

Senate Finance Committee

Deb Martone 271-4980

SB 20-FN, relative to payment by the state of a portion of retirement system contributions of political subdivision employers.

Hearing Date: January 14, 2025

Time Opened: 1:46 p.m.

Time Closed: 2:15 p.m.

Members of the Committee Present: Senators Lang, Rosenwald, Watters, Gray, Innis, Carson and Birdsell

Members of the Committee Absent: Senator Pearl

Bill Analysis: This bill provides that the state shall pay 7.5 percent of contributions of retirement system employers other than the state for group I teachers and group II members.

Sponsors:

Sen. Rosenwald

Sen. Fenton

Sen. Altschiller

Sen. Prentiss

Sen. Perkins Kwoka

Sen. Long

Sen. Reardon

Sen. Watters

Rep. Edgar

Rep. Wallner

Rep. Telerski

Rep. Simpson

Rep. Nagel

Who supports the bill: Senators Rosenwald, Fenton and Altschiller; Representative Cahill; Dennis Shanahan; Margaret Byrnes; Dave Caron; Brian Hawkins; Jim Donchess; Brian Ryll; Jacques Raby; Talia Manning; Karl Bodensiek; James Bednar; Robert Bartlett; Debra Sawyer; Jacqueline Anderson; Barrett Christina; Michael Brendle; Shelly Gingras; Patrice Rasche; Stephen Rasche; Pauline Paciulan; Karen Cadiero-Kaplan; Peter Koutroubas; Roger Kaplan; James Steiner; Kent Hackmann; Sarah Kocz; Barbara Collier; Susan Traversy; Nancy Cook; David Doherty; Frank Fucci; Ruth O'Neal; Deborah Fexis; Spencer Burdge; Gail Laker-Phelps; Susannah Jonas; David Jonas; Melanie Stringer; Deborah Bernacchia; Arlene MacArthur; Debra Errico; Stephen Fox; Suzanne Whittemore; Christopher Wilson; Linda Benham; Kevin Lehan; Cynthia Knight; Robert Kulish.

Who opposes the bill: Greg Moore; Curtis Howland; Christopher Rice; Dan Hubbard; Pam Hubbard.

Summary of testimony presented in support:

Senator Rosenwald, Prime Sponsor:

- This bill would have the state pay 7.5 percent of the employer cost for the public employee pension. It's a small part of what the state did for 40 years prior to 2011. Having the state help pay for part of the retirement system cost is the only true mechanism the state has for helping to reduce local property taxes because the municipalities and the counties receive a smaller bill. They actually have less tax to raise.
- Everything else we do, such as returning more of the Rooms and Meals tax revenue and helping pay for water and sewer projects sends money to the subdivisions, but doesn't necessarily mean tax relief.
- The Legislature recognized this in 2021 and made a one-time 7.5 percent payment.
- Local property taxpayers are hurting.
- In Nashua, the state's decision to renege on its promise cost taxpayers approximately \$10 million per year. Between 2012 and the present Nashua taxpayers have had to pay approximately \$100 million of additional property taxes due to the state not keeping its promise.
- Past arguments that suggested that having the state pick up part of the pension costs merely encouraged cities and towns to overpay their employees were not true for the City of Nashua. It has a spending cap. Nashua doesn't pay its teachers enough to keep many of them for more than one year. The city also currently has a 10 percent vacancy rate on their police force. Nashua is not overspending.
- When speaking with voters, the number one issue is property taxes. Older residents are worried about having to move out of the home they've lived in for years.
- Property taxes make housing even more expensive.
- SB 20-FN is an opportunity to take a concrete step towards lowering the cost of living for our residents. It is the only sure means the Legislature has to help with property tax relief.
- Senator Lang struggles with how paying the proposed 7.5 percent results in property tax relief. Senator Rosenwald explained the municipalities actually receive a lower bill for teachers and municipal employees. It's the state's only surefire property tax relief mechanism.
- Senator Birdsell stated there is no language in the bill that would allow the state to participate in contract negotiations. Every time an employee's salary is increased, the state's cost increases. She wondered how the state could help control the increase the contribution would create every year. Senator Rosenwald explained Nashua has a spending cap which precludes the action Senator Birdsell was questioning.
- Senator Watters attempted to confirm this proposal would be the one remaining action we could do regarding the state's shift back to the local property taxpayers. Senator Rosenwald agreed. She added that at one time the state was paying 40 percent, then 35 percent, and then eliminated it totally since 2011.

- Back in the day, the state agreed to pay 40 percent as an enticement to have employees join the retirement system to broaden the pool and spread the risk around. The entire bill now has been sent to local property taxpayers.

Dennis Shanahan, City of Dover, Deputy Mayor:

- Deputy Mayor Shanahan expressed his understanding that the state is facing a difficult budget cycle. Cities and towns, particularly Dover, are feeling similar pressures.
- Dover has been cautious with spending, in particular hiring and compensating their municipal employees. City and school employees are their greatest expense.
- Dover has been a good steward of the taxpayer's dollar.
- In FY 2025 Dover's staffing increased by less than one percent. Two staffers were hired for the new PFAS mitigation drinking water facility, with compensation from the responsible party and the state. Their retirement costs increased by \$213,000.
- In FY 2024 staffing increased by 1.7 percent, most of that being the promotion of part-time employees to full-time employees across several departments. Retirement costs were on the low side--\$30,000.
- In FY 2023 staffing increased by 3.8 percent due to hiring 8 new firefighter/EMTs to staff a third ambulance across all shifts. The city experienced a 50 percent increase in emergency calls for service and a 100 percent increase in simultaneous calls in the last decade.
- In FY 2022 staffing increased by 0.7 percent, with retirement costs increasing \$550,000.
- Pay raises for employees have been kept between 2-4 percent over the last several years, well under the Consumer Price Index. They've added small amounts of fringe benefits, mostly those with no fiscal component to them.
- Dover has used pandemic-related grants and have done so with full recognition that these funds will expire and have expired. They have been careful to minimize how the costs are passed onto the taxpayer.
- Over the last 10 years, Dover has maintained consistent staffing ratios near 10 FTEs per one thousand residents.
- SB 20-FN creates an ongoing 7.5 percent state share of employer contribution costs for police, teachers, and firefighters participating in the New Hampshire Retirement System. The intent of the bill is to reduce the property tax burden on residents.
- The surging market of residential property values is truly creating a hardship for single, 2-family and 3-family residential property owners. This year residential property values increased by 11-12 percent; commercial property values went up only 1-2 percent. That is a multi-million dollar shift in property tax liability. Folks are feeling the impact of that.
- The City of Dover would very much like to continue to work with the state to continue to provide high quality life safety, law enforcement, public works, and other important quality of life services to our residents. Our citizens have clearly expressed to us that cutting essential city services is an action of last

resort and have tasked us to find the means to limit property tax increases without these kinds of cuts.

- We understand upcoming budget decisions at the state level will have varying impacts on upcoming municipal budgets.
- Dover feels that providing relief in the employer costs of the retirement system is foundational to ensuring the continued economic health of both the state and its municipalities.
- Senator Watters stated Dover is also a tax cap community. Its county government also respects that. He inquired if the impact of this proposal's relief would be immediate due to the tax cut. Deputy Mayor Shanahan agreed. They balance the city and school books independently. The schools have experienced difficulties receiving consistent funding from the state over the last couple of years. There have been overrides of the tax cap to accommodate that drop in funding. Often funds are transferred from the city side to the schools. There will be immediate relief with the adoption of this proposal. Senator Watters asked if this proposal would give the city another tool to assist them with funding for recruitment for public safety. Deputy Mayor Shanahan indicated it might not be an impactful tool, but surely one they could use. Like the City of Nashua, Dover is 5-10 percent below their staffing goals for the police department.

Margaret Byrnes, Executive Director, New Hampshire Municipal Association:

- Restoration of a state retirement contribution has been a longstanding policy of NHMA's membership, 234 cities and towns of New Hampshire. They are grateful for the continued effort to restore some portion of the state retirement contribution.
- Testimony previously given during the public hearing is representative of what cities and towns are facing since the contribution was eliminated.
- We understand this will be a challenging budget process. However, in recent years the Legislature has seen to recommit state aid revenue promised to municipalities, including the Legislature's significant effort to increase the Rooms and Meals tax distribution. This renewed the partnership between the state and municipalities. It was a recognition that state and municipal budgets are tied together.
- All additional revenue to municipalities and all decreases to expenses to municipalities are, in effect, property tax relief by offsetting the amounts municipalities must raise through property taxes.
- Senator Watters sought confirmation that Governor Ayotte is attempting to resolve the situation with Group II employees. Ms. Byrnes stated that is her understanding.

David Caron, Town Administrator, Town of Derry:

- Based upon state tax policy property taxes fund most municipal services, both on the town and school side. It is very important to maintain a stable tax rate, and reduce it when they can.
- The impact upon Derry for this year by the state not honoring their commitment of 30 years at 35 percent is \$2.8 million. Cumulatively, since 2010 they have

absorbed a \$14.4 million additional property tax burden to their residents due to the state no longer honoring its commitment.

- Administrator Caron supplied written testimony to committee members, and related examples that spoke to the question if any kind of relief goes to the bottom line. The 2021 state one-time payment of 7.5 percent was placed into a fund and drawn down over 3 years.
- Derry is also a tax cap community. You enter financial trouble when you utilize unsustainable revenues for recurring expenses. That one-time payment was bled into the budget and used over a 3-year plan.
- When inflation rates are high, that is when your tax cap is high. That is when you construct capital projects. When the state came through with additional Rooms and Meals tax revenue some years ago, the town decided to bond repairs to its central fire station. This allowed it to keep its tax rate lower.
- It's very important to restore that partnership between the state and the communities.

Jim Donchess, Mayor, City of Nashua:

- The cities and towns were induced to enter the state pension system with the promise there would be a 40 percent contribution. The state honored this commitment for a very long time.
- Mayor Donchess confirmed there is considerable tax pressure. Cities and towns are not just giving away a lot of money.
- If you talk with the people from the pension system they will tell you that approximately one year ago, 75 percent of the contributions made by cities and towns doesn't even relate to the current employees. That portion is recapitalizing building up the assets of the system. Whatever raise they may pay city employees is a very small factor given that only 25 percent of their contributions relate to the current employees.
- The pension obligations of the cities and towns has skyrocketed over the last 10-12 years. The state reneged on its promise to pay a portion of the municipal pension costs. Even bigger than that the system got undercapitalized, mistakes were made, the fund was mismanaged. As a result the percent funded went down to the mid-50s. Now it is up into the 60s. Increasing that percentage funded to 100 percent, a mandate of the Legislature, is incredibly expensive.
- This was a problem the municipalities had nothing to do with.
- Nashua is paying \$35 million into the state pension system, which is about 15 percent of the tax burden.
- This has created a huge problem for local property taxpayers.
- New Hampshire is a high property tax state.
- Approximately \$1,000-\$1,200 per Nashua taxpayer is going to the state pension system.
- It would be helpful if the state returned to the 7.5 percent contribution to help keep property taxes as low as they can.
- Senator Gray requested the Office of the Legislative Budget Assistant to develop the calculation alluded to in Mayor Donchess' testimony that goes to pay the unfunded liability of the retirement system.

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Date Hearing Report completed: January 16, 2025