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New Hampshire Fiscal Policy Institute Blog

Senate Revenue Estimates Insufficient to Restore Services and Cut Business Taxes

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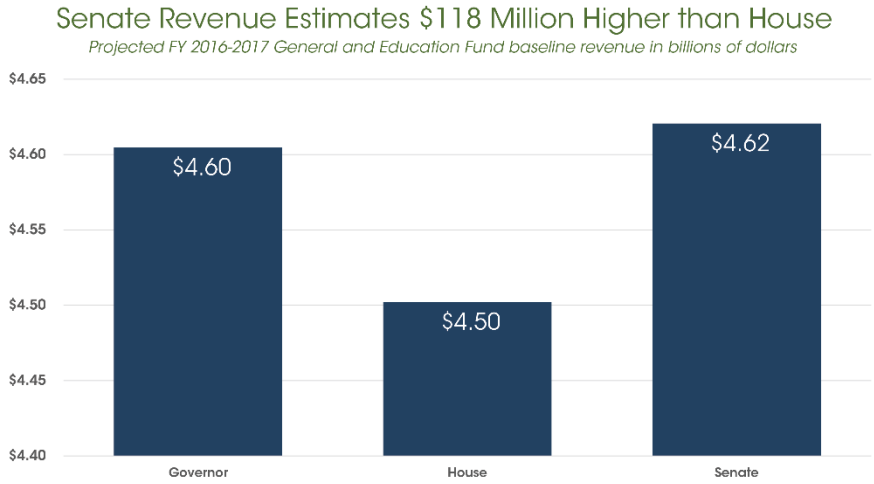
Earlier today, the Senate Ways and Means Committee finalized its revenue estimates for the FY 2016-2017 biennium, projecting that, absent changes in law, the General and Education Funds will collect $4.62 billion over the next two years. While that forecast is $118 million higher than the one on which the House of Representatives premised its version of the FY16-17 budget, preliminary decisions made by the Senate Finance Committee late last week and early this one have already effectively committed over half of that $118 million difference. As a result, the Senate's version of the budget would not be able to restore major funding reductions approved by the lower chamber and also enact a sizable reduction in business taxes in the next biennium.



Sources: Governor's Executive Budget Summary, HR 12, Office of the Legislative Budget Assistant

Overall, Senate Ways and Means projects that General and Education Fund revenue will total $2.24 billion in FY 2015, rise by 1.9 percent in FY 2016, and climb by another 2.0 percent by FY 2017. (By comparison, the House anticipated aggregate growth rates of 1.3 percent and 1.0 percent respectively; the Governor expected increases of 2.7 and 1.9 percent.) Among New Hampshire's more sizable sources of revenue, Senate Ways and Means forecasts that the combination of the state's two business taxes – the business profits tax (BPT) and business enterprise tax (BET) – will amount to $545.5 million in FY 2015 and grow by 2.5 percent in each year of

the upcoming biennium, a rate of growth considerably above the rates assumed by the House. In addition, Senate Ways and Means foresees comparatively robust growth in the meals and rooms tax, anticipating growth of 6 percent per year; Governor Hassan's Consensus Revenue Estimation Panel recently updated its expectations for that tax to 6.4 percent growth in FY16 and 5.9 percent in FY17.

Consequently, Senate budget writers, in effect, have $118 million more with which to work than their counterparts in the House did in assembling their version of the budget. However, the Senate Finance Committee has already begun to allocate those funds. Last week, Senate Finance removed provisions from the House's version of the FY16-17 budget that would have directed roughly $52 million from the Renewable Energy Fund to the General Fund; thus, it will need to use $52 of the $118 million to compensate for the loss of those funds. Similarly, the Finance Committee struck provisions of the House's version of the budget that would have instituted Keno in New Hampshire, a move that the House anticipated would yield roughly $12 million in the next biennium; accordingly, it will need another $12 million to fill the hole in the underlying budget. The Finance Committee also rejected the House's attempts to transfer $4 million in funds related to the recent MTBE legal settlement to be used to meet General Fund expenses; that $4 million too will need to come out of the difference in baseline estimates. Factoring in these funding commitments, the Senate is left with just $50 million with which to work.

All of this, of course, assumes that the Senate will neither seek to generate additional revenue nor attempt to reduce projected collections. Given the Senate's prior approval of reductions in the rates of the BPT and the BET via SB 1 and SB 2, the latter seems far more likely than the former at this stage. In fact, if the substance of both SB 1 and SB 2 were incorporated into the budget, the result would be the loss of approximately $28 million in FY16-17 and upwards of $80 million biennially once fully implemented. In other words, to put SB 1 and SB 2 into effect, the Senate would need to use another $28 million of the $118 million difference in baseline revenue estimates.

The Senate Finance Committee is scheduled to take up the budget for the Department of Health Human Services tomorrow. That budget represents the single largest set of differences between the Governor's and House's versions of the FY 2016-2017 budget, with the latter providing approximately $120 million less in General Funds for services for the developmentally disabled, the elderly, and the homeless, among others. Yet, it already appears that only a portion of the Senate's higher revenue estimates will be available to restore funding for public services designed to assist and to protect the most vulnerable citizens of the Granite State. Any attempt to reduce business taxes as part of the FY16-17 budget would only further reduce the degree to which the Senate is able to reverse the House's decisions.