Governor, Legislative Leaders Reach Budget Agreement
September 15, 2015

Earlier today, Governor Maggie Hassan and legislative leaders announced that they have reached an agreement on the FY 2016-2017 budget. The agreement, if approved by the legislature when it meets tomorrow, would put into law the version of the budget originally adopted by the legislature on June 24 and subsequently vetoed by the Governor on June 25, with two modifications:

1. The agreement would provide the $12 million in General and Education Funds needed to implement a previously agreed upon contract with state employees.

2. The agreement would reduce, effective for tax years on or after December 31, 2016, the rate of the business profits tax (BPT) from 8.5 to 8.2 percent and the rate of the business enterprise tax (BET) from 0.75 to 0.72 percent. Such changes are expected to reduce combined BPT-BET revenue by about $26 million over the FY 2016-2017 biennium. In addition, the agreement would further reduce the rate of the BPT to 7.9 percent and the rate of the BET to 0.675 percent, effective for tax years ending on or after December 31, 2018. However, under the terms of the agreement, this second stage of rate reductions is subject to a “trigger mechanism” and would take effect on that date only if General and Education Fund revenue for the FY 2016-2017 biennium exceeds $4.64 million.

For context, the version of the budget approved by the legislature in June assumed baseline General and Education Fund revenue, absent any reduction in business tax rates, would amount to approximately $4.62 billion for this biennium. Thus, if that assumption were to hold and the above rate reductions did result in a revenue loss of $26 million, the trigger may not be pulled and the second stage of the rate reductions may not transpire as scheduled. Nevertheless, given that FY15 revenues are likely to end up appreciably higher than projected back in June, it is not unreasonable to think that FY16-17 revenues may exceed expectations as well. For instance, the House Ways and Means Committee earlier today agreed upon an updated projection of General and Education Fund revenue for the current
biennium of $4.66 billion, roughly $34 million more than the sum found in the conference committee’s budget recommendations.

For comparison purposes, the version of the budget approved by the legislature in June would also have ultimately reduced the rate of the BPT to 7.9 percent and the rate of the BET to 0.675 percent. However, it would have done so in a more gradual fashion and would have incurred a somewhat smaller revenue loss in the FY 2016-2017 biennium, but would not have instituted a trigger mechanism to potentially delay the implementation of future rate reductions. (For more details, see this NHFPI Fact Sheet.)

Finally, it appears that the agreement would not change any of the other funding levels included in the version of the budget passed by the legislature in June (details of which are available in this NHFPI Budget Brief) and would leave in place the transfer of $49 million from FY 2015 to help bring revenues and expenditures into line in FY16-17. Similarly, the agreement, like the versions of the budget originally backed by the House of Representatives and the Senate, remains silent on the fate of the New Hampshire Health Protection Program, which, under current law, will expire at the close of 2016.