

City Budget — Deep Dive (Election Lens)

Portsmouth Municipal Election — November 4, 2025

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Purpose and use

This Deep Dive builds on the **Backgrounder** by offering a more complete look at Portsmouth's municipal finances. It explores how the city budget is structured, the factors that shape its size, and the choices the next City Council will confront. Unlike the Quick Glance, which focuses on headline numbers, and the Backgrounder, which summarizes revenue and spending categories, this guide goes into the weeds: it explains the budget timeline, the interplay of state mandates and local policy, the drivers behind costs and revenue, the role of enterprise funds, and the trade-offs involved in long-term financial stewardship. The goal is to equip engaged voters with a nuanced understanding of the budget's moving parts so they can ask informed questions and evaluate fiscal proposals.

How budget decisions are made

Charter and legal requirements

Portsmouth operates under a **city charter** and must adhere to **New Hampshire state law**. The City Manager drafts a proposed general fund budget each winter based on departmental requests and five-year financial projections. The nine at-large City Councilors—one of whom becomes Mayor based on the highest vote count—review the proposal, hold public work sessions and formal hearings, and adopt a balanced budget by June. State law prohibits deficit spending and requires an unassigned fund balance between **10 % and 17 %** of appropriations. The Department of Revenue Administration (DRA) sets the final property-tax rate in the fall based on the adopted budget, estimated revenues, and assessed property values. Enterprise funds—water, sewer—are budgeted separately and must be self-supporting through user fees. Solid waste is included as an element of Public Works in the General Fund.

Budget timeline and public input

The annual budget timeline has changed a little in the last two years. The largest change is that the CIP process began in August 2025 and is expected to wrap up with an adopted 6-year CIP at the Council meeting of December 2. That allows the City to start budget preparation earlier, given that the CIP drives a large portion of the Non-Operating budget (debt, capital outlay, and so on).

The FY27 budget process includes the following key milestones:

- November – December: The Planning Board reviews and recommends the 6-year Capital Improvement Plan to the City Council for adoption.

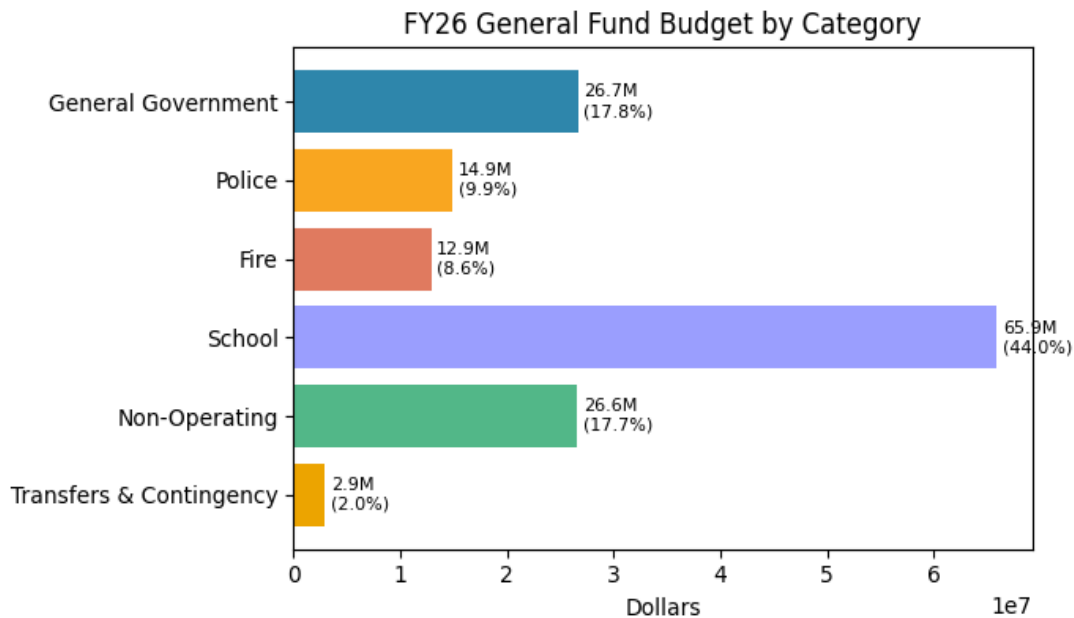
- December – January: City Manager and staff solicit departmental requests and City Council budget guidance and prepare a proposed budget.
- February – March: Boards and commissions (School, Police, Fire) hold public hearings on their proposed budgets.
- May – June: City Council work sessions, public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

This timeline underscores that citizen input is most impactful **early in the process** (February–April). By May and June, most major decisions are already drafted.

Local evidence: revenues and expenditures

How dollars flow

Portsmouth’s general fund budget for FY26 stands at **approximately \$149.9 million**, up **3.5 %** from FY25. About **82 %** of that total goes toward operating costs and **18 %** toward non-operating items such as debt service, capital outlay, rolling stock, and technology infrastructure. Education accounts for nearly half of all spending, while property taxes provide roughly three-quarters of all revenue. The table below illustrates these breakdowns with three succinct visuals.

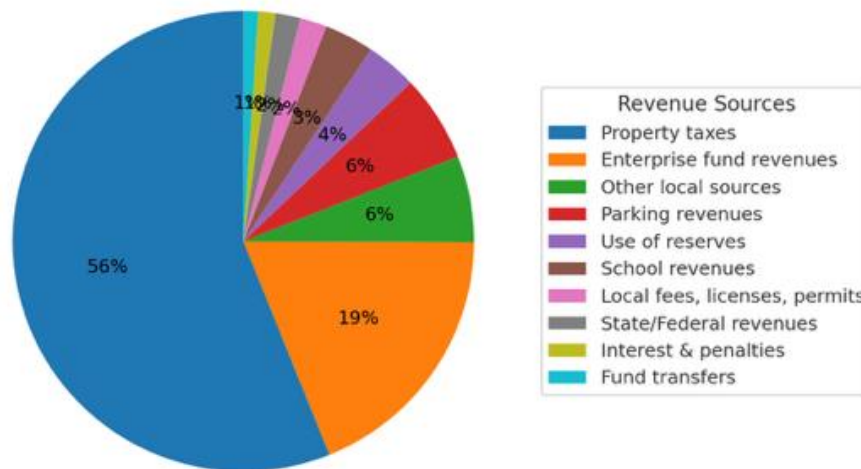


Expenditures by category

FY26 general fund spending by category. Education (≈\$65.9 M) dominates, followed by general government (≈\$26.7 M), non-operating (≈\$26.6 M), police (≈\$14.9 M), fire (≈\$12.9 M), and transfers/contingency (≈\$2.6 M). Percentages appear beside each bar.

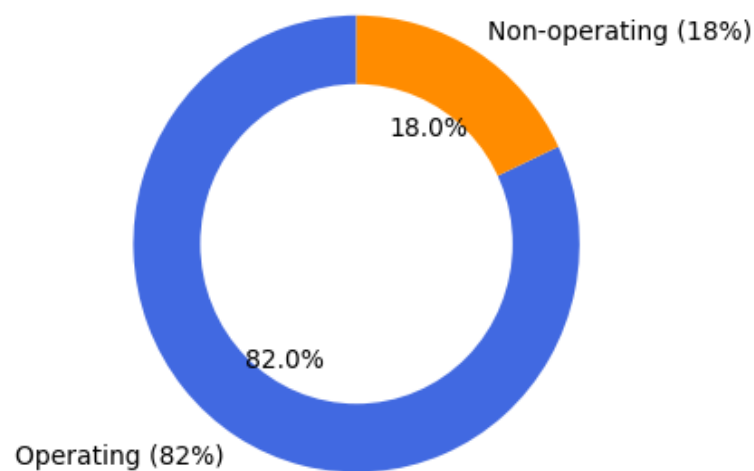
Transfers and contingency expenses relate to the ongoing impact of collective bargaining in labor contract negotiations.

General Fund Revenues (FY26)



General fund revenue sources (FY26): Property taxes remain the dominant source of city revenue (about 56 %), followed by enterprise fund revenues (about 19 %). Other significant sources include parking and other local revenues (each ≈ 6 %), use of reserves (≈ 4 %), school revenues (≈ 3 %), and smaller shares from licenses and permits, state and federal aid, interest, and fund transfers (≈ 6 % combined)

Operating vs Non-Operating Share (FY26 Budget)



Operating vs non-operating share

Operating vs non-operating share. Of the FY26 budget, about **82 %** funds ongoing operations (salaries, benefits, supplies) while **18 %** covers debt service, capital outlay, rolling stock, county tax, and technology infrastructure.

Why the budget looks this way

The mix of revenues and expenditures reflects several local realities:

- **Heavy property-tax reliance.** With limited room to increase fees and no local sales or income tax, Portsmouth depends on property taxes for about three-quarters of general fund revenues. The city's assessed property base (residential and commercial) therefore drives the tax rate. Revaluations and shifts in property categories—such as an increasing residential share—affect who pays what.
- **Labour-intensive services.** Schools, police and fire collectively consume more than 60 % of the budget. These functions are people-heavy and often governed by state mandates (e.g., minimum staffing for public safety) or educational standards. Contractual obligations (collective bargaining, retirement, health care) make labour costs predictable but difficult to reduce quickly.
- **Policy choices in non-operating items.** The city follows a policy limiting net debt service to 10 % of the budget and capital outlays to 2 % of the prior year's appropriation. These caps aim to balance infrastructure needs with affordability. Transfers to the indoor pool, Prescott Park and Community Campus support community amenities but together account for less than 1 % of the budget.

Deeper look at non-operating costs

Non-operating expenses include:

- **Debt service.** Payments on existing bonds for schools, roads, buildings and other infrastructure. Net debt service (city and school combined) hovers around 8–9 % of the budget, staying below the 10 % policy cap.
- **Rockingham County tax.** Portsmouth pays a share of the county budget (≈\$5.8 M). The city's proportion is based on equalized value and population and will shift as other town's values and populations change..
- **Property and liability insurance.** Premiums for both municipal and school coverage have seen 7–9 % annual increases, reflecting market trends and claims experience.
- **Rolling stock and IT replacements.** These line items replace vehicles, equipment and software on a planned schedule to avoid large single-year spikes.
- **Capital outlay.** Direct spending on buildings, equipment and transportation projects, limited to not more than 2% of the prior year's appropriation. The FY26 plan includes investments in vehicles, building maintenance and transportation systems.
- **Other non-operating items.** Costs such as body cameras and tasers for police (new five-year contract), subscription-based technology arrangements (software licensing), and contingency funds.

Cost drivers and long-term pressures

Several structural forces influence the budget beyond the Council's control:

- **Inflation and wage growth.** General inflation (CPI-U) and labour market conditions affect salaries, benefits and contracted services. Health insurance rates have varied from -3.5 % to +9.3 % annually in recent years; retirement contribution rates are set by the New Hampshire Retirement System.
- **State education funding disputes.** Ongoing lawsuits (e.g., *ConVal* and *Rand* cases) challenge the state's adequacy funding formula. A ruling could increase or reduce the state aid Portsmouth receives, shifting the local tax burden. Excess statewide property tax (SWEPT) funds could also be redistributed, potentially making Portsmouth a "donor" community.
- **Housing and demographic shifts.** Growth in housing units and changes in household sizes affect school enrollment and demand for municipal services. As discussed in the housing Deep Dive, a tight housing market and rising property values can increase assessed values but also pressure tax relief programs.
- **Climate resilience and infrastructure.** Sea-level rise and extreme weather require investments in stormwater management, seawalls and energy resilience. These costs compete with other capital needs and may require federal or state grants.
- **Enterprise fund mandates.** Water and sewer upgrades, including PFAS remediation and combined sewer overflow controls, necessitate higher user fees. Though separate from the general fund these rates impact residents' overall property tax and user fee burden.

Scenarios and what-ifs

Below are three illustrative scenarios showing how different policy choices and external factors could influence future budgets. The numbers are hypothetical and meant for discussion, not prediction.

Scenario A – Maintain current trajectory. Assume salaries rise 3 %, health insurance 5 %, state aid flat, and existing capital plan. The general fund would grow about 4 % per year, keeping the tax rate relatively stable but leaving little room for new initiatives.

Scenario B – Increased state aid. If the state substantially increases education funding (e.g., following *Rand* litigation), Portsmouth could see a reduction in required property tax levy. Even with modest expenditure growth, the tax rate could drop. However, the Legislature could later reverse such aid, creating volatility. (Note: All indications are that, unless the State creates a new funding mechanism to pay for the increased education funding, the only obvious option is to increase the Statewide Education Property Tax (SWEPT) which would effectively drive up the required tax levy. The unknown is how the balance of increased aid and increased SWEPT would look in Portsmouth versus other communities.)

Scenario C – Slower expenditure growth and targeted cuts. Limiting growth in labour costs to 2 % and deferring certain capital purchases could keep budget increases around

2 % annually. This would lower the tax trajectory but risk deferred maintenance, higher long-term costs and pushback from employee unions.

These scenarios underscore that small percentage differences in cost growth compound over time. They also reveal that increasing revenues (via state aid or new fee sources) is often harder than containing costs.

Enterprise funds and fee-supported services

Portsmouth operates three enterprise funds—**Water, Sewer** and **Solid Waste**—that are financially independent from the general fund. Their budgets must be fully supported by user charges. Major drivers include:

- **Regulatory mandates.** Federal and state drinking water standards, PFAS contamination thresholds and Clean Water Act requirements compel capital investments in treatment facilities and pipelines.
- **Debt-financed infrastructure.** Large capital projects are financed through bonds repaid via user rates. Ratepayers, not property taxpayers, bear these costs.
- **Customer demand and conservation.** Water conservation programs reduce consumption (and revenues), requiring rate adjustments to cover fixed costs. Economic downturns can also reduce commercial usage.

For many residents, rising water and sewer rates combined with property taxes determine their overall “wallet impact.” Balancing enterprise fund needs with affordability is an ongoing challenge for the Council.

Neutral approaches and policy options

The next Council could pursue several evidence-based strategies to strengthen Portsmouth’s long-term fiscal health:

- **Improve cost forecasting.** Use multi-year fiscal models to evaluate the impact of different wage growth assumptions, debt issuance schedules and state aid scenarios. This helps avoid surprises and align CIP decisions with capacity.
- **Revise fee structures.** Regularly review permit, inspection, parking and recreation fees to ensure they reflect service costs and do not subsidize commercial activities with residential taxes.
- **Pursue shared services.** Explore regional dispatching, joint purchasing and shared equipment pools with neighbouring municipalities to reduce overhead.
- **Enhance grant seeking.** Leverage federal and state programs (e.g., Infrastructure Investment and Jobs Act, NH Housing Appeal Board grants) to fund capital projects and social programs, reducing reliance on local taxes.
- **Invest in energy efficiency.** Continue to upgrade buildings and streetlights to reduce utility costs and carbon footprint. Pair investments with state incentives and federal tax credits.

- **Engage residents early.** Launch interactive budget workshops and participatory budgeting pilots to prioritise spending. Early engagement can reduce conflict later and surface creative solutions.

Measuring progress

To judge the effectiveness of fiscal policies and budget decisions, the city can track:

- **Tax rate vs. inflation.** Comparing the annual property-tax rate change with the Consumer Price Index shows whether taxes are rising faster than overall costs.
- **Debt service ratio.** Tracking net debt service as a percentage of the general fund ensures compliance with the 10 % cap and signals future borrowing capacity.
- **Fund balance and credit rating.** Maintaining reserves within the 10–17 % range supports a strong bond rating and fiscal flexibility.
- **Service level indicators.** Monitor class sizes, emergency response times, road maintenance backlog and building permitting turnaround to ensure efficiency is not sacrificed.
- **Resident burden.** Combine property tax and enterprise fund rates to gauge the total municipal cost burden on typical households.

Key definitions

- **Operating budget** – Funds day-to-day municipal and school operations, including salaries, benefits, supplies and contractual services.
- **Non-operating budget** – Funds debt service, capital outlay, rolling stock, county taxes, and insurance. Not tied to daily operations.
- **Capital Improvement Plan (CIP)** – A multi-year schedule of major infrastructure projects and equipment purchases. Adoption of the CIP does not appropriate funds but sets priorities.
- **Enterprise fund** – A separate accounting entity for services financed through user fees rather than taxes (e.g., water and sewer). Solid waste (trash or rubbish by other names) services are included in the General Fund as a part of Public Works.
- **Adequacy grant** – State education aid determined by a formula, currently subject to litigation. Changes in the formula affect how much Portsmouth must raise locally for schools.
- **Excess SWEPT** – Statewide Education Property Tax revenue collected by property-rich towns beyond what is needed to fund their adequacy grants. Lawmakers periodically debate redistributing this excess.

Sources and acknowledgments

This document synthesises information from Portsmouth’s FY26 Budget Adoption Memo, FY26 City Council preliminary budget presentation, FY24 Popular Annual Financial Report, city press releases, the Capital Improvement Plan, and local news reporting. It reflects publicly available information as of October 2025 and is intended for educational purposes.