

# Early Impacts of the COVID-19 Crisis on State Revenues

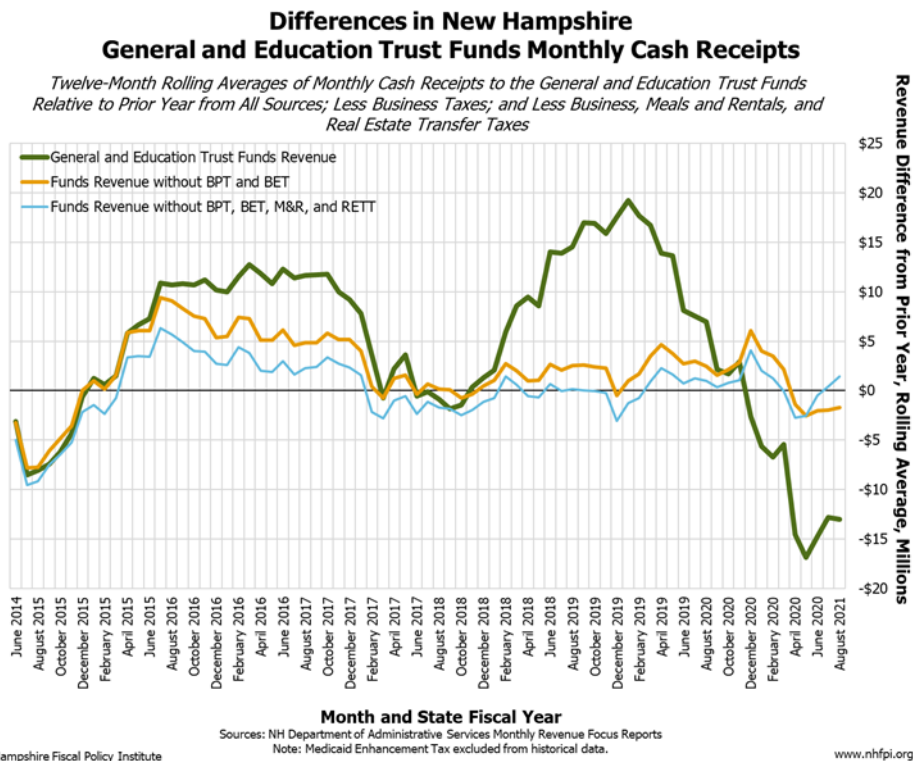
## Issue Brief Summary and Key Highlights

Funding for New Hampshire’s State Budget relies on revenues generated from economic activity, which has been severely curtailed by the COVID-19 crisis. These State revenues pay for key services for Granite Staters, including supports and assistance designed to help those facing financial hardship. With nearly half of New Hampshire households reporting a loss in employment income since mid-March, the need for State services intended to aid families with low incomes, as well as support for education and health services, has increased during the pandemic and will likely remain elevated into the next State Budget biennium.

### Impacts to Key Revenue Sources

The State of New Hampshire’s four largest tax revenue sources are the Business Profits Tax, the Statewide Education Property Tax, the Meals and Rentals Tax, and the Business Enterprise Tax. These four sources are among the many that support the General and Education Trust Funds; the Education Trust Fund receipts specifically support local public education, while the General Fund supports a wide variety of State services. The Statewide Education Property Tax is raised and retained locally, and is set to raise the same amount each year. However, both the Meals and Rentals Tax and the combined receipts from the two business taxes have dramatically declined since the onset of the crisis.

Total cash receipts from the two primary business taxes were \$55.2 million (13.3 percent) lower in total from March to August than they were in the same months of the previous year. From April to August, Meals and Rentals Tax receipts, which reflect economic activity from the prior month, were \$53.7 million (35.1 percent) lower than the same period in the previous year.



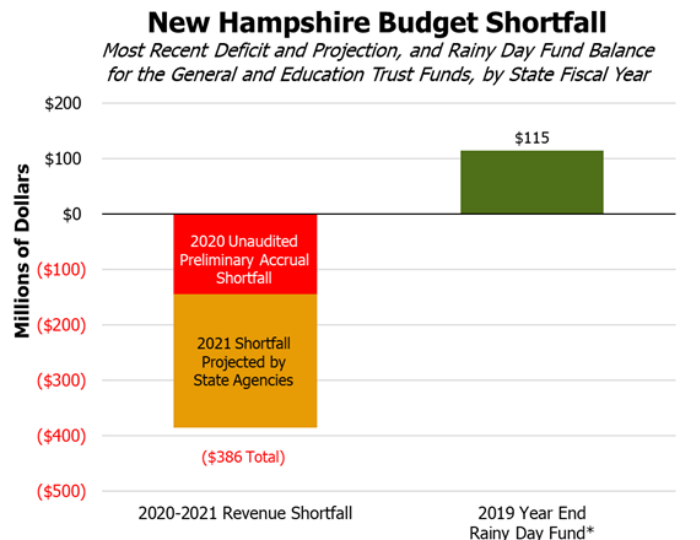
Revenues related to transportation, particularly receipts from the motor fuels tax and Turnpike tolling, also dipped sharply during the spring of 2020. Reduced travel during April 2020 led to the State reporting an approximately 36 percent decline in fuel consumption relative to April 2019, and a nearly 25 percent decline in May 2020 relative to the prior year.

Policymakers had anticipated revenues to decline from prior years,

when business tax revenues spiked due to one-time changes resulting from the federal tax overhaul of December 2017, during this State Budget biennium. But driven largely by sharp declines in business tax revenues and Meals and Rentals Tax receipts, revenues have fallen much further than expected due to the COVID-19 crisis.

## Current and Projected Budget Shortfalls

Recent receipts and efforts to estimate the future State revenues provide insight into the size of the State's revenue shortfall relative to the revenue planned for the current two-year State Budget. During State Fiscal Year (SFY) 2020, which ended on June 30, 2020, the General and Education Trust Funds had a combined estimated shortfall of \$143.9 million (5.5 percent), based on unaudited preliminary accrual calculations. In July, State agencies projected an additional shortfall of \$241.7 million (9.1 percent) in SFY 2021. This estimated \$386 million (7.3 percent) shortfall would dwarf the approximately \$115 million in savings in the State's Rainy Day Fund. Additionally, the State calculated an estimated SFY 2021 revenue shortfall, treating cost of collections separately, of \$14.9 million in the Highway Fund, with an additional shortfall of \$16.3 million in the Turnpike Fund.



**Asset or Change from State Budget Plan**  
Notes: \*Rainy Day Fund refers to the Revenue Stabilization Reserve Account.  
 Sources: Estimates provided by the Governor's Office, July 24, 2020; NH Comprehensive Annual Financial Report, SFY 2019; NH Dept. of Administrative Services, Preliminary Accrual SFY 2020.

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## Forms of Potential Federal Aid

During both the 2001 recession and the Great Recession of 2007 to 2009, the federal government provided financial assistance to states. State balanced-budget requirements, combined with falling state revenues, increase the risk of reduced public services and employment during a recession, which can create further economic damage. Although the federal government has provided a significant amount of aid to New Hampshire, important limitations on this aid restrict its ability to help balance the State Budget. Additional aid from the federal government to help close the budget shortfall could come in the form of 1) unrestricted aid to states, 2) altering restrictions on previously-granted aid, 3) aid that offsets previously-budgeted funds, or 4) an increase in the federal portion of Medicaid payments, which would efficiently deliver funds to the State in direct support of health services for low-income individuals.

Additional revenue to fund key services in New Hampshire will be essential to support residents during and after this crisis, and to build a more equitable economy during the recovery. Learn more in NHFPI's report, *Early Impacts of the COVID-19 Crisis on State Revenues*, published September 9, 2020, and available online at: <http://nhfpfi.org/research/state-tax/early-impacts-of-the-covid-19-crisis-on-state-revenues.html>

*The New Hampshire Fiscal Policy Institute is an independent, non-profit, non-partisan organization dedicated to exploring, developing, and promoting public policies that foster economic opportunity and prosperity for all New Hampshire residents, with an emphasis on low- and moderate-income families and individuals. Learn more at [www.nhfpfi.org](http://www.nhfpfi.org).*