The COVID-19 Crisis and State Budget Implications for New Hampshire

Presented by Phil Sletten, Senior Policy Analyst
New Hampshire Fiscal Policy Institute

Endowment for Health Advisory Council
Lunch and Learn Session
November 10, 2020
Key Takeaways

▪ Exact State Budget impacts not yet clear, but the loss of revenue will be significant.

▪ These impacts may be delayed, and federal relief would reduce risk of reductions to key services.

▪ COVID-19 crisis has had massive economic effects for Granite Staters, especially those with the fewest resources.

▪ The resources individuals and families have available, and the strength of the overall economic recovery, are both substantially influenced by federal and state government policy.
Basics of the State Budget

- Two-year or biennial operating budget
  - Funds most State operations for two State fiscal years (SFY)
  - Current State Budget provides funding for SFYs 2020-2021 (July 1, 2019 to June 30, 2021), approximately $13 billion in appropriations

- Comprised of two separate pieces of legislation
  - Operating Budget Bill, typically House Bill 1 or “HB 1”: the line-item appropriations, amount of money in each component of State programs
  - Trailer Bill, typically House Bill 2 or “HB 2”: the companion omnibus bill with policy changes and separate appropriations

- Not all State expenditures in the State Budget
  - Capital Budget, covers six years with changes every two years
  - Ten Year Transportation Improvement Plan, altered every two years
  - Separately authorized expenditures, such as expanded Medicaid
The State Budget by Category
New Hampshire, State Fiscal Year 2021

Source: Chapter 345, Laws of 2019

- Health and Social Services, $2,816 Million, 43%
- Education, $1,553 Million, 24%
- General Government, $414 Million, 6%
- Justice and Public Protection, $722 Million, 11%
- Resource Protection and Development, $335 Million, 5%
- Transportation, $695 Million, 11%
The State Budget Funds

New Hampshire, SFY 2021

Source: Chapter 345, Laws of 2019

- Federal Funds: 29.9%
- General Fund: 24.8%
- Education Trust Fund: 16.0%
- Other Funds: 21.1%
- Turnpike Funds: 2.7%
- Highway Funds: 4.0%
- Liquor Fund: 1.1%
- Fish and Game Funds: 0.2%
- Sweepstakes Funds: 0.2%
General and Education Trust Fund Revenue

SFY 2019 State-Generated Revenue
Source: NH Comprehensive Annual Financial Report, SFY 2019

- Business Profits Tax: 17.9%
- Business Combined Taxes: 30.5%
- Business Enterprise Tax: 12.6%
- Statewide Education Property Tax: 13.7%
- Meals and Rentals Tax: 13.2%
- Tobacco Tax: 7.7%
- Real Estate Transfer Tax: 5.8%
- Insurance Premium Tax: 5.1%
- Liquor Commission: 5.0%
- Interest and Dividends Tax: 4.3%
- Lottery Commission: 4.0%
- Communications Services Tax: 1.5%
- Utility Property Tax: 1.6%
- Miscellaneous: 7.6%
Differences in New Hampshire General and Education Trust Funds
Monthly Cash Receipts

Twelve-Month Rolling Averages of Monthly Cash Receipts to the General and Education Trust Funds Relative to Prior Year from All Sources; Less Business Taxes; and Less Business, Meals and Rentals, and Real Estate Transfer Taxes

General and Education Trust Funds Revenue
Funds Revenue without BPT and BET
Funds Revenue without BPT, BET, M&R, and RETT

Month and State Fiscal Year
Sources: NH Department of Administrative Services Monthly Revenue Focus Reports
Note: Medicaid Enhancement Tax excluded from historical data.
Differences in General and Education Trust Funds Monthly Cash Receipts

Three-Month Rolling Averages of Monthly Cash Receipts to the New Hampshire General and Education Trust Funds Relative to the Same Quarter of the Prior Year from All Sources

Month and State Fiscal Year
Sources: NH Department of Administrative Services Monthly Revenue Focus Reports
Note: Medicaid Enhancement Tax excluded from historical data.
Meals and Rentals Tax Revenue Changes

Change in Receipts from Same Month of Prior Year,
New Hampshire General and Education Trust Funds Receipts

Month and State Fiscal Year
Sources: NH Department of Administrative Services Monthly Revenue Focus Reports
Business Tax Revenue Quarterly Estimate Payments

Year-Over-Year Changes in Three-Month Revenue Totals, Monthly Cash Receipts
New Hampshire Business Profits Tax and Business Enterprise Tax Receipts

Note: Quarterly estimate payments constitute the majority of receipts for the two primary business taxes and reflect current-year tax rates, first paid three or four months into the tax year depending on business type, and anticipated tax owed based on economic activity from the quarter, rather than the prior year.

Source: NH Department of Revenue Administration, NH DRA Business Tax Analysis, April 2019 and October 2021

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New Hampshire State Budget Shortfalls and Assets

Selected Deficits, Most Recent Projection, and Rainy Day Fund Balance for the General and Education Trust Funds, by State Fiscal Year

<table>
<thead>
<tr>
<th>Millions of Dollars</th>
<th>2020 Preliminary Shortfall</th>
<th>2021 Shortfall Projected by State Agencies</th>
<th>($345 Total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$116</td>
<td>$47</td>
<td>?</td>
</tr>
<tr>
<td>($100)</td>
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<td>($200)</td>
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<td>($300)</td>
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<tr>
<td>($400)</td>
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<tr>
<td>2020-2021 Revenue Shortfall</td>
<td>2019 Year End Rainy Day Fund*</td>
<td>State Agency 2020 Underspending</td>
<td>Federal Aid</td>
</tr>
</tbody>
</table>

Asset or Change from State Budget Plan

Notes: *Rainy Day Fund refers to the Revenue Stabilization Reserve Account.
General and Education Trust Funds Revenue Relative to Budget

Preliminary Accrual and Projection by State Fiscal Year, for New Hampshire

State Fiscal Year


Revenue Relative to State Budget Plan, in Millions

< Revenue Shortfall Relative to Budget

Revenue Surplus >

($400) ($300) ($200) ($100) $0 $100 $200 $300 $400

*Note: Projection for State Fiscal Year 2021.

Sources: Estimates provided by the Governor’s Office, July 24, 2020; NH Dept. of Administrative Services, Preliminary Accruals, SFYs 2007-2020.
Percentage Changes in Appropriations Following the Great Recession
New Hampshire State Budgets, State Fiscal Years 2008-2009 to 2010-2011

- Total Appropriations (Including Federal)
- General Funds

Category
- General Government
- Justice and Public Protection
- Resource Protection and Development
- Transportation
- Health and Social Services
- Education

Note: Appropriations do not include trailer bill appropriations, back of the budget changes, or other changes to appropriations outside of the Primary Budget (Section 1 of the State Budget).

Source: New Hampshire State Budgets, as Passed
Percentage Changes in Appropriations Following the Great Recession

New Hampshire State Budgets, State Fiscal Years 2010-2011 to 2012-2013

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Appropriations (Including Federal)</th>
<th>General Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>-10%</td>
<td>-25%</td>
</tr>
<tr>
<td>Justice and Public Protection</td>
<td>-15%</td>
<td>-20%</td>
</tr>
<tr>
<td>Resource Protection and Development</td>
<td>-10%</td>
<td>-15%</td>
</tr>
<tr>
<td>Transportation</td>
<td>-7%</td>
<td>-10%</td>
</tr>
<tr>
<td>Health and Social Services</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Education</td>
<td>0%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Note: Appropriations do not include trailer bill appropriations, back of the budget changes, or other changes to appropriations outside of the Primary Budget (Section 1 of the State Budget).

Source: New Hampshire State Budgets, as Passed
New Hampshire Department of Health and Human Services Operating Budget

Unadjusted for Inflation, Primary Budget, Not Including Off-Budget Changes

Note: Appropriations do not include trailer bill appropriations, back of the budget changes, or other changes to appropriations outside of the Primary Budget (Section 1 of the State Budget).

Source: New Hampshire State Budgets, as Passed
Federal Assistance

- Current federal assistance largely cannot be used to offset State or local revenue losses, although certain portions have helped mitigate, defray costs
- Most flexible portion currently is Coronavirus Aid, Relief, and Economic Security (CARES) Act Coronavirus Relief Funds ($1.25 billion for New Hampshire), must be spent by December 30, 2020, cannot be used for previously-budgeted expenditures

Forms of Future Aid?

- More flexibility for existing CARES Act Coronavirus Relief Funds?
- Direct, unrestricted aid to states?
- Increase in Medicaid federal match funding large enough to offset previously-budgeted costs?
- Aid for education that can be used to offset existing costs?
- Local government assistance?
- Timing of aid relative to State Budget process?
Federal Funding Related to COVID-19 to Organizations in New Hampshire

Received by State, Local Governments, and Private For-Profit and Non-Profit Entities,

Data as of October 27, 2020

Source: New Hampshire Office of Legislative Budget Assistant, Federal COVID-19 Funds - New Hampshire Allocations, October 27, 2020

- **Food Assistance Funding**, $0.08 Billion
- **Federal Reserve Liquidity Aid**, $0.87 Billion
- **Federal Unemployment Compensation (including Lost Wages Assistance)**, $1.08 Billion
- **CARES Act Coronavirus Relief Fund Appropriation to State of New Hampshire**, $1.25 Billion
- **Other Federal Grant and Non-Grant Funding**, $0.81 Billion
- **Paycheck Protection Program and Disaster Loans for Small Businesses**, $3.28 Billion

CARES Act Coronavirus Relief Fund Grant to New Hampshire as of October 30, 2020

Source: New Hampshire Governor’s Office for Economic Relief and Recovery, Weekly Coronavirus Relief Fund Dashboard, Week of October 30, 2020

Note: CARES Act refers to the federal Coronavirus Aid, Relief, and Economic Security Act.
Building the Next State Budget

- COVID-19, revenues, the economy, and federal aid are all key variables.

- Current State Budget can end with a deficit, no legal requirement to end the current budget in balance.

- Next State Budget has to be a balanced plan of the next two years, must incorporate and resolve any deficit carried into it.

- The State Budget does not need to balance each fiscal year individually, meaning a deficit could be carried forward into the last year of the budget for resolution.

- Needs of Granite Staters may be most acute in the near-term.
Initial Economic Impact: Widespread Income Loss

- Chair of the U.S. Federal Reserve Jerome Powell, May 13, 2020: “Among people who were working in February, almost 40 percent of those in households making less than $40,000 a year had lost a job in March.”

- Loss of income severe enough to affect food security:
  - 22 percent of respondents nationally ran out of food and did not have enough money to buy more in last 30 days (NORC at the University of Chicago, May 4-10, 2020 survey)
  - Two in five households nationally that included children under 12 years old and the mothers of those children ran out of food and could not afford more at some point since the pandemic began (Brookings Institution, April 2020 survey)
New Hampshire Adults Reporting Difficulty Paying for Household Expenses

October 14 to October 26, 2020

Source: U.S. Census Bureau, Household Pulse Survey, Phase II

Difficulty Paying for Usual Household Expenses in the Last Seven Days, 25%

Other Adults, 75%
Employment and Unemployment in New Hampshire

Seasonally Adjusted

Employed Residents
Labor Force

Residents in Labor Force and Unemployed


Year

Sources: National Bureau of Economic Research; New Hampshire Employment Security

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Notes: Change in employment rates (not seasonally adjusted) indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos.

Source: tracktherecovery.org, a project of Harvard University, Brown University, and The Bill and Melinda Gates Foundation.
New Hampshire's Relative Economic Growth Since Recession

Changes in Inflation-Adjusted Gross Domestic Product

New Hampshire, the Rest of New England, and the United States

Index Value of Real GDP, 2006=100

2.5%  -0.4%  -1.0% -0.9%  3.1%  0.6%  1.3%  1.6%  1.1%  2.8%  1.8%  2.3%  2.7%


Note: Certain detailed 2018 and 2019 data pending. Inflation adjustment is 2012 chained dollars.
Source: U.S. Bureau of Economic Analysis

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Changes in Inflation-Adjusted New Hampshire Wages
Change from 2004-2006 Averages to 2017-2019 Averages
By Wage Decile of All Workers Age 16 and Older, Includes All Income from Work

Lower Wages  Higher Wages

Percentage Change in Real Wages

<table>
<thead>
<tr>
<th>Wage Decile</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>10th</td>
<td>$10.43</td>
</tr>
<tr>
<td>20th</td>
<td>$12.69</td>
</tr>
<tr>
<td>30th</td>
<td>$15.48</td>
</tr>
<tr>
<td>40th</td>
<td>$17.88</td>
</tr>
<tr>
<td>50th</td>
<td>$20.52</td>
</tr>
<tr>
<td>60th</td>
<td>$24.54</td>
</tr>
<tr>
<td>70th</td>
<td>$29.11</td>
</tr>
<tr>
<td>80th</td>
<td>$36.33</td>
</tr>
<tr>
<td>90th</td>
<td>$48.93</td>
</tr>
</tbody>
</table>

Relative Wage Percentiles and Corresponding 2017-2019 Hourly Wage Estimates

Note: Inflation adjustment using Consumer Price Index-Urban-Research Series (current methods). Includes workers aged 16 years and older.
New Hampshire Inflation-Adjusted Wages by Relative Income

Selected Income Deciles, Indexed to 2005, Includes All Income from Work, All Workers Age 16 and Up

- 10th percentile
- 20th percentile
- 50th percentile (Median)
- 80th percentile
- 90th percentile

Indexed Wages, 2005 = 100

Year


Note: Inflation adjustment using Consumer Price Index-Urban-Research Series (current methods). Includes workers aged 16 years and older.

Median Household Income in New Hampshire

U.S. Census Bureau American Community Survey Estimates

Year of Data Collection

Median Household Incomes by Householder Attribute

Hispanic Origin Included in Non-White Races,
New Hampshire, Estimated for 2014-2018

Householder Attribute

Non-Hispanic White
Hispanic or Latino, of Any Race
Asian
Black or African American
Two or More Races

Median Household Income (2018 Dollars)

$0
$10,000
$20,000
$30,000
$40,000
$50,000
$60,000
$70,000
$80,000
$90,000
$100,000

Note: Margins of Error represent 90 percent confidence intervals
Source: U.S. Census Bureau, American Community Survey Five-Year Estimates, 2014-2018
New Hampshire Poverty Rates by Group
Among Individuals, Hispanic Origin Included in Non-White Races, 2014-2018 Estimates

Note: Margins of Error represent 90 percent confidence intervals
Source: U.S. Census Bureau, American Community Survey Five-Year Estimates, 2014-2018

New Hampshire Fiscal Policy Institute
Total Medicaid Enrollment in New Hampshire

Total Number of People Enrolled

Month and Year

Source: New Hampshire Department of Health and Human Services, Monthly Caseload Reports
Key Takeaways

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- These impacts may be delayed, and federal relief would reduce risk of reductions to key services.

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