

# Senate Finance Committee

*Deb Martone 271-4980*

**SB 114-FN-LOCAL**, relative to payment by the state of a portion of retirement system contributions of political subdivision employers.

**Hearing Date:** January 31, 2023

**Time Opened:** 2:31 p.m.

**Time Closed:** 3:01 p.m.

**Members of the Committee Present:** Senators Gray, Innis, Bradley, Birdsell, Pearl, D'Allesandro and Rosenwald

**Bill Analysis:** This bill restores the state's contribution to the retirement liabilities of certain teachers, firefighters, and police officers within the state retirement system.

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**Sponsors:**

Sen. Rosenwald

Sen. Altschiller

Sen. Prentiss

Sen. Fenton

Sen. Perkins Kwoka

Sen. D'Allesandro

Sen. Whitley

Sen. Watters

Sen. Chandley

Sen. Soucy

Rep. Edgar

Rep. O'Brien

Rep. Telerski

Rep. Wilhelm

Rep. Simpson

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**Who supports the bill:** Senators Altschiller, Soucy, Watters, Whitley and Perkins Kwoka; Representatives O'Brien and Telerski; Mayors Jim Donchess, Deaglan McEachern and Joyce Craig; City Manager Phillip Warren; Town Managers Steve Fournier and Rick Sawyer; City Councilor Karen Liot Hill; Katherine Heck; Brian Hawkins; Mary Till; Cindy Kudlik; John Keegan; Heidi Carlson; Nicole MacStay; Monica Staples.

**Who opposes the bill:** Dan McGuire; Julie Smith; Kathleen Wikstrom; Jeffrey Creem; Curtis Howland.

**Who is neutral on the bill:** Marty Karlon

**Summary of testimony presented in support:**

**Senator Rosenwald, Prime Sponsor:**

- This bill will continue the property tax relief promised last year in HB 1221. That bill provided a one-time state payment of 7.5% of the employer cost for police, firefighters, and teachers' pensions.
- Regarding the history on this, back in the late 1960s the Legislature thought the retirement system would be more efficient if the pool was larger with the risk more spread out. The New Hampshire Retirement System enticed the cities and

towns to join the retirement system for police, firefighters, and teachers by promising to pay a significant percentage of the cost. That was the situation for 40 years. During the great recession fourteen years ago the state's contribution was reduced twice and finally eliminated entirely in 2011.

- Cities and towns, individuals and businesses alike, have been on the hook with their property taxes for the entire amount of the cost for more than a decade.
- The state's decision to go back on its 40-year promise has been incredibly expensive for property taxpayers. In Nashua, for example, the pension cost for these essential public employees totals over \$9 million per year, and represents 15 percent of a property tax bill. Between 2012 when no state assistance was received, and 2022 Nashua property taxpayers have been burdened with \$76 million of additional costs.
- Property tax issues are some of the most talked about issues in Senator Rosenwald's district. Older residents are worried about being forced out of the homes they've lived in for many years.
- A policy decision has been made to give ongoing tax relief to businesses and wealthy families. Although we've raised the amount of the Rooms and Meals tax revenues being distributed to municipalities, it is unpredictable in terms of budget timing.
- Restoring even a portion of the pension costs that the state used to pay, as we did for the current fiscal year, would be sustainable and predicatable as it would be structural.

**Representative Michael O'Brien:**

- Representative O'Brien is also Vice President of the Nashua Board of Alderman and a former Nashua firefighter for 35 years.
- The original percentage paid by the state in 1967 was 40 percent. It was then trimmed to 35 percent. No sunset date was ever established, meaning the contribution should remain in perpetuity.
- There is a companion bill in the House being referred to as a "taxpayer's bill".
- We can't continue to ask taxpayers to shoulder this burden. The proposed 7.5 percent in SB 114-FN-LOCAL will help alleviate the tax burden in Nashua.
- The City of Nashua is experiencing recruitment problems with police and fire, due in part to the pension system.

**Senator Altschiller, Cosponsor:**

- Last year's 7.5 percent contribution to the state retirement system was a good thing. It provided much needed property tax relief to our local municipalities. Let's make that our new baseline.
- We have the opportunity to make good on a promise that was negotiated in good faith back in 1967 when the state had four separate pension programs. We consolidated, added municipal employees to the pool and committed to just over one-third of the cost. That deal was executed and then reneged on in 2011, causing an enormous downshifting to our cities and towns, and was reflected in staffing decisions and property tax increases.
- We must now build on last year's one-time 7.5 percent contribution.

**Katherine Heck, Government Finance Advisor, New Hampshire Municipal Association:**

- Ms. Heck thanked the Legislature for the one-time payment received by municipalities last year. It did lead to direct property tax relief.
- This bill is structured a bit differently in that rather than receiving a reimbursement back via the one-time payment, municipalities would only need to budget the 92.5 percent. The state would pay the remaining 7.5 percent to the retirement system. Budgets moving forward would be 7.5 percent less than what the voters would have to raise and appropriate towards the retirement system.
- Anytime a municipality or public subdivision hires a full time policeman, teacher or fireman outside of collective bargaining, they are required to enroll that individual in the New Hampshire Retirement System. That is the obligation. The salary is negotiated at the local level.

**Jim Donchess, Mayor, City of Nashua:**

- The 1967 law required the state to pay 35 percent of pension costs to the cities and towns. That was the inducement to persuade all cities and towns to join the New Hampshire Retirement System. That was changed some years back.
- SB 114-FN-LOCAL will benefit all cities and towns in approximately, proportionately the same amount.
- Pension costs average \$34 million per year. The total budget is \$300 million roughly. About \$250 million is collected in property taxes. Other revenue pays for the remainder of the budget. A \$34 million payment represents nearly 15 percent of every taxpayer's entire tax bill.
- This bill would restore a portion of that 35 percent, namely 7.5 percent. In Nashua, that represents approximately one percent of the tax rate. For the average homeowner in Nashua that is \$75, which is helpful. If the 35 percent was restored it would equal 5 percent of every tax bill, basically, in New Hampshire.
- Cities and towns across the state truly appreciated what the Legislature did last year. They would love it if the state were to continue.
- Cities and towns are not giving away massive raises to city employees. Currently, Nashua is under an agreement to give police a 3 percent raise for four years. Inflation must be considered. Teachers are receiving a bit more; Nashua is paying less than the state average for teachers currently. Teachers are receiving a 4 percent raise. But again, inflation is more than that right now.
- Senator Bradley reminded Mayor Donchess it was his amendment to HB 1221 that established the one-time 7.5 percent contribution. If this bill is passed, Senator Bradley wondered how Mayor Donchess could guarantee it would lower property taxes in Nashua. Mayor Donchess indicated if Senator Bradley wants to ensure it goes to the retirement system, the city could set up a segregated account for these funds. The retirement contribution payment would then be paid out of this segregated account. It's not the total guarantee the Senator is looking for, but it would demonstrate the dollars are being spent directly in the way you would appropriate them.
- Property tax pressure is very intense in every city and town. Property taxes are very high. This pressure will ensure the local governing body use the money for the benefit of taxpayers.

**Karen Liot Hill, Lebanon City Councilor and Former Mayor:**

- It is important to have predictability and stability in planning budgets. Same for taxpayers to plan for their own budgets.
- Make the 7.5 percent contribution recurring and sustainable. It isn't the 35% inducement, but is a meaningful amount that will provide property tax relief to residents and businesses.
- Property taxes are an important part of the climate when businesses are making their decisions about whether to stay in New Hampshire.
- Consider lowering property taxes as an economic development issue as well as a workforce recruitment and retention issue for public sector employees, as well as a property tax relief measure for residents.

**Summary of testimony presented in opposition:**

**Dan McGuire, Board Member, Granite State Taxpayers:**

- Mr. McGuire is also a current member of the New Hampshire House of Representatives.
- If at the end of budget discussions an additional \$50 million is available, a simple way to help taxpayers would be to charge them less in the statewide property tax. Currently, the state collects \$363 million per year in property tax.
- SB 114-FN-LOCAL is bad public policy as it contains the wrong incentives. The bill sends checks to municipalities based on their spending; i.e., if they spend more on personnel the check is bigger. If they spend less the check is smaller.
- The appropriate way to send money to municipalities is akin to the adequate education money. If you have 100 kids, you get a certain amount; if you have 200 kids, you get twice the amount. We give them money based on something not under their control.
- The statewide property tax is not under the control of the town in the sense of how much property value there is.
- We want a system whereby when a municipality spends \$100 on personnel, it costs their taxpayers \$100 on personnel.

**Neutral Information Presented:**

**Marty Karlon, Communications/Legislative Affairs Director, New Hampshire Retirement System:**

- The retirement system takes no position on the bill.
- SB 114-FN-LOCAL does not affect the funding of the retirement system in any way.

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Date Hearing Report completed: February 1, 2023