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Trends in New Hampshire County Government Finances 1996-2004

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September 2006

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Trends in New Hampshire County Government Finances, 1996-2004

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Executive Summary

This report provides information on the levels of, and trends in, county expenditures, analyzes the changing revenue structure of counties, and assesses the implications in light of broad demographic changes occurring in New Hampshire. The major findings are:

- County government accounts for a small share of New Hampshire governmental expenditures. New Hampshire county governments spent \$350 million in 2004 compared to over \$2 billion by local municipalities and \$4.8 billion by the state.
- County expenditures vary significantly across the state. Per capita county expenditures varied from a high of \$223 in Sullivan to a low of \$102 in Hillsborough. This variation is driven largely by differences in the demand for, and provision of, human services – primarily nursing home services.
- Although expenditures for nursing, human and correctional services represent the bulk of county expenditures in 2004 just as they did in 1996, expenditures on “general government”¹ and “other” services have grown faster, and increased from 17 percent to 20 percent of county expenditures between 1996 and 2004.
- Growth in expenditures for nursing homes has far outstripped growth in revenues. The second largest source of county revenue, nursing home receipts, grew by just 26 percent, (compared to nursing home expenditures increases of 54 percent), and more than half of the increase in revenues occurred in a single year, 2004.
- Counties’ reliance on the property tax has increased considerably between 1996 and 2004. Local property tax revenues increased by \$61 million, or about 57 percent, a rate that is 5 percent above total revenues, indicating that the portion of county services paid for by local property taxes increased.
- As a percentage of per capita income, per capita county property taxes in Coos and Sullivan counties are nearly three times the burden of Rockingham and Hillsborough counties. Those counties with the lowest incomes and highest needs face the highest demand for county services and the least ability to support it, making the county government funding structure regressive.

Given the primary role that nursing home care plays in county expenditures and revenues, the aging of the population presents the greatest challenge to county governments. As the percentage of older citizens increases in counties where there is high incidence of elderly poverty and disability, the need for nursing and other services to the elderly could climb dramatically. In counties with slow or stagnant population growth, these costs will be spread over a smaller population base, increasing the per capita spending differentials that currently exist and increasing the differential in property tax burdens. The factors most likely to influence the services currently provided by county government are moving in a direction that suggests county government expenditures will increase significantly, especially in rural and less wealthy counties, at the same time increasing the regressive aspects of county government funding.

¹ General government expenditures include county attorneys, registry of deeds, maintenance of buildings, personnel and financial administration, the county executive offices, as well as a number of other functions.

1. Introduction

County government in New Hampshire began in 1771 with five counties: Rockingham, Strafford, Hillsborough, Cheshire, and Grafton. Originally, counties in New Hampshire were responsible for road maintenance, law enforcement and a court system. There are now ten counties in New Hampshire and their responsibilities have changed over the years. The court system is operated by the State of New Hampshire and roads are cared for by the New Hampshire Department of Transportation, or by the community in which they are located.

In 2006, county government in New Hampshire is responsible for providing services for the elderly who are disabled or in need of nursing care, operating jails, prosecuting and transporting criminals, recording official property transfer documents, and providing juveniles with court ordered services. In terms of aggregate expenditures and revenues, counties are much smaller than either state or local government. In 2004, New Hampshire counties spent approximately \$350 million or about \$280 for every resident of the state.

Despite limited responsibilities relative to towns and the state, many of the services provided by New Hampshire counties put them at the center of important political and public policy debates, including who should receive public services, at what level, as well as which level of government should administer and pay for the services. At the same time, for most residents, county government is arguably the least well known and least understood level of government in New Hampshire.

This report provides basic insights into the role of county government in New Hampshire. Its purpose is to provide support for a discussion about the current structure of county government and the degree to which it supports the most equitable and efficient financing and provision of services. To realize this purpose the report:

- presents a broad overview of county government services through examination of expenditure and revenue patterns of recent years;
- highlights key trends and drivers of county expenditures and revenues;
- examines the differences in fiscal trends among New Hampshire's ten counties;
- considers the implications for county governments of future demographic, economic, and other trends.

2. The Level of County Government Expenditures

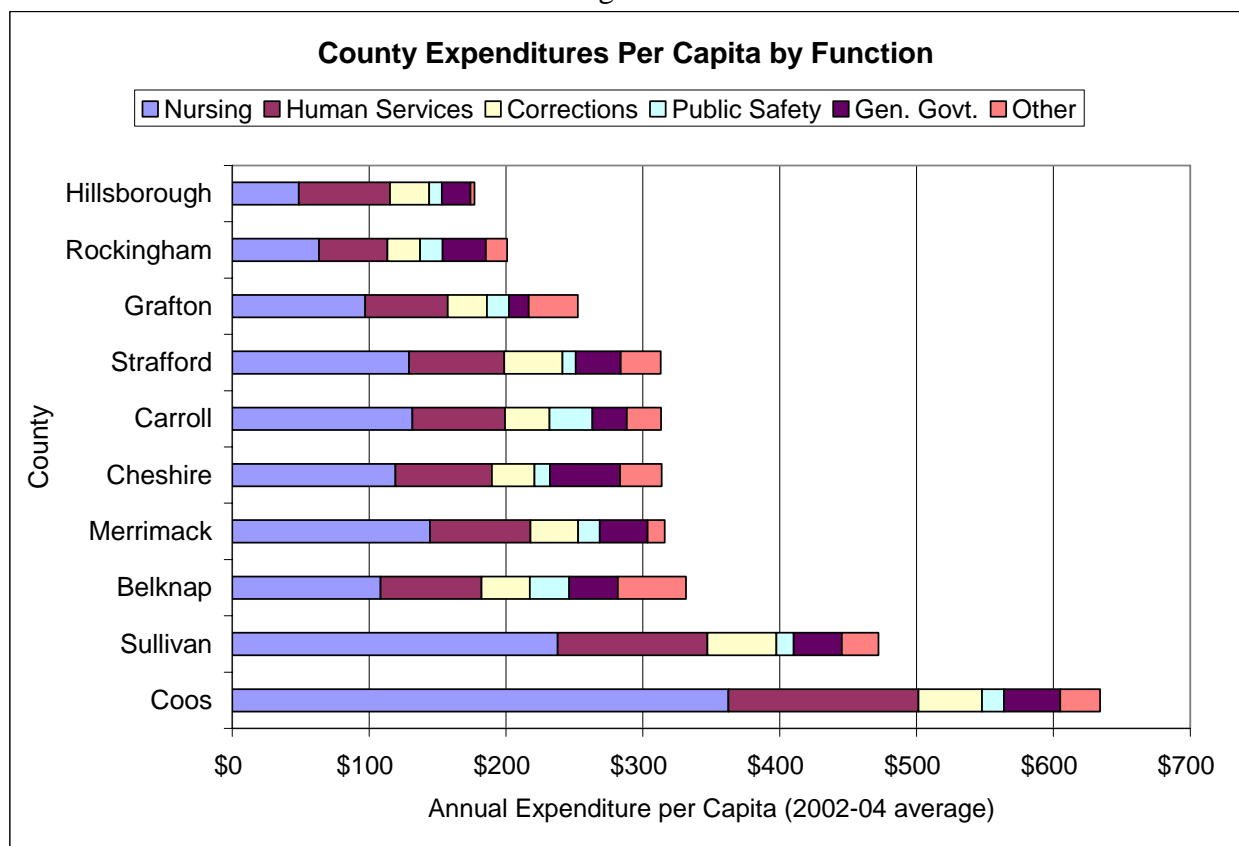
New Hampshire county governments spent over \$350 million in 2004.² The majority (80 percent) of these expenditures were to provide four types of services: elderly services including nursing home care; services to the disabled, families, and children; county jails; and the public safety and security functions of county sheriffs. In comparison, the State of New Hampshire

² All expenditure data in this report are from county MS42 reports filed with the NH Department of Revenue Administration after county budgets have been set annually. MS42 forms require counties to report the appropriations that are voted for the upcoming fiscal year as well as the "actual" prior year's expenditures. The data in this report represent "actual" expenditures where available. However, because of the timing of filings some counties cannot report their actual expenditures from the prior fiscal year and in those cases "appropriations" rather than expenditures have been used.

spent \$4.8 billion in that year (including federal funds) school districts spent over \$2 billion and municipalities around \$1 billion.

For most county government services in New Hampshire the services provided are similar regardless of the county and they are prescribed by statute.³ The similarity in services makes comparisons of expenditures across the counties possible. While each of New Hampshire's ten counties performs essentially the same functions and provide the same set of services, expenditure per capita across counties differ dramatically.⁴ As shown in Figure 1, Coos and Sullivan counties have, by far, the highest per capita expenditures. These differences in per capita expenditures are largely driven by differences in nursing home expenditures per capita (as shown in Table 1).

Figure 1



³ Comparing per capita expenditures between governments is often problematic because in many cases it is not clear that two governments are providing identical or even a similar level of service. At the municipal level, comparisons of per capita "community services" or "parks and recreation" expenditures for example, would have little meaning unless the services were identical. Even for services like fire protection, the nature and quality of services can differ significantly, making per capita expenditure comparisons difficult. At best, these comparisons can provide some indication of the preference communities have for spending on different public services.

⁴ The three year average of per capita expenditures from 2002-2004 is used to reduce the impact that extraordinary, one-year expenditures in any one year might have on comparisons.

Table 1

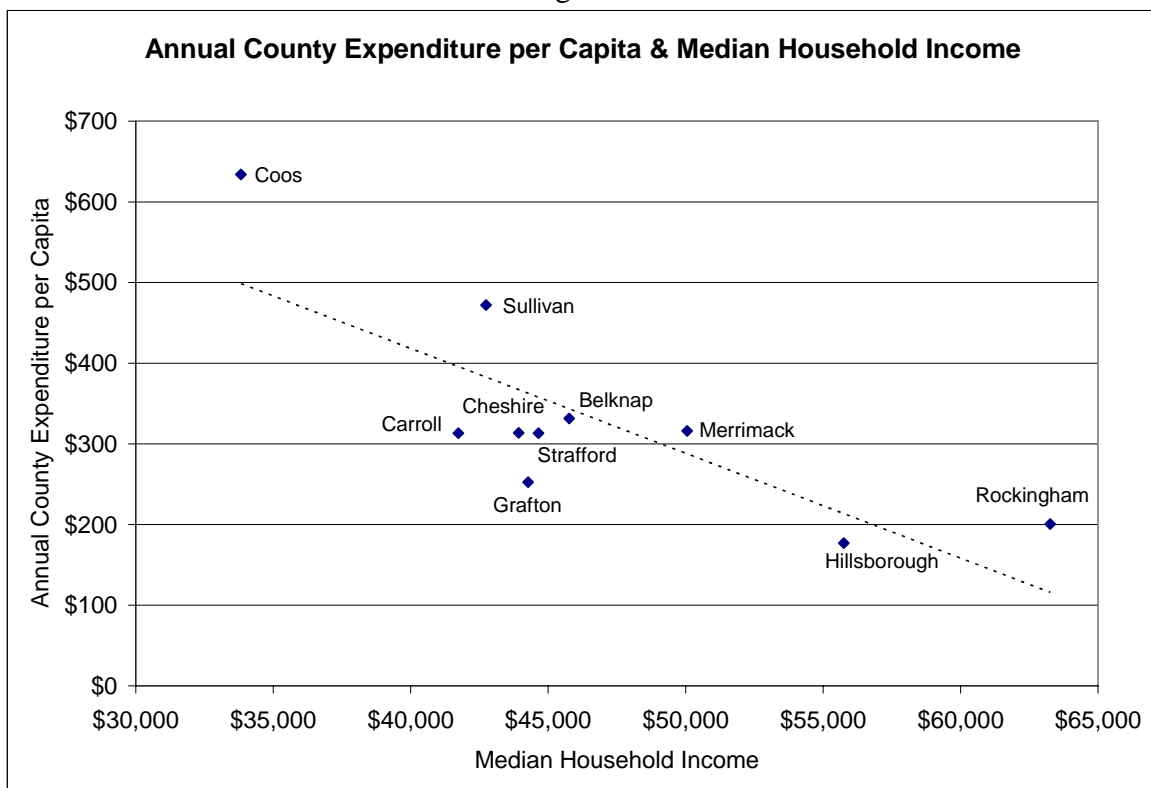
Per Capita County Expenditures By Category (Avg. 2002-2004)					
	<u>General Government</u>	<u>Public Safety</u>	<u>Corrections</u>	<u>Nursing Homes</u>	<u>Human Services</u>
Belknap	\$35.50	\$28.80	\$35.50	\$108.30	\$73.70
Carroll	\$25.10	\$31.30	\$32.50	\$131.70	\$67.70
Cheshire	\$51.30	\$11.30	\$31.10	\$119.20	\$70.50
Coos	\$40.90	\$16.10	\$46.50	\$362.60	\$138.80
Grafton	\$14.50	\$16.20	\$28.50	\$97.10	\$60.40
Hillsborough	\$21.00	\$9.30	\$28.60	\$48.70	\$66.50
Merrimack	\$35.10	\$15.60	\$34.90	\$144.40	\$73.50
Rockingham	\$31.50	\$16.60	\$23.80	\$63.30	\$50.10
Strafford	\$32.80	\$9.90	\$42.50	\$129.20	\$69.50
Sullivan	\$35.10	\$12.70	\$50.40	\$237.80	\$109.40

Average Income Levels and Age of Residents

A majority of county expenditures are for the provision of social services. Because many of the services provided by counties are designed to be safety net services, it is not surprising that there is a strong relationship between measures of income and the level of county expenditures.

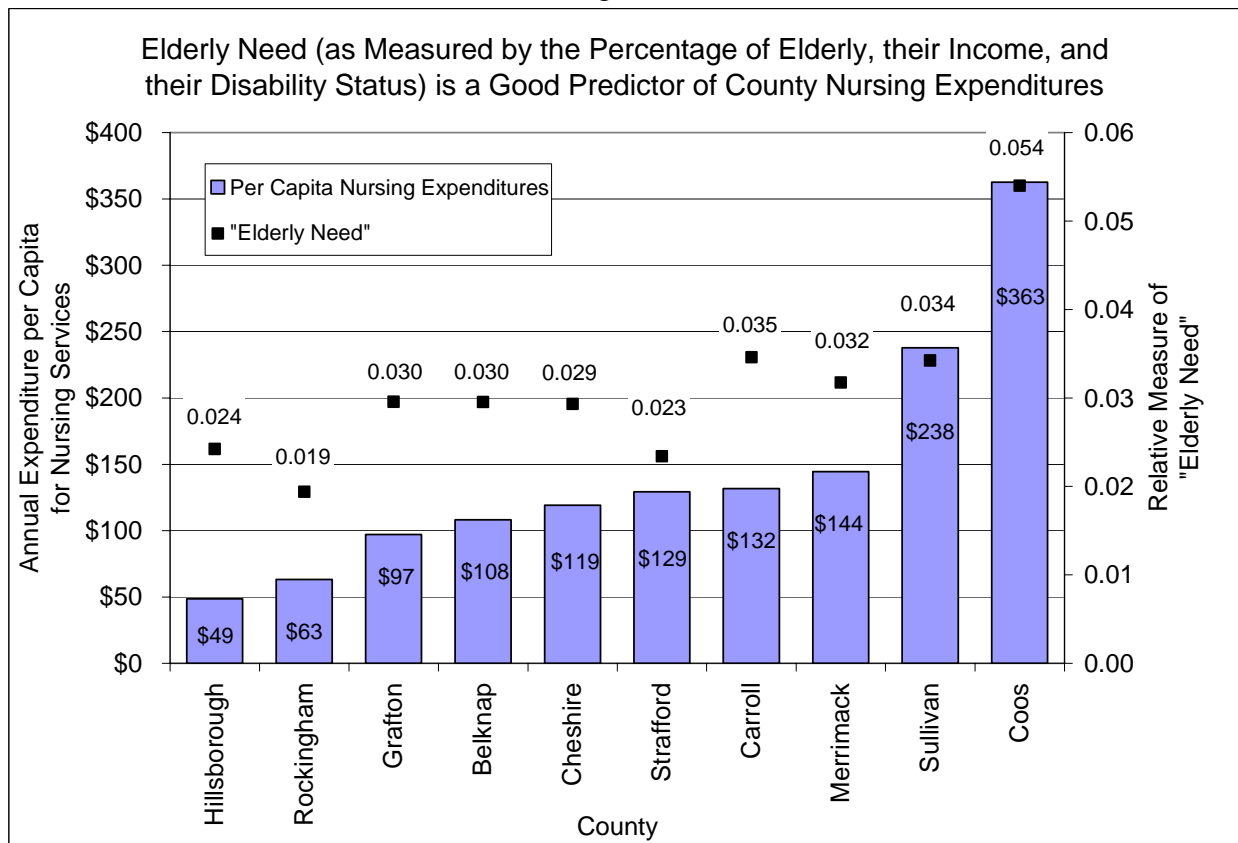
Figure 2 shows the strong relationship between median household income in a county and county per capita expenditures indicating that as average income rises expenditures per capita decline. Conversely, per capita expenditures increase as average income declines.

Figure 2



Similarly, the percentage of elderly residents, their level of income, and their health status are a primary factor in determining the demand for county operated nursing services. We combined these variables to develop a measure of “elderly need”⁵ in each of New Hampshire’s counties. This simple measure of the need of older residents in each county has a strong relationship to county per capita nursing expenditures as shown in Figure 3.

Figure 3



Using our surrogate measure of “elderly need,” Coos County has, by far, the highest level of “need” among the ten counties. This is validated by the county’s dramatically higher per capita nursing expenditures. The relationship between “need” and per capita expenditures is not perfect; the health characteristics of county residents receiving services (so called “acuity” levels), as well as management and operations also determine the expenditures for nursing homes and other nursing services. Nevertheless, applying our measure of need to population projections and nursing service cost trend data can provide county and state officials with a reasonable forecast of the future of nursing expenditures in each of the state’s ten counties.

⁵ Our measure of “elderly need” adds the percentage of county residents age 65+ in poverty to the percentage of residents age 65+ with a disability (the 2000 Census contains this measure) and multiplies that figure by the percentage of the county’s population age 75+. This is an oversimplified measure of need meant only to act as a surrogate for more formal assessments.

3. Trends in County Government Expenditures

Figure 4 shows how county government expenditures were allocated in 1996 and how they were allocated in 2004. The chart highlights two important aspects of county government in New Hampshire:

- Although expenditures for nursing, human and correctional services represent the bulk of county expenditures in 2004 just as they did in 1996, expenditures on “general government” and “other” services have grown faster, and increased from 17 percent to 20 percent of county expenditures between 1996 and 2004.
- Although nursing homes are the subject of much county government activity and recent policy debates involving county government, the percentage of all county expenditures on nursing homes was the same in 2004 as it was in 1996 (38 percent).

Figure 4

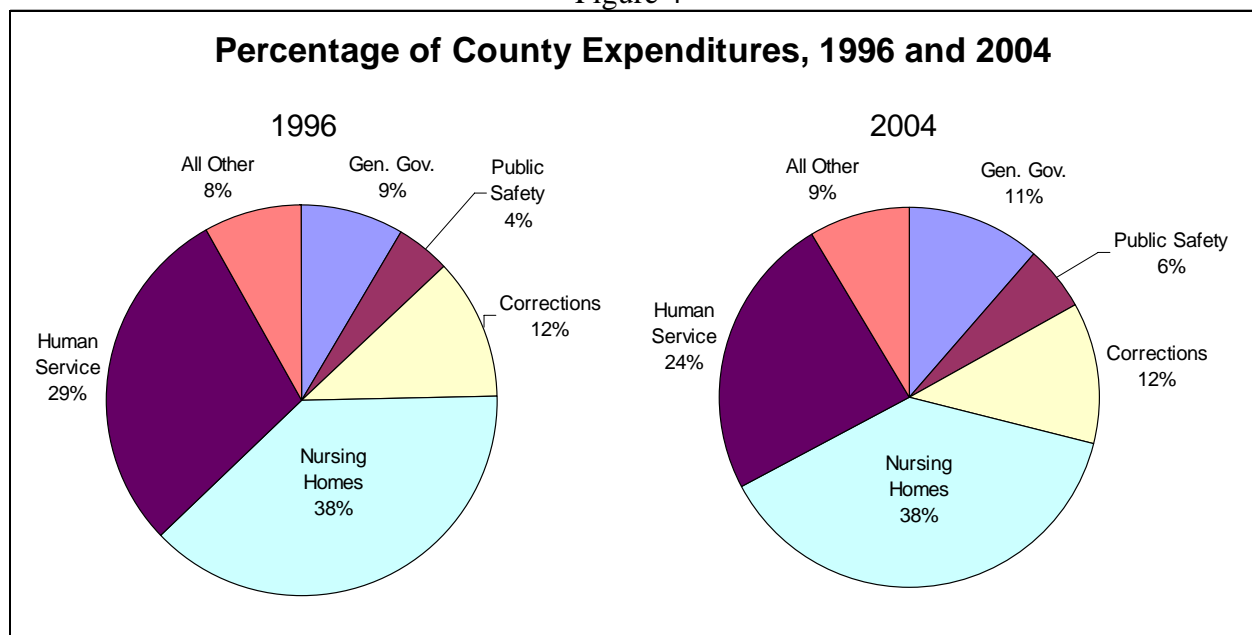


Table 2 presents total New Hampshire county government expenditures from 1996 to 2004, by broad expenditure category. The table shows the changes in county government expenditures over the past decade and highlights the fact that:

- County nursing home expenditures have grown, but not at an extraordinary rate compared to other county expenditures.
- “General government” expenditures have risen faster than other categories and are rapidly approaching county corrections activities as the third largest expenditure category of county government. General government expenditures include: the operations of the county attorney’s office, the registry of deeds, and administrative and financial management of the county, among other activities.
- “Public safety” expenditures, primarily the operations of the county sheriff’s offices, are the second fastest growing category of county expenditures.
- Although they represent about one-quarter of county budgets (on average) “human service” expenditures have grown more slowly than other county expenditures. Whether

this is a result of a decrease in demand for services, comparatively slow growth in payment rates of service providers, or changes in the responsibilities of county versus state government should be examined. Human service expenditures occur as a result of state mandated programs such as “Old Age Assistance”, “Aid to Permanently and Totally Disabled”, “Elder Care”, and court ordered services for children and their families.

Table 2

County Government Expenditures 1996-2004											
Expenditures	(\$ Millions)									\$ Chg.	% Chg.
	1996	1997	1998	1999	2000	2001	2002	2003	2004		
General Government	\$20.09	\$22.66	\$23.86	\$23.63	\$28.50	\$32.28	\$35.01	\$37.29	\$40.56	\$20.47	101.9%
Public Safety	\$10.13	\$10.87	\$11.55	\$12.78	\$13.89	\$15.22	\$16.84	\$18.59	\$19.59	\$9.46	93.4%
Corrections	\$27.95	\$28.57	\$29.42	\$31.89	\$33.30	\$34.41	\$36.83	\$40.34	\$43.69	\$15.74	56.3%
Nursing Home	\$88.27	\$92.51	\$94.45	\$97.05	\$101.10	\$106.74	\$114.71	\$125.74	\$135.94	\$47.67	54.0%
Human Services	\$67.71	\$70.17	\$72.34	\$72.23	\$78.66	\$80.42	\$86.63	\$88.14	\$85.45	\$17.74	26.2%
Debt Service	\$8.66	\$9.13	\$8.25	\$8.33	\$8.74	\$8.20	\$8.80	\$7.52	\$11.70	\$3.04	35.1%
Capital Outlay	\$3.63	\$2.68	\$2.49	\$4.02	\$2.34	\$2.31	\$3.33	\$3.71	\$5.48	\$1.86	51.2%
Other	\$5.44	\$6.98	\$7.51	\$7.01	\$6.98	\$7.08	\$9.51	\$5.99	\$11.87	\$6.42	118.0%
Total Expenditures	\$231.88	\$243.57	\$249.86	\$256.94	\$273.50	\$286.67	\$311.66	\$327.32	\$354.28	\$122.39	52.8%

Figure 5

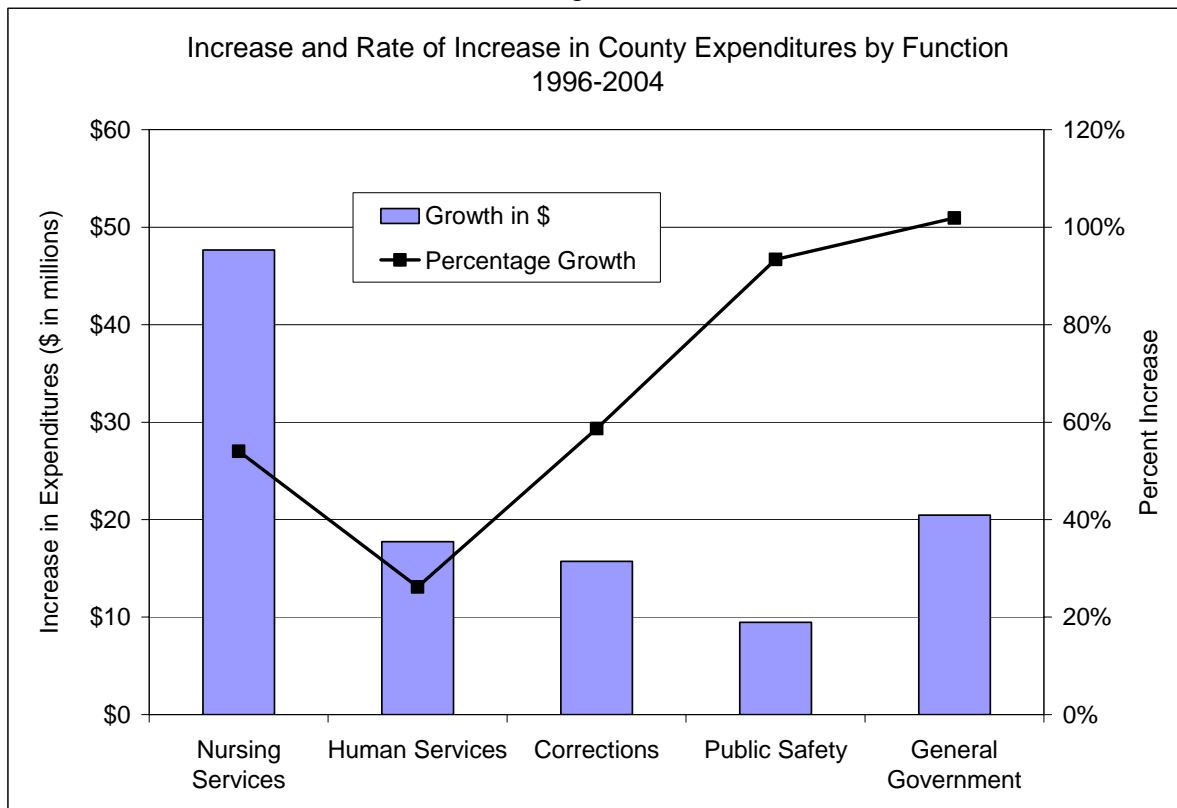
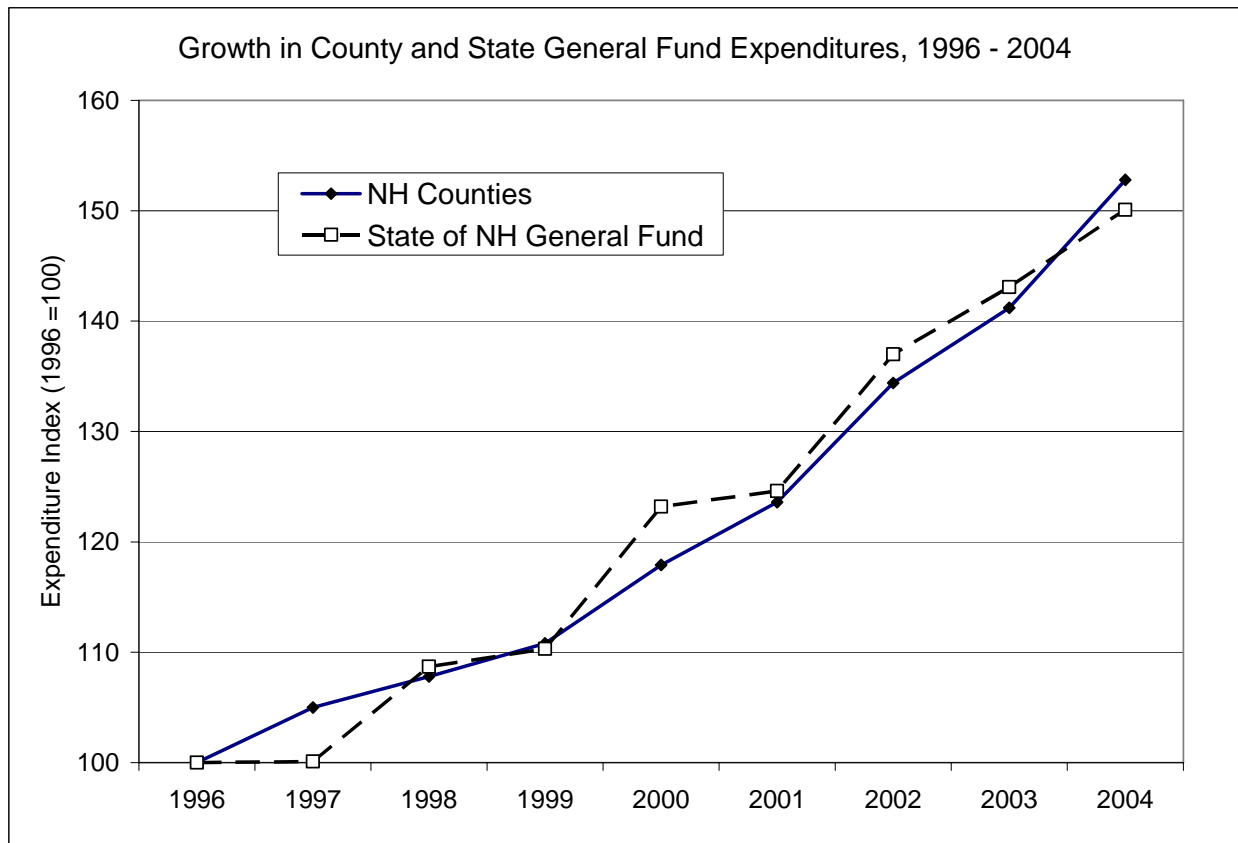


Figure 5 displays both the absolute dollar increase in expenditures by major expenditure category between 1996 and 2004 and the percentage increase over the same period. The figure again shows that the two largest expenditure categories of county government – nursing homes and human services – grew at a slower rate than other major categories.

County Spending Has Grown at the Same Rate as the State's General Fund Spending

County government in New Hampshire spent over \$354 million in 2004, or about \$273 for every resident of the State of New Hampshire. In comparison, the State of New Hampshire spent about \$1.3 billion, or about \$1,000 per resident, from its "General Fund."⁶ As shown in Figure 6, between 1996 and 2004, both state general fund and county government expenditures grew by over 50 percent, an average rate of just under six percent annually.

Figure 6



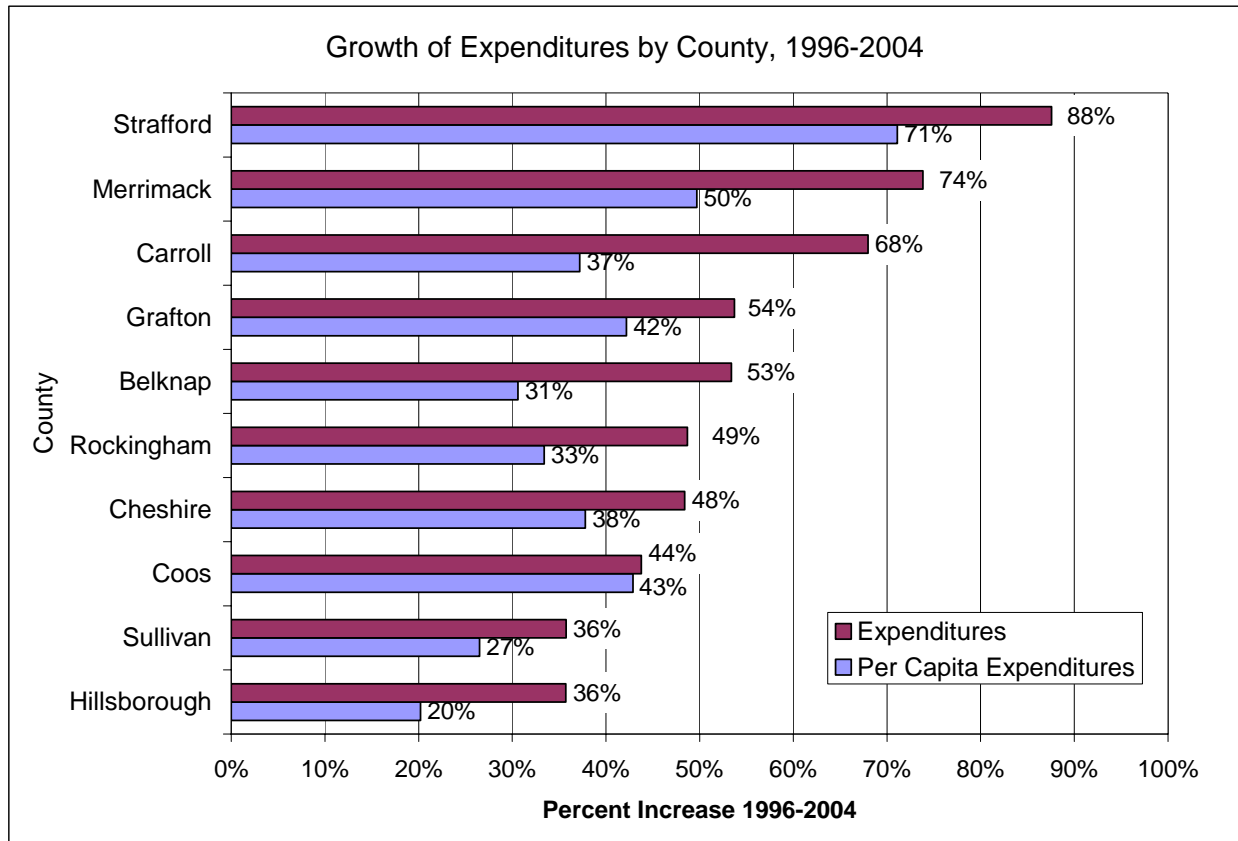
Expenditures Are Growing At Different Rates in Different Counties

The ten counties vary in their overall level of expenditure growth between 1996 and 2004 as well as how expenditures have grown in relation to county population growth. Figure 7 presents the percentage growth in each county's expenditures between 1996 and 2004, as well as the percentage growth per resident during the same time period. As Figure 7 shows, both Strafford

⁶ The state's General Fund spending does not include federal funds or dedicated funds such as the Highway Fund or Education Trust Fund, but does include almost all other state expenditures.

and Merrimack counties have had significantly higher expenditure growth rates than have other counties, both in terms of absolute growth in expenditures, as well as the relative measure of per capita expenditure growth.

Figure 7



Because there was little population change in Coos County over this period, overall expenditure and per capita expenditure grew at almost identical rates in that county. In contrast, the population growth in Hillsborough County meant that per capita growth in expenditure was much less than its overall growth in expenditure.

4. The Tax Cost of County Services

In addition to the property tax, services provided by New Hampshire county governments are supported by a variety of revenues. Counties receive nearly 50 percent of their revenue from charges and fees for services. The largest of these is Medicaid payments from the State for services provided to Medicaid-eligible residents of county nursing homes. In addition, county registries of deeds receive revenue for recording official documents and they collect real estate transfer taxes for the State for which they are paid a commission of four percent of the tax. County sheriffs and county correctional services also receive revenues for some of the services they provide. The largest single source of county revenue however, as Figure 8 shows, is property tax revenue from taxation of property within each county.

Figure 8

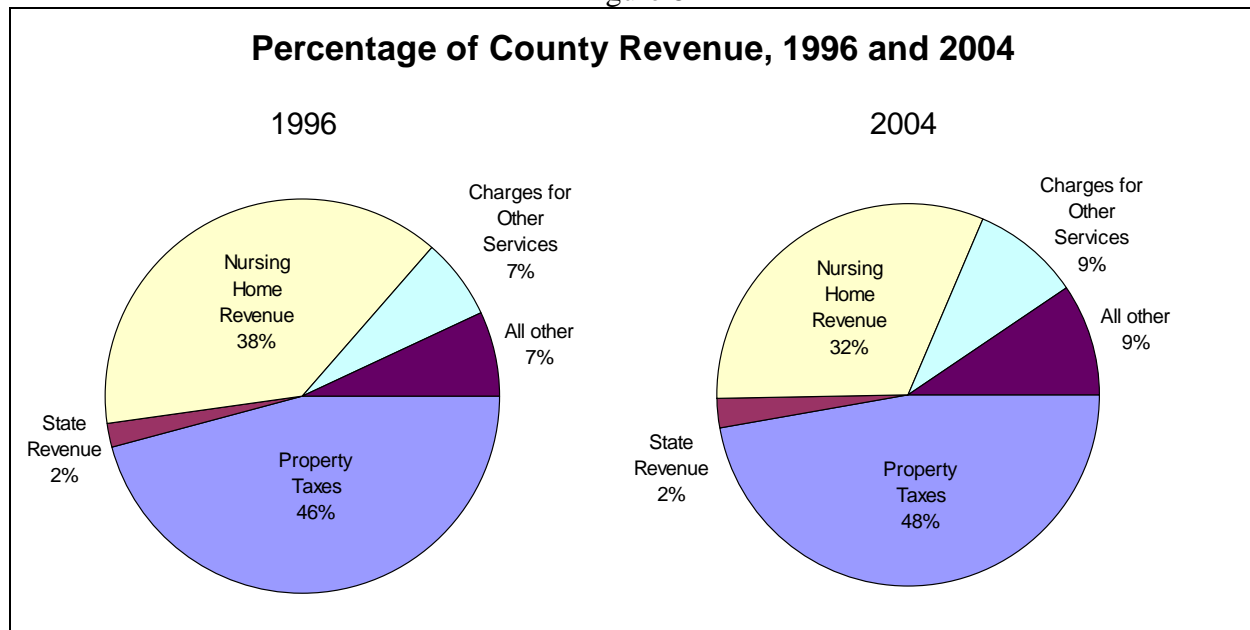


Table 3

County Government Revenues 1996-2004											
Revenues	(\$Millions)									\$ Chg.	% Chg.
	1996	1997	1998	1999	2000	2001	2002	2003	2004		
Nursing Homes	\$89.19	\$91.16	\$92.97	\$94.21	\$94.73	\$93.85	\$97.46	\$98.10	\$112.75	\$23.56	26.4%
Registry of Deeds	\$7.11	\$7.58	\$9.12	\$10.48	\$11.15	\$13.41	\$12.83	\$20.71	\$20.25	\$13.13	184.6%
Sheriff's Dept.	\$3.78	\$3.99	\$4.46	\$4.90	\$5.60	\$5.71	\$5.94	\$6.54	\$6.77	\$2.99	79.1%
Corrections Revenue	\$2.86	\$3.60	\$5.37	\$8.20	\$8.30	\$2.24	\$1.98	\$2.80	\$3.02	\$0.15	5.4%
Revenue From State	\$4.46	\$3.80	\$5.05	\$5.33	\$6.03	\$5.82	\$8.01	\$6.72	\$8.23	\$3.77	84.7%
Other	\$17.95	\$21.73	\$21.24	\$24.85	\$22.16	\$20.49	\$23.52	\$27.44	\$35.82	\$17.87	99.6%
Local Property Tax	\$106.54	\$111.70	\$111.66	\$108.96	\$125.53	\$145.15	\$161.90	\$165.02	\$167.45	\$60.91	57.2%
Total Revenues	\$231.88	\$243.57	\$249.86	\$256.94	\$273.50	\$286.67	\$311.66	\$327.32	\$354.28	\$122.39	52.8%

Table 3 shows changes in major county revenue sources from 1996 to 2004 and reveals several important trends including:

- The second largest source of county revenue, nursing home receipts, grew by just 26 percent (compared to nursing home expenditures increases of 54 percent), and more than half of the increase in revenues occurred in a single year, 2004.
- The state's strong real estate market resulted in registry of deeds revenues increasing by 184 percent, much of this increase occurring during the past two years.
- Corrections revenues increased by just 5 percent despite plans by some counties to increase revenues by housing federal and other non-local inmates to help offset jail costs.
- County property tax revenues increased by \$61 million, or about 57 percent, a rate that is 5 percent above total revenues, indicating that the portion of county services paid for by local property taxes increased between 1996-2004.

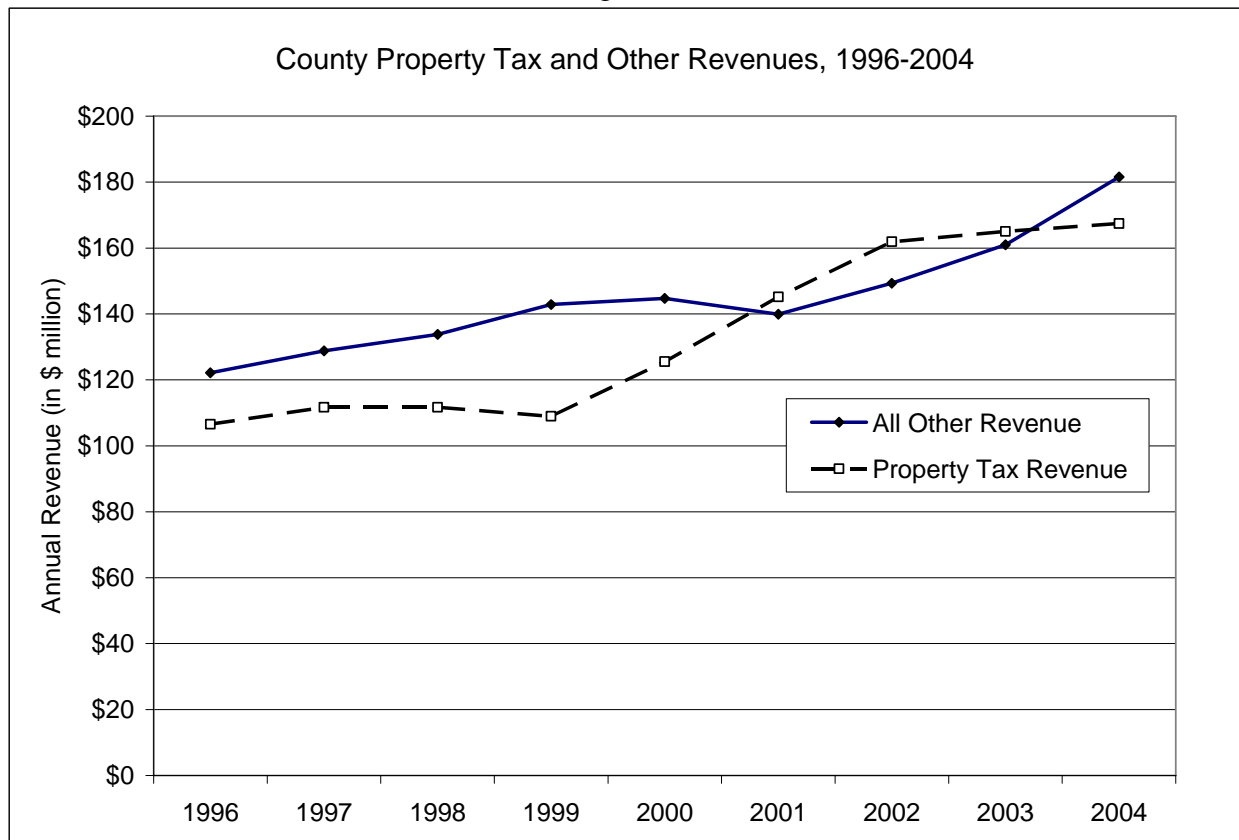
- Nursing homes and county corrections were the only revenue generating services that had revenue increases below their expenditure increases, indicating that county taxpayers are now supporting a larger percentage of their costs than in 1996.

County Property Taxpayers Are Paying a Larger Share of the Cost of County Services

Following several years of increases in the percentage of county government paid for by local property taxes, the trend eased in 2004, largely as a result of increased State Medicaid payments for nursing home care,⁷ but also because of large increases in registry of deeds revenues as a result of the recently very strong real estate market.

Nevertheless, since 1999, the property tax portion of county revenues has increased significantly. In 1999, the State of New Hampshire and its 10 counties altered their cost sharing arrangement for services provided to the elderly. In addition, limits on the reimbursement rates paid by the state for Medicaid services were, according to county administrators, insufficient to cover the increasing costs of servicing Medicaid recipients. The result, until 2004, was an increasing gap between the revenue and expenditures of the largest segment of county budgets.

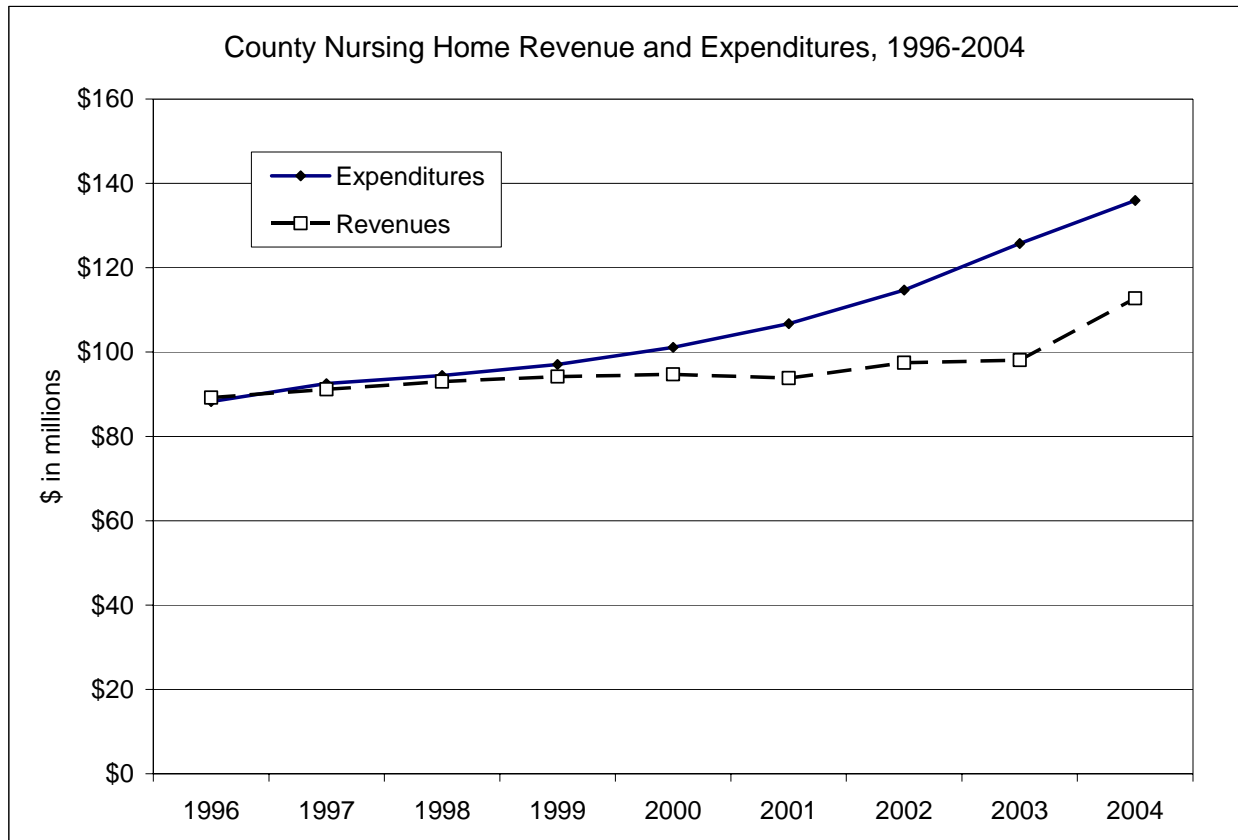
Figure 9



⁷ These payments included Medicaid Quality Improvement Program (MQIP) funds raised from a provider tax on nursing homes and prescription drug rebate program funds.

The impact on county finances of the 1999 changes in Medicaid cost sharing can be seen in Figure 9. The percentage of county revenue from local property taxes jumped after enactment of the new Medicaid provisions. Additional revenues from the Medicaid Quality Improvement Program (MQIP) and Proportionate Share (ProShare⁸) payments provided a boost to nursing home revenues in 2004. From 1996 to 2004, county nursing home revenues increased by \$26 million, more than one-half (\$14 million) of that increase occurred in 2004. As Figure 10 shows, however, county nursing home revenue continues to fall well short of expenditure.

Figure 10



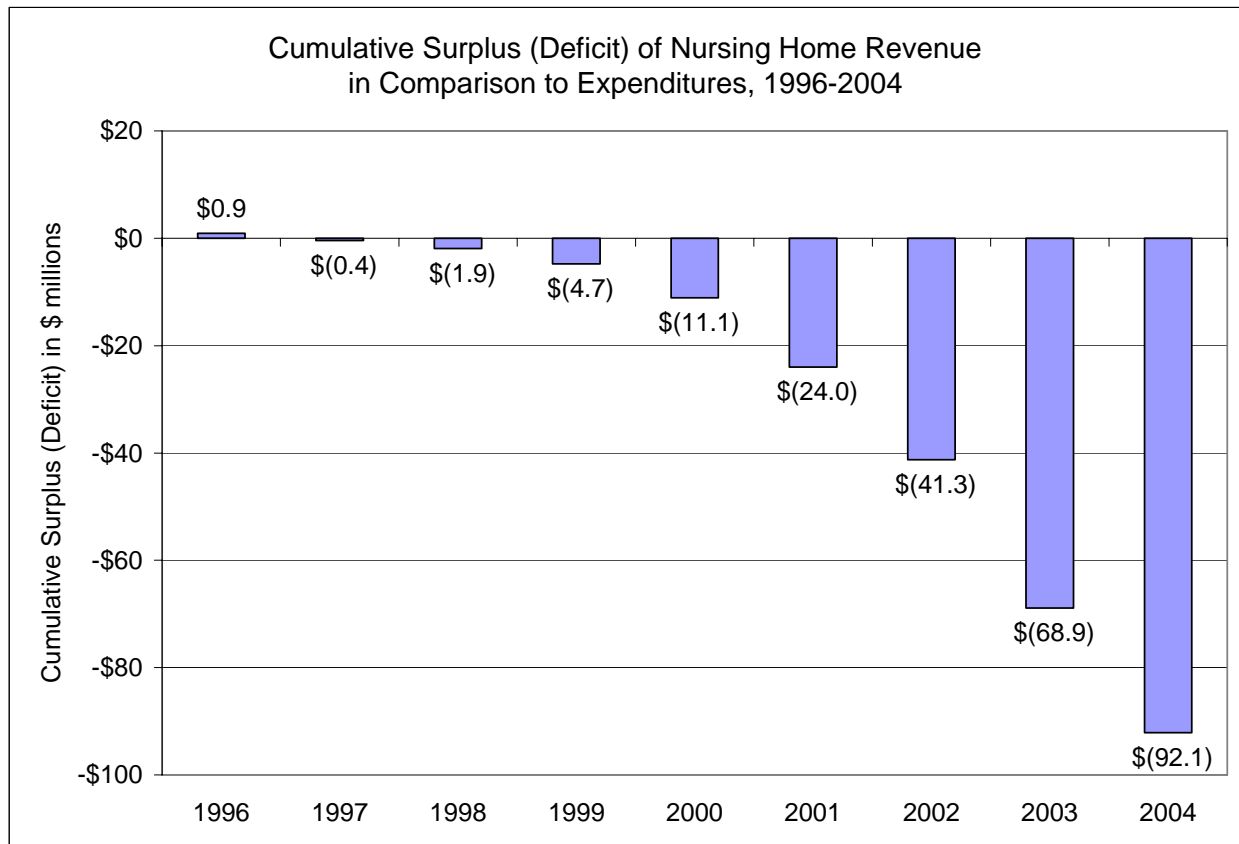
Nursing Home Deficits Account for Counties' Increased Reliance on Property Taxes

Between 1996 and 2004, New Hampshire county governments increased local property tax revenues by over \$61 million. During that same period of time, county operated nursing homes went from a position of annual revenues exceeding annual expenditures by about \$900,000 to a deficit situation where expenditures exceeded revenues by over \$20 million annually. As Figure 11 shows, the cumulative deficit of county nursing homes from 1996 (a year of surplus) to 2004 was over \$92 million. Large increases in registry of deeds revenues (\$13 million) and a number

⁸ Proportionate share or "ProShare" revenues compensate health care providers for some of the difference between the higher reimbursement rates paid by Medicare and lower reimbursement rates paid by Medicaid for the same services.

of other revenue sources (\$18 million) have kept county taxpayers from having to pay an even larger portion of the cost of county services than would otherwise have been the case.

Figure 11



Although cumulative nursing home deficits more than exceed county increases in property taxes and account for the bulk of the increased reliance on property taxes, it is more accurate to state that any activity of county government where expenditures grew faster than its associated revenues also contributed to an increased reliance on property taxes. Functions such as the county attorney offices and many of the “general government” categories of county expenditures (administration, finance and personnel etc.) have no associated revenue stream and increases in their expenditures thereby also increased property taxes.

As shown previously, in percentage terms “general government” expenditures of the counties were the fastest growing major expenditure category, adding \$20 million between 1996 and 2004. County corrections expenditures grew by about 57 percent between 1996 and 2004. County property taxes have always supported these activities but because correctional revenues increased by just 5 percent, property taxes paid for a higher percentage of the costs in 2004 than they did in 1996.

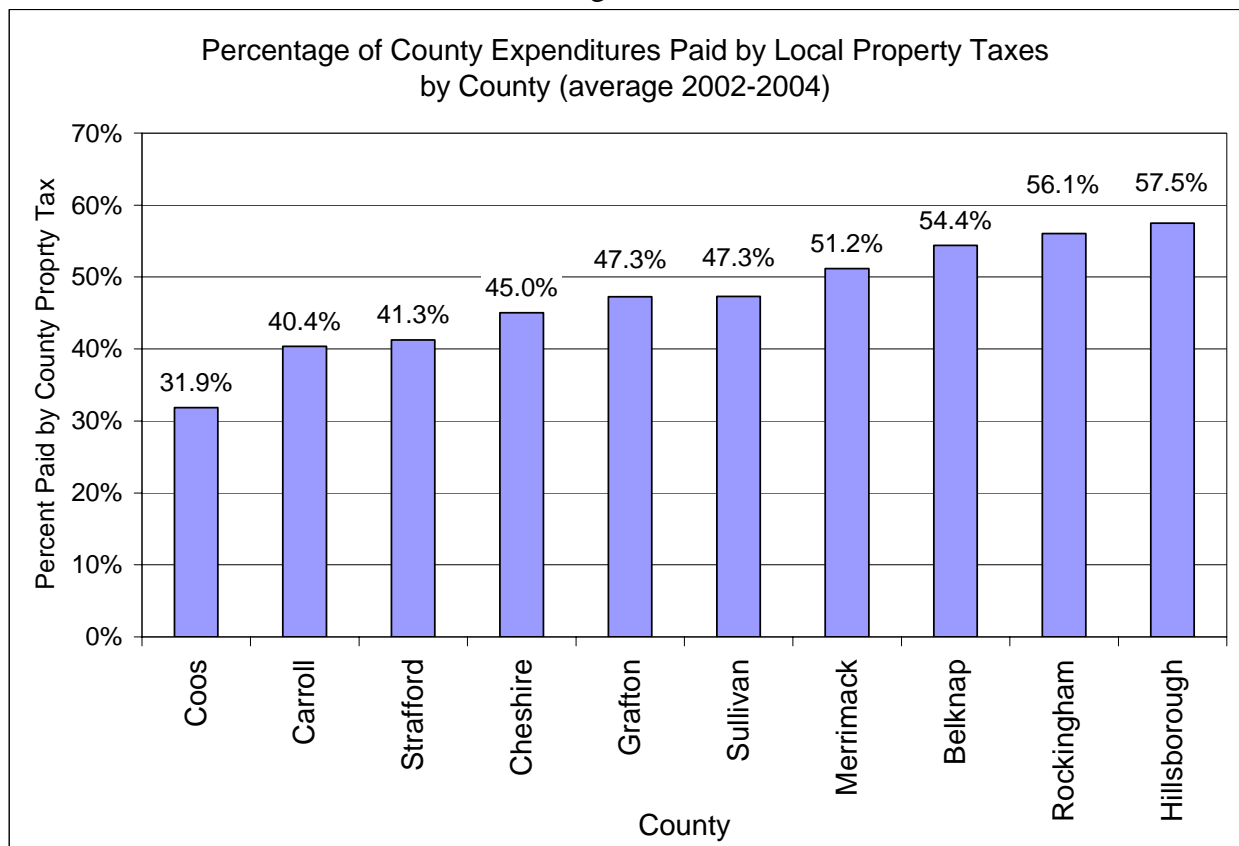
There are many county activities that do not generate revenues and thus any increase in their expenditures increases the need for local property tax collections. The most significant of these is human service expenditures for, among other things, Old Age Assistance and court ordered

services for children, which increased by over \$17 million between 1996 and 2004. The increase was a relatively slower rate of growth (compared to overall county expenditures) of 26 percent or just under 3 percent annually. County attorney office expenditures doubled from 1996-2004, an increase of more than \$5 million, or at an average annual rate of 11 percent.

5. Tax Burden Differences

On average, about one-half of county government expenditures are supported by local property taxes but that percentage varies by county as shown in Figure 12. In general, counties with a lower percentage of expenditures on nursing homes (Hillsborough and Rockingham) have a higher percentage of services paid for by property taxes. Counties with a higher percentage of their expenditures on services that do not have an associated revenue to offsets costs (in the form of user charges, fees for services, or reimbursements in the case of Medicaid), generally have a higher percentage of their expenditures supported by local property taxes.

Figure 12



Although Figure 12 shows the percentage of county government that is paid for by local property taxes, it does not measure the “tax burden” on county residents. One such measure is the per capita property tax. Figure 13 shows that residents of Coos and Sullivan Counties, two counties where property taxes pay for a significantly smaller percentage of county government, had per capita county tax burdens that were twice that of residents of Hillsborough and Rockingham County.

Figure 13

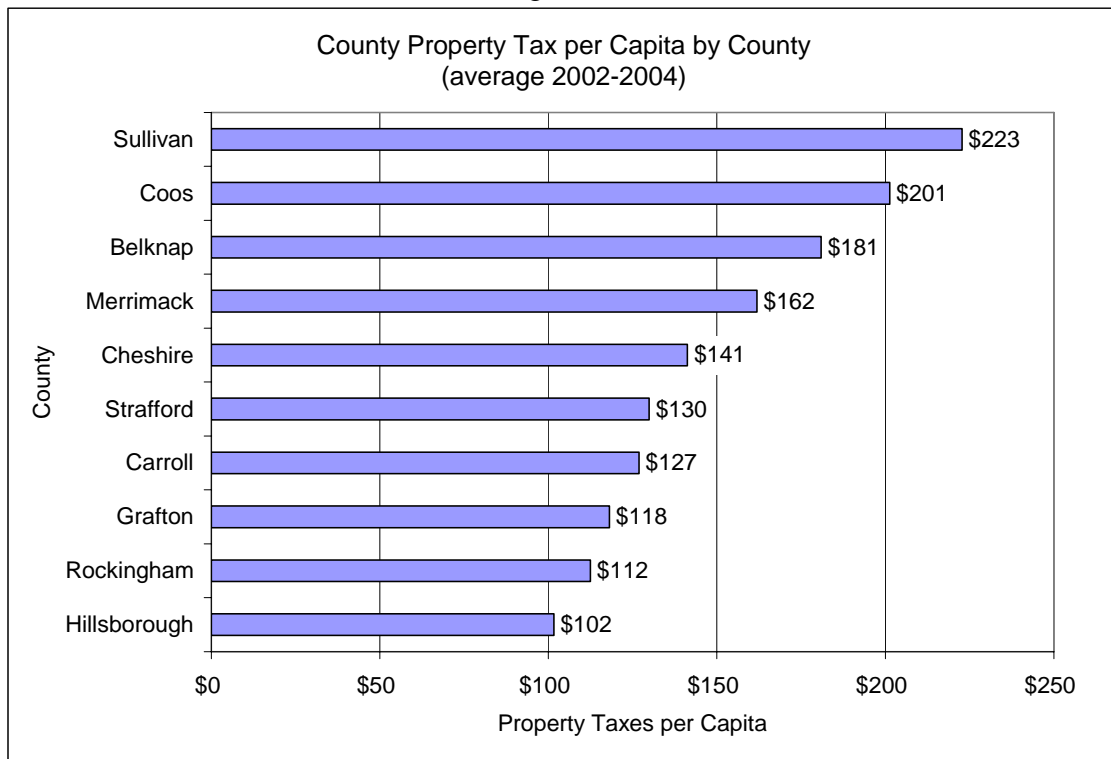
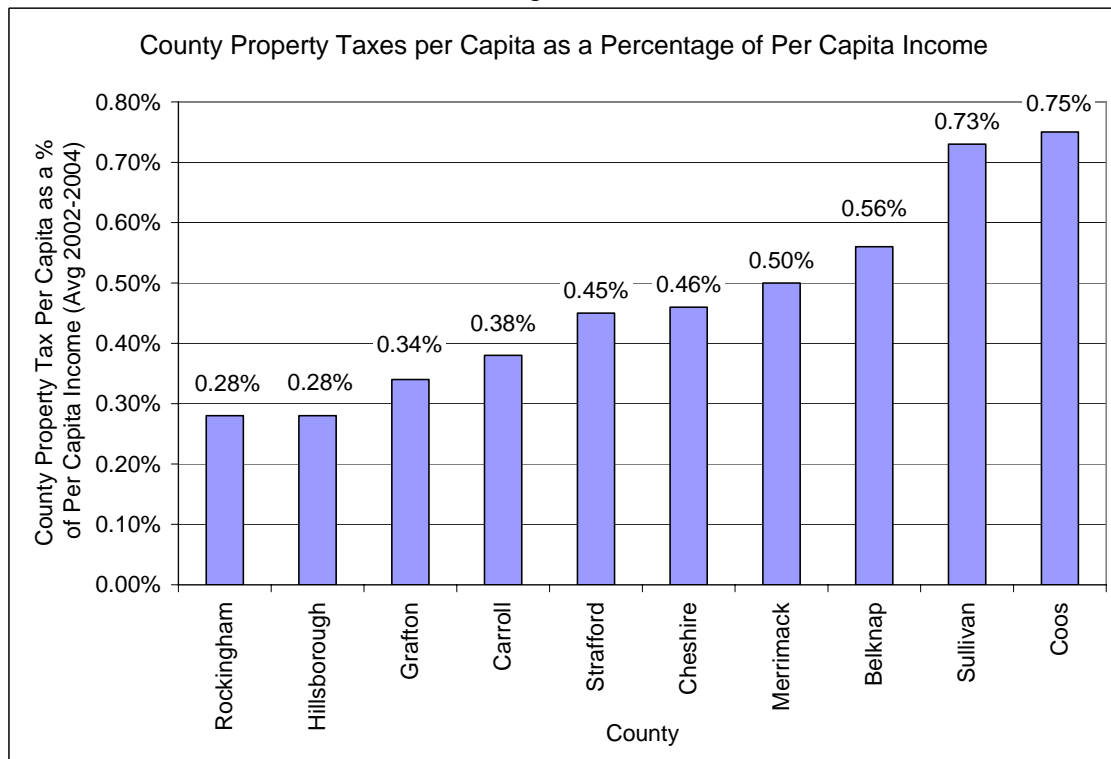


Figure 14



Another measure of relative tax burden is to consider taxes as a percent of income. Figure 14 shows that as a percentage of per capita income, property taxes in Coos and Sullivan Counties are nearly three times the burden as they are in Rockingham and Hillsborough County. The primary implication of this comparison of county tax burdens is that the portion of county government paid for by county property taxes may be especially regressive.⁹

6. The Future

Our analysis suggests that several factors are largely responsible for trends that drive demand for county government services and impact county expenditures.

- Demographic factors: especially increases in the number of residents aged 75 and older, as well as others not considered here (e.g. the fact that crime rates are greatly influenced by the percentage of young males in a population).
- Economic factors: rural and lower income counties' higher incidences of elderly poor and disabled, and children in need of services.

Beyond these larger economic and demographic forces, the management and operation of county government plays a role in the overall cost of county government. Assessing the relative contributions of each of these factors is important to determining the method of delivering and paying for the services currently provided by county government.

The economic trends and fortunes of a county change only very slowly, if they change at all. The income and poverty factors that are contributing to the demand for county services are likely to remain similar to current patterns over the next decade. Age trends present the greatest challenge to county governments: as the percentage of older citizens increases in counties where there is a high incidence of elderly poverty and disability, the need for nursing and other services to the elderly will climb, possibly dramatically. In counties with slow or stagnant population growth, these costs will be spread over a smaller population base, increasing the per capita spending differentials that currently exist.

Trends in county revenues will also determine the impact of demographic changes on county taxpayers. Services for the elderly, including nursing homes, and court ordered services to children are the largest expenditure items in county budgets. They are services subject to complex intergovernmental relationships and cost sharing arrangements between state, federal, and county governments. Changes in those relationships could exacerbate or alleviate the impact of county expenditures on county taxpayers. To the extent that intergovernmental relationships result in more of the cost of services being paid for by property taxes, the impact will be greatest on those counties with the highest demand for these services, primarily New Hampshire's rural and less wealthy counties.

⁹ We cannot state this as a firm fact. Properties in each county are also owned by businesses and non-residents who pay the taxes on them. Thus, the entire county tax burden does not fall on county residents. To the extent this varies among the counties, the true burden on county residents will also vary. Unfortunately, New Hampshire does not collect information on the taxes paid by non-residents in each town and county and we cannot, therefore, include that analysis here.



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