Nashua, NH

Earned "D" Grade for Fiscal Health

The Truth

Money Needed to Pay Bills **$271.7 million**

Taxpayer Burden™ **$7,300**

Financial Grade **D**

Financial State of Nashua

Nashua, New Hampshire, along with most municipalities, has a balanced budget requirement. This rule is in place to prevent future financial difficulties and enhance accountability. As the Governmental Accounting Standards Board (GASB) points out, these requirements are "to require financing and spending practices that enable governmental entities to avoid financial difficulty and to live within their means." Another objective of balanced budget requirements is accountability; elected officials should be accountable for the tax dollars they spend. Former U.S. Treasury official Frank Cavanaugh said it best, "Politicians should not have the pleasure of spending (getting votes) without the pain of taxing (losing votes)."

By definition, if a city has a balanced budget requirement, then spending should not exceed earned revenue brought in during a specific year. Balanced budget requirements are meant to prevent elected officials from shifting the burden of paying for current-year services onto future-year taxpayers.

Nashua did not have enough money set aside to pay its bills and has been in poor fiscal shape for years. Despite receiving federal stimulus money and record gains in the investment markets, Nashua still needed $271.7 million to pay its bills. Based upon the city's fiscal year 2021 audited financial report, Nashua had a Taxpayer Burden™ of $7,300, earning it a "D" grade from Truth in Accounting. Nashua's financial problems stem mostly from unfunded retirement obligations that have accumulated over the years. The city has $221.9 million in unfunded pension obligations and $76.4 million in unfunded OPEB benefits. Not properly funding its pension and retiree health care promises places a burden on future taxpayers and puts pension holders at risk.

April 2023
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So how can Nashua claim its budget is balanced while our report shows they are in debt?

The answer is in the accounting tricks used to calculate budgets. Municipalities balance budgets by using accounting tricks such as the following:

- Inflating revenue assumptions
- Counting borrowed money as income
- Understating the true costs of government
- Delaying the payment of current bills until the start of the next fiscal year so they aren't included in the calculations

However, the most common accounting trick cities use is to hide employee benefits, such as healthcare, life insurance, and pensions, from the current budgeting process by not acknowledging they exist. Cities become obligated to pay for these benefits as employees earn them. Although these retirement benefits will not be paid until the employees retire, they still represent current compensation costs because they were earned and incurred throughout the employees' tenure. Furthermore, that money must be put into the retirement fund to accumulate investment earnings. Unfortunately, some elected officials have used portions of the money owed to pension and OPEB funds to keep taxes low and pay for politically popular programs. Instead of funding promised benefits now, they have been charged to future taxpayers. Shifting these payments to future taxpayers allows the budget to appear balanced while city debt is increasing.

Governments are able to accumulate debt while claiming balanced budgets because the vast majority of budgets are prepared on a cash basis. This antiquated accounting method includes cash inflows, including loan proceeds as revenue, and outflows—in other words, only checks written. We recommend FACT-based budgeting and accounting, which stands for full accrual calculations and techniques (FACT). FACT-based budgeting and accounting move beyond cash-basis to provide more reliable and truthful budgeting and financial reporting documents. This is the motivation and foundation for the nonpartisan mission of TIA: to educate and empower citizens with understandable, reliable, and transparent government financial information. TIA is a 501(c)(3) nonprofit, nonpartisan organization composed of business, community, and academic leaders interested in improving government financial reporting. TIA makes no policy recommendations beyond improvements to budgeting and accounting practices that will enhance the public's understanding of government finances.

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Nashua's Financial Breakdown

The City's Bills Exceeded Its Assets

Total Assets	$1,346,627,000
Minus: Capital Assets	-$808,171,000
Restricted Assets	-$57,346,000
Assets Available to Pay Bills	$481,110,000
Minus: Total Bills*	-$752,805,000
Money Needed to Pay Bills	$271,695,000
Each Taxpayer's Share of this Burden	$7,300

*Breakdown of Total Bills

Bonds	$563,506,000
Other Liabilities	$293,942,000
Minus: Debt Related to Capital Assets	-$402,928,000
Unfunded Pension Benefits	$221,853,000
Unfunded Retiree Health Care Benefits	$76,432,000
Total Bills	$752,805,000

Grade:

D

Bottom line: Nashua would need $7,300 from each of its taxpayers to pay all of its bills, so it has received a "D" for its finances. According to Truth in Accounting's grading scale, any government with a Taxpayer Burden between $5,000 and $20,000 receives a "D" grade.

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