

POLICY MATTERS

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Ending Revenue Sharing for New Hampshire Towns Property Tax Impacts of HB 2

By Grant D. Bosse

Voters have approved town budgets across New Hampshire, but they won't know how changes to the state budget will affect their local tax rates. A proposal to suspend \$160 million in local revenue sharing could increase municipal tax rates by a few cents in some towns, or more than three dollars in others. Berlin taxpayers would be hit hardest, facing an increase of \$3.16 to their property tax rate. Comparing the amount of revenue towns received in 2008 to the total taxable property value of a town, average tax rates would increase by 48 cents per thousand, but taxpayers would have markedly different outcomes depending on which town they lived in. Berlin's tax rate would jump \$3.16 unless replaced by other state revenue. Over a dozen cities and towns would see tax increases of over \$1.00 per thousand.

Under House Bill 2¹, the state would suspend its two large revenue sharing programs for the next two years, which would help the state fill its looming budget deficit. Since proposing the shift in his February Budget Address, Governor John Lynch has backed away from ending one of the two largest revenue sharing programs, but continues to support suspending the other. Gov. Lynch believes that money from the federal stimulus package will more than make up the difference.

Top Twenty Towns Facing Highest Property Tax Impact

Municipality	FY08 Revenue Sharing ²	FY08 Rooms and Meals ²	Local Tax Impact ³	Municipality	FY08 Revenue Sharing ²	FY08 Rooms and Meals ²	Local Tax Impact ³
Berlin	\$1,043,452	\$438,540	\$3.16	Allenstown	\$91,575	\$210,660	\$1.05
Strafford	\$33,854	\$168,663	\$2.79	Keene	\$1,058,779	\$961,975	\$1.05
Northumberland	\$283,577	\$103,789	\$2.77	Charlestown	\$86,771	\$207,452	\$1.05
Troy	\$86,889	\$86,231	\$1.55	Somersworth	\$392,348	\$502,190	\$1.01
Gorham	\$332,531	\$124,429	\$1.42	Bennington	\$51,171	\$63,523	\$0.98
Claremont	\$470,626	\$547,521	\$1.40	Colebrook	\$64,426	\$101,890	\$0.97
Greenville	\$62,764	\$95,348	\$1.17	Winchester	\$80,402	\$183,182	\$0.94
Newport	\$287,582	\$268,569	\$1.14	Plymouth	\$143,271	\$269,118	\$0.93
Franklin	\$316,936	\$365,816	\$1.10	Manchester	\$3,955,712	\$4,616,029	\$0.88
Lisbon	\$48,665	\$72,176	\$1.06	Sullivan	\$9,831	\$33,091	\$0.86

1 House Bill 2, Sections 17 and 18, <http://www.gencourt.state.nh.us/legislation/2009/HB0002.html>

2 New Hampshire Municipal Association, Legislative Bulletin, February 13, 2009

3 New Hampshire Department of Revenue Administration 2008 Property Tax Rate sheet, http://www.nh.gov/revenue/munc_prop/2008.htm

Suspending the Revenue Sharing Deal

In 1970, the New Hampshire Legislature rescinded a dozen local taxes including the tax on machinery and the stock-in-trade tax, and replaced them with a state-level Business Profits Tax. In exchange for taking away these local revenue streams, state law required that Business Profits Tax revenues be shared according to a formula⁴ under Chapter 31-A of state statutes. For the past 40 years, these revenues have bolstered local property taxes in paying for local government. According to the New Hampshire Municipal Association⁵, the state distributed over \$25 million to cities and towns under 31-A in 2008, ranging from \$171 to tiny Hart's Location to almost \$4 million to Manchester and \$2.4 million to Nashua. While Gov. Lynch proposes suspending this formula for two years, local officials worry that a temporary suspension could evolve into a permanent loss of local revenue.⁶

Rooms and Meals

The local share of the Rooms and Meals Tax is an even larger piece of town budgets, accounting for \$55.5 million in local revenue in 2008⁷. Since 1995, state statutes have reserved most of the Rooms and Meals Tax receipts for the state. The remaining funds, gradually growing to 40%, are sent back to municipalities on a per capita basis⁸. Nashua received nearly \$3.7 million last year, while Manchester got back \$4.6 million, most of which is dedicated to financing city payments on the Verizon Wireless Arena. Losing this dedicated funding source would have endangered Manchester's ownership of the arena and the city's bond rating.⁹ This reliance on Rooms and Meals revenues shows how towns have treated the program as a dedicated funding stream, rather than an aid program subject to the decisions of state budget writers.

Because this formula is based solely on population, and not local property values, property-rich towns receive a higher proportion of state revenues from the Rooms and Meals Tax, while property-poor towns receive a relatively higher share from 31-A. Because both sources would be suspended for two years under HB 2, the total amount of lost state revenue must be calculated against each town's property tax base to determine the full potential impact on local budgets.

In order to replace more than \$1.4 million received from the two revenue sharing programs in 2008, Berlin would have to raise its municipal property tax rate by \$3.16 per thousand. Claremont taxpayers would need to increase their rate by \$1.40 per thousand to make up the more than \$1 million lost, and Keene would need an additional \$1.05 on its local tax rate to replace the nearly \$2 million it wouldn't receive from the state.

Gov. Lynch first announced his proposal to suspend revenue sharing on February 12th, long after town budget committees had crafted their local spending plans. Thus, town budget writers didn't plan on losing two major revenue streams when crafting their budgets or the warrant articles sent to voters. New Hampshire towns don't actually set their own tax rates. The budgets approved at Town Meeting - or through a city's budget process - are sent to the state, where the Department of Revenue Administration calculates how high the tax rate must be to raise the revenue approved under the budget. If local budget committees relied on traditional state revenues, and those funds are suspended by the Legislature later this year, the DRA will be forced to increase local tax rates to make up the difference.

4 New Hampshire Revised Statutes Annotated, Title III, Chapter 31-A, <http://www.gencourt.state.nh.us/rsa/html/iii/31-a/31-a-mrg.htm>

5 New Hampshire Municipal Association Legislative Bulletin, February 13, 2009, <http://www.nhlgc.org/LGCWebsite/Advocacy/Bulletins/2009Bulletin-7.pdf>

6 Keene Sentinel, March 7, 2009, "Keene, region face revenue cuts"

7 Ibid.

8 New Hampshire Revised Statutes Annotated, Title V, Chapter 78-A:26, <http://www.gencourt.state.nh.us/rsa/html/V/78-A/78-A-mrg.htm>

9 Union Leader, March 7, 2009, "Cities counting on rooms and meal money",

<http://www.unionleader.com/article.aspx?headline=Cities+counting+on+rooms+and+meals+money&articleId=75152342-98a6-43fb-94bc-2d6bf4276477>

Offsetting the Impact on Local Taxpayers

Though voters across the state have approved their local budgets at Town Meeting, suspending revenue sharing in the state budget would impose additional property tax increases that weren't on the ballot. While Gov. Lynch proposes using federal stimulus money to make up for the loss of revenue sharing from the state, there is little assurance that each town will get back the same amount of money it would lose, and even less that the proceeds would make their way back to local taxpayers. The Legislature won't approve the state budget until June, leaving substantial uncertainty about where local budget writers will get the money to fund local services.

Potential Impact on New Hampshire Cities

City	FY08 Revenue Sharing ¹⁰	FY08 Rooms and Meals ⁹	Local Tax Impact ¹¹
Berlin	\$1,043,452	\$438,540	\$3.16
Claremont	\$470,626	\$547,521	\$1.40
Concord	\$1,239,277	\$1,775,941	\$0.70
Franklin	\$316,936	\$365,816	\$1.10
Keene	\$1,058,779	\$961,975	\$1.05
Laconia	\$721,925	\$1,368,871	\$0.64
Lebanon	\$382,372	\$570,271	\$0.55
Manchester	\$3,955,712	\$4,616,029	\$0.88
Nashua	\$2,426,932	\$3,697,626	\$0.65
Portsmouth	\$647,154	\$878,389	\$0.40
Rochester	\$530,950	\$1,292,703	\$0.77
Somersworth	\$392,348	\$502,190	\$1.01

Gov. Lynch argues that under his proposed budget, total aid to cities and towns would increase. The loss of revenue sharing, rooms and meals, as well as a five-percent cut in the state contribution to local retirement funds, would be offset by increasing education assistance and by the federal stimulus¹². The plan calls for an increase of \$123 million in adequacy grants over two years, while ending revenue sharing would take over \$160 million from cities and towns, according to the New Hampshire Municipal Association. Gov. Lynch counted on federal stimulus funding for local projects to make up the difference.

Since local school districts are funded separately and are usually politically independent of town budgets, there is little assurance that increased educational aid would actually offset lost municipal revenue. School boards knew that lawmakers increased adequacy grants last year, which could push school budgets higher with no direct increase in the local school tax rate.

Additionally, cities and towns are likely to receive millions in additional federal money through the stimulus bill, officially titled the American Recovery and Reinvestment Act. But this federal money will be for specific local projects, rather than general spending. A town may receive federal aid to upgrade its wastewater treatment plant, but can't use that money to run the Town Hall. Another town may be able to repair an aging bridge with money from the stimulus, but won't be able to use those funds to offset the decreased state contribution to its retirement plan. Revenue sharing was especially valuable to local budget writers not only because it was a steady stream of money, but because it came with no strings attached, either from the state or from Washington. The money Gov. Lynch credits with offsetting these revenues lacks such

¹⁰ New Hampshire Municipal Association

¹¹ Based in New Hampshire Department of Revenue Administration valuations

¹² Governor's Executive Budget Summary, February 12, 2009,

<http://admin.state.nh.us/budget/Budget2010/Executive%20Summary%20FY08.pdf>

flexibility, and must be used in the school district or for specific local projects.

Gov. Lynch tasked Assistant Attorney General Bud Fitch with heading up the Governor's Office of Economic Stimulus¹³, which administers the distribution of federal money heading to the Granite State under the American Recovery and Reinvestment Act¹⁴. According to Fitch, "it's too soon to tell" how this federal money will be distributed, since the first New Hampshire projects didn't go out to bid until February 19th.

The looming budget battle in Manchester reflects the growing tension between municipal and school budgets statewide. The Manchester School Board presented a \$152 million budget proposal, up from last year's total of \$146 million¹⁵. Since the school district is getting additional money from the state, this would not result in an increase in the school portion of the city's property tax. But Mayor Frank Guinta points out that these increases are meant to offset the planned cuts in revenue sharing¹⁶. Local Aldermen and Selectmen are left to make up for the lost revenue through cuts in local services or increases in the town portion of property taxes.

On March 6th, the Governor's Office announced it would not support suspension of Rooms and Meals revenue sharing in the state budget¹⁷. Gov. Lynch is now planning to use steer federal stimulus money directly to school districts to pay for a planned state increase in education aid. This would free up the \$110 million over the next two years that Gov. Lynch had planned to take from Rooms and Meals revenue sharing. Gov. Lynch's budget would still eliminate \$50 million over two years from the Chapter 31-A revenue sharing, and would reduce the state subsidy of local retirement plans from 35% to 30%.

Conclusion

Ending revenue sharing would cut \$160 million from municipal budgets over the next two years. Suspending just the 31-A revenue sharing program would cut \$50 million. Though Gov. Lynch hopes to use federal stimulus money to make taxpayers whole, there is no certainty that local taxpayers would escape the burden for suspending the 40-year revenue sharing agreement between New Hampshire and its municipalities.

Under the revenue sharing suspension contained in HB 2, the New Hampshire Treasury and the federal stimulus bill may end up sending more total money to New Hampshire cities and towns than the last budget, but the money heading to towns comes with much less flexibility. Local school boards are adding higher state aid into their budgets, pushing education spending higher across the state. But municipal budget writers face much more uncertainty in crafting their spending plans, as they can't be sure if two major sources of annual revenue will be available.

Additionally, while towns may apply for federal stimulus money to fund local projects, some towns may not have qualifying projects, or be able to use federal money to offset revenue that will remain in state coffers. The projected tax rates that voters used to make tax decisions at Town Meeting could change dramatically if revenue traditionally shared by the state is not replaced by federal stimulus money. Several New Hampshire communities could see increases of over \$1.00 per thousand in their municipal property tax rates.

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13 Governor's Office of Economic Stimulus, <http://www.nh.gov/recovery/>

14 Open Congress: HR 1, American Recovery and Reinvestment Act, <http://www.opencongress.org/bill/111-h1/show>

15 Union Leader, March 2, 2009, "In Manchester, a bigger school budget and no tax increase?"

<http://www.unionleader.com/article.aspx?headline=In+Manchester%2c+a+bigger+school+budget+and+no+tax+increase%3f&articleId=1106a0c3-9a3a-4f48-8ae8-567b0c34972e>

16 Union Leader, March 3, 2009, "Missing the Memo: Our Defiant School Board"

<http://www.unionleader.com/article.aspx?headline=Missing+the+memo%3a+Our+defiant+school+board&articleId=d68d898e-3fb1-4ae6-b096-e67e92bb6a39>

17 Concord Monitor, March 7, 2009, "Lynch restores millions to municipalities",

<http://www.cmonitor.com/apps/pbcs.dll/article?AID=/20090307/FRONTPAGE/903070346>