S&P Global
Ratings

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New Hampshire; General Obligation

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US$60.0 mil GO cap imp bnds ser 2024A due 04/01/2044		
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New Hampshire GO		
Long Term Rating	AA+/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating to 'AA+' from 'AA' on the State of New Hampshire's approximately $661.5 million in general obligation (GO) debt outstanding.
- At the same time, we assigned our 'AA+' rating to the state's $60 million GO capital improvement bonds, 2024 series A.
- We also raised our rating to 'AA+' from 'AA' on New Hampshire's Transportation Infrastructure Finance and Innovation Act (TIFIA) $200 million loan between the state and the U.S. Department of Transportation.
- The outlook on all ratings is stable.
- The upgrades incorporate our view of New Hampshire's improved economic and demographic growth trends that continue to perform near or above those of the U.S. and regional peers, and our view of the state's demonstrated commitment to controlling expenditure growth, preserving revenue stability, and building higher reserve balances across recent economic cycles that we believe position it to sustain financial stability in the current and future biennial budgets.

Security

New Hampshire's full faith and credit is pledged and secures the 2024 series A bonds, and all GO debt outstanding. The state's GO pledge and its pledge of 4.2 cents of the state's gas tax secure the TIFIA loan. Based on the application of our "Methodology: Rating Approach To Obligations With Multiple Revenue Streams" criteria (published, Nov. 29, 2011), we rate to the state's GO full faith and credit pledge as the stronger of the two pledges.

Bond proceeds will be used to finance various state capital improvement projects and pay the costs of issuance.

Credit overview

The long-term rating reflects our view of New Hampshire's diverse economy and favorable population growth that have outpaced those of most regional peers and more closely align with the nation, enabling the state to generate strong revenue collections and achieve large financial surpluses. It also reflects our view of the state's emphasis on structural balance in recent biennial budgets and its commitment to building very strong unassigned balances and deposits to its Revenue Stabilization Reserve Account (RSRA), which we expect will extend beyond the current biennium and more readily prepare the state to manage future economic slowdowns or potential revenue pressures.

While the state's economic growth conditions could potentially slow from recent trends, its credit quality is also underpinned by active budget monitoring and responsive expenditure management that help the state identify and close potential structural gaps swiftly. Also incorporated in our view is the state's low-to-moderate debt burden and overall low fixed costs, although this is partially offset by relatively low funding of its pension and other postemployment benefits (OPEB) liabilities.

On a budgetary basis, New Hampshire reported a combined $526.1 general fund and education trust fund (ETF) surplus at the end of fiscal 2022-2023 biennium, the result of actual revenues being significantly above plan and appropriations below plan. The surplus is net of $372.1 million of fiscal 2023 supplemental appropriations approved in June 2023, which included one-time transfers to the highway and fish and game funds, and funding of nonrecurring capital program expenditures for affordable housing initiatives and municipal grants and aid. New Hampshire transferred $132.6 million of the surplus to the RSRA, bringing the balance to $292.5 million, or 8.9% of combined fiscal 2023 general and ETF expenditures, which is above levels that we view as very strong. When combined with the $161.96 million of unassigned balance in the ETF, total balances reach $454.1 million, or a very strong 13.9% of combined fiscal 2023 expenditures. We anticipate that reserves will remain very strong through the outlook period given statutory restrictions on the use of reserves and the state's conservative budget expectations.

In our view, New Hampshire's enacted a structurally balanced combined general fund and ETF budget, totaling approximately $3.10 billion in fiscal 2024 and $3.15 billion in fiscal 2025. This represents a 5.2% annual decrease followed by a modest 1.9% annual increase, respectively. The budget estimates essentially flat revenue growth and incorporates the effects from a tax change that will accelerate the repeal of the interest and dividend tax, which comprised about 4.9% of operating revenues in fiscal 2023, for periods after Dec. 31, 2024. The state projects reduced revenue from this source will be $122.8 million in fiscal 2024 and another $82.0 million in fiscal 2025, although we expect the long-term budget impact will be marginal. State appropriations include $625.5 million of one-time surplus funds carried forward from the previous fiscal biennium to fund affordable housing and other state capital projects, as well as state aid grants to municipalities. Recurring appropriations include $100 million for a 10% pay increase for state workers in fiscal 2024 and 2% increase for fiscal 2025. In addition, the budget includes a $298 million (or 13.8%) increase in education spending following changes to the state's adequacy funding formula, which the state also anticipates will provide local property tax relief for municipalities. While we believe that the state remains responsive to changes or potential slowing revenue growth, we will monitor the implications for health, education, and labor expenditures on its future structural balance and reserve position as the state develops its budget for the 2026-2027 fiscal biennium.

Through February 2024, fiscal year-to-date revenues are tracking favorably at $114.6 million, or 7.7% above budget plan. The state continues to experience positive variances among its business taxes, meals and rentals tax, and interest earnings, supporting revenue stability. If revenues continue to outperform plan and budget projections hold, New Hampshire estimates a combined $458.2 million RSRA and unassigned fund balance (or 14.5% of fiscal 2025 appropriations) at the end of the biennium, which we believe provides additional financial headroom to manage future economic downturns or revenue disruptions.

S&P Global Economics forecasts a sturdy labor market and cooling inflation will keep U.S. economic growth going in

2024 and 2025, with the national economy projected to expand in those years by 2.4% (or 0.9% above its November 2023 forecast) and 1.5% (or 0.1% above the previous forecast), respectively. However, restrictive monetary policy will continue to weigh on interest-rate-sensitive businesses and residential investment. National unemployment is forecast to increase to 3.9% this year and to 4.2% in 2025, before peaking at 4.3% in 2026. For more information, see "U.S. Economic Forecast Update: A Sturdy Job Market Keeps Growth Going," published Feb. 21, 2024, on RatingsDirect. Although we believe evolving labor market and business conditions could soften New Hampshire's near-term growth, we generally expect its diverse economic base and recent population gains will support metrics near or in line with U.S. growth expectations.

In our view, New Hampshire's diverse economy continues to benefit from an influx of approximately 37,000 new residents (or a 0.5% compound annual growth rate) over the past decade and business expansion in high-wage and high-productivity sectors that have fueled strong gross state product (GSP), income, and employment growth trends relative to the U.S. S&P Global Market Intelligence estimates that New Hampshire's real GSP growth in 2024 (1.8%) and 2025 (1.4%) will track slightly below U.S. real GDP growth, although employment growth is projected to cool to 1.1% in 2024 from 2.1% in 2023, and remain essentially flat thereafter due to tight labor market conditions. It also forecasts New Hampshire's population growth rate will hold steady at 0.2% annually over the next two years, supporting our expectation for near-term economic stability. Over the long term, we believe that the capacity for future economic growth will be highly dependent on the state's ability to attract and expand its working-age population and address housing and other infrastructure needs that sustain more favorable demographic trends relative to regional peers and the U.S. New Hampshire has appropriated a significant share of it $994 million of American Rescue Plan Act (ARPA) funding and other federal resources to help address infrastructure needs and it has also budgeted state resources to expand workforce housing, water and sewer, and broadband infrastructure.

The 'AA+' long-term rating reflects our opinion of New Hampshire's:

- Proactive financial and budget management, including the state's implementation of timely budget adjustments and cost-containment measures to counterbalance cyclical changes in revenue and curb revenue-expenditure gaps within a fiscal biennium;
- Diverse economic and employment composition, and state personal income and GDP indicators that align with or exceed national levels. The state's workforce returned to pre-pandemic levels and population growth continues to outpace the New England region, although future economic growth could be affected by affordability challenges and constricted labor market conditions without sustained net in-migration;
- Strong financial performance, with combined general and education trust fund surpluses over the previous two biennia, and an accumulation of reserve and unassigned balances that the state projects will grow to $458.2 million, or 14.5% of total fiscal 2025 appropriations, which we view as very strong;
- Low-to-moderate and manageable overall debt burden relative to that of peer states, coupled with rapid debt amortization over the next 10 years; and
- Relatively low pension-funded levels, with a current three-year average pension-funded ratio of 68.2% across the state's two primary pension plans, coupled with a moderate OPEB liability. We believe the state's funding discipline, including a commitment to funding its full annual pension contributions at levels that exceed our minimum funding progress calculation, could improve its pension-funding trajectory over time.

Environmental, social, and governance

In our view, environmental, social, and governance (ESG) factors have no material influence on our credit rating analysis for New Hampshire. The state maintains cross-agency action planning to mitigate and adapt to physical risks, implement clean-drinking-water initiatives, and is engaged with the Regional Greenhouse Gas Initiative to reduce greenhouse gas emissions. New Hampshire's social capital factors are neutral within our credit analysis. The state has benefitted from natural population growth and net in-migration trends that support its 0.5% compounded annual population growth rate, comparing favorably with the U.S. over the past five years. We believe economic diversification and planning efforts support net in-migration and help manage evolving risks.

Outlook

The stable outlook reflects our expectation that New Hampshire's responsive management and its ability to make timely adjustments to spending and service levels to maintain structurally balance budgets will continue over the outlook horizon, while it also demonstrates a firm commitment to maintaining reserve levels that more readily address evolving economic or fiscal conditions.

Upside scenario

We could raise our rating if projections for further growth of New Hampshire's economic and demographic metrics are sustained at a level at or above U.S. growth expectations and this supports additional capacity for the state's core economic metrics to improve on a sustained basis, in conjunction with the state demonstrating a commitment to improving pension and OPEB funding discipline that significantly improves pension and OPEB funding levels.

Downside scenario

We could lower the rating if we believe the state weakens its commitment to structural budgetary performance or institutes revenue changes that cause out-year gaps to emerge without structural reforms necessary to mitigate potential financial pressures. We could also lower the rating if recent demographic and economic growth trends reverse or substantially underperform near-to-medium-term projections, weakening our view that the state's economic growth capacity will not continue at levels comparable with those of the U.S. and peers.

Based on the analytical factors we evaluate for states, on a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a composite score of '1.8' to New Hampshire. This score corresponds to a 'AA+' rating.

Credit Opinion

Governmental Framework

New Hampshire's governmental framework is strong relative to that of other states, reflecting our assessment of its relative flexible revenue structure and ability to adjust intergovernmental spending to deal with changing fiscal and economic conditions. However, we believe the state has somewhat limited expenditure flexibility across program areas, such as public education and health and human services. Legal restrictions on the state's ability to reduce or postpone amounts dedicated to education (due to state education adequacy targets) and health care (due to restrictions on the use of certain revenues and state matching requirements to access federal funds), comprise approximately two-thirds of state biennial appropriations.

There are no constitutional limits on debt issuance or voter-referendum requirements, although there is a statutory limit that new debt would require a three-fifths vote of the legislature if total debt service is projected to exceed 10% of unrestricted general fund revenue. The state demonstrated its commitment to pay debt service in the event of a delayed budget but does not have a legal priority for debt.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a '1.3' score to New Hampshire's governmental framework.

Financial Management Assessment (FMA): Good

We consider New Hampshire's financial management practices good under our FMA methodology, indicating that financial practices and policies exist in most areas but that governance officials might not formalize all of them.

Management highlights include the following:

- Budgets and forecasts created in consultation with external experts;
- Strong budgetary reporting, including monthly budget-to-actual revenue and expenditure reports provided by the Commissioner of the Department of Administrative Services;
- Statutorily delivered revenue and expenditure forecasts, with periodic updates made to the forecast by the Commissioner of the Department of Administrative Services;
- Rolling 10-year capital improvement plan prepared by various agencies of the state;
- Conservative practices on debt issuance and structure; and
- A history of adequate liquidity with regular monitoring.

New Hampshire has a statutorily established RSRA. In 2021, the legislature revised state statutes to prescribe funding of the RSRA for the most recent completed biennium with the maximum funding level equal to 10% of general fund unrestricted revenues for the biennium. This reflects a change from the previous cap equal to 10% of general fund unrestricted revenues for the most recent audited fiscal year, nearly doubling the potential cap under previous statutory provisions. The state can only use rainy day funds to meet undesignated general fund biennium-ending deficits resulting from shortfalls in revenue performance or by specific appropriation of a two-thirds legislative majority and the governor's approval.

Budget management

In our view, New Hampshire has historically maintained good budget management practices. The governor and legislature demonstrated proactive management in closing expected budget gaps over the past three biennia by identifying recurring revenue and reducing appropriations, when necessary, as well as funding one-time expenditure items with nonrecurring revenues and current surplus revenue.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a '2.0' score to New Hampshire's financial management.

Economy

New Hampshire's economy is broad and diverse, in our view, with most of its nearly 1.4 million residents living in its southernmost counties. Economic metrics and growth rates have remained close to or above the U.S. level over a one-, five-, and 10-year period. In our view, the state's key employment sectors and GSP exhibited generally more modest cyclical fluctuations that have been quicker to expand following recessions due to the state's employment diversity and productivity in less-volatile sectors. However, while the state maintains a favorable tax climate that has lured both business and residents, long-term tightening of labor conditions, and affordability considerations (e.g., affordable housing, childcare access) all pose potential risks to the state's economic capacity and its ability to sustain recent GSP and population trends in the long term.

State officials report that that New Hampshire regained pre-pandemic-level private sector positions in 2022 and employers are expanding in key sectors, including professional, scientific, technology services, and manufacturing. In addition, the state has attracted a younger cohort of workers--with 41.8% of new residents between 2020-2022 were in the 25-34 age cohort--due to more flexible remote-work arrangements and migration from densely populated metropolitan areas that could shield its economic base from long-term demographic risks faced by other northeastern U.S. states. The state's unemployment rate was at 2.6% as of January 2024, and the rate has fallen faster than the New England region and the national average (3.7% as of January 2024). New Hampshire's labor market will likely remain tight over the near term and could expand more slowly in the coming years. In 2023, S&P Global Market Intelligence estimates that New Hampshire's annual population growth was just 0.2%, which indicates some slowing compared with its five- and 10-year population growth rates (0.5%). We believe that the state's ability to attract and expand its working-age population will be integral to maintaining favorable demographic trends relative to regional peers and the U.S.

Over the past 10 years, New Hampshire's real GSP increased by 2.8% (compounded annual growth rate) compared with the national average of 2.1%. S&P Global Market Intelligence forecasts the state's growth rate will decelerate to 1.8% in 2024 and 1.4% in 2025, before hovering around 1.5% in both 2026 and 2027, slightly below the U.S. over the same period.

New Hampshire's per capita personal income of $73,910 was 113% of the U.S. in 2022, consistent with previous years. In 2022, GSP per capita of $75,274, which fell to 97% of the nation's GDP, compared with 102% of the nation in the previous year.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a '1.7' score to New Hampshire's economy.

Budget Performance

We base our financial analysis of the state's budget performance on the combined revenue, expenditures, and balances in the state's general fund and ETF. New Hampshire has historically maintained structural budget balance in good economic times, and it has contributed one-time revenues or operating surpluses to increase budget reserves in five of the previous six fiscal biennia. New Hampshire also has a record of regular financial forecasting and has demonstrated flexibility to adjust the budget during periods of softening economic growth, primarily by implementing adjustments to state service levels that align with revenue.

Medicaid state-share costs are likely to increase with the elimination of pandemic-related enhanced federal medical assistance percentage rates that stepped down to zero as of January 2024 and enrollment that could linger at higher levels. New Hampshire reports that it has completed most eligibility redeterminations since disenrollments could resume in April 2023, with enrollment currently at approximately 5,000 above pre-pandemic levels; down from 74,000 added to Medicaid programs at the peak of the pandemic. At this time, state officials maintain favorable balances in its Medicaid program accounts, which, in our view, should mitigate uncertainty in the current biennium.

New Hampshire does not levy a state personal income tax or a statewide sales tax, but we believe it maintains a diverse revenue base. Business profit and enterprise taxes composed 39.0% of combined general fund and ETF for fiscal 2023, followed by meals and rentals taxes (10.0%), tobacco taxes (6.8%), and the real estate transfer tax (6.4%).

Audited fiscal 2023 results (generally accepted accounting principles basis)

Based on New Hampshire's June 30, 2023, annual comprehensive financial report, the state had a $284.7 million operating result (or approximately a 4.0% combined operating surplus) in its combined general fund and ETF (net of transfers in and out). The general fund and ETF ended fiscal 2023 with a combined fund balance of $2.17 billion. This is strong, in our opinion, at 30.7% of combined general fund and ETF expenditures.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a score of '1.6' to New Hampshire's budgetary performance.

Debt And Liability Profile

Debt burden

Based on modest new debt expectations and rapid debt amortization, we expect the state's debt profile will remain steady in the near term. Including the 2024 series A bonds, the state will have approximately $745.6 million in tax-supported debt, of which approximate $490.0 million is funded through the state's general fund and the remaining portion that is self-supporting, guaranteed debt, or contingent obligations for other entities, including the New Hampshire Municipal Bond Bank. Following this issuance, the state has $195 million of statutorily authorized, but unissued GO debt, of which the state estimates $60 million-$75 million will be issued annually.

In our view, New Hampshire's debt burden is low-to-moderate by most measures. Tax-supported debt equates to 0.7% of GSP and 0.7% of state personal income, which we view as low. We measure tax-supported debt at $534 per capita and at 2.6% general government spending, which we view as moderate. Debt amortization is rapid, in our view, with 62% of debt retired over the next 10 years.

Pension liabilities

We believe the state's continuing management and funding progress toward reducing its unfunded liability will be an important consideration that could affect our view of the state's general creditworthiness. As of June 30, 2023, the state's combined annual pension funded ratio increased to 67.2% from 65.2% in the previous fiscal year, and its three-year average pension funded ratio was 68.2%, both of which we view as relatively low. The total unfunded liability of all plans is about $773 per capita, or a low 1.1% of state personal income.

Plans representing a significant portion of the state's unfunded pension liability as of June 30, 2023, include:

- New Hampshire Retirement Systems (NHRS): 67.2% funded with the state's applicable share of the total net pension liability totaling $1.07 billion.
- New Hampshire Judicial Retirement Plan (NHJRP): 65.2% funded with the state's applicable share of the total net pension liability totaling $38.5 million.

In our view, management factors and actuarial inputs do not significantly encumber or improve our view of the state's overall pension funding discipline. State contributions have met or exceeded our minimum funding progress calculation over the past two years, which if sustained, could strengthen our view of its pension profile. In 2020, the state revised its assumed rate of return to 6.75% from 7.25% for NHRS, which we view as below the national median. NHRS is conducting an actual experience study for the period July 1, 2020-June 30, 2023 and it anticipates the results of this valuation to guide changes to actuarial assumptions and employer contribution in the next biennium.

After reporting a negative 6.10% annual return for fiscal 2022, NHRS reported a positive 8.20% return for fiscal 2023. NHRS reported a 7.10% time-weighted rate of return in the pension trust over the past five years, is above its assumed rate of return of 6.75%.

OPEB liabilities

In our view, New Hampshire's OPEB liabilities present moderate risk to the state and we anticipate the state's net OPEB liability (NOL) could fluctuate in the near term due primarily to the current pay-as-you-go funding approach, absent further meaningful reform efforts. On a combined basis, New Hampshire's NOL was approximately $1.6 billion for fiscal 2023, which translates to an NOL per capita of $1,156. In August 2023, the State Retiree Health Commission approved actuarial assumption changes from its updated OPEB valuation report that could reduce its total net OPEB liability to $1 billion, which, according to the state, will be reflected in the fiscal 2024 annual report.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a '2.2' score to New Hampshire's debt and liability profile.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022