle registration fee surcharge, which boosted the state highway fund and provided municipalities with an additional $5 million annually. This unpopular surcharge was later repealed, and block grant funding for municipalities returned to around $30 million per year from 2013 to 2015.

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

In the current state budget the New Hampshire Department of Transportation (NH DOT) estimated $35.8 million and $36.8 million in fiscal years 2024 and 2025, respectively, for highway block grants. This represents a $1.6 million (2.3%) *increase* 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.

Since 2016, the average distribution has ranged between $34.7 million to an estimated $36.4 million in 2025, with inflationary pressures, increased costs, and the highway block grant distribution remaining at near stagnant levels over the last decade. Recognizing this, legislators applied the principle of "using one-time revenue for one-time expenses," the state allocated an additional $30 million for municipal highways from the general fund surplus in 2017 and again in 2022, and $10 million in 2023. This extra funding was distributed to municipalities using the same formula as highway block grants and was intended for the same purposes. This additional funding is reflected in state fiscal years 2018, 2023, and 2024, accounting for the significant increases shown in the following graph.

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, 2023, there were 213 municipal red list bridges out of 1,688. On the next page is the progress chart from the New Hampshire Department of Transportation's Municipally-Owned Red List Bridges Report dated March 26, 2024:

New Hampshire Department of Transportation

2023 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	223	16	17	222
2022	222	7	19	210
2023	**210**	**13**	**10**	**213**
2024	**213**			

*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 allocated an additional $36 million, and in 2023, HB 2 authorized another $10 million from the general fund surplus for the repair and maintenance of municipally-owned bridges. This influx of state funding over the past several years has helped reduce the waiting period for all municipalities on the state bridge aid list.

*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 any fiscal year may be 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 constructing, improving, and expanding municipal wastewater and public drinking water facilities, as well as for landfill closure assistance. Under these programs, municipalities initially finance the entire project cost, complete construction, and then apply for the state's share, which covers 20% to 30% of eligible project costs. This state share is typically paid over the amortization period of the municipal financing, whether through bonding or borrowing from the state revolving loan fund.

State Aid Grants (SAG) – Pollution Control. RSA 486 offers financial assistance to NH communities in the form of grants to offset the planning, design, and construction costs of specific sewage disposal facilities. The wastewater SAG program provides grants covering 20% to 30% of eligible sewage disposal facility costs, with the exact percentage depending on the community's sewer user fee.

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 post Great Recession 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 <u>new</u> 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 allocated nearly $8.1 million and $7.4 million for 2022 and 2023. During the budget process, projects eligible for state funding were not funded due to the pandemic budget freeze. In 2022, the state approved $5.7 million for fiscal year 2022 and $6.9 million for fiscal year 2023 to fund 11 previously unfunded eligible wastewater projects and 110 new projects expected to qualify for grants in 2022 and 2023. The current biennium budget includes a $27.9 million appropriation for wastewater state aid grants (SAG) for municipalities and included a policy statement to fund SAG grants at $15 million annually for 2026 and 2027; however, one legislative session cannot bind the next.

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 to 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 with 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.

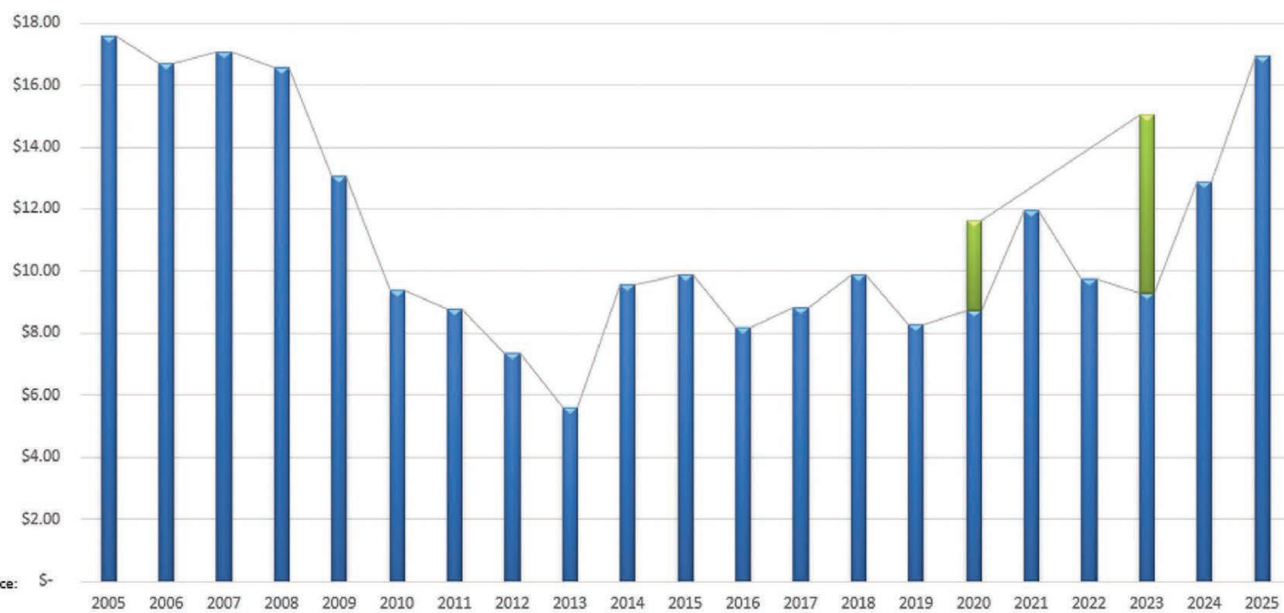
Flood Control. RSA 122:4 provides flood control reimbursement to those municipalities in interstate flood control compacts. Under the compacts, municipalities receive a payment in lieu of taxes (PILOT) for taxable land that was taken to help mitigate downstream flooding from both the Merrimack and Connecticut 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 2023 and 2024 also included full PILOT funding, regardless of payments from other states.

NH Drinking Water and Groundwater Trust Fund. Established in 2016, RSA 6-D provides 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 $200.2 million in grants and loans for the period 2017-2023. 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.

In 2023, the Drinking Water Construction Project Assistance Program received 29 applications from 26 municipalities for various projects, including new water sources, contamination control, storage capacity increases, and infrastructure upgrades and approved $8,032,950 in loans and $2,661,586 in grants.

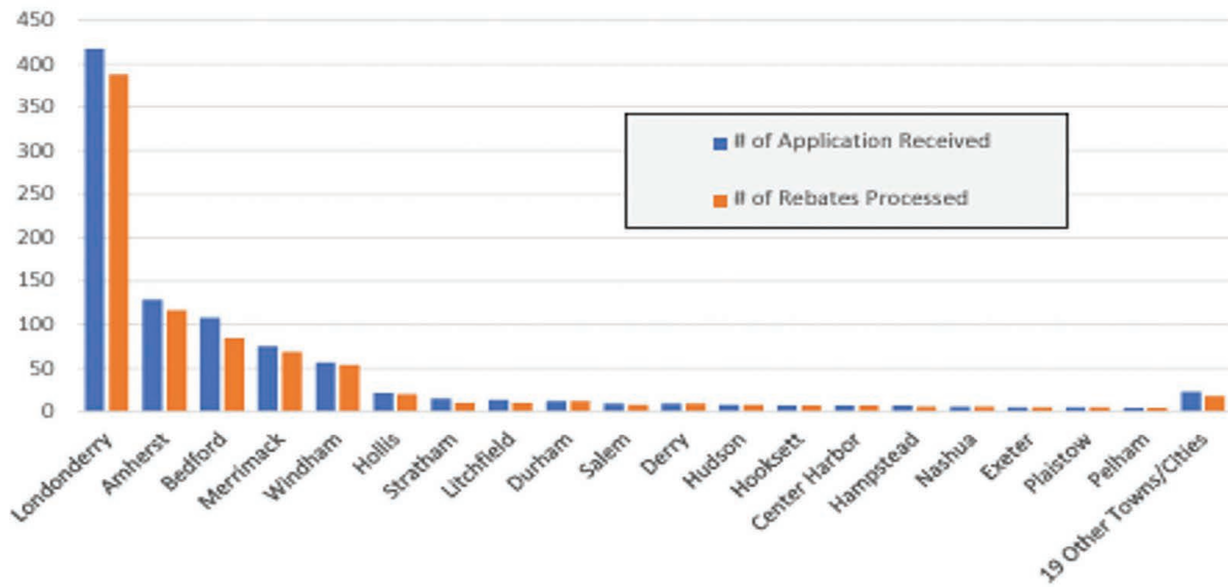
STATE AID TO MUNICIPALITIES: ENVIRONMENTAL GRANTS



Data Source: NHLBAO,

In January 2022 the NH Drinking Water and Groundwater Trust Fund Commission approved $5.0 million to create a PFAS Rebate Program to provide a one-time rebate to assist eligible private residential well users to install a treatment system designed to remove PFAS or connect to an existing public water system. The program has received over 930 applications and over 840 applications have been processed and approved to provide reimbursements to homeowners for the installation of treatment or connection to a public water system. Approximately $1.18 million remains of the originally allocated $5.0 million. The program received an additional appropriation of $12.5 million through HB 1547 in 2022 and will continue to provide rebates to eligible applicants until all available funds have been expended. This program provides critical assistance to municipal residents and reinforces the need for state funding for the construction, expansion, repair, and maintenance of municipal water systems.

REBATE APPLICATIONS BY TOWN/CITY



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 and $2 million in 2023 to the existing perfluorinated chemical (PFAS) remediation loan fund from state surplus.

The Cyanobacteria Mitigation Fund. In 2022 legislature passed HB 1066 which directed NHDES to develop a plan to prevent the increase of, and eventually control, cyanobacteria blooms in New Hampshire's waterbodies. In 2023, the legislature established a fund and appropriated $2 million to help municipalities cover the costs of nutrient control practices to reduce cyanobacteria blooms.

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, 2024, NHRS reported approximately 48,500 active members and 43,500 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 2020. Lowering the assumed rate of future investment earnings resulted in higher employer contributions as explained below.

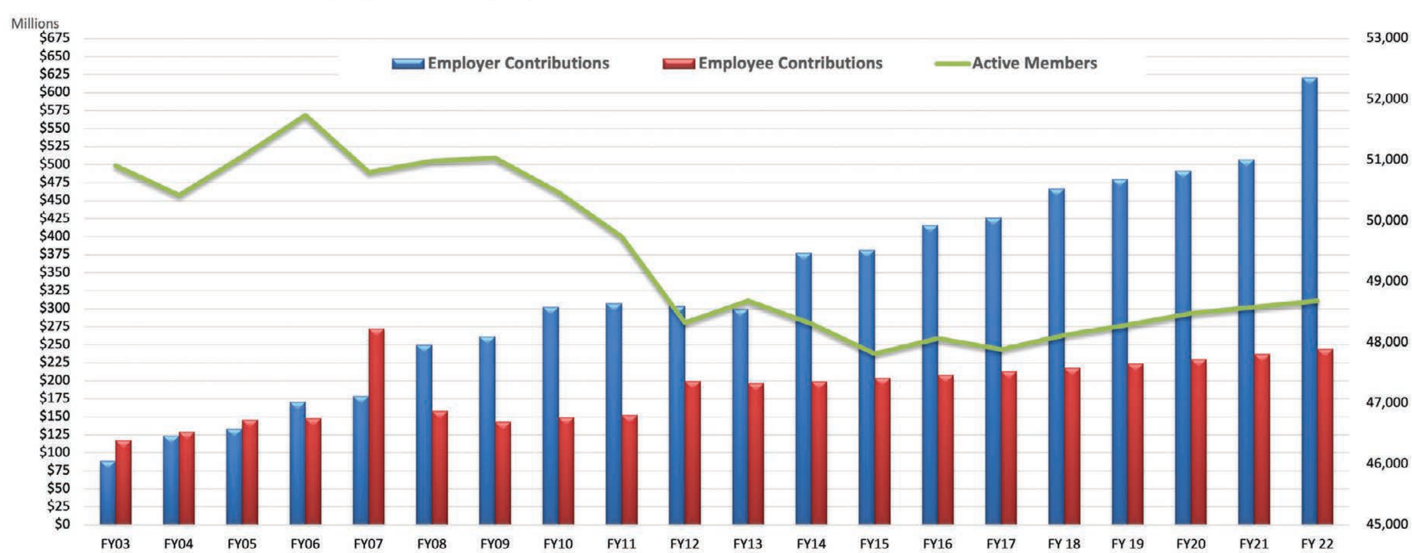
In fiscal year 2021, the retirement system achieved a 29% return on investments despite challenging economic conditions. However, NHRS reported a negative 6.1% return in fiscal year 2022, but rebounded with an 8.2% return in 2023.

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.
Pension Reform enacted in 2012 inceased employee contribution rate.

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

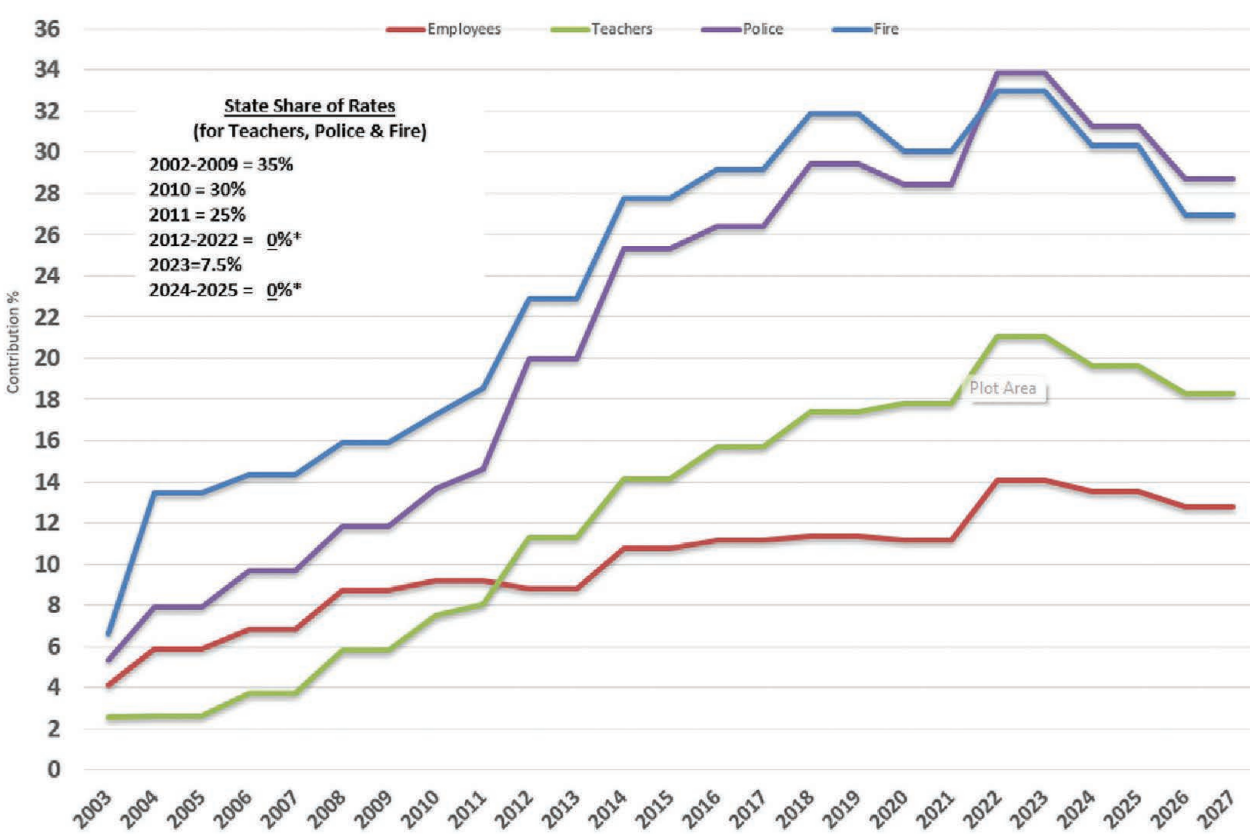
- elimination of the state contribution,
- reductions in the assumed rate of return, and
- investment losses from the 2008-2009 recession.

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 certifies 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.

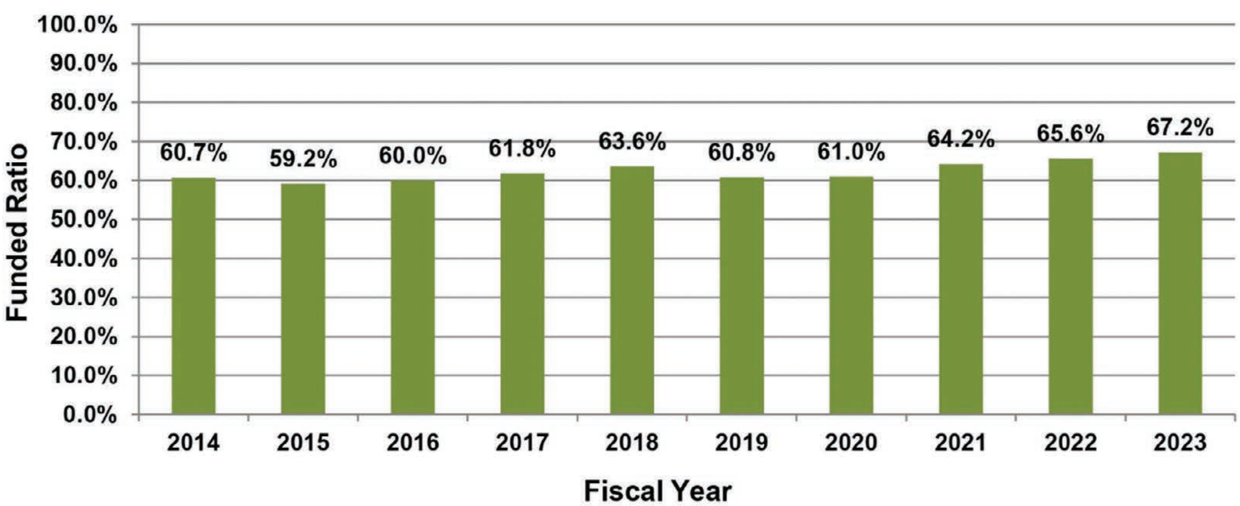
For the second consecutive two-year rate cycle, employer contribution rates for all four membership classifications—Employee, Teacher, Police, and Fire—will decrease in 2026 and 2027. According to the Board of Trustees of the New Hampshire Retirement System (NHRS) the reduction is attributed to strong investment performance over the five-year period ending June 30, 2023, and minor adjustments to demographic and economic actuarial assumptions adopted by the Board. Current actuarial valuations estimate that the unfunded liability (UAAL) accounts for more than 75 percent of total 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) was 64.2%, with $11.5 billion in assets and $5.72 billion in unfunded actuarial accrued liabilities (UAAL). At the close of 2023, NHRS was funded 67.2 percent with $11.51 billion in assets and $5.61 billion in unfunded actuarial accrued liabilities (UAAL). NHRS paid out $971.21 million in pension benefits to 43,603 retirees or their beneficiaries in fiscal year 2023. In addition to pension benefits, NHRS paid out $41.9 million in post-retirement Medical Subsidy allowances.

NHRS PENSION PLAN FUNDED RATIO



Source: NHRS https://www.nhrs.org/images/default-source/graphics/pension-plan-funded-ratio-history-2018.jpg?sfvrsn=679d07b4_34

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

- significant investment losses in 2008 and 2009;
- the practice of "gainsharing" 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).

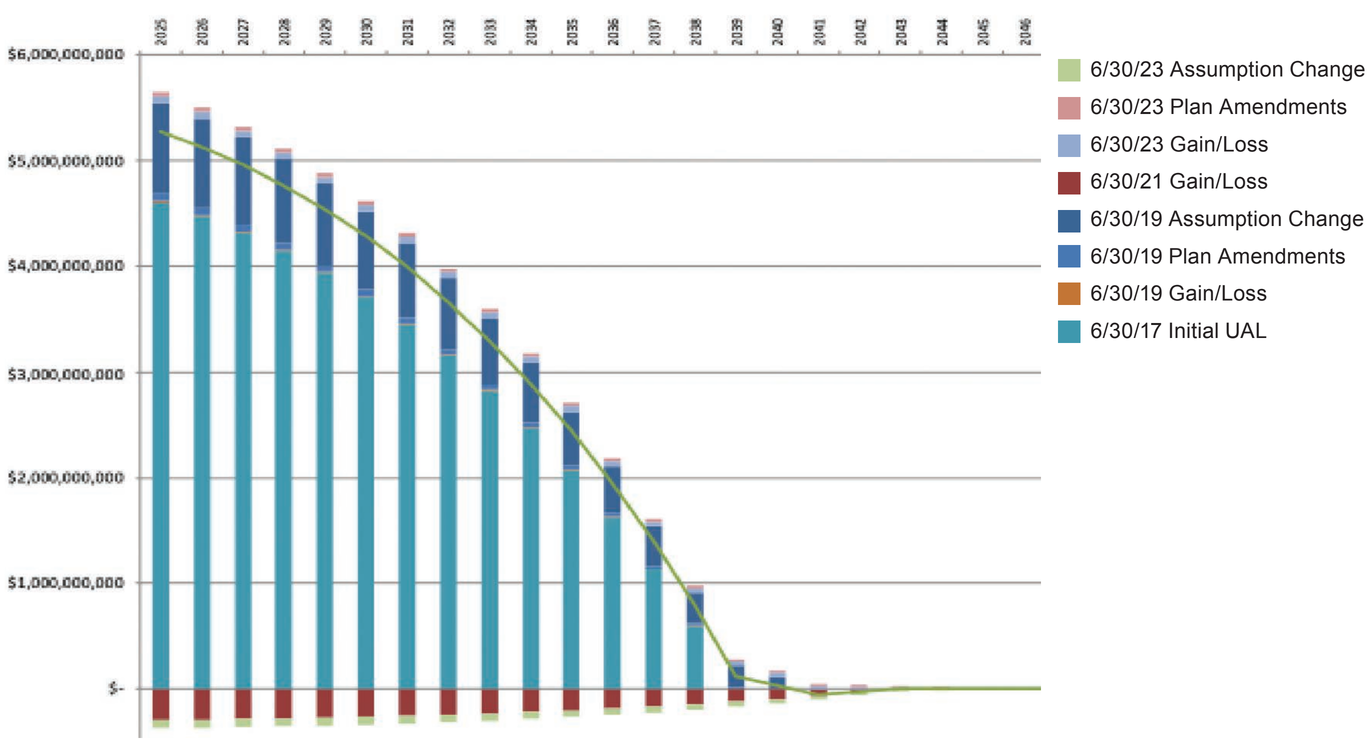
It is noteworthy that since 2007 the state legislature has made over 100 changes to the statute that governs the retirement system (RSA 100-A). Since 2010, many statutory changes to the NHRS laws have occurred to mitigate these unsustainable rate increases to employers. The more significant statutory changes included:

- change in the actuarial methodology to shed a brighter light on the true financial status of the system;
- elimination of the "gainsharing" 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.

Looking beyond these so-called "sins of the past," and despite increases in annual employer contributions from $88.5 million in 2003 to $645,000 million in 2023, the retirement system has implemented several initiatives to address the unfunded pension 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



Source: NHRS https://www.nhrs.org/employers

However, since 2018, eleven bills have become law impacting municipal employer rates and the UAAL. Despite the legislature committing over $122.5 million in state funds to cover the upfront costs to minimize the impact on the UAAL and lessen the property tax burden of these policy changes, $110.1 million has been added to the UAAL and combined with "normal costs" this has resulted in $14 million without adjustments for inflation in additional annual costs on the employer, which most of which will not sunset until 2044.

Between 2018-2024, a conservative estimate of the cumulative costs of the eleven law changes through 2044 is an estimated $275 million for municipal employers and $68 million for the state employers that will be downshifted to local property taxpayers. This illustration is a dynamic fiscal analysis to estimate the possible total cost of this policy proposal. This does not represent an actuarial analysis. The straight-line projection assumes all factors remain the same over the 20-year amortization period and does not account for variations (i.e. investment returns, inflation, mortality and retirement patterns; future changes in economic or demographic assumptions; and future changes in plan provisions or applicable law.

The Impact of Inflation on State Aid

Summary

Since the Great Recession, New Hampshire's state aid to municipalities has seen significant changes. State aid levels to municipalities in New Hampshire have largely been stagnant in recent years. This stagnation has been challenging for local governments, which often rely on state aid to fund essential services and infrastructure projects.

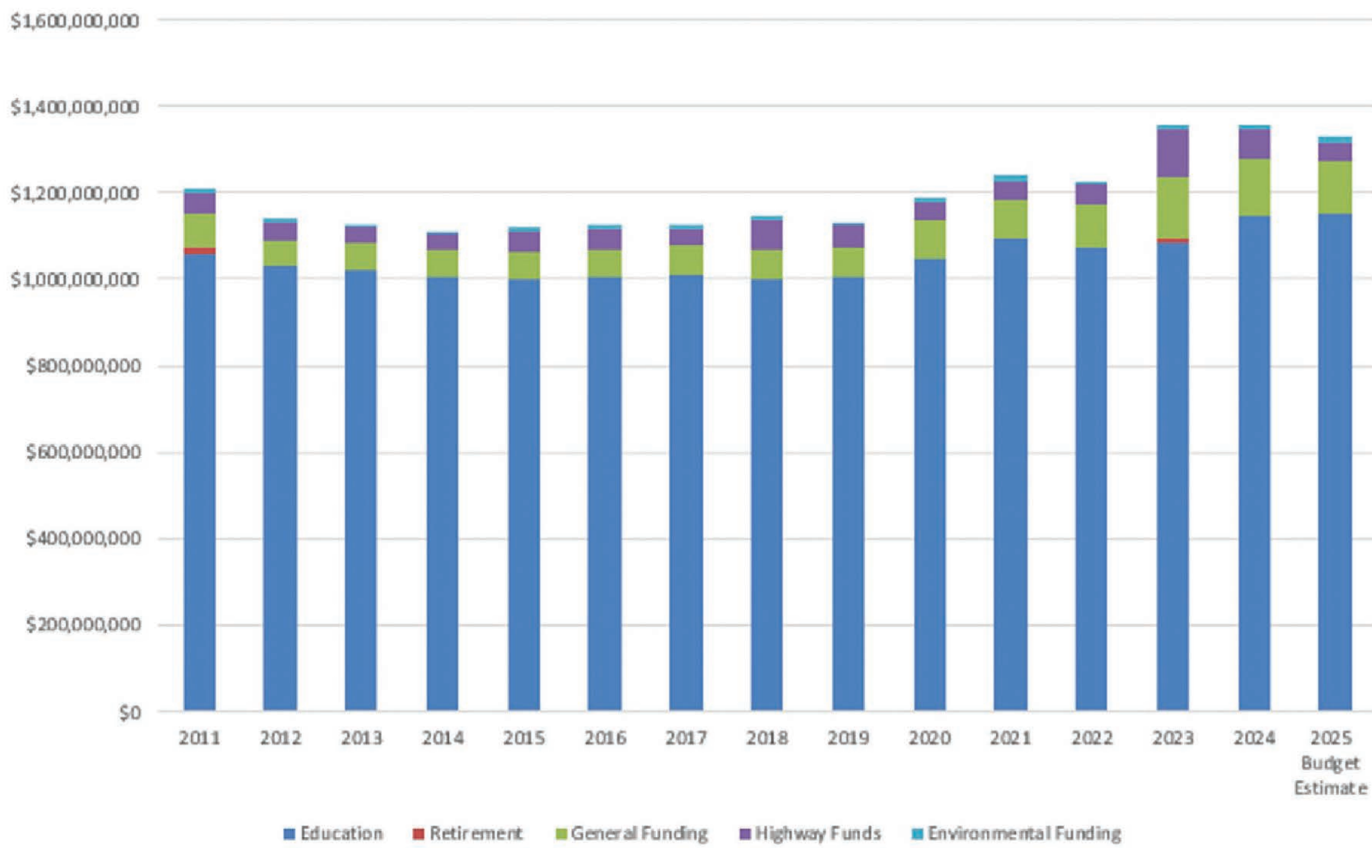
Some key factors include:

Decreased Aid (2010-2014): During the years immediately following the Great Recession, state aid to municipalities significantly decreased as the state struggled to balance its own budget. This reduction in aid often led to increased local property taxes as municipalities had to find alternative revenue sources.

Suspended Programs: Several state aid programs were suspended or eliminated. For example, state revenue sharing was suspended from 2010 to 2025, and the state retirement normal contribution was repealed in 2013.

One-Time Revenues: There were instances where one-time revenues or surplus funds were used to temporarily increase aid. For example, there was an increase in 2018, 2023, and 2024 due to the use of surplus funds for infrastructure investments for municipal roads and bridges and the municipal aid granted in the 2020/2021 budget.

STATE AID TO MUNICIPALITIES AND SCHOOL DISTRICTS 2011-2025

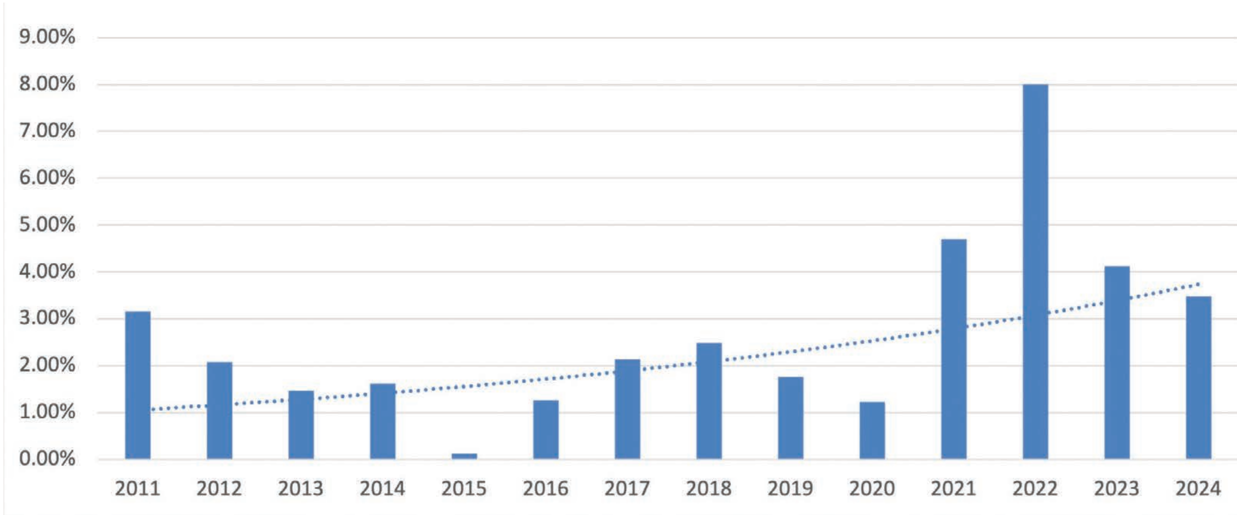


Recent Trends: More recently, federal resources, such as those from the American Rescue Plan Act, have provided significant aid to municipalities to help recover from the impacts of the COVID-19 pandemic, but those funds were required to be obligated by December 31, 2025. With this source of funding dropping off, municipalities will have to consider impacts on future budgets and the public services provided.

Reliance on Local Taxes: With state aid not increasing significantly, municipalities have had to rely more on local property taxes to meet their budgetary needs.

Limited Increases: While there have been occasional increases in aid, these have not kept pace with inflation or the growing needs of municipalities.

US DOLLAR INFLATION RATE SINCE 2011 BUREAU OF LABOR STATISTICS CPI

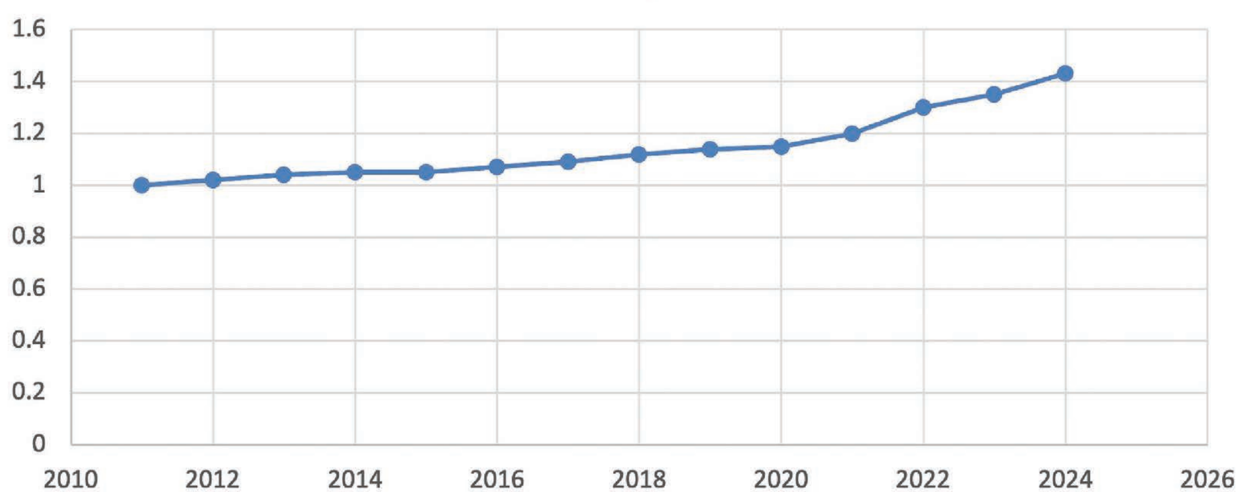


Source: Bureau of Labor Statistics (BLS)

Since 2011, inflation in the United States has shown notable fluctuations. Between 2011 and 2024 there has been a cumulative price increase of around 43.17%. This means that what cost $1 in 2011 would cost about $1.43 today. According to the LBA state aid reports, in 2011, total state aid distributed to cities, towns, and schools was $1.2 billion. In order to keep pace with inflation, the state aid distribution would need to be at $1.7 billion; however, the estimate for 2025 totals $1.33 billion.

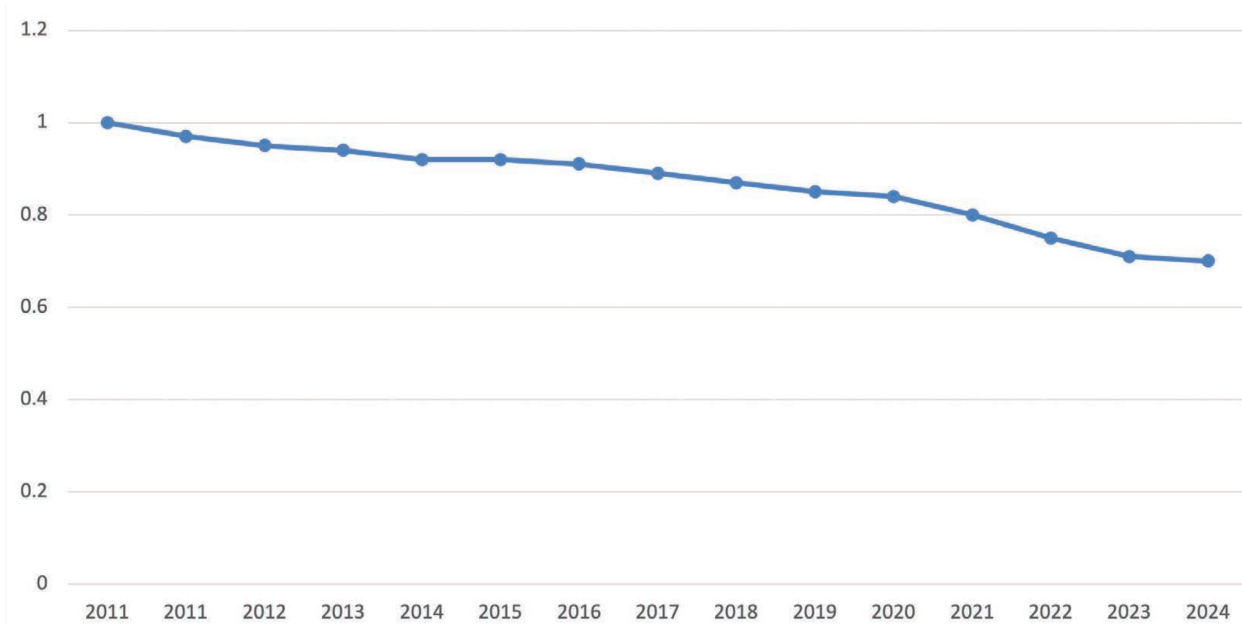
Overall, the trend has been a reduction in consistent state aid, with municipalities often having to rely on local property taxes or one-time federal funds to fill the gaps.

ONE DOLLAR IN 2011- ADJUSTED FOR INFLATION



Source: Bureau of Labor Statistics (BLS)

2011-2024 BUYING POWER OF $1 OVER TIME



Source: Bureau of Labor Statistics (BLS)

New Reporting Requirement

Effective September 24, 2024, Chapter 262 (HB 185, *Originally SB 532*) amended RSA 32:5-d to require all municipalities, village districts, and school governing bodies to post on their official town or school website within 30 days the amount of funds received by the state either by allocation or grant. This requirement applies to political subdivisions pursuant to RSA 32:2.

While this information is contained in the town annual report, as well as on the DRA MS 434 form and captured in the financial reporting, this legislative change seeks to provide more transparency for residents when state aid is received through formula grants and revenue sharing, as well as legislative directed state aid that provides one-time revenue, competitive grants, or need based funding through state agency processes.

The new requirement applies to both anticipated revenue as well as unanticipated revenue provided by the state or a state agency which is accepted under RSA 31:95-b.

NHMA created this template based on the New Hampshire Legislative Budget Assistant's State Aid Chart to use a guide; however, the law does not specify the format in which this information is to be posted. It may be helpful to develop a reporting model that uses several years of historical data to demonstrate the year-over-year changes in state aid and revenue sharing for comparative purposes.

The information contained in this publication is accurate as of the date of the publication. Updates in the law after publication may affect the accuracy of the content, and there may be supplements to this publication available with relevant legal changes. NHMA's publications do not constitute legal advice. For legal advice, city and town officials may contact Legal Services at legalinquiries@nhmunicipal.org or their own municipality's legal counsel. Please refer to NHMA's Legal Services FAQ for details about how our service works.

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 10/01/24

AID BY CATEGORY		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
		Actual	Actual	Actual	Actual	Actual	Actual
EDUCATION							
1	Adequate Education Aid	941,830,717	941,357,888	941,911,353	929,874,227	926,031,426	933,258,763
2	EFA Phase-Out Grants						
3	Building Aid	46,301,048	48,891,283	47,076,655	44,178,887	43,286,408	40,774,253
4	Court Ordered Placements	1,285,791	2,193,744	1,333,893	1,168,277	1,147,392	1,139,319
5	Driver Education	1,563,300					
6	Dropout Prevention	2,122,110	486,860	711,635	373,782	820,126	350,400
7	Kindergarten Aid	2,842,800	1,707,750	1,776,750			
8	Kindergarten Construction	2,741,088	3,038,661	798,100		841,000	
9	Local Education Improvement	625,396	23,950				
10	Retirement Normal Contribution - Teachers	27,809,968	2,198,706				
11	School Breakfast	113,808	117,845	105,289	122,053	102,532	108,380
12	School Lunch	832,003	832,003	832,003	832,003	832,003	832,003
13	Special Education	23,750,920	21,613,130	21,633,843	22,552,381	21,623,196	22,300,014
14	Tuition & Transportation	6,951,048	6,900,000	6,900,000	7,422,619	7,027,000	7,400,000
15	Public School Infrastructure Fund	-	-	-	-	-	-
	Education Total	1,058,769,997	1,029,361,819	1,023,079,520	1,006,524,229	1,001,711,084	1,006,163,132
ENVIRONMENTAL							
15	Flood Control	811,515	221,952	221,952	787,898	1,330,570	811,407
16	Landfill Closure Grants	894,703	927,658	899,812	1,080,206	886,850	792,116
17	Public Water System Grants	1,149,844	1,184,996	1,131,619	1,170,678	1,073,438	876,821
18	State Aid Grants - Pollution Control	5,902,524	5,199,986	3,327,666	6,519,872	6,610,139	5,711,222
	Environmental Total	8,758,586	7,534,592	5,581,049	9,558,655	9,900,997	8,191,566
OTHER GEN. FUNDS							
19	Meals & Rooms Distribution	58,805,057	58,805,057	58,805,057	58,805,057	63,805,057	63,805,057
20	Railroad Tax - RSA 82:31	58,379	36,671	36,671	35,822	60,037	132,187
21	Railroad Tax - RSA 228:69	47,920	48,735	51,849	55,032	58,931	63,693
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	63,924,025	64,000,938
HIGHWAY FUNDS							
24	Highway Block Grants	34,897,125	34,538,280	29,918,270	30,233,035	30,743,994	34,843,581
25	Highway Construction Aid	2,075,233	2,663,100	2,140,210	1,298,657	2,006,027	1,424,102
26	Municipal Bridge Aid	12,335,804	5,153,521	7,428,375	5,637,087	10,361,515	9,953,415
	Highway Funds Total	49,308,162	42,354,901	39,486,855	37,168,779	43,111,536	46,221,098
GRAND TOTAL		**1,192,207,293**	**1,139,443,069**	**1,127,041,001**	**1,112,147,574**	**1,118,647,642**	**1,124,576,733**

FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Actual	Actual	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	970,618,080	1,065,267,800	1,053,279,603
						615,435	887,840	750,000
37,098,071	36,530,219	33,695,932	37,294,872	29,394,930	37,363,272	42,843,621	35,233,753	43,400,528
2,563,504	2,361,189	2,839,879	3,281,971	4,052,835	4,286,191			
674,317	714,631	675,132	325,322	203,968				
		10,534,441	178,501		155,253	537,706	264,450	
						17,259,234		
102,339	105,682	109,848	176,927	140,409	191,226	226,746	210,796	400,000
820,847	832,003	832,003	832,003	831,271	830,459	832,003	832,003	832,003
22,300,002	22,323,179	22,317,665	30,798,879	29,619,276	31,772,916	32,479,873	33,917,000	33,917,000
7,400,000	7,546,000	7,712,000	9,000,000	9,000,000	9,000,000	8,912,634	9,000,000	9,000,000
-	453,711	11,849,464	3,952,325	10,552,287		1,095,848	2,400,826	7,599,174
1,007,463,278	997,249,550	1,006,290,256	1,048,337,642	1,092,320,565	1,067,419,796	1,075,421,180	1,148,014,468	1,149,178,308
811,407	844,871	844,871	789,328	745,437	745,437	745,437	748,947	830,000
776,245	658,248	476,036	388,936	409,513	375,092	368,194	293,680	126,900
797,661	791,421	701,865	651,960	589,440	550,334	507,838	509,537	459,383
6,415,756	7,598,938	6,257,397	6,876,737	10,560,766	8,060,441	12,318,040	11,330,307	1,500,000
8,801,070	9,893,479	8,280,169	8,706,960	12,305,155	9,731,303	13,939,509	12,882,471	16,416,283
68,805,057	68,805,057	68,805,057	68,805,057	68,805,057	100,143,752	121,024,935	136,083,597	121,128,647
60,803	61,392	84,793	88,370	100,461	82,715	73,084	43,787	43,797
72,837	67,680	71,635	75,993	54,074	86,739	105,977	115,528	97,500
			20,000,000	19,983,019				
						27,073,944	195,556	
						(17,943,741)		
						9,130,203		
68,938,697	68,934,129	68,961,486	88,969,420	88,942,611	100,313,206	139,464,402	136,438,468	123,668,481
34,931,513	65,839,183	36,287,968	36,911,575	35,009,311	34,741,082	66,074,084	45,849,326	46,637,476
368,872	331,892	2,853,055	618,339	1,077,268	787,900	800,000	-	-
5,340,013	5,614,946	8,896,334	5,247,887	10,847,985	10,034,391	44,473,379	18,812,888	6,000,000
40,640,398	71,786,020	48,037,357	42,777,801	46,934,564	45,563,373	111,347,463	64,662,214	42,442,872
1,125,843,443	**1,147,863,178**	**1,131,569,268**	**1,188,791,824**	**1,240,502,896**	**1,223,027,679**	**1,344,155,048**	**1,357,016,848**	**1,331,705,944**

NEW HAMPSHIRE MUNICIPAL ASSOCIATION

The New Hampshire Municipal Association (NHMA) provides legislative advocacy, a legal advice hotline, and training programs for member municipalities. Originally formed by local officials in 1941 to represent municipal policy concerns before the state legislature, NHMA has more than 75 years of continuous service to the state's municipalities. As the service and action arm of local governments throughout New Hampshire, NHMA staff respond to thousands of legal inquires from members every year, and track hundreds of bills every legislative session, actively working to advance member-adopted policies.

NHMA also provides significant training and educational opportunities for local officials and employees from member municipalities. We know local government! Learn more at ***www.nhmunicipal.org***.

OUR MISSION

Through the collective power of cities and towns, NHMA promotes effective municipal government by providing education, training, advocacy and legal services.

NHMA
NEW HAMPSHIRE MUNICIPAL ASSOCIATION
EST. 1941

25 Triangle Park Drive, Concord, NH 03301 • Phone: 603.224.7447

www.nhmunicipal.org