

## City Budget — Background (Election Lens)

Portsmouth Municipal Election — November 4, 2025

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### Purpose and use

This background builds on the **Quick Glance** by offering more detail about how Portsmouth's city budget works, the factors shaping it, and the choices the next City Council will face. It is not intended to replace the adopted budget or public hearing materials; rather, it helps voters understand the big numbers, the constraints on change, and where their input can make a difference. A **Deep Dive** will follow with further context, projections and policy options.

### How budget decisions are made in Portsmouth

- **Charter requirements and state law.** Under the city charter and New Hampshire statute, the City Manager prepares a proposed budget each winter. The nine-member City Council (elected at large) then holds work sessions and public hearings, makes adjustments, and adopts the final general fund budget by June. The state's Department of Revenue Administration sets the final tax rate in the fall. Enterprise funds (water, sewer and solid waste) are budgeted separately and must be self-supporting.
- **Public input and hearings.** Formal public hearings are held for the school budget, police and fire commissions, and the full general fund. The schedule for FY26 included hearings on May 12, 14, 19 and 28, with final adoption on June 9. Residents may also comment at work sessions and via email.
- **Balanced-budget requirement.** Portsmouth must adopt a balanced budget. It cannot run a deficit and must maintain an unassigned fund balance of 10–17 % of appropriations. The FY24 unassigned fund balance was about 13.7 % of the budget.

### What the next Council will face

The FY26 general fund budget adopted in June totals about **\$149.9 million**, a **3.5 % increase** over FY25. The operating budget makes up roughly **82 %** of this total, with the remaining **18 %** in non-operating items such as debt service and capital outlay. Key issues for the next Council include:

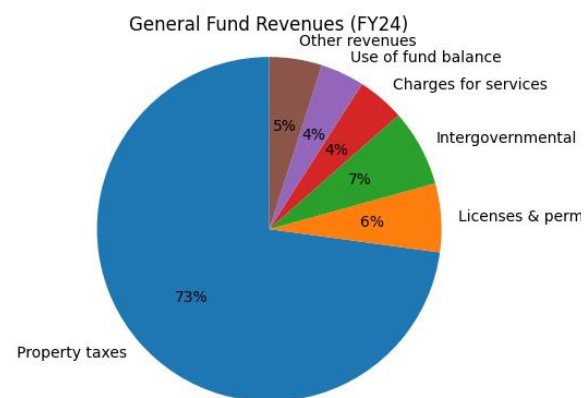
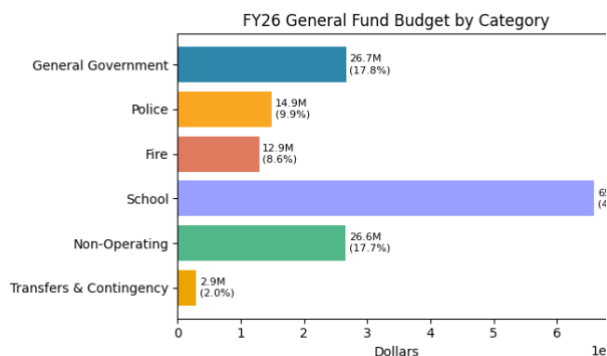
1. **Inflation and contractual obligations.** Salary and benefit costs, governed by collective bargaining agreements and market conditions, drive much of the budget. The proposed FY26 budget noted roughly a dozen fewer full-time positions to contain costs. New contracts or cost-of-living adjustments could affect future years.
2. **School funding and state aid.** K-12 education represents the single largest share of spending. State education aid formulas and adequacy lawsuits (e.g., ConVal and Rand cases) could shift state contributions and local tax burdens. The City's share of Rockingham County taxes is another external driver.

3. **Debt service and capital needs.** Non-operating costs include debt service, capital outlay, rolling stock, IT replacements and capital improvements. The city's policy caps net debt service at 10 % of the general fund; recent projections show it hovering around 8–9 % of the budget.
4. **Property revaluation and tax base.** Revaluations and shifts in commercial versus residential values influence the tax rate. State law requires regular updates; a higher proportion of residential value can increase the tax burden on homeowners.
5. **Enterprise fund pressures.** Water and sewer rates must cover operating and capital costs. Regulatory changes and PFAS remediation have driven rate increases, which are outside the general fund but still affect households and businesses.

## Current conditions snapshot

### Where the money goes

The FY26 general fund budget allocates dollars across a handful of large categories. Education accounts for nearly half the budget, followed by general government, police and fire services. Non-operating items include debt service, county tax, capital outlays, and transfers to the indoor pool, Prescott Park and Community Campus. A small contingency is set aside for future collective bargaining.



*General fund spending by category (FY26):* Education (~\$65.9M) is the largest slice of the \$149.9M budget, followed by general government (~\$26.7M), non-operating (~\$26.6M), police (~\$14.9M), fire (~\$12.9M) and transfers/contingency (~\$2.6M). Percentages appear beside each bar.

*General fund revenue sources (FY24):* Property taxes provide the vast majority of revenue (~73 %), with smaller shares from licenses and permits (~6 %), intergovernmental aid (~7 %), charges for services (~4 %), use of fund balance (~4 %) and other revenues (~5 %).

### Interpretation and key drivers

- **Heavy reliance on property taxes.** Roughly three-quarters of general fund revenue comes from property taxes. Other sources—including fees, permits, state

aid and fund balance—are modest in comparison, and most are constrained by state law or economic conditions.

- **Education and public safety dominate spending.** Schools, police and fire account for well over 60 % of the budget. These services are labour-intensive and subject to state or federal mandates, making them difficult to cut without significant service impacts.
- **Non-operating costs are policy-driven but not easily reduced.** Debt service reflects prior investments in infrastructure, and the city's policy keeps it below 10 % of the budget. Capital outlays, rolling stock and IT replacements maintain facilities, vehicles and technology; postponing them can defer costs but may increase long-term expenses.

## Constraints and fixed costs

Several factors limit the City Council's ability to make deep cuts:

- **Mandated services:** Police, fire, emergency services and education are essential and often set by state law or accreditation standards. Staff reductions could affect response times, class sizes or program offerings.
- **Contracts and benefits:** Collective bargaining agreements determine wages and benefits for most city employees. Health insurance, pensions and step increases constitute a large share of payroll costs.
- **Debt and capital obligations:** The city must meet existing debt payments. Deferring capital projects may postpone spending but can lead to larger costs later or reduce service levels.
- **Fund balance policy:** Maintaining an unassigned fund balance of at least 10 % of appropriations protects the city's credit rating and ability to respond to emergencies. Dipping into reserves can threaten that buffer.

## Where budget tightening might help—or not

- **Small discretionary accounts:** Transfers to the indoor pool, Prescott Park and Community Campus total less than 1 % of the budget. Cutting them would provide limited savings but could affect community programs.
- **Capital outlay and rolling stock:** Deferring some equipment replacements or facility improvements could free up short-term dollars, but would shift costs into future years and may increase maintenance expenses.
- **Contingency and collective bargaining:** The FY26 budget sets aside about \$2 million for bargaining adjustments. Reducing this contingency could lower the tax rate in the short term but might lead to larger mid-year adjustments if new contracts exceed projections.
- **Major cuts require major trade-offs:** Reducing school, police or fire budgets would require program cuts, larger class sizes or fewer first responders. These decisions typically demand broad community discussion and cannot be achieved through minor efficiency tweaks alone.

## Approaches and tools for fiscal sustainability

Neutral, non-partisan approaches to managing costs and revenues include:

- **Regional partnerships.** Explore shared services or regional collaborations (e.g., joint dispatch, purchasing cooperatives) to spread costs and improve efficiency.
- **User fee reviews.** Periodically review permits, parking and service fees to ensure they cover costs without overburdening residents.
- **Capital planning discipline.** Prioritise infrastructure projects based on safety, regulatory compliance and lifecycle costs; consider alternative funding sources (grants, federal aid) and phased approaches.
- **Energy and technology investments.** Efficiency upgrades and software systems can reduce long-term operating costs but require upfront investment.
- **Public engagement.** Early and clear communication about fiscal trade-offs helps build support for decisions and ensures that priorities reflect community values.

## What to watch after swearing in

The FY27 budget process will begin almost immediately after the November election. Key milestones include:

- **December–January:** City Manager and staff solicit departmental requests and prepare a proposed budget.
- **March–April:** Boards and commissions (School, Police, Fire) hold public hearings on their budgets. The Capital Improvement Plan is also reviewed.
- **May–June:** City Council work sessions, public hearings and final adoption of the budget. Residents can comment at each stage. The Department of Revenue Administration sets the tax rate in the autumn.

## Key terms

- **General Fund:** The primary operating fund covering services such as education, police, fire, public works and administration.
- **Operating budget:** Day-to-day expenses for personnel and programs (e.g., salaries, benefits, supplies).
- **Non-operating budget:** Costs not directly related to operations, including debt service, capital outlays, county taxes and transfers.
- **Enterprise funds:** Self-supporting funds (water, sewer, solid waste) financed by user fees, not property taxes.
- **Fund balance:** Reserves available to cushion against emergencies and support cash flow; Portsmouth aims to keep 10–17 % of budgeted appropriations unassigned.
- **Tax rate:** Dollars per \$1,000 of assessed value used to calculate property taxes. The FY26 estimated rate is about \$11.57 per \$1,000.

### Sources and further reading

- City of Portsmouth: FY26 Budget Adoption Memo (General Fund totals and category breakdown).
- FY24 Popular Annual Financial Report (General Fund revenues and expenditures).
- City Manager's FY26 Budget Presentation & Press Release (timeline, headcount changes, proposed tax rate).
- Portsmouth Finance Department: Budget and financial reports (proposed/adopted budgets, capital improvement plan).