



The COVID-19 Crisis and State Revenues in New Hampshire

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House Ways and Means Committee Democratic Caucus

May 14, 2020

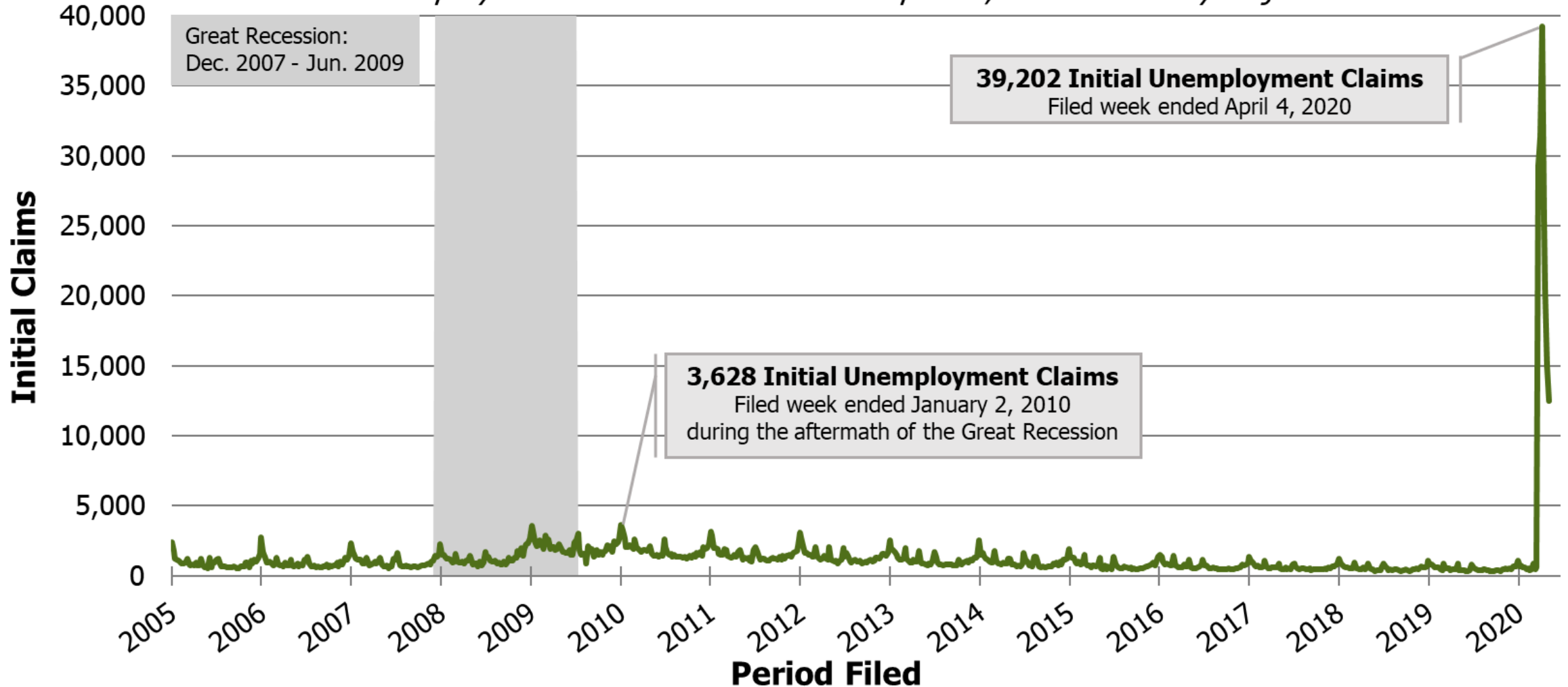
Massive, Rapid Impact on the Economy

- Necessary steps to protect public health have impacted economy
- Curtailed key components of the economy
- Rapid decline in economic activity suggests relatively quick decline in State revenues
- Unlike prior economic contractions since before World War II
- Driven by a sharp decline in demand for services across the board
- Economic indicators may not be reliable for some time, due to swift nature of changes
- Remains a lot of uncertainty about present and future impacts of contraction, length of time needed to stem spread of virus

Limited Early Information on Swift Impact

Initial Weekly Unemployment Claims

For Unemployment Insurance in New Hampshire, Not Seasonally Adjusted

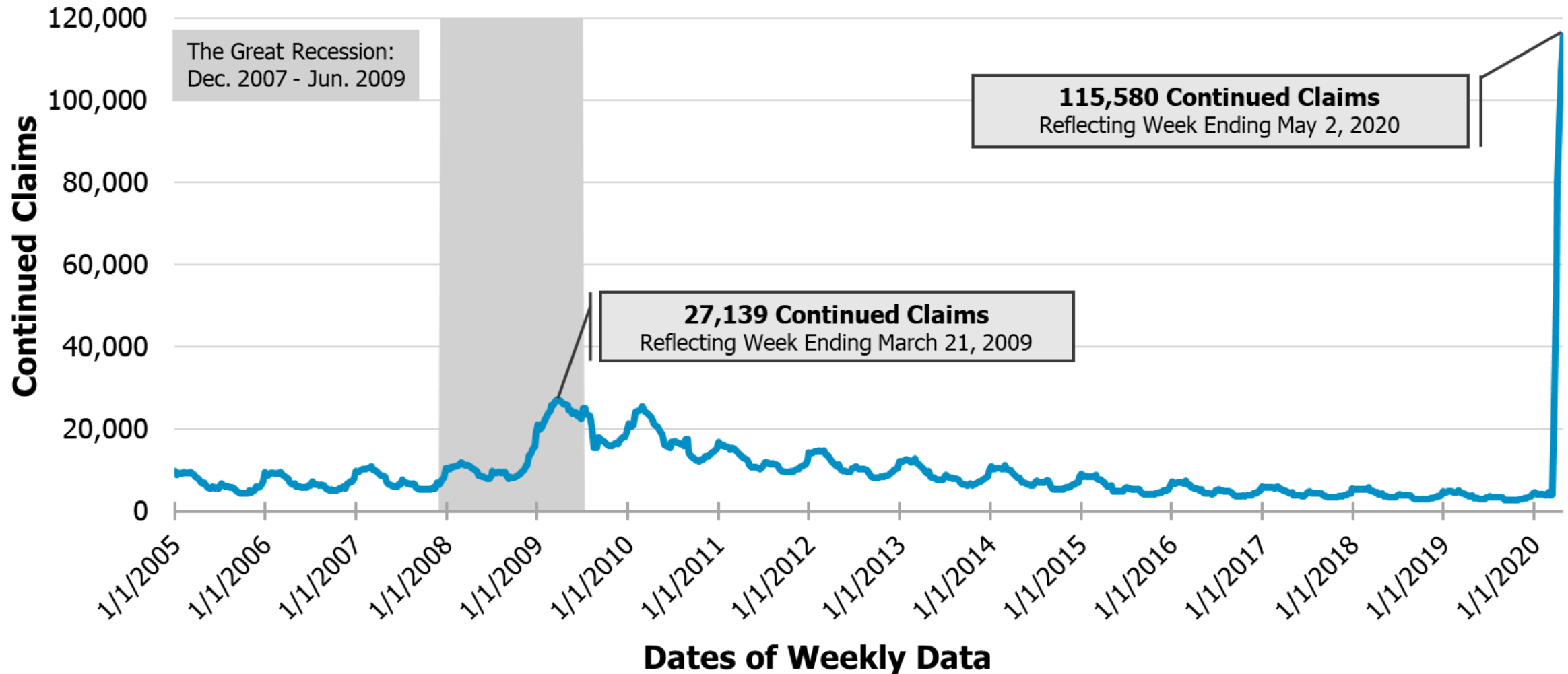


Source: U.S. Department of Labor, Employment and Training Administration

Limited Early Information on Swift Impact

Continued Weekly Unemployment Claims

For Unemployment Compensation in New Hampshire, Not Seasonally Adjusted



Source: U.S. Department of Labor, Employment and Training Administration

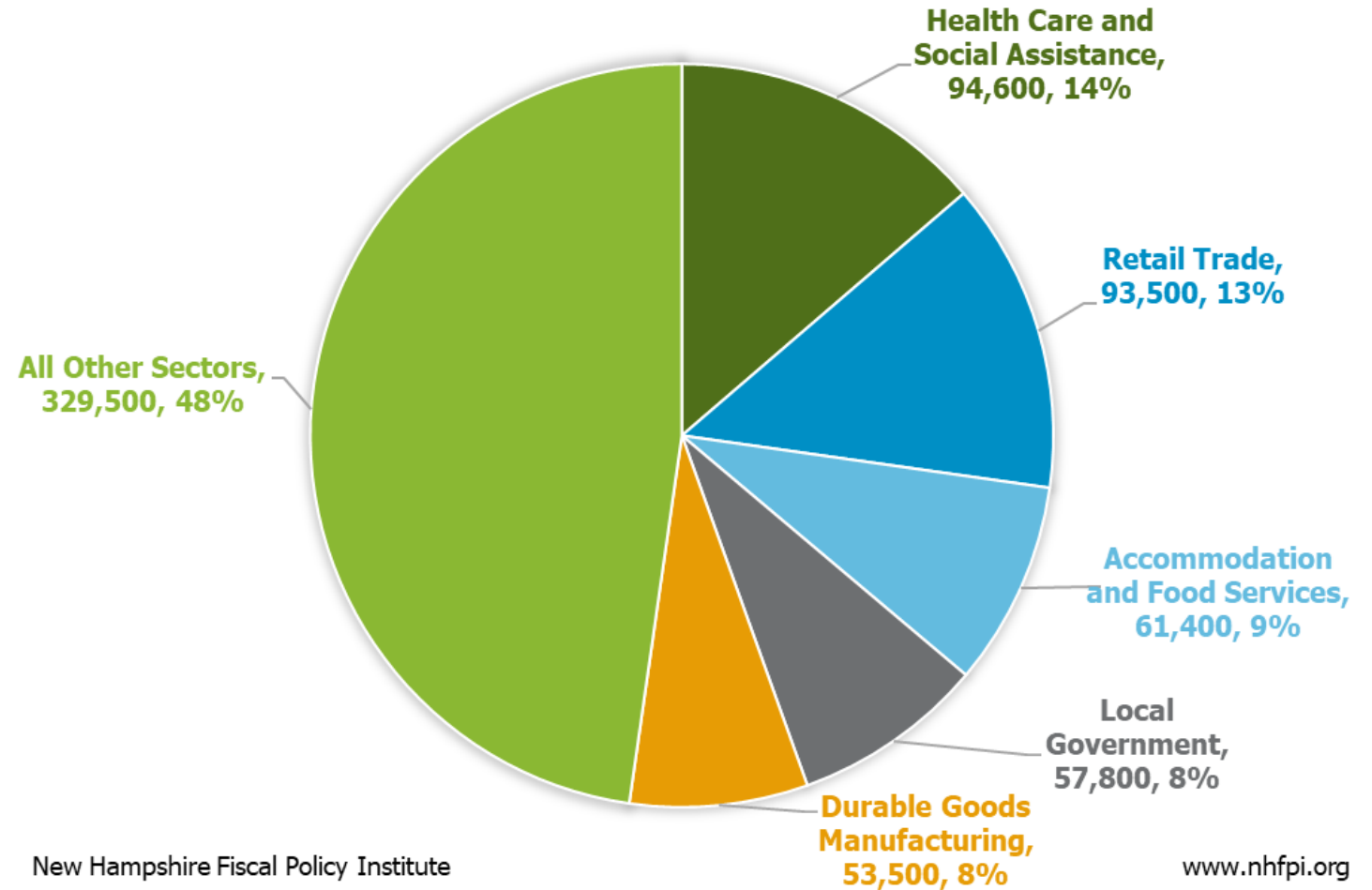
Effects on Key Employment Sectors

- Industries impacted by public health measures among state's largest
- March 15 to May 2 unemployment compensation claims filed by industry groupings:
 - Food services: 22,002
 - Retail: 19,851
 - Health care: 15,382
 - Hotels and motels: 3,766
 - Education, child day care also saw large filing volumes

Employment in New Hampshire by Sector

January 2020 Estimates

Source: New Hampshire Employment Security, Current Employment Statistics, *New Hampshire Economic Conditions*, March 2020

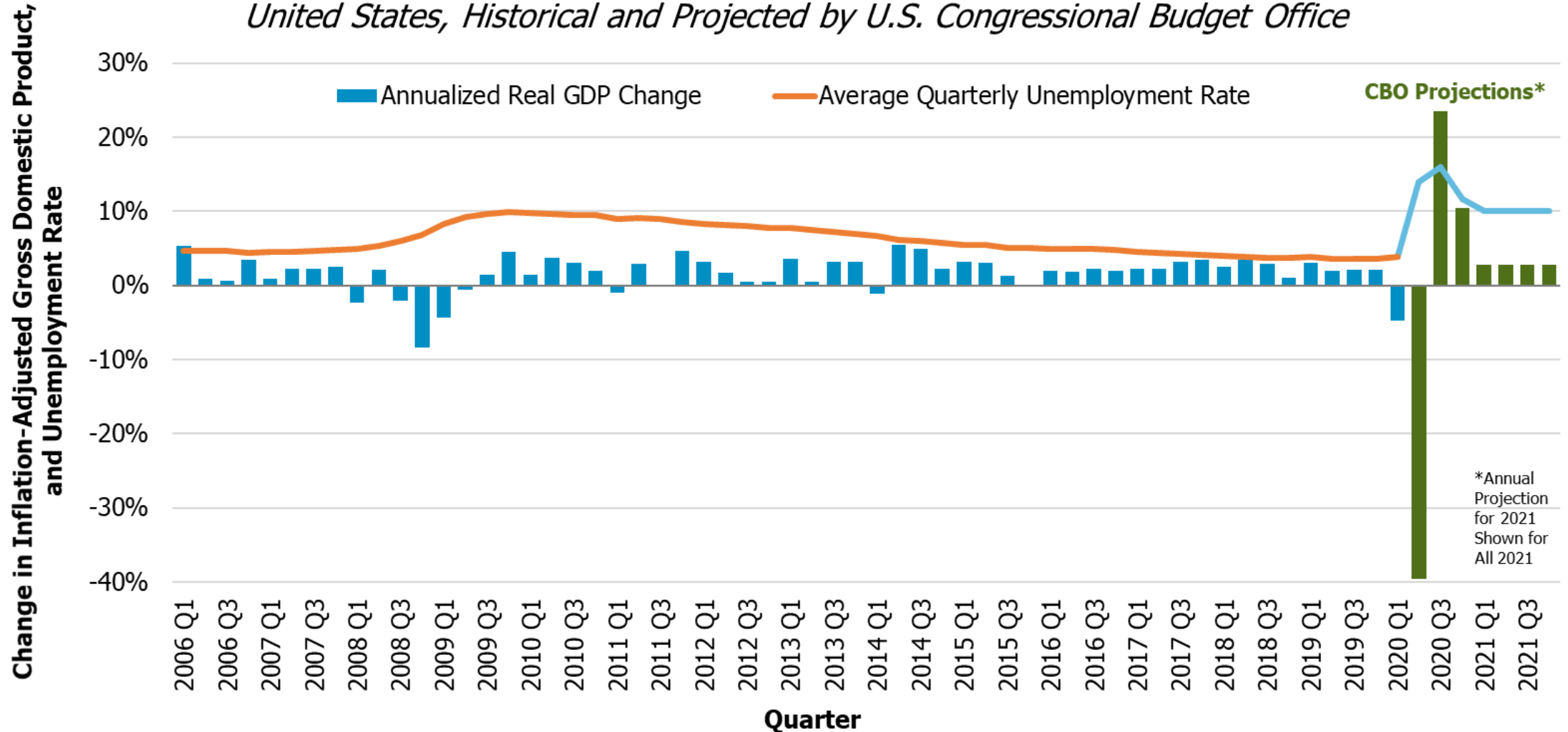


Source: New Hampshire Employment Security, *COVID-19 Unemployment Update*, May 14, 2020

Projections of National Economic Impacts

Economic Growth and Unemployment Rate

United States, Historical and Projected by U.S. Congressional Budget Office



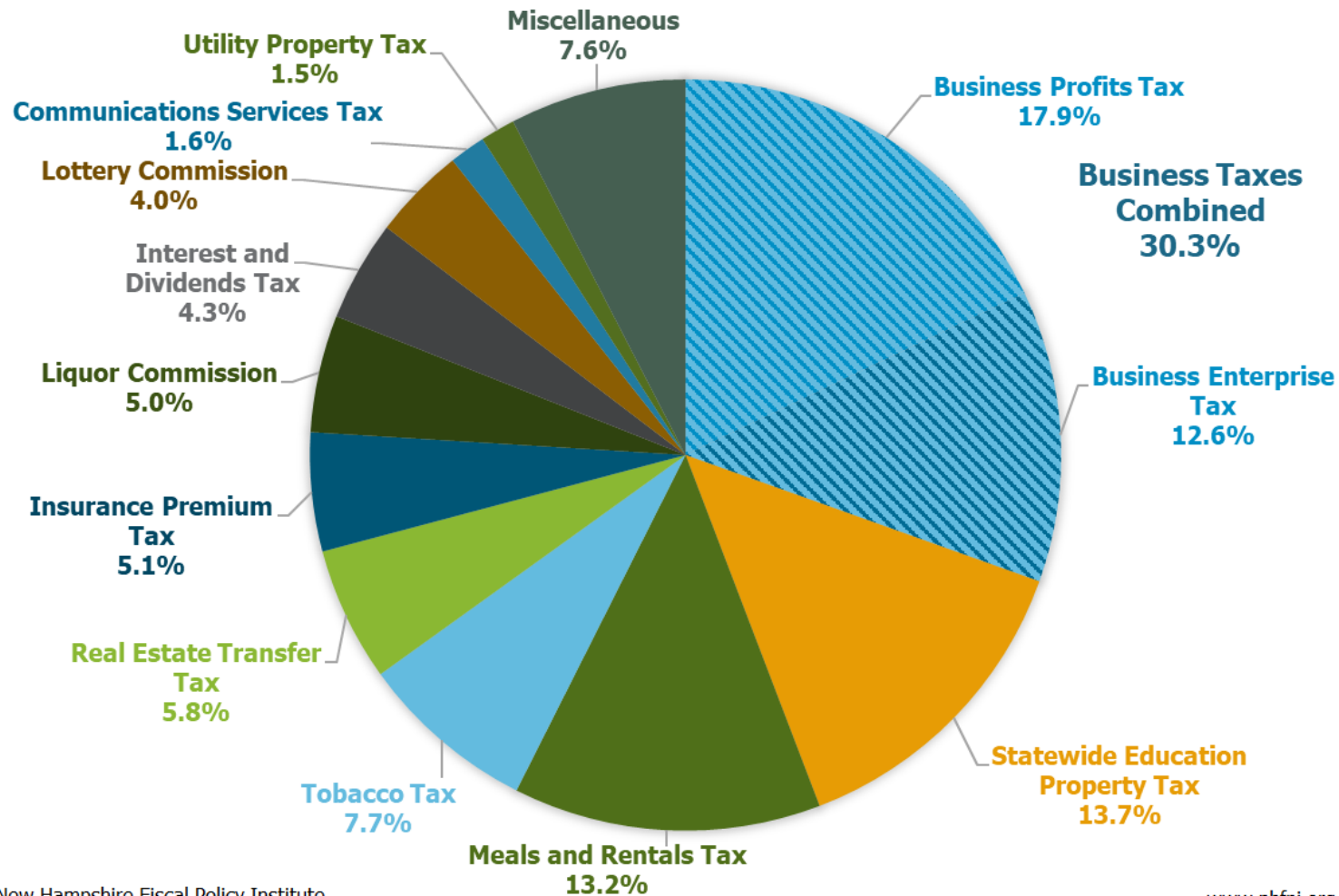
Sources: Federal Reserve Bank of Saint Louis; U.S. Congressional Budget Office, *CBO's Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021*, April 24, 2020

The COVID-19 Crisis and State Revenues

The General and Education Trust Funds

State Fiscal Year 2019 Revenue

Source: New Hampshire Comprehensive Annual Financial Report, SFY 2019



Selected Other Sources

- Motor Fuels Tax
- Medicaid Enhancement Tax
- Turnpike Tolling
- Fish and Game Department collections
- Motor vehicle registration revenues
- Federal Funds: About 30 percent of State Budget

New Hampshire Revenue Sources in the Great Recession

Demonstration of Fiscal Impacts, Dollar Declines Adjusted to be Relative to State Fiscal Year (SFY) 2019
Not a Projection, For Illustrative Purposes Only, Impacts Will Differ in the COVID-19 Crisis

Revenue Source	Percentage Change, SFYs 2008 to 2009	Percentage Change Applied to SFY Actual 2019 Revenues, Increase or Decrease in Millions
Combined Business Profits and Business Enterprise Taxes	-20.5%	-\$166
Meals and Rentals Tax	-2.1%	-\$8
Tobacco Tax	13.0%	\$26
Real Estate Transfer Tax	-30.2%	-\$46
Interest and Dividends Tax	-18.2%	-\$21
Insurance Premium Tax	-1.8%	-\$2
Liquor Commission	9.7%	\$13
Lottery Commission	-8.5%	-\$9
Total General Fund and Education Trust Fund Revenue*	-6.8%	-\$181
Motor Fuels Tax Revenue	-3.6%	-\$7
Turnpike System Charges	0.5%	\$1

Source: New Hampshire Comprehensive Annual Financial Reports, SFYs 2009 and 2019

*Note: Excludes Medicaid Enhancement Tax revenue; not all General and Education Trust Funds sources listed.

Differences Between the Great Recession and the COVID-19 Crisis:

- **Faster declines in size of economy; worst quarter of December 2007 to June 2009 recession was 2008 Q4**

- **Recovery dependent on public health factors**

- **Severe, short-term impacts on consumer spending (Meals and Rentals Tax, Motor Fuels Tax)**

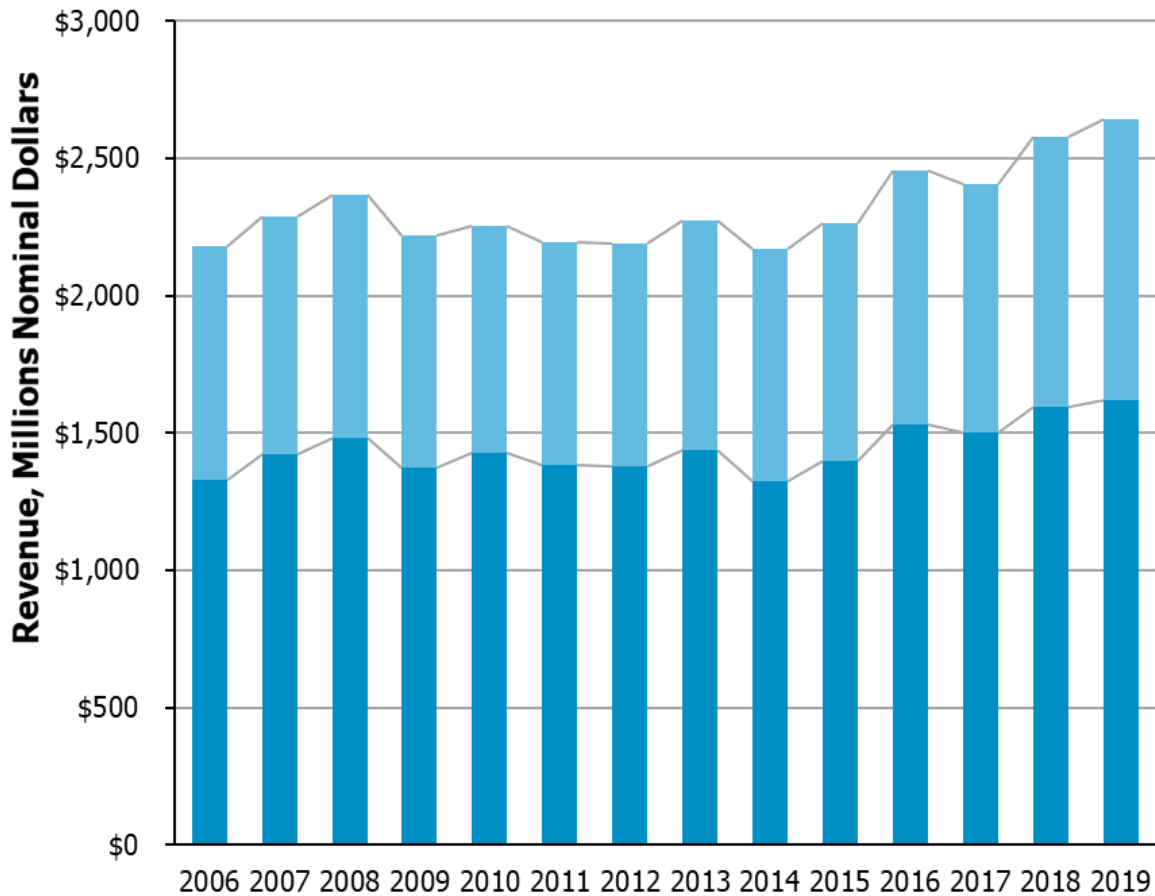
- **Real estate market still driven by lack of supply**

The Great Recession and State Revenues

General and Education Trust Fund Revenue

New Hampshire Funds by Year, Nominal Dollars

■ General Fund ■ Education Trust Fund



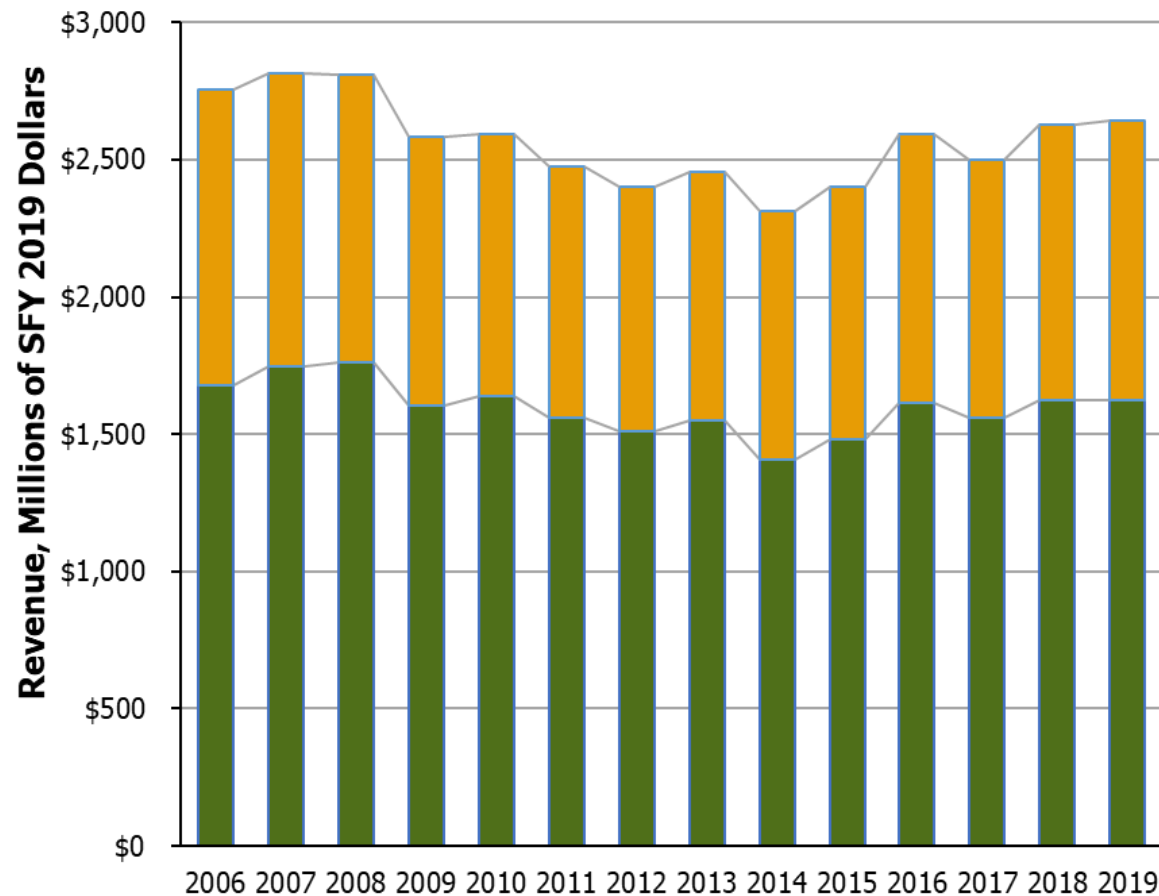
State Fiscal Year

Sources: New Hampshire Comprehensive Annual Financial Reports

General and Education Trust Fund Revenue

New Hampshire Funds by Year, Inflation-Adjusted Dollars

■ General Fund ■ Education Trust Fund



State Fiscal Year

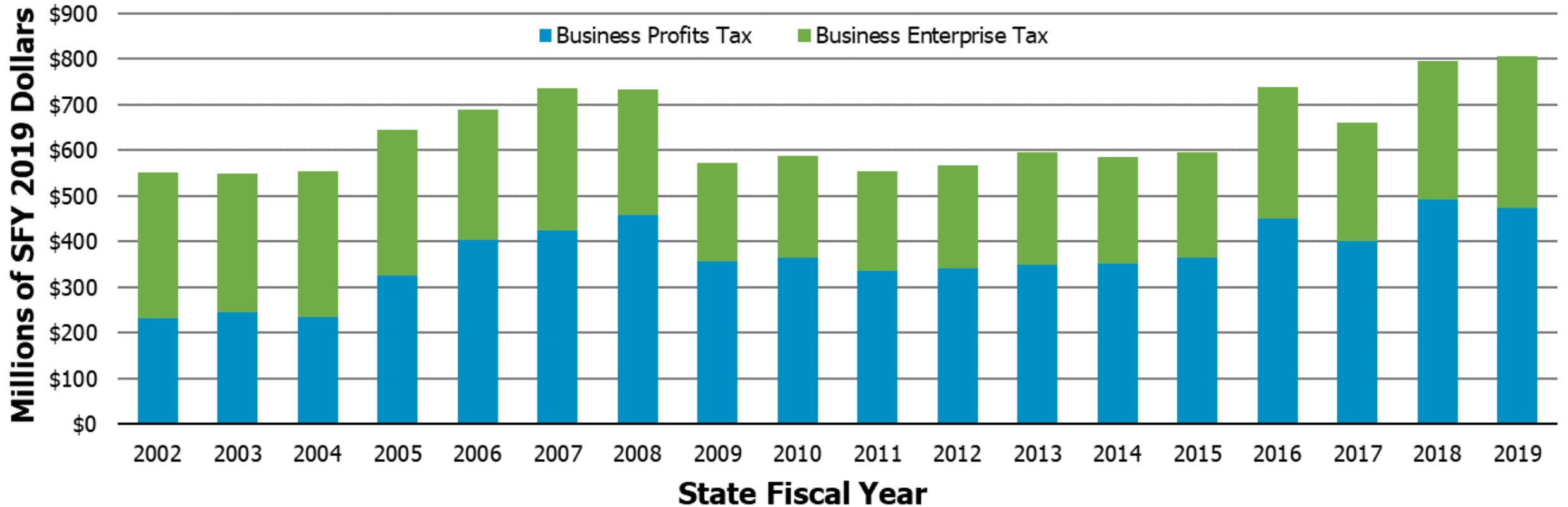
Sources: New Hampshire Comprehensive Annual Financial Reports;
U.S. Bureau of Labor Statistics Consumer Price Index-Urban, Northeast

The Great Recession and State Revenues

Business Profits Tax and Business Enterprise Tax

New Hampshire General and Education Trust Fund Inflation-Adjusted Revenue

Sources: NH Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



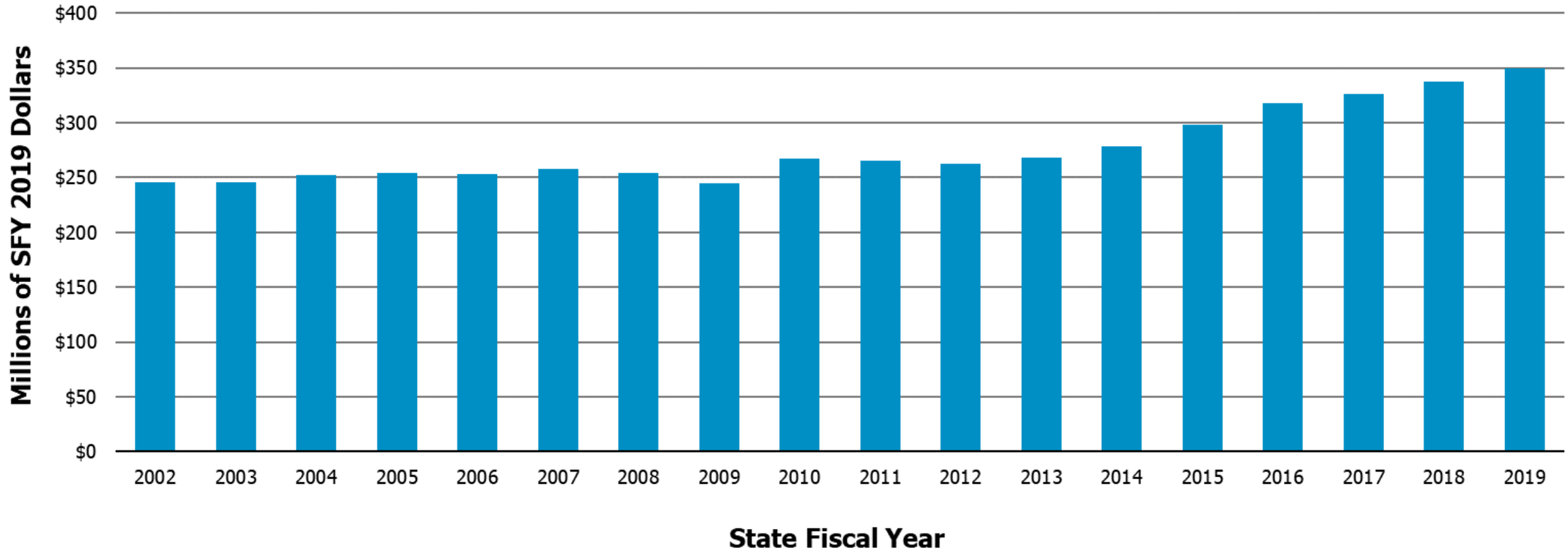
Note: Final sorting between these two taxes not reported fully in the Comprehensive Annual Financial Reports.

The Great Recession and State Revenues

Meals and Rentals Tax

New Hampshire General and Education Trust Fund Inflation-Adjusted Revenue

Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast

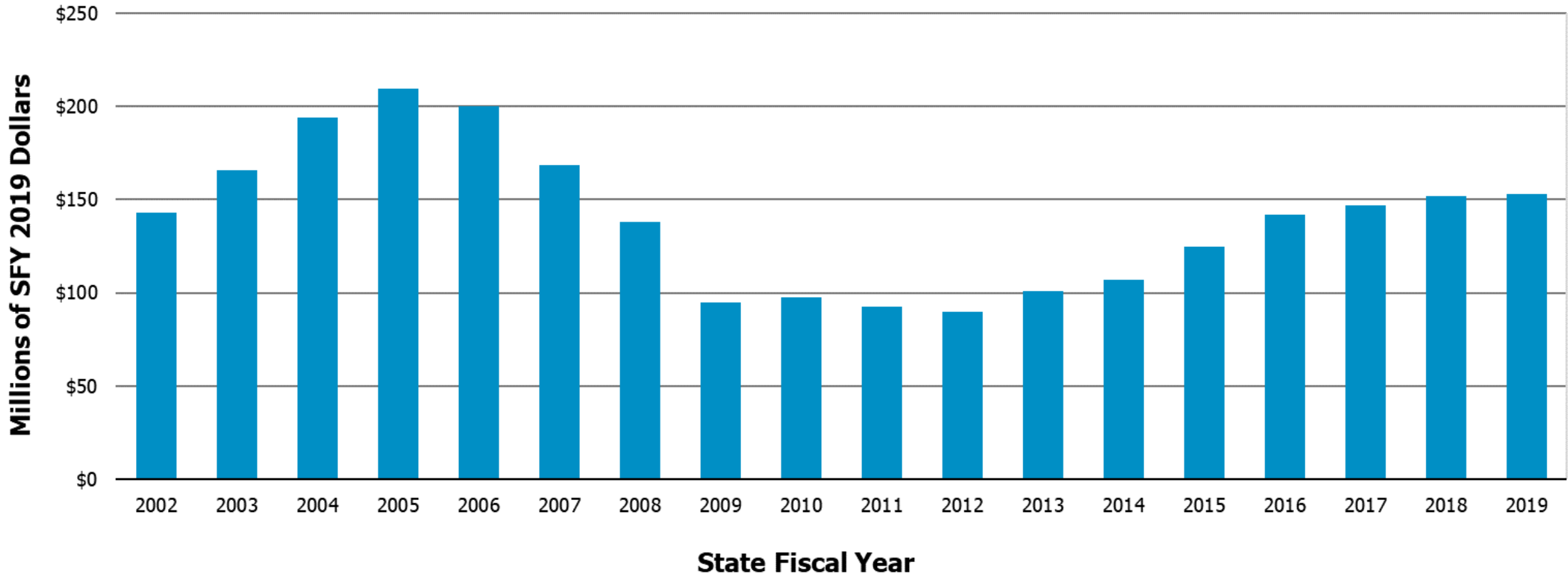


The Great Recession and State Revenues

Real Estate Transfer Tax

New Hampshire General and Education Trust Fund Inflation-Adjusted Revenue

Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast

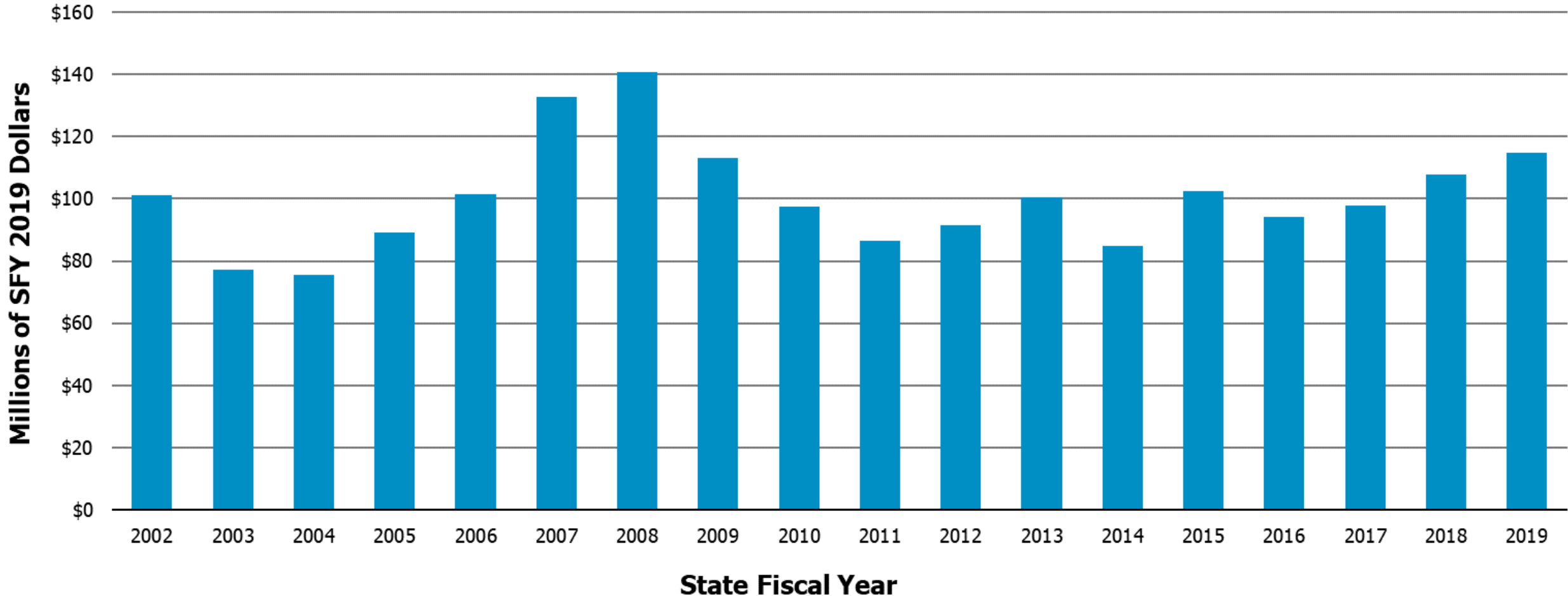


The Great Recession and State Revenues

Interest and Dividends Tax

New Hampshire General Fund Inflation-Adjusted Revenue

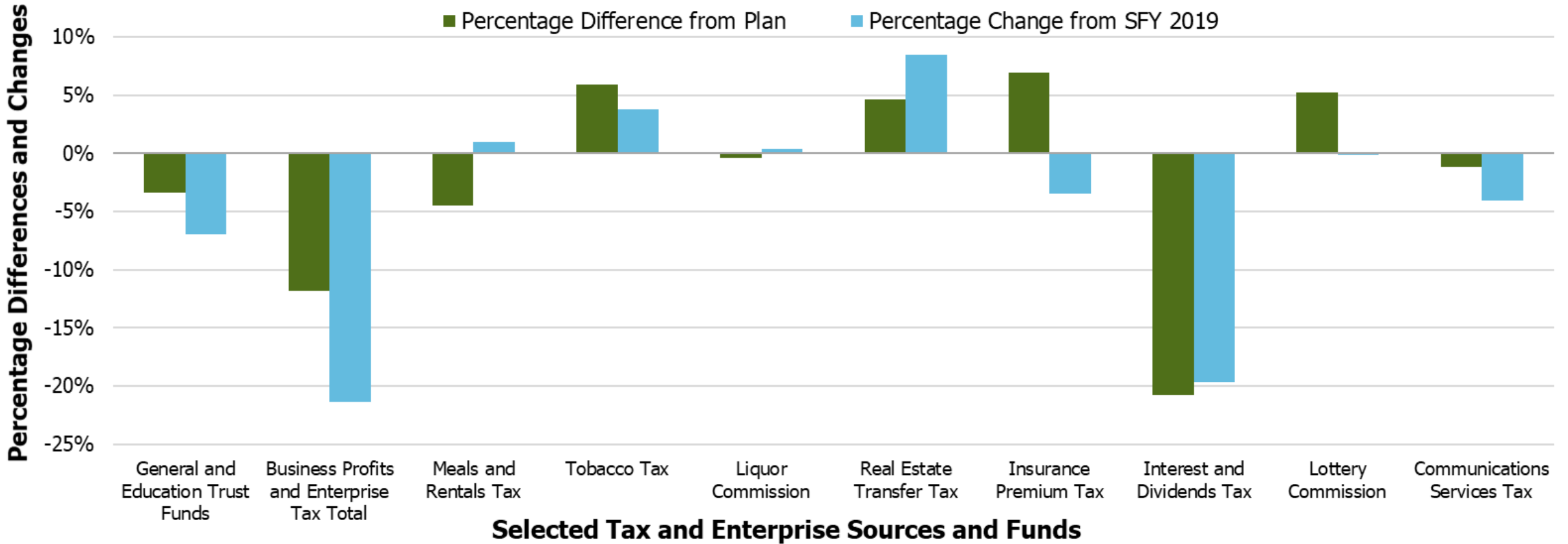
Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



State Revenues as of the End of April 2020

Percentage Differences and Changes in Revenue

*General and Education Trust Funds and Selected Revenue Sources
July-April SFY 2020 Cash Basis Actuals v. Plan and July-April SFY 2019 Cash Basis Actuals*



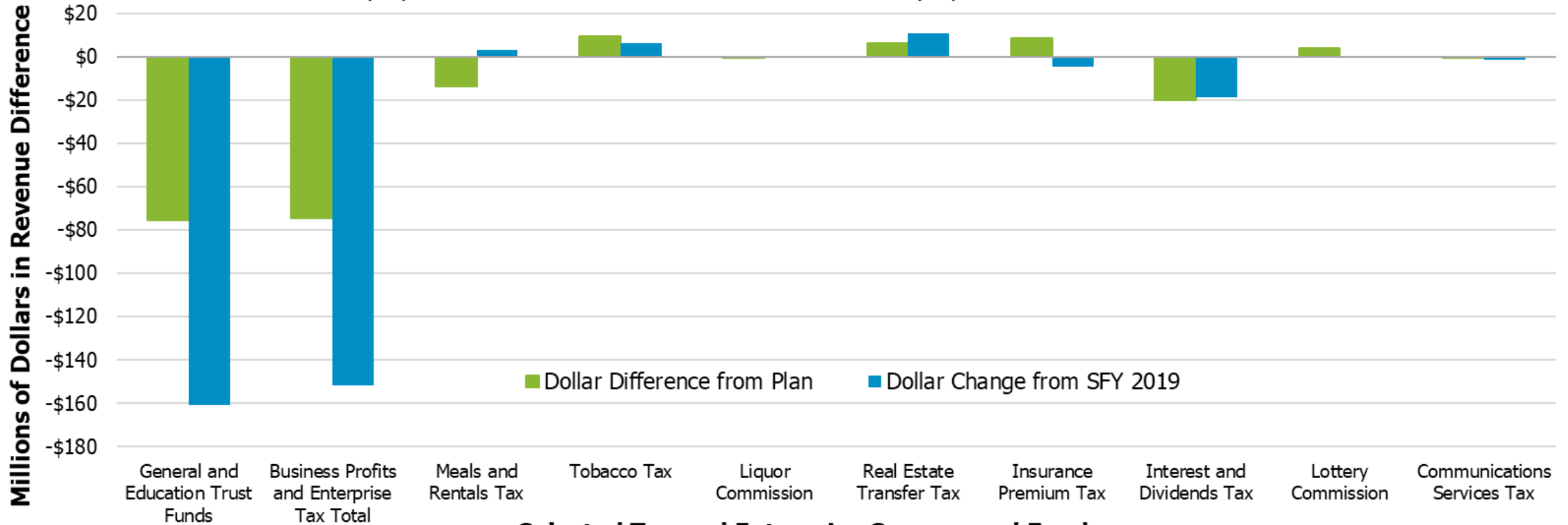
Source: NH Department of Administrative Services Revenue Focus - April SFY 2020

State Revenues as of the End of April 2020

Dollar Differences and Changes in Revenue

General and Education Trust Funds and Selected Revenue Sources

July-April SFY 2020 Cash Basis Actuals v. Plan and July-April SFY 2019 Cash Basis Actuals



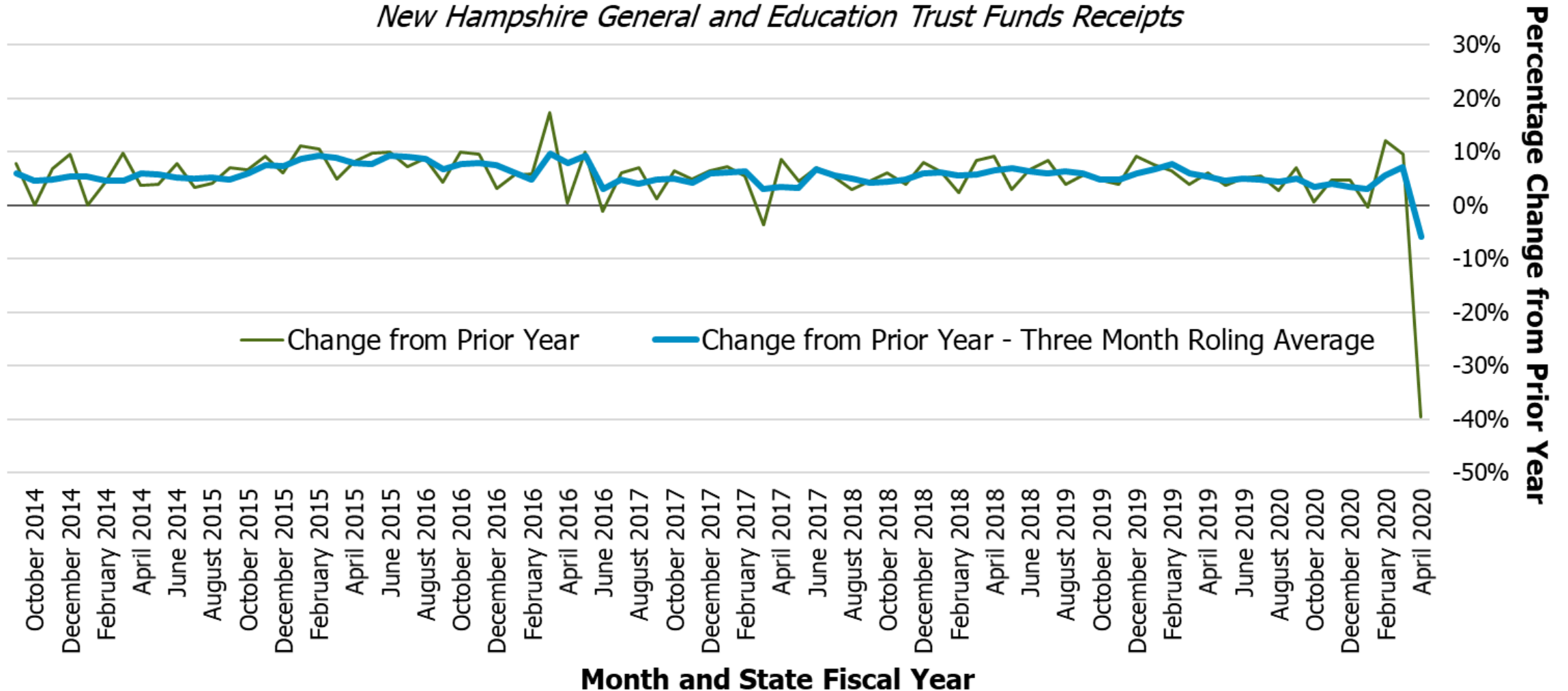
Selected Tax and Enterprise Sources and Funds

Source: NH Department of Administrative Services Revenue Focus - April SFY 2020

State Revenues as of the End of April 2020

Meals and Rentals Tax Revenue Changes

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

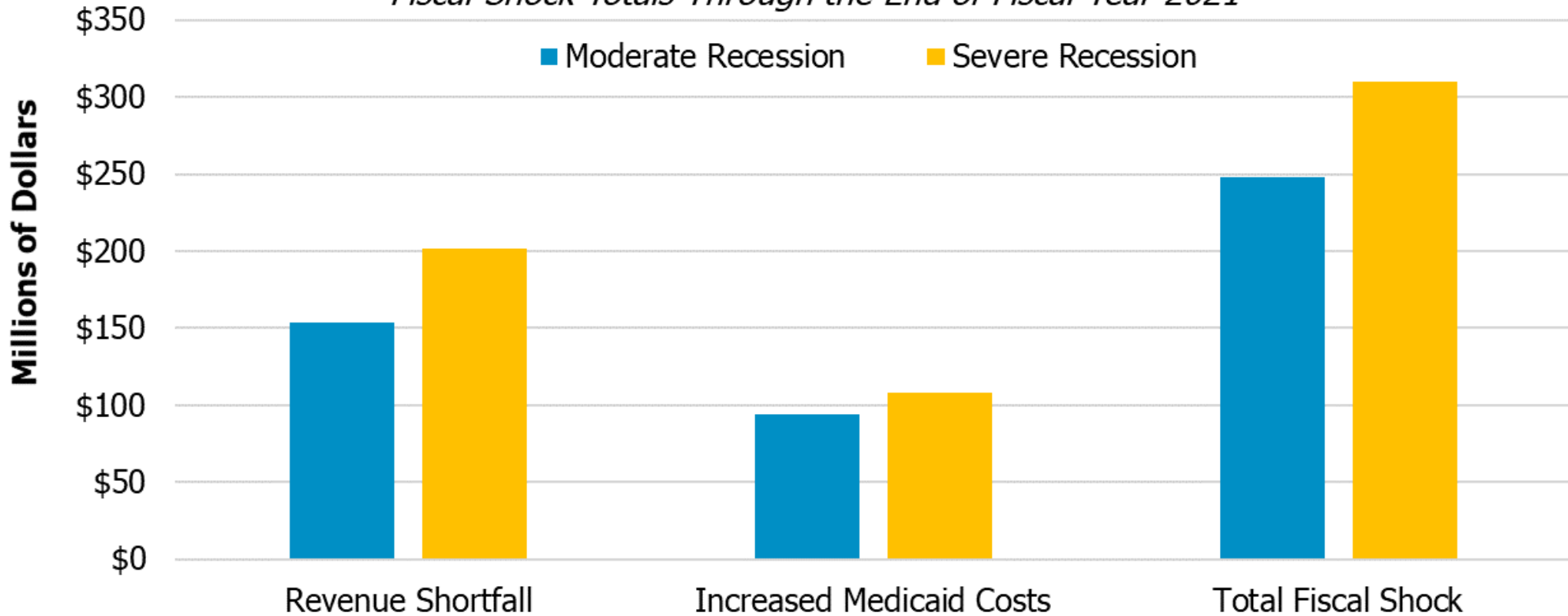


Sources: NH Department of Administrative Services Monthly Revenue Focus Reports

Projections from Multi-State Analyses

Moody's Analytics Modeling of Fiscal Shock to New Hampshire from COVID-19 Crisis

Total and Components, Based on 50-State Stress Test Analysis, Fiscal Shock Totals Through the End of Fiscal Year 2021



Fiscal Shock Component and Total

Source: Moody's Analytics, *Stress-Testing States: COVID-19*, April 14, 2020

Projections from Multi-State Analyses

Projections Based on Modeled Unemployment Impacts on State Tax Revenue in New Hampshire

Federal Reserve Bank of Boston, April 20, 2020

Scenario	SFY 2020 Revenues Relative to SFY 2019 (90 Percent Confidence Interval Bounds) <i>In Millions</i>	Percentage Decline SFY 2020 to SFY 2021
Low Unemployment	-\$356 (-\$18, -\$694)	-2.59%
High Unemployment	-\$392 (-\$41, -\$744)	-29.84%

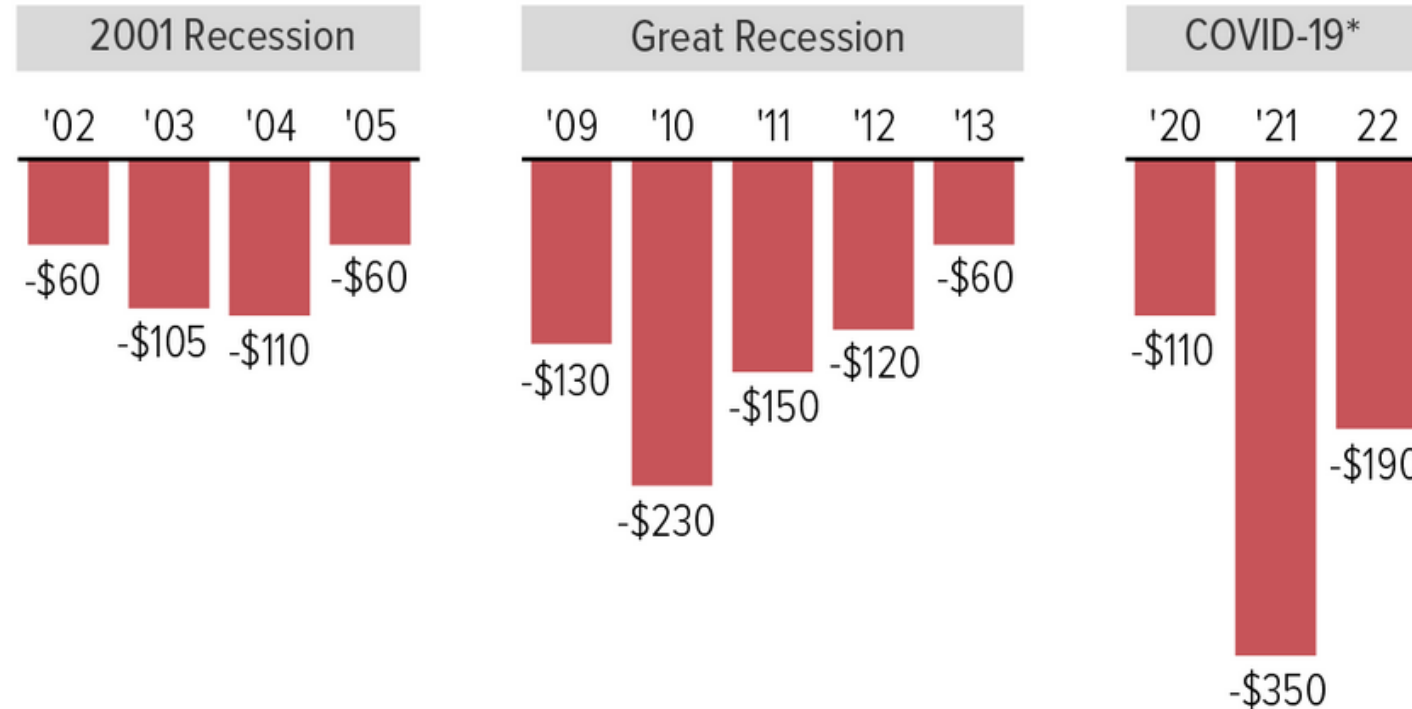
Source: Federal Reserve Bank of Boston, *Economic Fallout of the COVID-19 Pandemic in New England*, April 20, 2020

Projections for All States in Total

Center on Budget and Policy Priorities – April 29, 2020

COVID-19 State Budget Shortfalls Could Be Largest on Record

Total shortfall in each fiscal year, in billions of 2020 dollars



* Estimates based on CBPP calculations using Congressional Budget Office and Goldman Sachs unemployment estimates. Does not reflect use of rainy day funds or federal aid already enacted.

Source: CBPP survey of state budget offices (through 2013); CBPP calculations (2020-2022)

Considerations Going Forward

Business Taxes

- Changes announced by the State complicate projections, many smaller payers not yet filed
- Number of business tax documents down about 50 percent
- Two different tax bases see different impacts
- Unemployment has a larger impact on the Business Enterprise Tax
- Business Profits Tax impacted by large multinational firms, global economy and trade are factors beyond the local economy
- Net Operating Loss Carryforward (ten years, limit of \$10 million per entity)
- Credit carryovers from overpaid business taxes, SFY 2019: \$268.1 million
- CARES Act changes to federal corporate tax law, fixed conformity in NH

Considerations Going Forward

Interest and Dividends Tax

- Changes announced by the State complicate projections, many small filers not yet filed; more important to overall revenues than small filers in business taxes
- Behavior in stock market going forward is an unknown

Meals and Rentals Tax

- Likely to lose the equivalent of several months worth of revenue during the biennium, and many establishments may not come back

Others

- Tobacco Tax, Liquor and Lottery revenues difficult to predict but likely negative; Real Estate Transfer Tax likely to slump; transportation-related revenues may be halved during period of least travel, slowly ramp back



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