

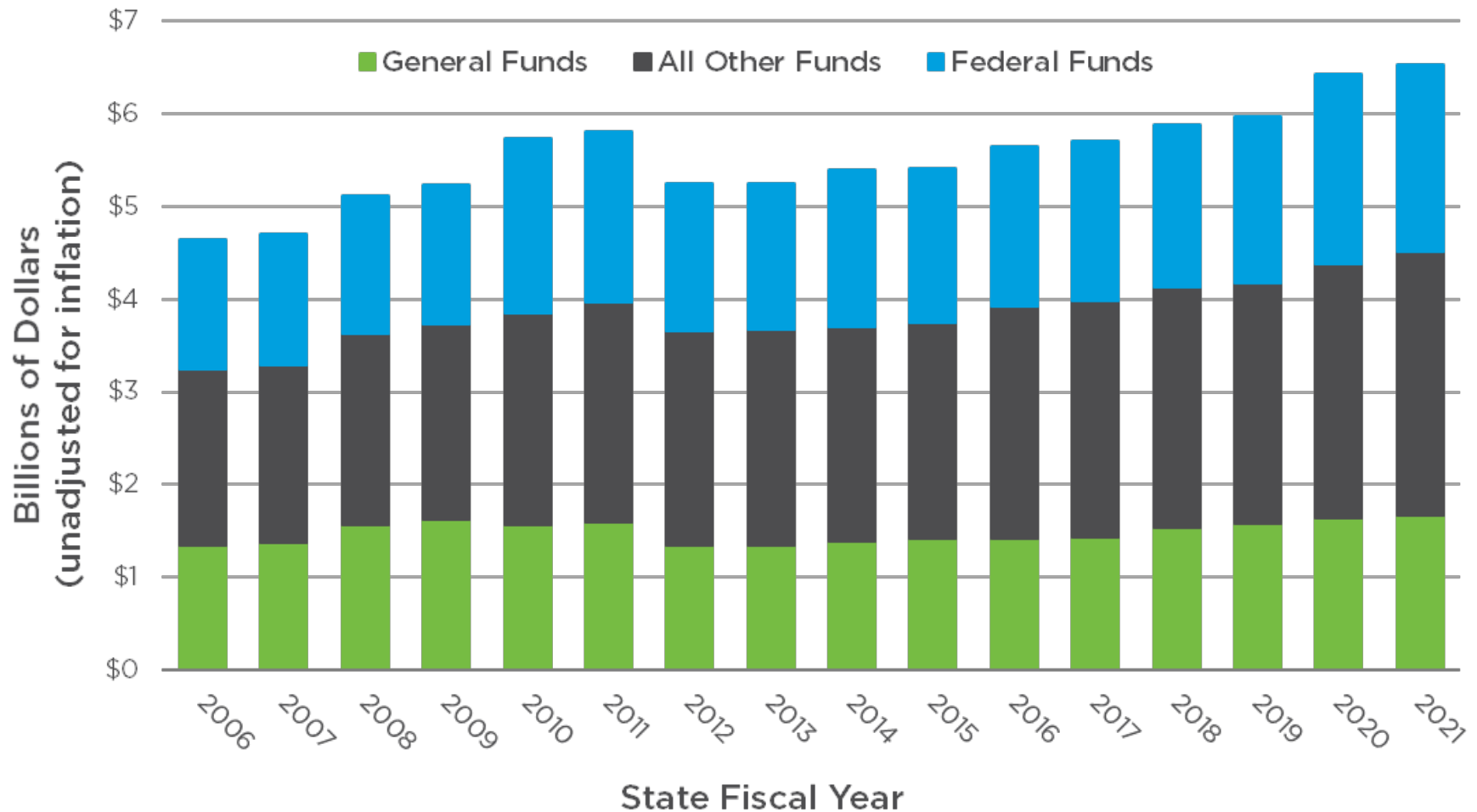


THE STATE BUDGET: FUNDING TRENDS DURING AND FOLLOWING THE GREAT RECESSION

PRESENTED BY PHIL SLETTEN, SENIOR POLICY ANALYST

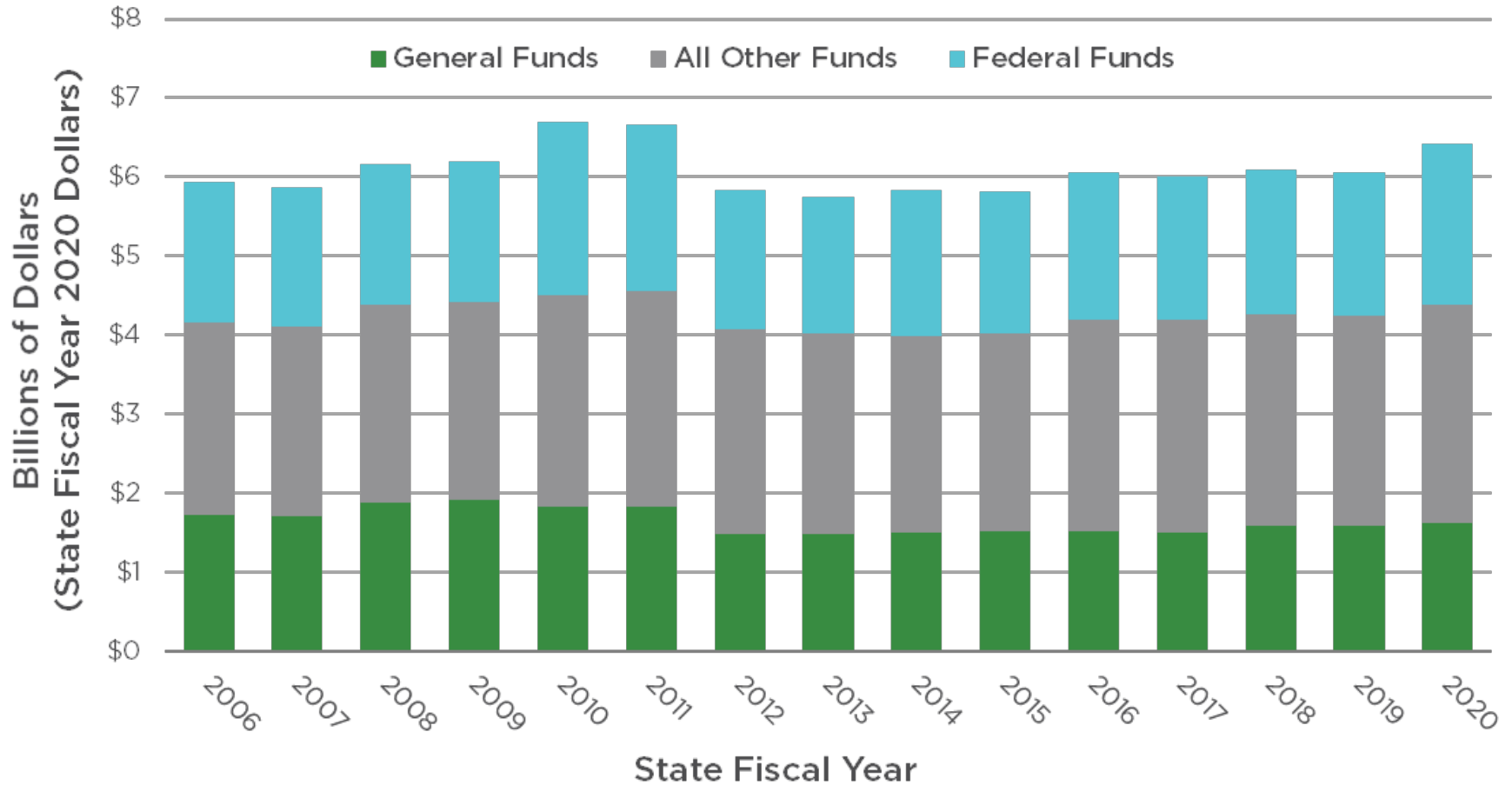
BREAKFAST BUDGET BRIEFING
JANUARY 25, 2021

STATE BUDGET APPROPRIATIONS HISTORY



Sources: HB 1, Section 1.07 as Approved, Sessions 2005 to 2015; HB 144, Session 2017; HB 3 as Approved, Session 2019

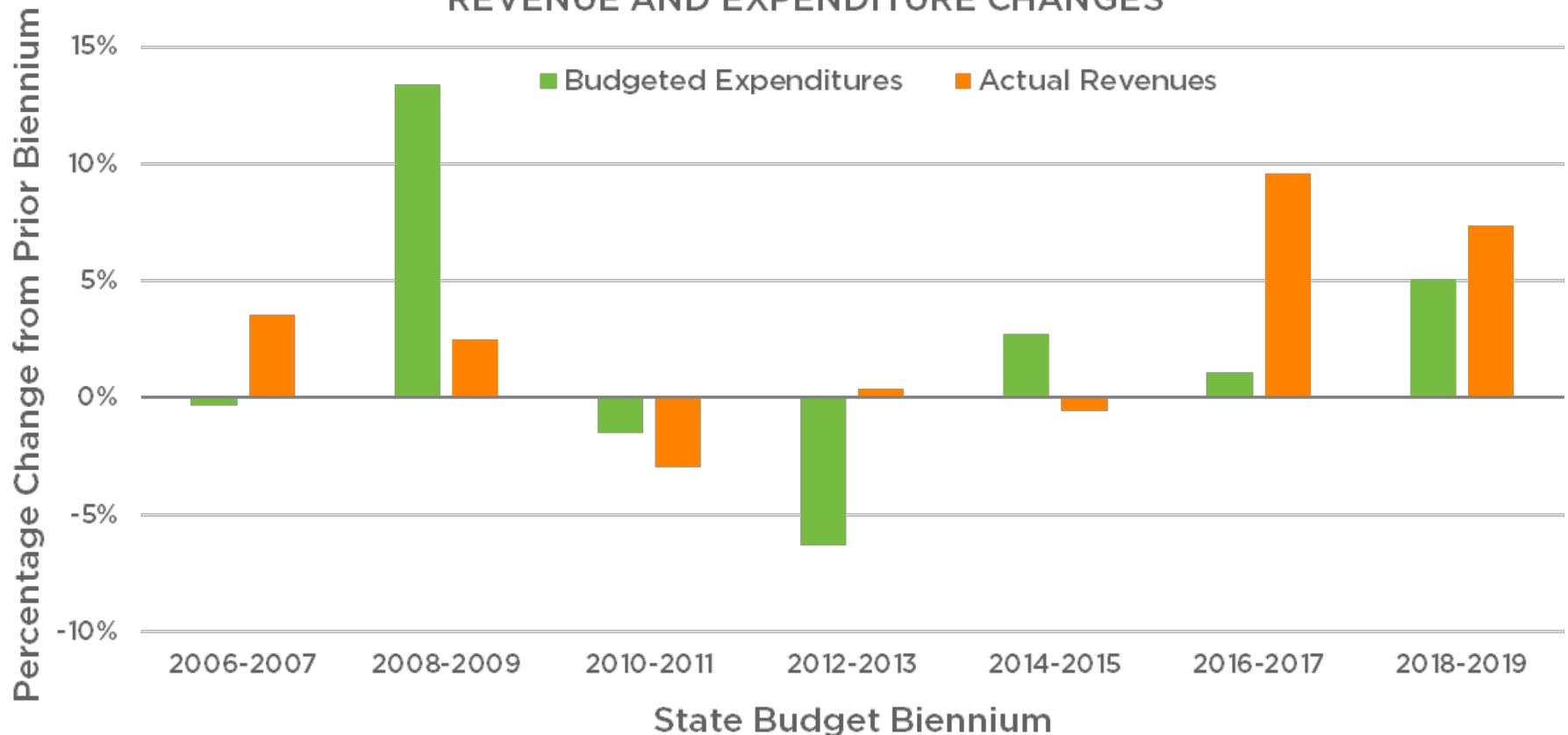
STATE BUDGET APPROPRIATIONS HISTORY, ADJUSTED FOR INFLATION



Sources: HB 1, Section 1.07 as Approved, Sessions 2005 to 2015; HB 144, Session 2017; HB 3 as Approved, Session 2019; U.S. Bureau of Labor Statistics, CPI-U Northeast

REVENUE SHORTFALL DURING RECESSION FOLLOWED BY SMALLER STATE BUDGET

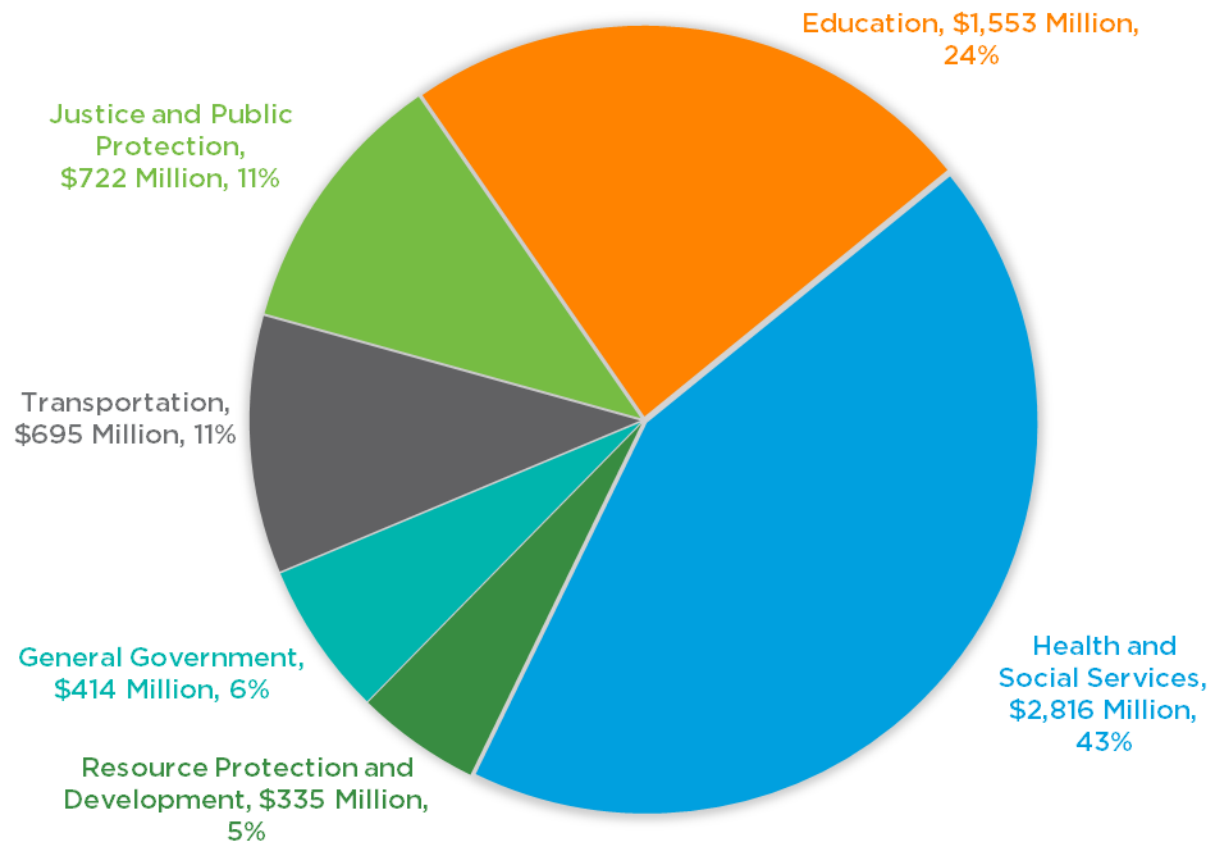
NEW HAMPSHIRE GENERAL AND EDUCATION TRUST FUND
REVENUE AND EXPENDITURE CHANGES



Sources: New Hampshire Comprehensive Annual Financial Reports; New Hampshire State Budgets (Operating Budget Bills, Sections 1.01-1.07)

STATE BUDGET APPROPRIATIONS BY CATEGORY

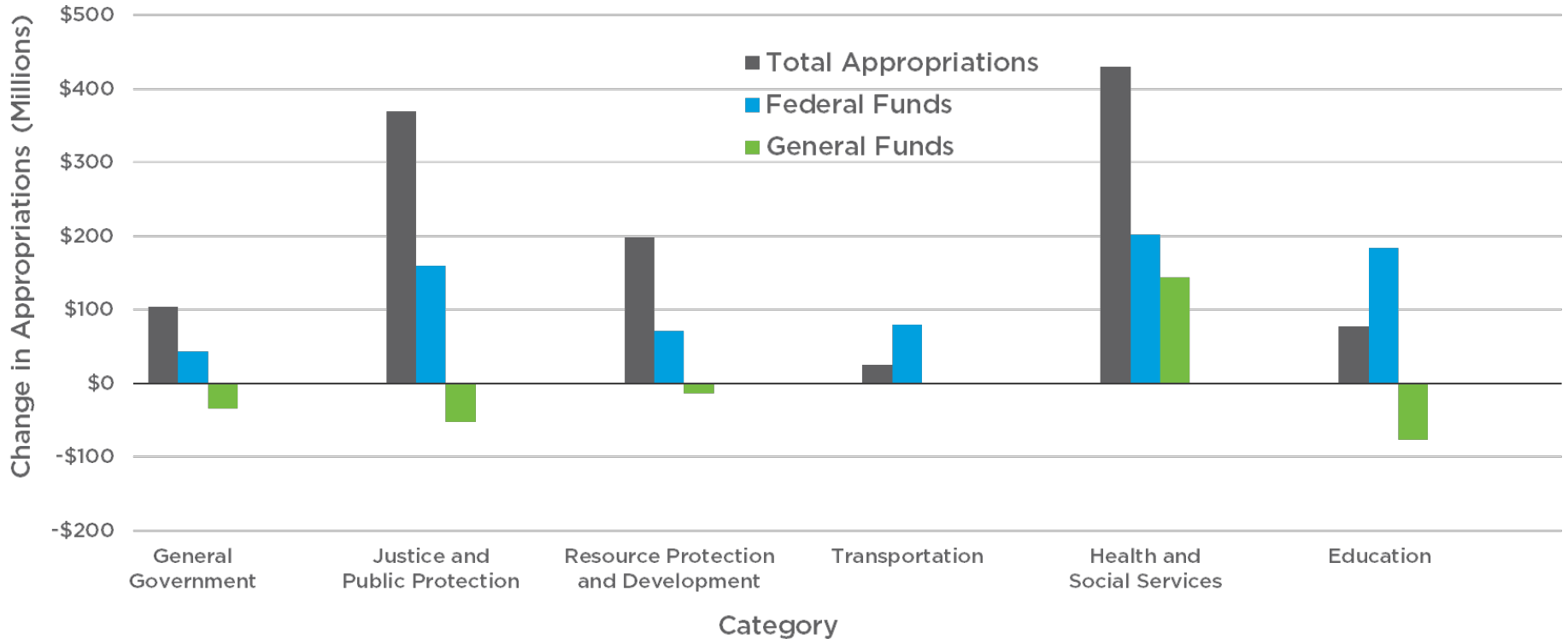
NEW HAMPSHIRE, STATE FISCAL YEAR 2021



Source: Chapter 345, Laws of 2019

FEDERAL FUNDS PROVIDED KEY SUPPORT FOLLOWING GREAT RECESSION

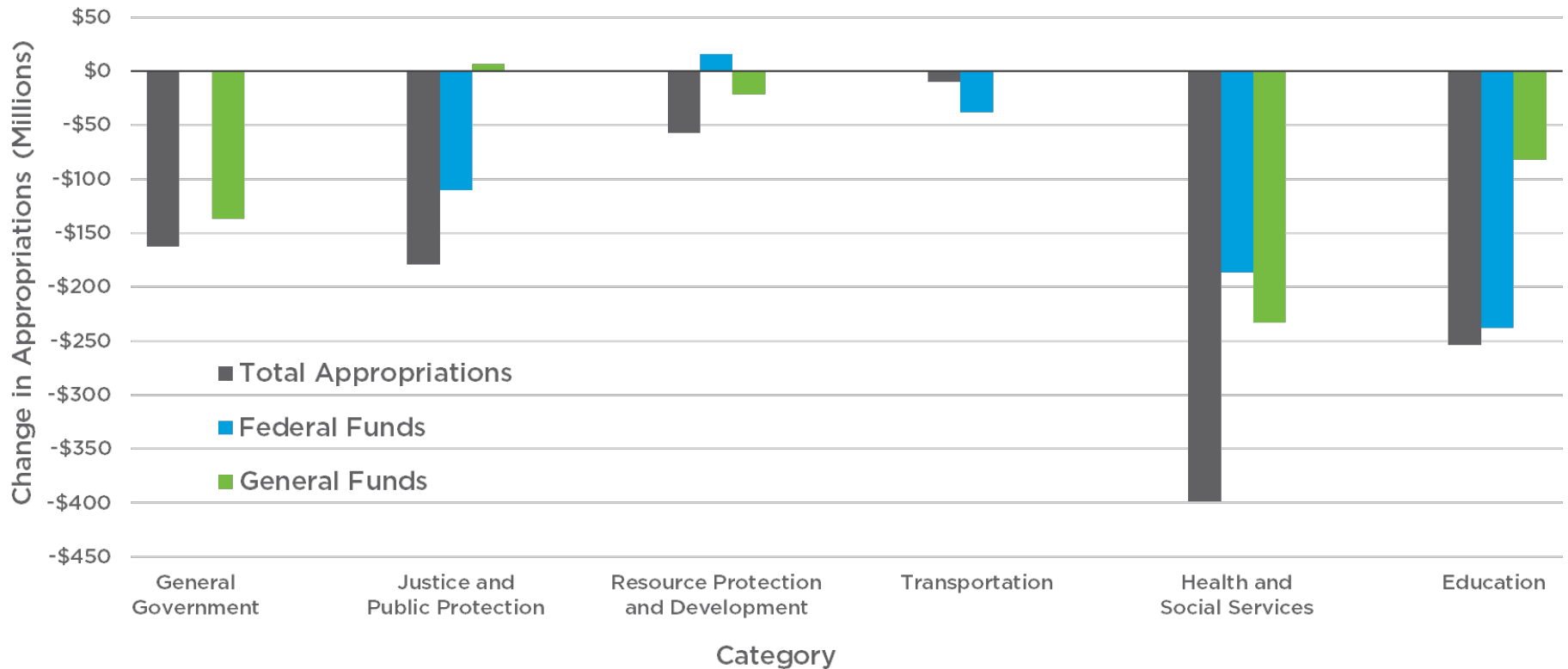
CHANGES IN APPROPRIATIONS
IMMEDIATELY FOLLOWING THE GREAT RECESSION
NEW HAMPSHIRE STATE BUDGETS, STATE FISCAL YEARS 2008-2009 TO 2010-2011



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 AND STATE POLICY CHANGED DURING RECOVERY

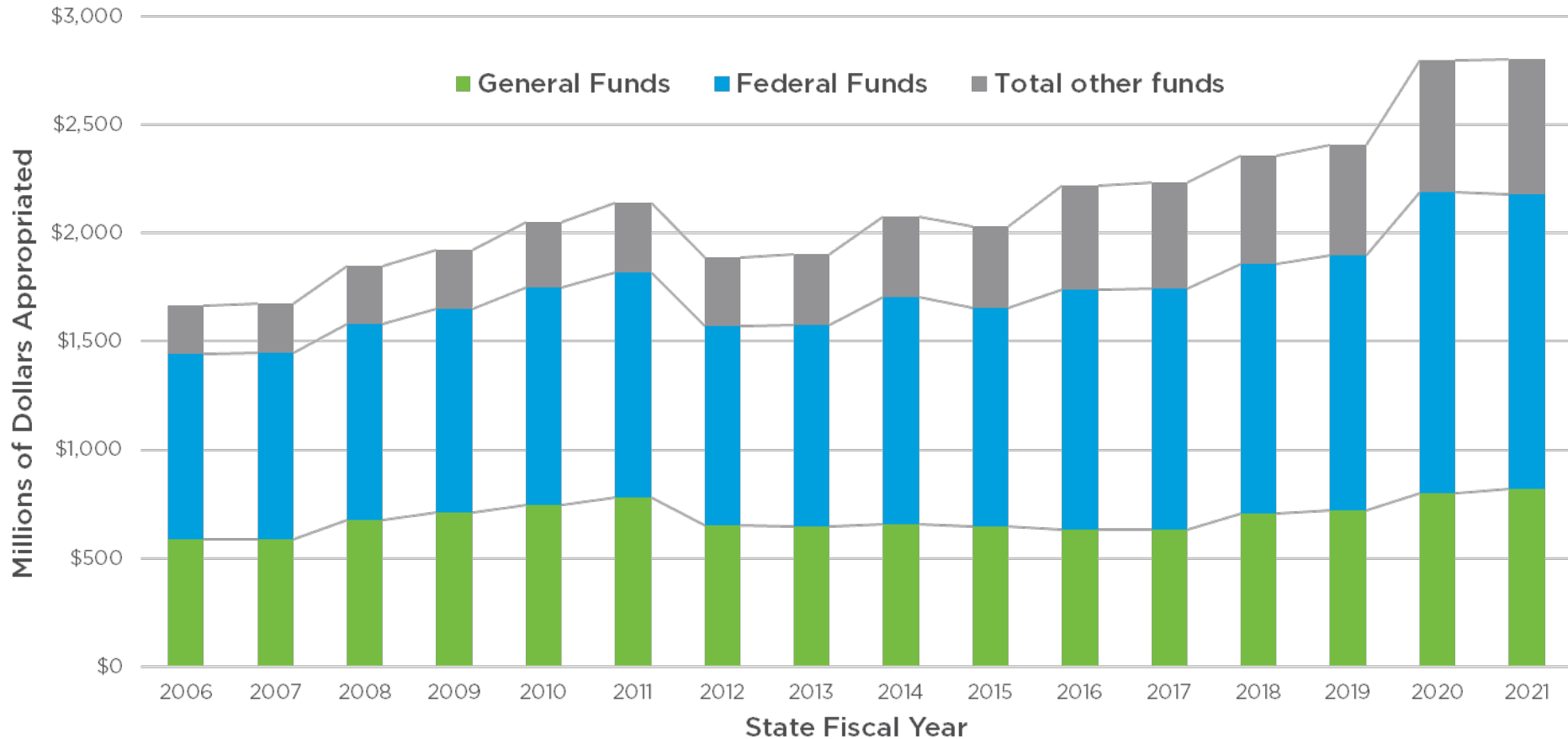
CHANGES IN APPROPRIATIONS
IN THE AFTERMATH OF THE GREAT RECESSION
NEW HAMPSHIRE STATE BUDGETS, STATE FISCAL YEARS 2010-2011 TO 2012-2013



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

LONG-TERM NH DHHS BUDGET IMPACTS

NH 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

AGENCY BUDGET REQUESTS

Mechanics

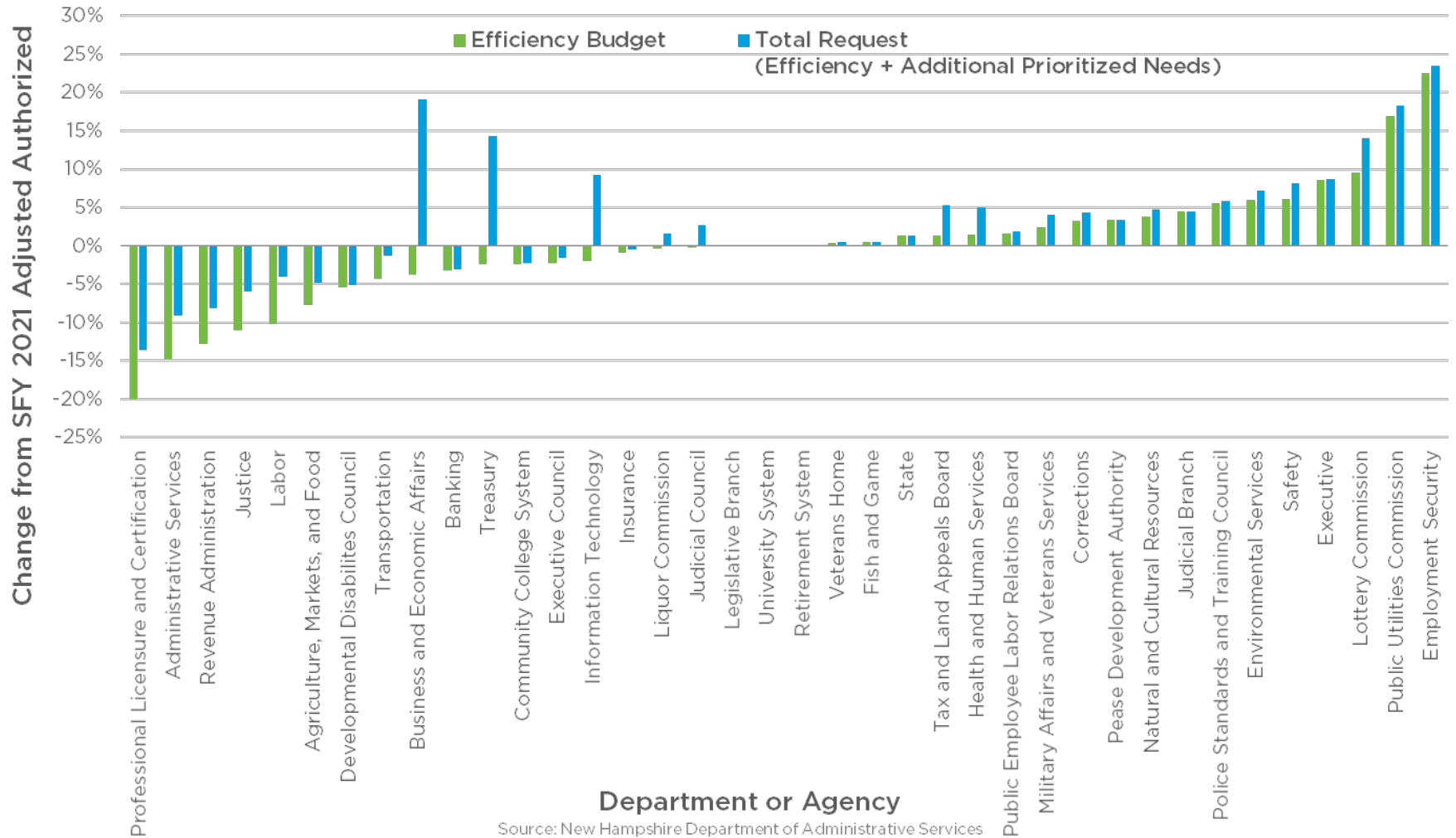
- Submitted by State agencies on October 1, 2020
- Presented in the mid-November agency budget hearings
- Include the “efficiency” budget, which meets expenditure targets provided by the Governor’s office on August 1, 2020, and “additional prioritized needs” above those expenditure targets

Comparisons

- Reorganized divisions/bureaus or shifted operations can make comparisons complex across budgets and proposals
- Often higher totals than the agency funding levels that appear later in the Governor’s budget request, with exceptions
- Agency requests remain public, but Governor’s budget often treated like the updated request, new revenue estimates

TOPLINE AGENCY BUDGET REQUESTS

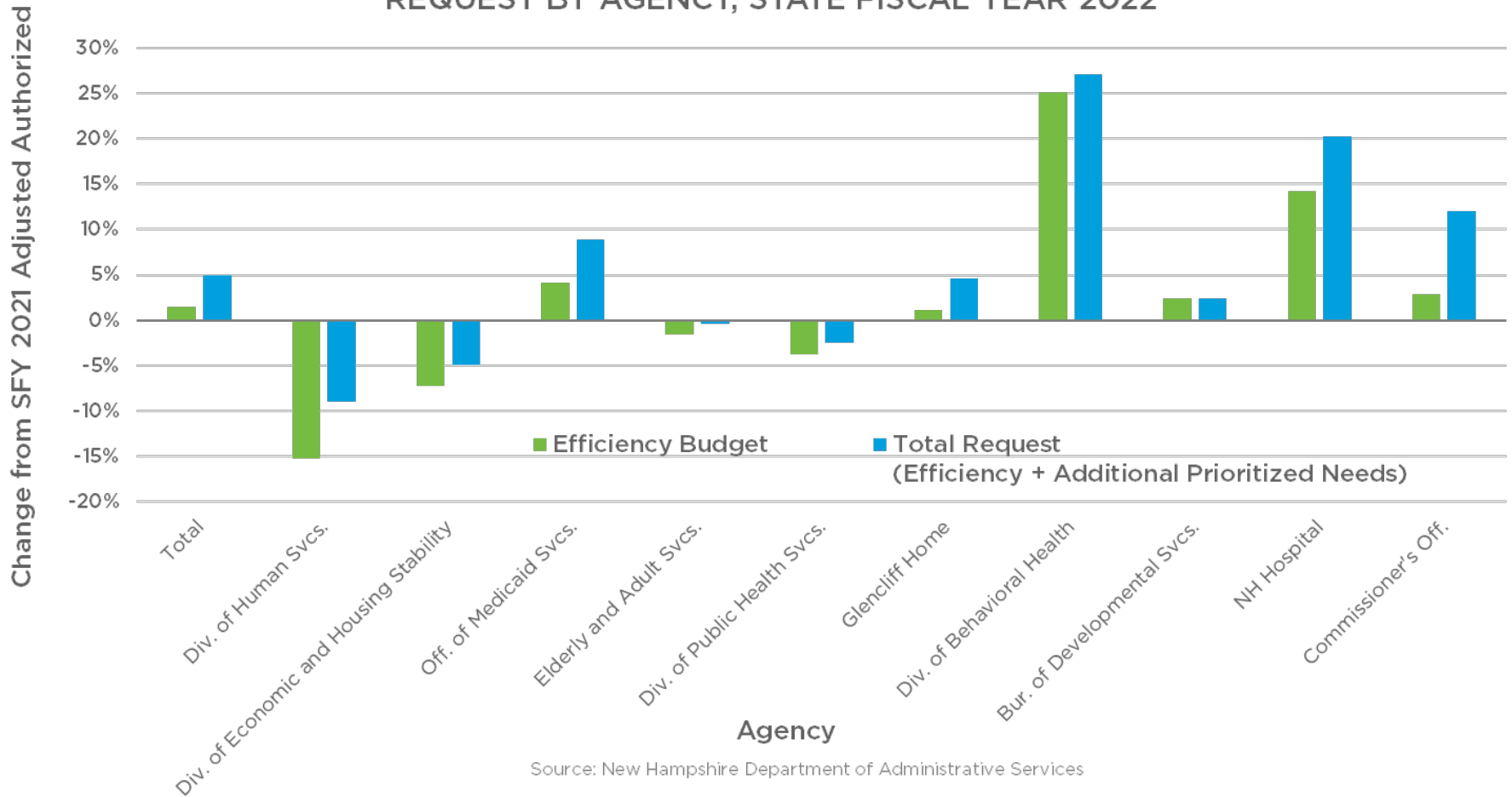
STATE AGENCY BUDGET REQUESTS, STATE FISCAL YEAR 2022



Source: New Hampshire Department of Administrative Services

HEALTH AND HUMAN SERVICES REQUESTED INCREASES IN MOST AREAS

DEPARTMENT OF HEALTH AND HUMAN SERVICES AGENCY BUDGET
REQUEST BY AGENCY, STATE FISCAL YEAR 2022



BUDGET PREVIEWS FROM THE GOVERNOR

January 15, 2021 Interview on NH PBS “The State We’re In”:

- *Question: Is there any tax or fee that you would consider increasing, such as the cigarette tax or the gas tax?*
- Governor Sununu: “Nope. No, we don’t have a revenue problem. We still bring in, and will continue to bring in, more money than ever before. That’s going to continue to happen.”

January 2021 Business NH Magazine:

- ““Our whole budget will be based around a concept of cutting taxes; that’s a big priority for me,’ [Governor Sununu] says, explaining he will propose cuts to the meals and rooms tax and business profits tax and may even attempt reducing the interest and dividends tax.”
- “The family leave proposal will be back, according to the governor.”

PROPOSALS TO REDUCE REVENUE

Business Profits Tax and Business Enterprise Tax

- Reduce BPT to 7.5 percent by 2022 (currently 7.7 percent)
- Reduce BET to 0.5 percent by 2022 (currently 0.6 percent)
- Step down rates by half of full decline in tax years 2021 and 2022
- Effects are uncertain, but estimated to be \$78.4 million reduction in revenue during SFYs 2022-2023 budget biennium, \$5.9 million before biennium begins

Interest and Dividends Tax

- Raising thresholds over time, eliminating tax in five years
- Estimated revenue reduction of \$15.1 million during SFYs 2022-2023
- Generated \$125.7 million in SFY 2020

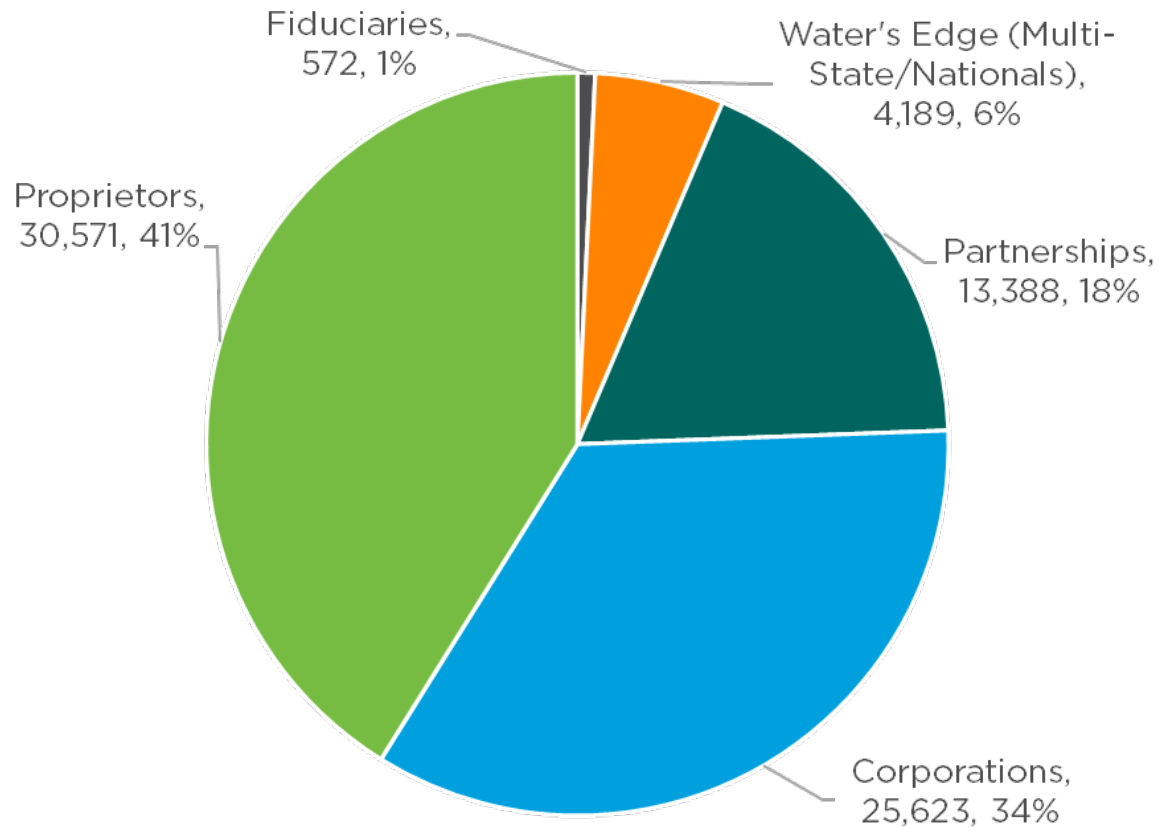
Meals and Rentals Tax changes in State Budget?

LARGE ENTITIES KEY TO BPT

NEW HAMPSHIRE BUSINESS PROFITS TAX FILERS BY INCOME AND TAX PAID, TAX YEAR 2018		
Taxable New Hampshire Business Profits of At Least:	Percentage of Filers	Percentage of Total Tax Revenue Paid
\$12,658,228	0.10%	49.10%
\$1,265,823	0.82%	78.28%
\$632,911	1.45%	84.54%
\$126,582	4.70%	94.32%
\$12,658	14.51%	99.59%
\$6,329	16.93%	99.85%
\$13	23.52%	100.00%
\$0	100.00%	100.00%
Total Filers/Revenue	74,343	\$520,738,272
Source: New Hampshire Department of Revenue Administration, 2020 Annual Report		

LARGE ENTITIES KEY TO BPT

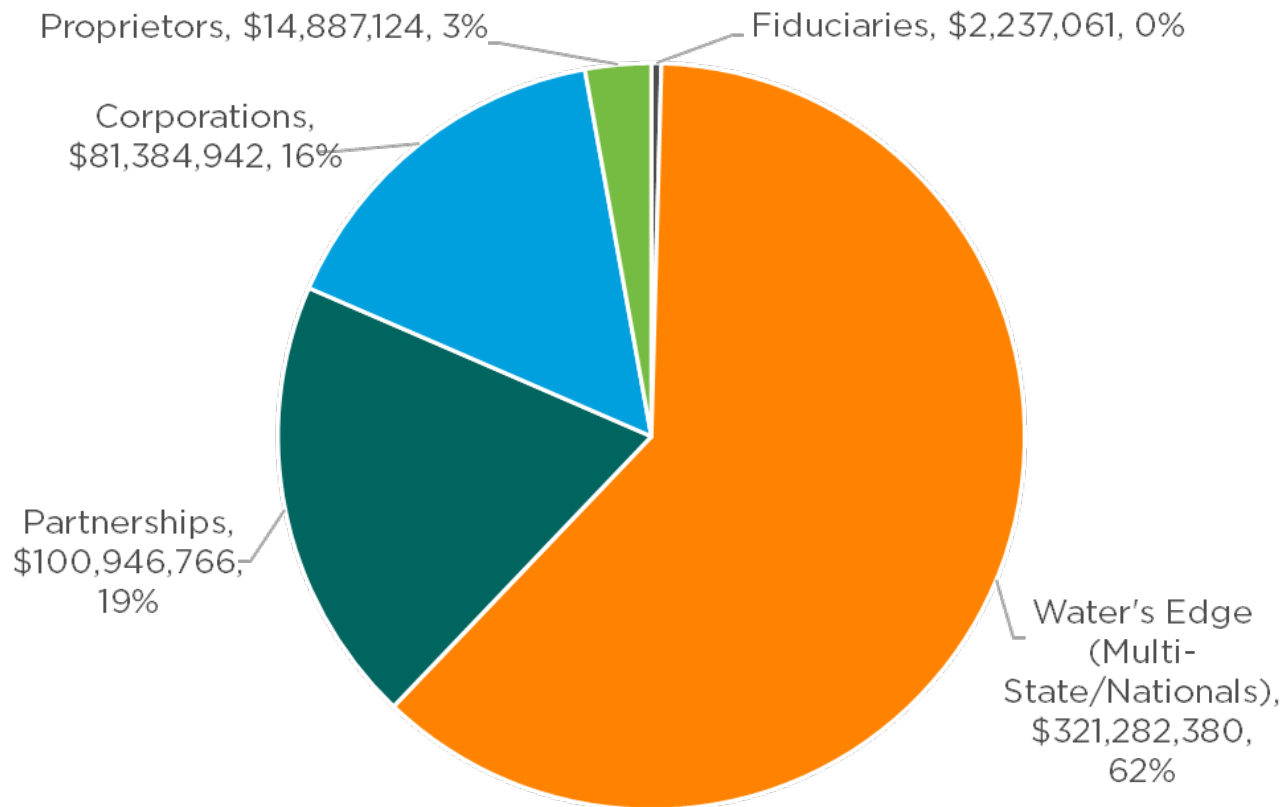
BUSINESS PROFITS TAX FILERS BY TYPE
DRAFT DATA, TAX YEAR 2018



Source: New Hampshire Department of Revenue Administration, 2018 Annual Report

LARGE ENTITIES KEY TO BPT

BUSINESS PROFITS TAX FILERS BY LIABILITY
DRAFT DATA, TAX YEAR 2018



Source: New Hampshire Department of Revenue Administration, 2018 Annual Report

BROADER TAX BASE FOR BET

NEW HAMPSHIRE BUSINESS ENTERPRISE TAX FILERS BY INCOME AND TAX PAID, TAX YEAR 2018

Taxable Enterprise Value Tax Base* of At Least:	Percentage of Filers	Percentage of Total Tax Revenue Paid
\$148,148,148	0.02%	17.34%
\$14,814,814	0.36%	43.06%
\$7,407,407	0.81%	53.00%
\$1,481,481	4.04%	74.03%
\$148,148	27.47%	96.56%
\$74,074	38.05%	99.11%
\$148	51.80%	100.00%
\$0	100.00%	100.00%
Total Filers/Revenue	74,343	\$230,544,164

*Note: Taxable enterprise value tax base determined by amount of compensation and interest paid or accrued, dividends paid, and adjustments for interstate liabilities and certain dividends.

Source: New Hampshire Department of Revenue Administration, 2020 Annual Report

HIGH-INCOME INDIVIDUALS KEY TO I&D TAX

NEW HAMPSHIRE INTEREST AND DIVIDENDS TAX FILERS BY INCOME AND TAX PAID, TAX YEAR 2018

Taxable Interest and Dividend Income of At Least:	Percentage of Filers	Percentage of Total Tax Revenue Paid
\$5,000,000	0.02%	6.69%
\$2,000,000	0.12%	15.93%
\$1,000,000	0.32%	24.10%
\$200,000	2.40%	48.99%
\$20,000	25.07%	89.04%
\$10,000	38.54%	95.09%
\$20	79.69%	100.00%
\$0	100.00%	100.00%
Total Filers/Revenue	66,284	\$105,888,793

Source: New Hampshire Department of Revenue Administration, 2020 Annual Report

NOTEWORTHY UPCOMING DATES

- Governor's Budget: February 15, 2021 Statutory Deadline; likely Thursday, February 11, 2021, potentially earlier in the week or prior week
- Crossover: April 1, 2021, House Budget deadline
- March and April Cash Revenues Known: Early May 2021
- Senate Acts on House Bills: June 3, 2021, Senate Budget deadline
- Committee of Conference Action Deadlines: June 24, 2021
- State Fiscal Year 2022 Begins: July 1, 2021

TAKEAWAYS

- State Budget impacts of Great Recession limited by federal assistance, state policy choices, and impacts in subsequent budgets significant, lasting, and widespread
- State agency requests may provide some insights, suggest sufficient resources are available for Health and Human Services budget increases in aggregate
- Proposed revenue changes would:
 - reduce taxes for sectors, other than restaurants and hotels, that seem to be performing relatively well
 - reduce one tax (I&D) that has helped offset budget shortfall during CY 2020
 - reduce two others (BPT/BET) that have been helping to offset earlier revenue shortfall in recent months
 - likely lead to fewer resources for State services



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