



NEW HAMPSHIRE'S STATE REVENUE AND BUDGET SHORTFALL

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PRESENTED TO STAFF OF NEW HAMPSHIRE'S CONGRESSIONAL DELEGATION:

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AND U.S. REPRESENTATIVE CHRIS PAPPAS

JANUARY 19, 2021

BASICS OF THE STATE BUDGET

Two-year (biennial) operating budget

- Funds most State operations for two State fiscal years (SFYs)
- Current State Budget provides funding for SFYs 2020-2021: July 1, 2019 to June 30, 2021
- Approximately \$13 billion in appropriations for SFYs 2020-2021

State Budget plan must balance over two years

- Balanced budget plan required by State statute
- Includes any surplus or deficit carried from prior budget

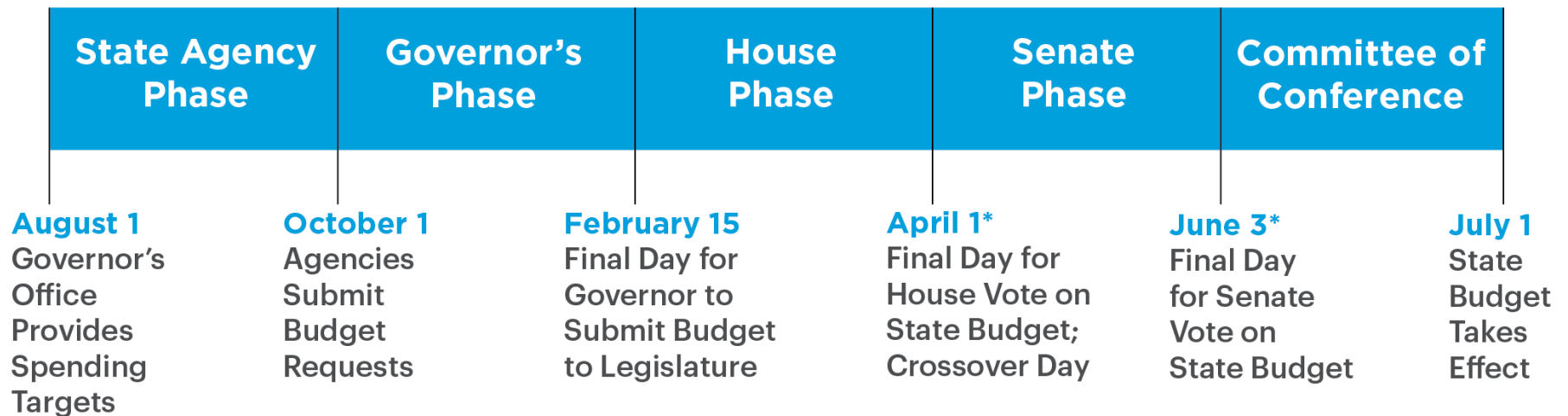
Not all expenditures are in the State Budget

- Capital Budget, Ten Year Transportation Improvement Plan separate
- Individual bills can authorize expenditures outside of State Budget

Sources: NHFPI, *Building the Budget*, February 2017; the Office of Legislative Budget Assistant, FY 2020-2021 Operating and Capital Budget.

BUILDING THE STATE BUDGET

STATE BUDGET PROCESS TIMELINE

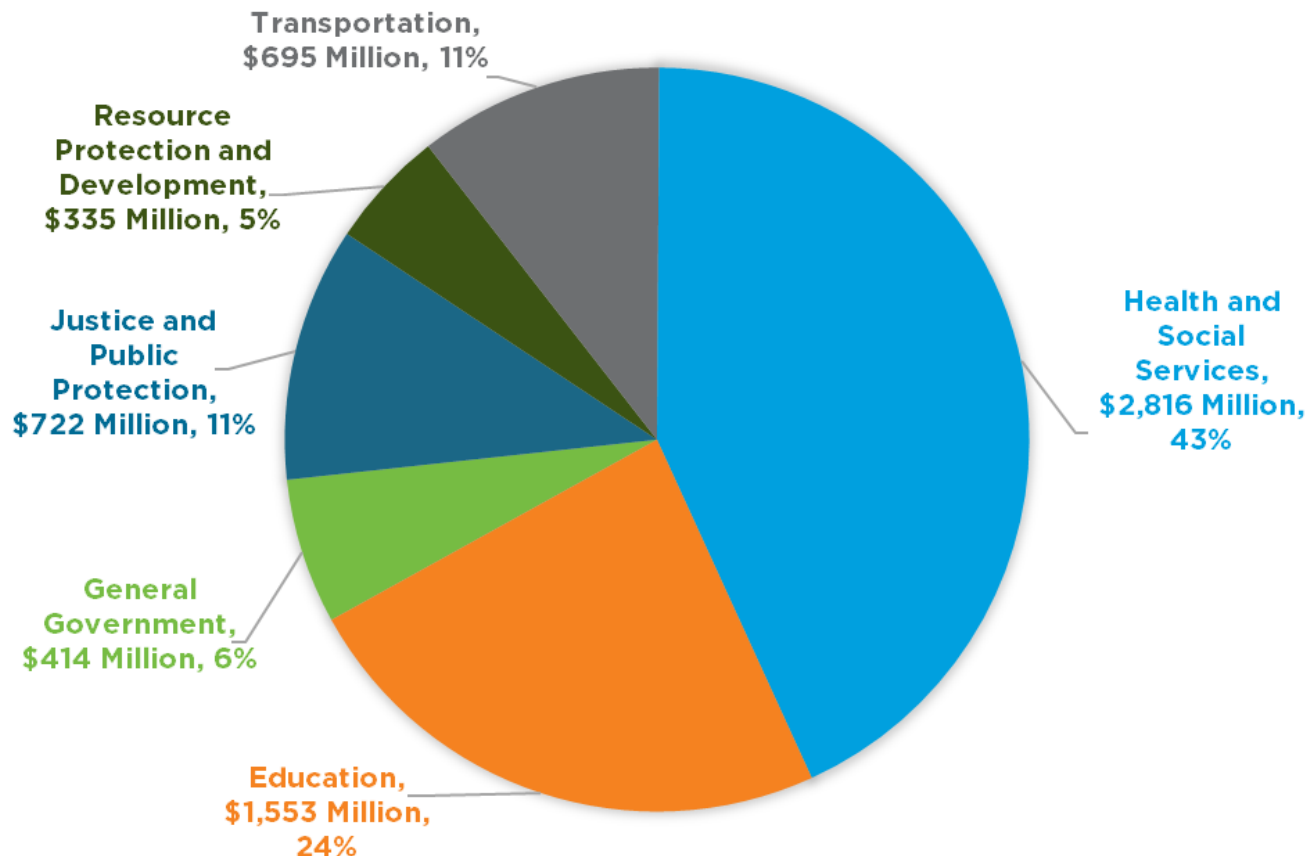


*Dates set by legislative leadership for the 2021 session; all other dates specified in statute.

STATE BUDGET APPROPRIATIONS BY CATEGORY

NEW HAMPSHIRE, STATE FISCAL YEAR 2021

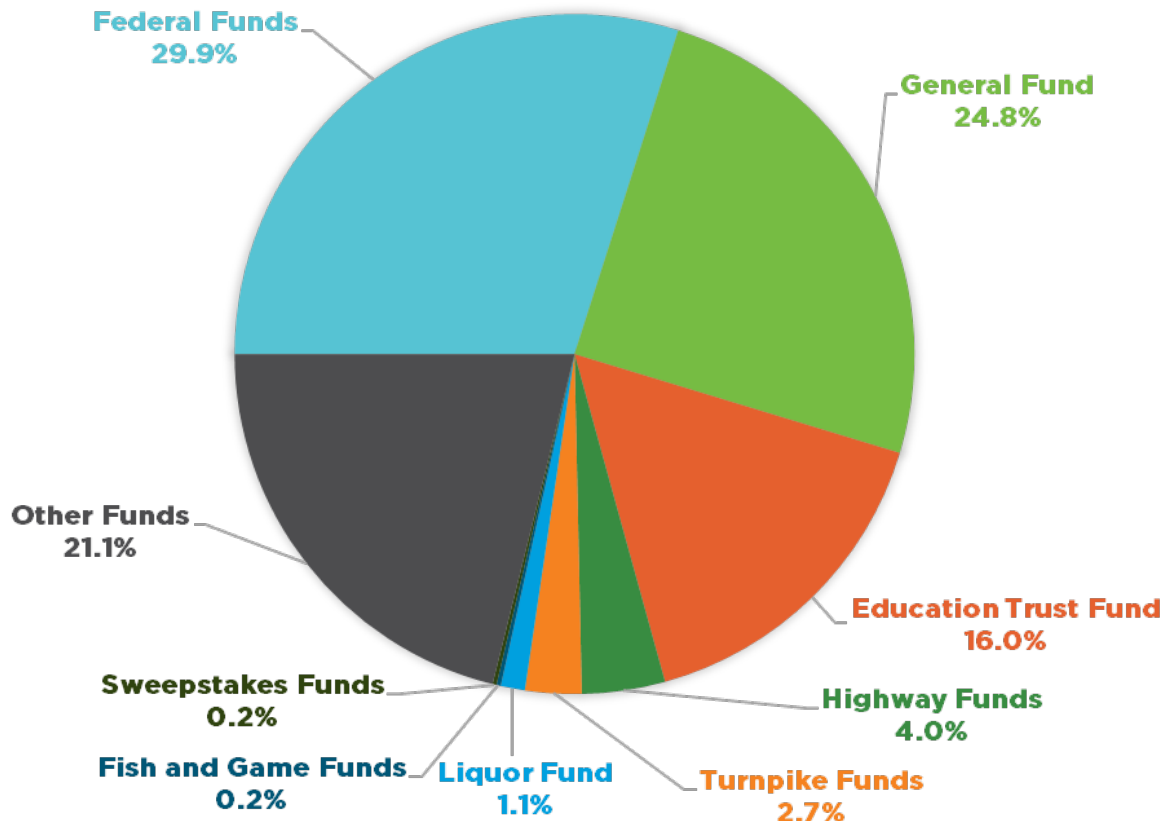
Source: Chapter 345, Laws of 2019



STATE BUDGET FUNDS

NEW HAMPSHIRE, STATE FISCAL YEAR 2021

Source: Chapter 345, Laws of 2019



- Funds act like accounts
- Interact with one another
- General Fund most flexible
- General Fund fills any Education Trust Fund shortfall
- Gasoline, motor vehicle tax and fee revenues constitutionally-protected
- Lottery revenues dedicated to state education aid to school districts by constitution
- Others protected by statute

FEDERAL FUNDING IN THE STATE BUDGET

Medicaid

- Approximately \$2.1 billion expenditure in SFY 2020, more than half of that total is federal funds; federal government matches State expenditures
- About 212,000 Granite Staters have access to health care through the program as of December 2020, significant increase during pandemic

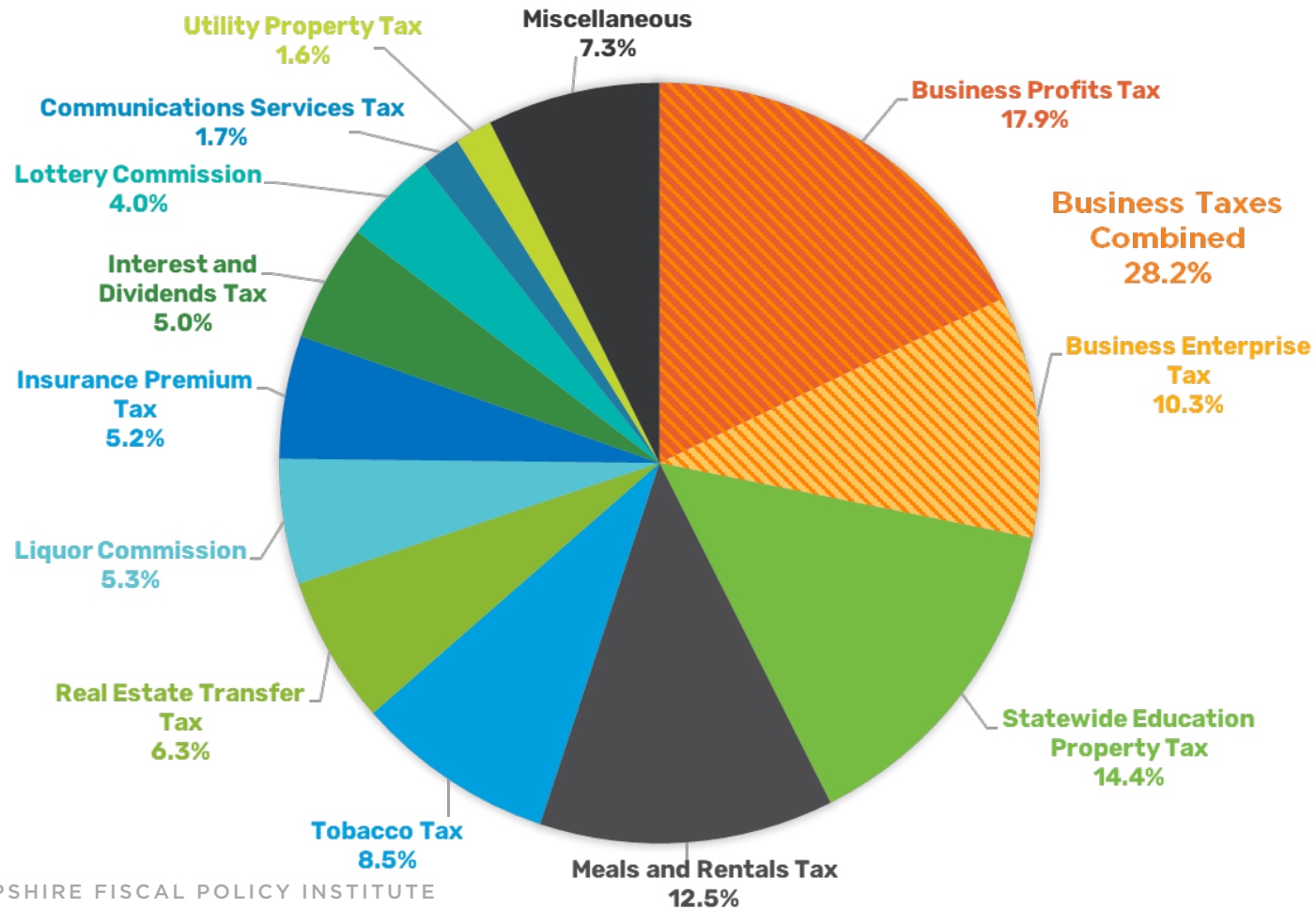
Other Program Areas

- Federal transportation aid
- Education aid – special education, school meals, professional development
- Water pollution and infrastructure funds, clean and drinking water programs
- Food Stamps/SNAP; Women, Infants, and Children Nutrition Program
- Temporary Assistance for Needy Families
- Veterans' care aid
- Low Income Home Energy Assistance Program (State Fuel Assistance Program)
- Many other areas and programs

GENERAL AND EDUCATION TRUST FUNDS REVENUE SOURCES

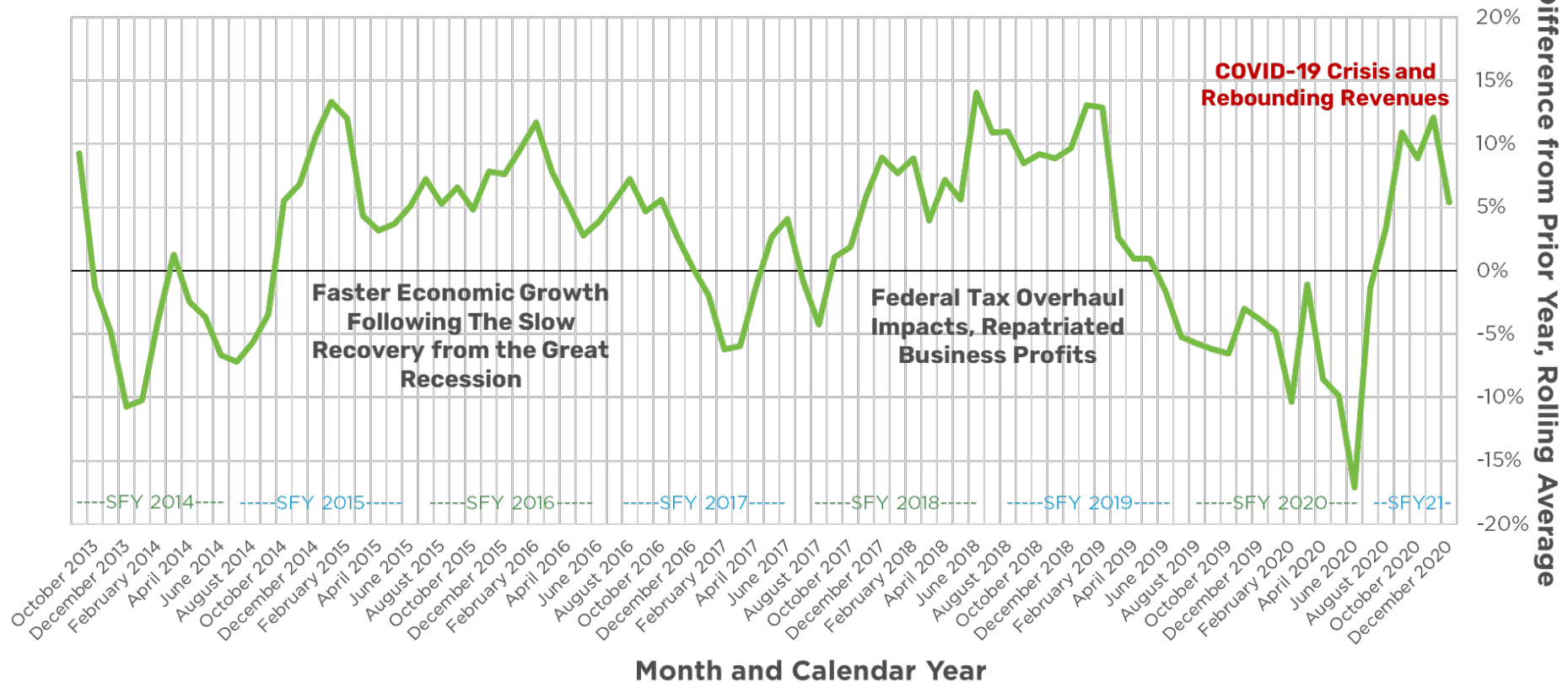
STATE FISCAL YEAR 2020

Source: NH Comprehensive Annual Financial Report, SFY 2020



DECLINE AND REBOUND IN CONTEXT

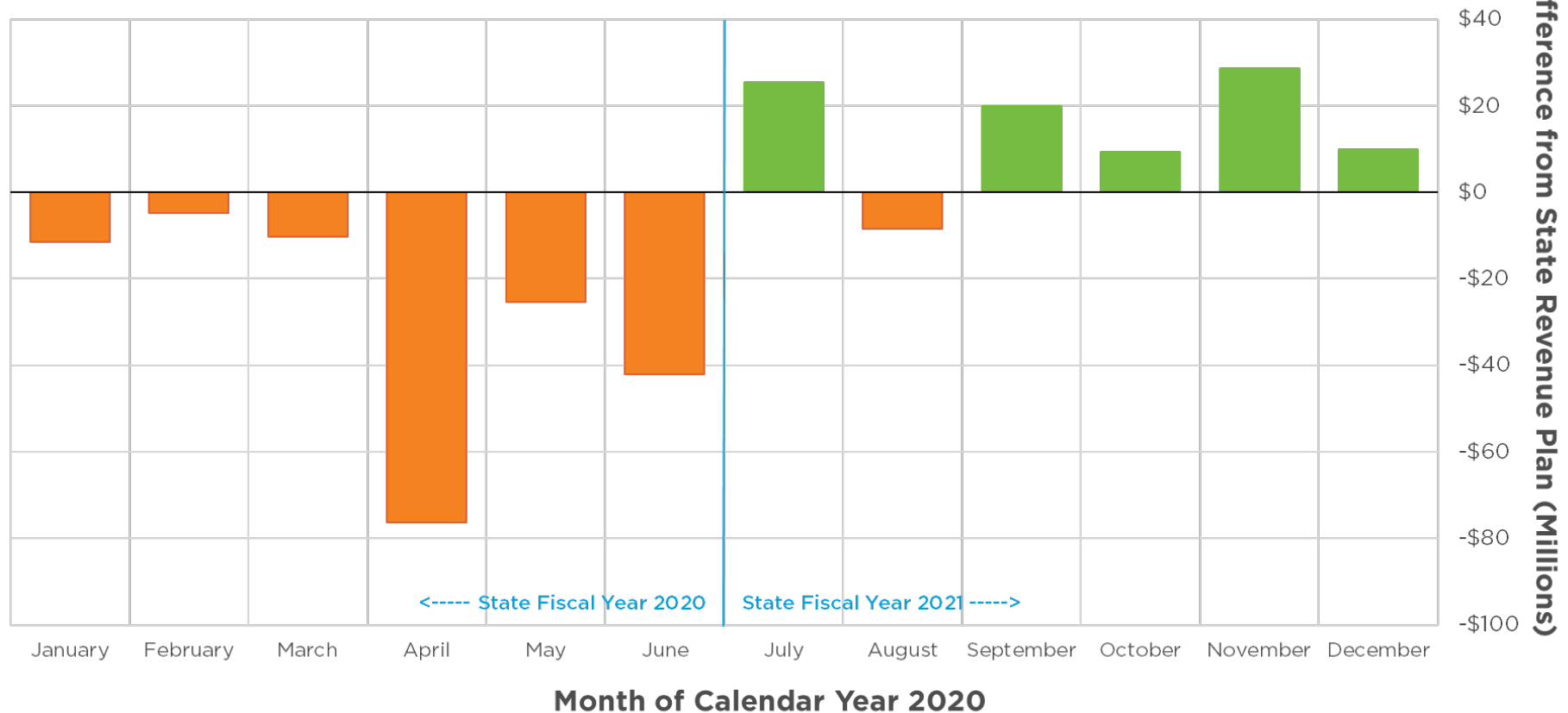
ANNUAL CHANGE IN THREE-MONTH ROLLING AVERAGES OF NEW HAMPSHIRE GENERAL AND EDUCATION TRUST FUNDS REVENUE



Note: Medicaid Enhancement Tax excluded from historical data. Analysis of revenues on a cash basis.
Sources: New Hampshire Department of Administrative Services Monthly Revenue Focus Reports

RECENT RECEIPTS BETTER THAN PLAN

REVENUE TO THE NEW HAMPSHIRE GENERAL AND EDUCATION TRUST FUNDS



Note: Revenue from all sources, shown on a cash basis.

Source: New Hampshire Department of Administrative Services Monthly Revenue Focus Reports

WHY ARE REVENUES UP DESPITE CRISIS?

Uneven Impact of COVID-19 Crisis

- Impacts concentrated among low-wage workers
- In New Hampshire, about one in three survey respondents indicated it had been somewhat or very difficult to pay for usual household expenses during the prior seven days
- Impacts by industry disparate

Large Businesses, Real Estate Sales, Tobacco Sales Up

- Key State revenue sources align with sectors performing well

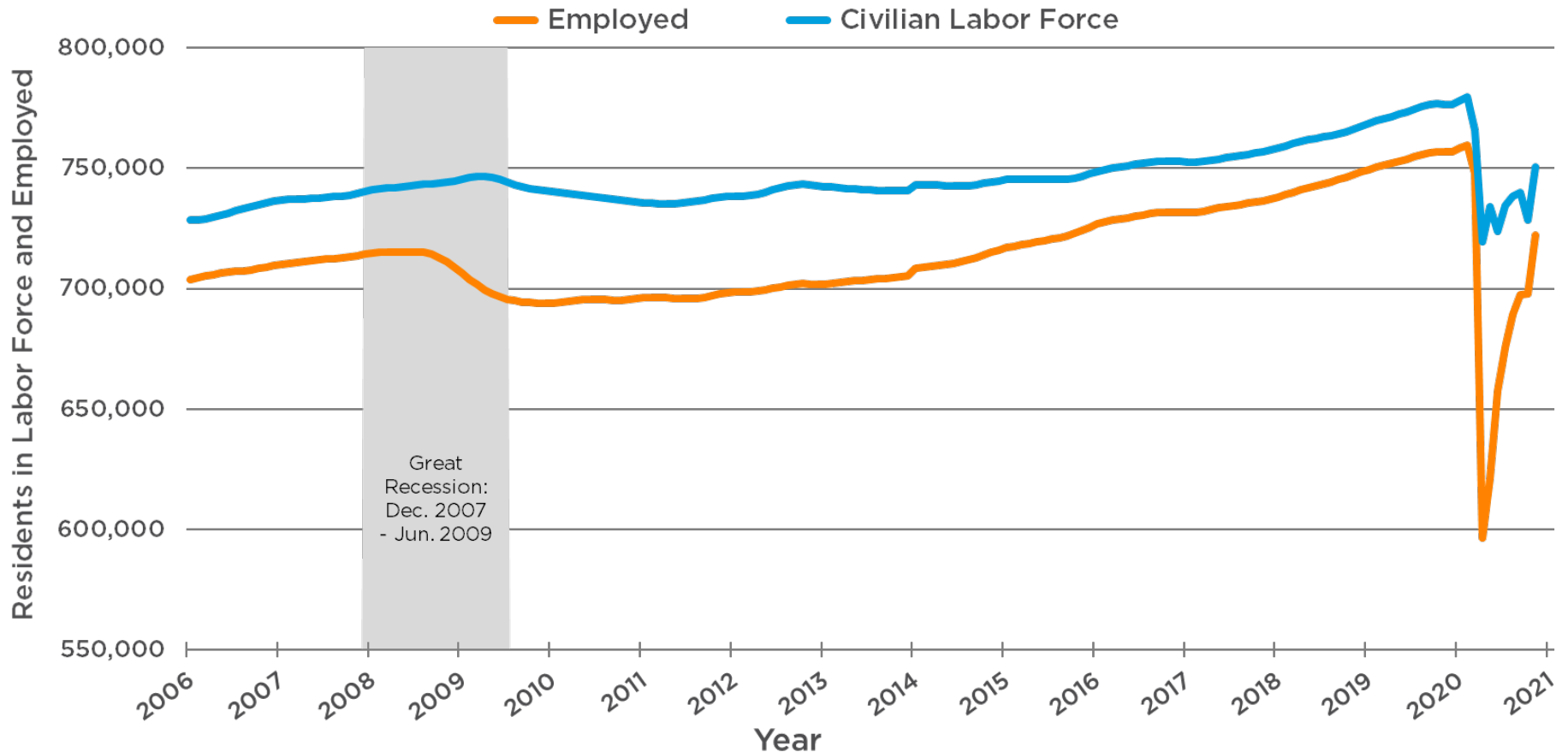
Federal COVID-19 Relief Likely Helped Economy

- Research suggests poverty dropped following unemployment compensation boost, Economic Impact Payments
- Aid to unemployed and low-income individuals boosts economy

Sources: U.S. Census Bureau Household Pulse Survey, December 9-21, 2020; Han, Meyer, and Sullivan, *Real-time Poverty Estimates During the COVID-19 Pandemic through November 2020*, December 15, 2020; Parolin, Curran, Matsudaira, Waldfogel, and Wimer, *Monthly Poverty Rates in the United States during the COVID-19 Pandemic*, October 15, 2020; NHFPI, *Key Policies Provide Short-Term Relief and Long-Term Recovery in COVID-19 Crisis*, April 29, 2020.

COVID-19 CRISIS: HISTORIC SHOCK TO EMPLOYMENT

NEW HAMPSHIRE RESIDENTS, ESTIMATES SEASONALLY ADJUSTED

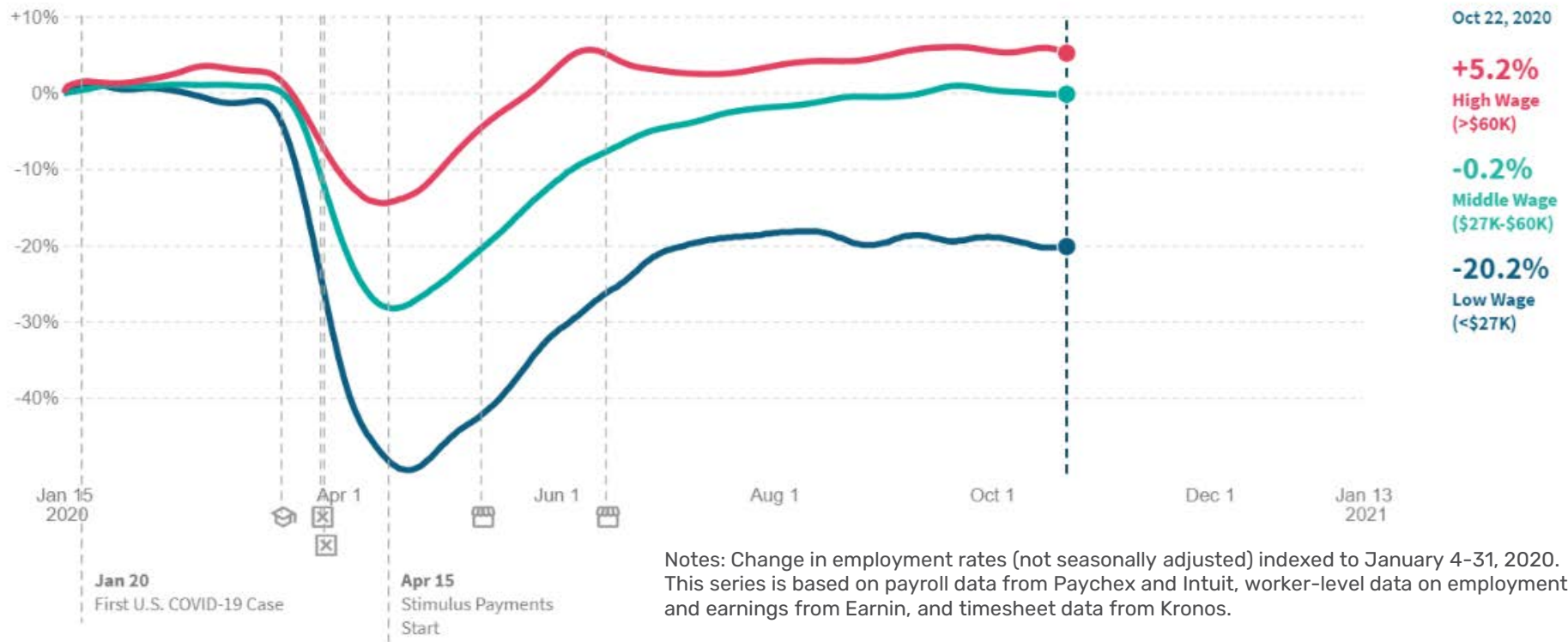


Sources: National Bureau of Economic Research; New Hampshire Employment Security

COVID-19 CRISIS: EMPLOYMENT IMPACTS UNEVEN

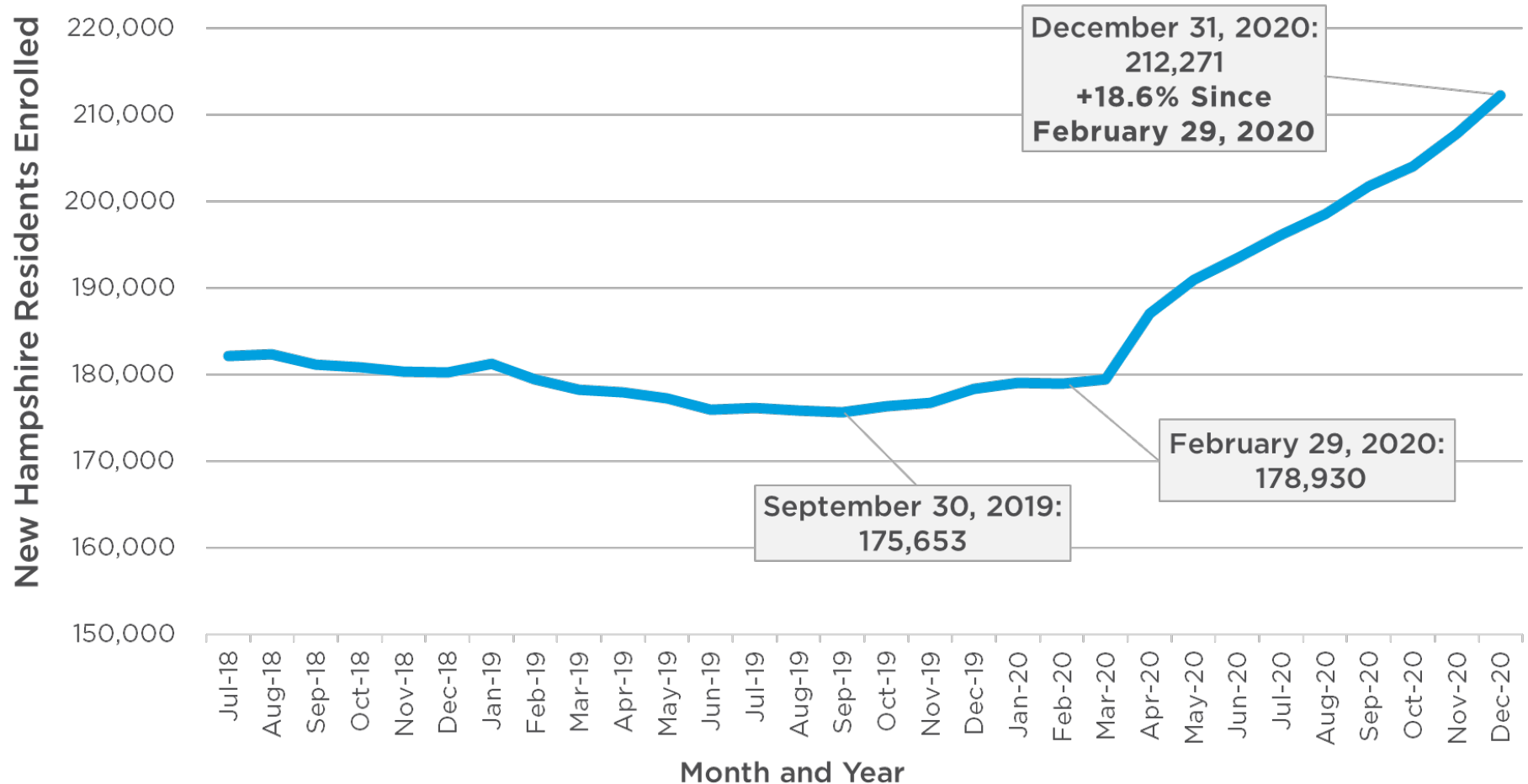
PERCENT CHANGE IN EMPLOYMENT

In **New Hampshire**, as of **October 22, 2020**, employment rates among workers in the bottom wage quartile **decreased** by **20.2%** compared to January 2020 (not seasonally adjusted).



Source: Opportunity Insights Economic Tracker; Chetty, Friedman, Hendren, Stepner, and the Opportunity Insights Team, November 2020, accessed at tracktherecovery.org, a project of Harvard University, Brown University, and The Bill and Melinda Gates Foundation.

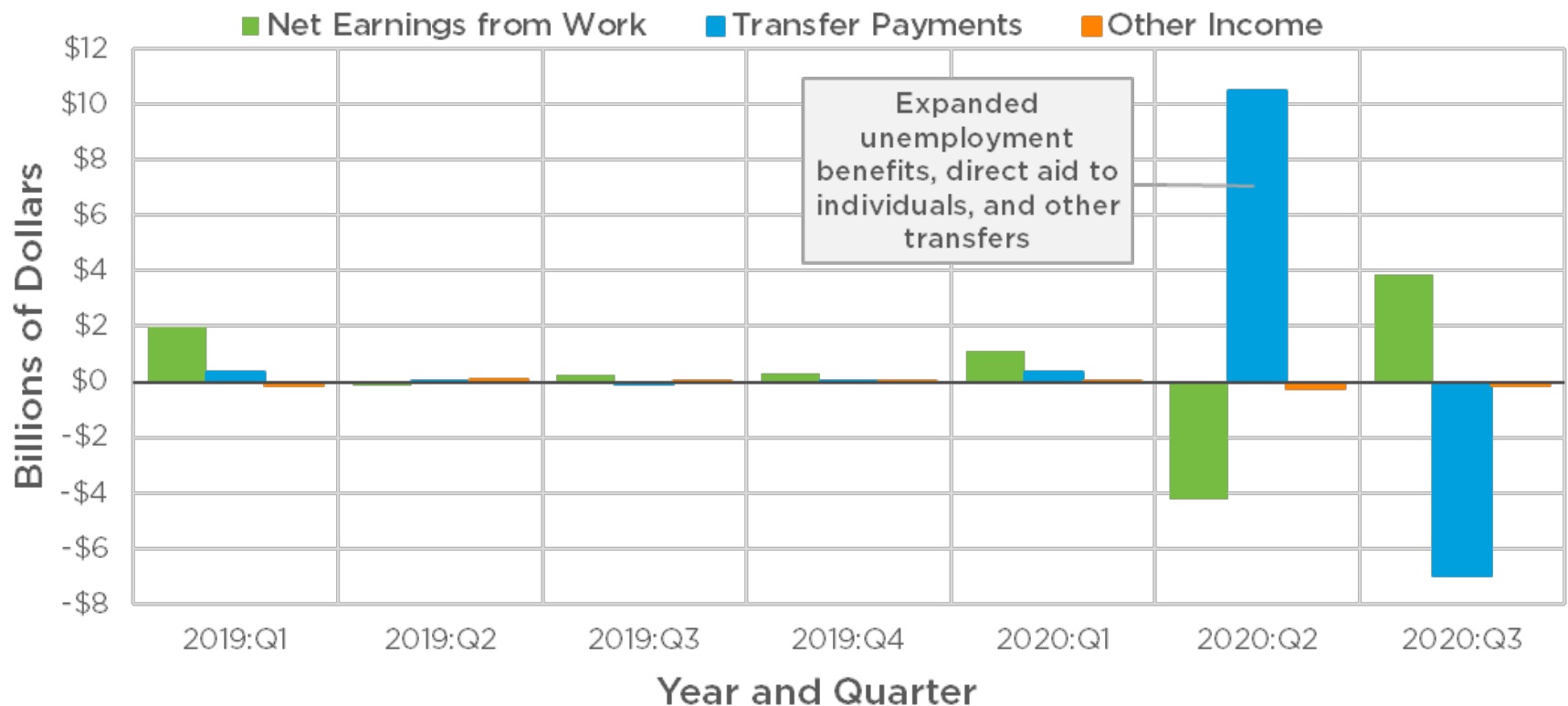
COVID-19 CRISIS: MEDICAID ENROLLMENT INCREASE



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

COVID-19 CRISIS: FEDERAL ACTION PROVIDES KEY BOOST

CHANGE IN PERSONAL INCOME FROM PRIOR QUARTER,
NEW HAMPSHIRE, ANNUALIZED

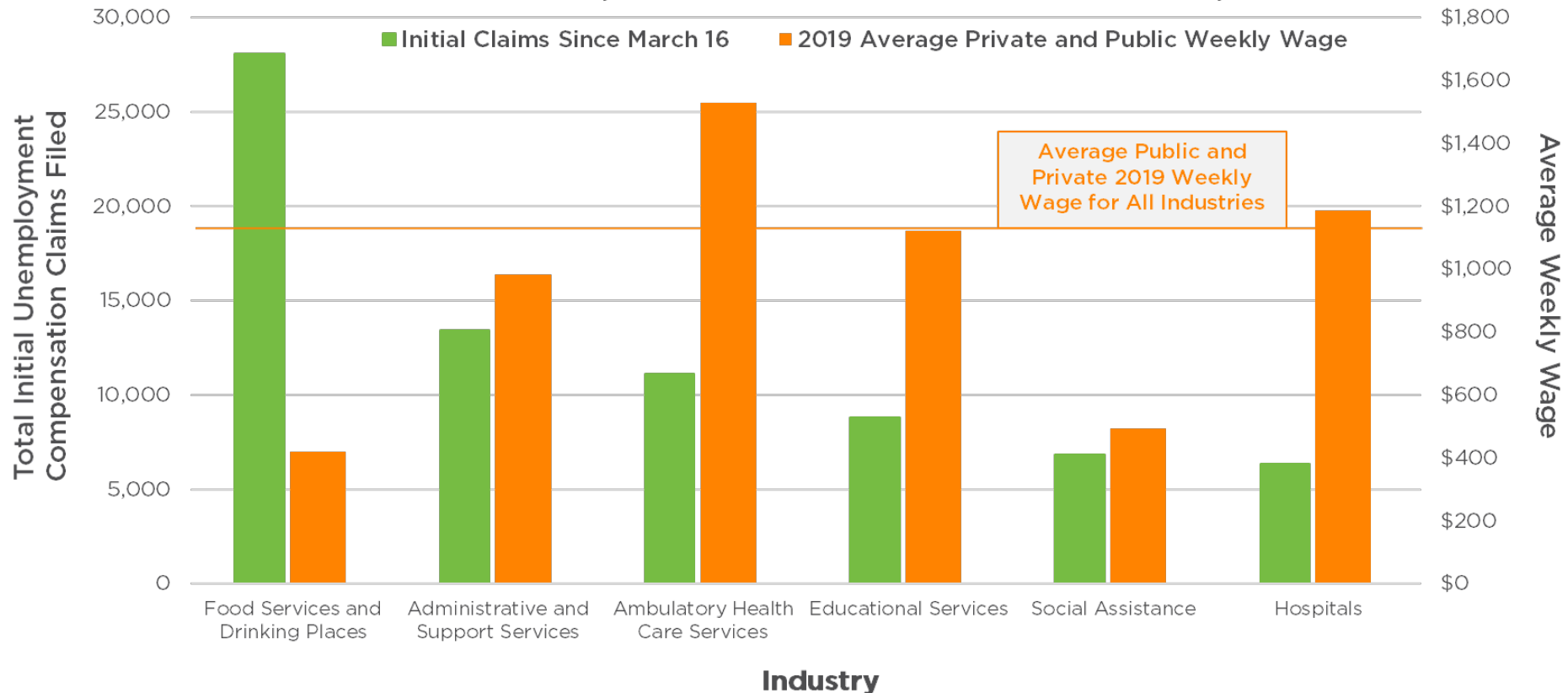


Notes: Net earnings adjusted for place of residence. "Transfer Payments" can include private sector transfers. "Other Income" includes, interest, dividends, and rent as defined by the U.S. Bureau of Economic Analysis. Figures not adjusted for inflation.

Source: U.S. Bureau of Economic Analysis

COVID-19 CRISIS: SIGNIFICANT DROP IN LOW WAGE SECTORS

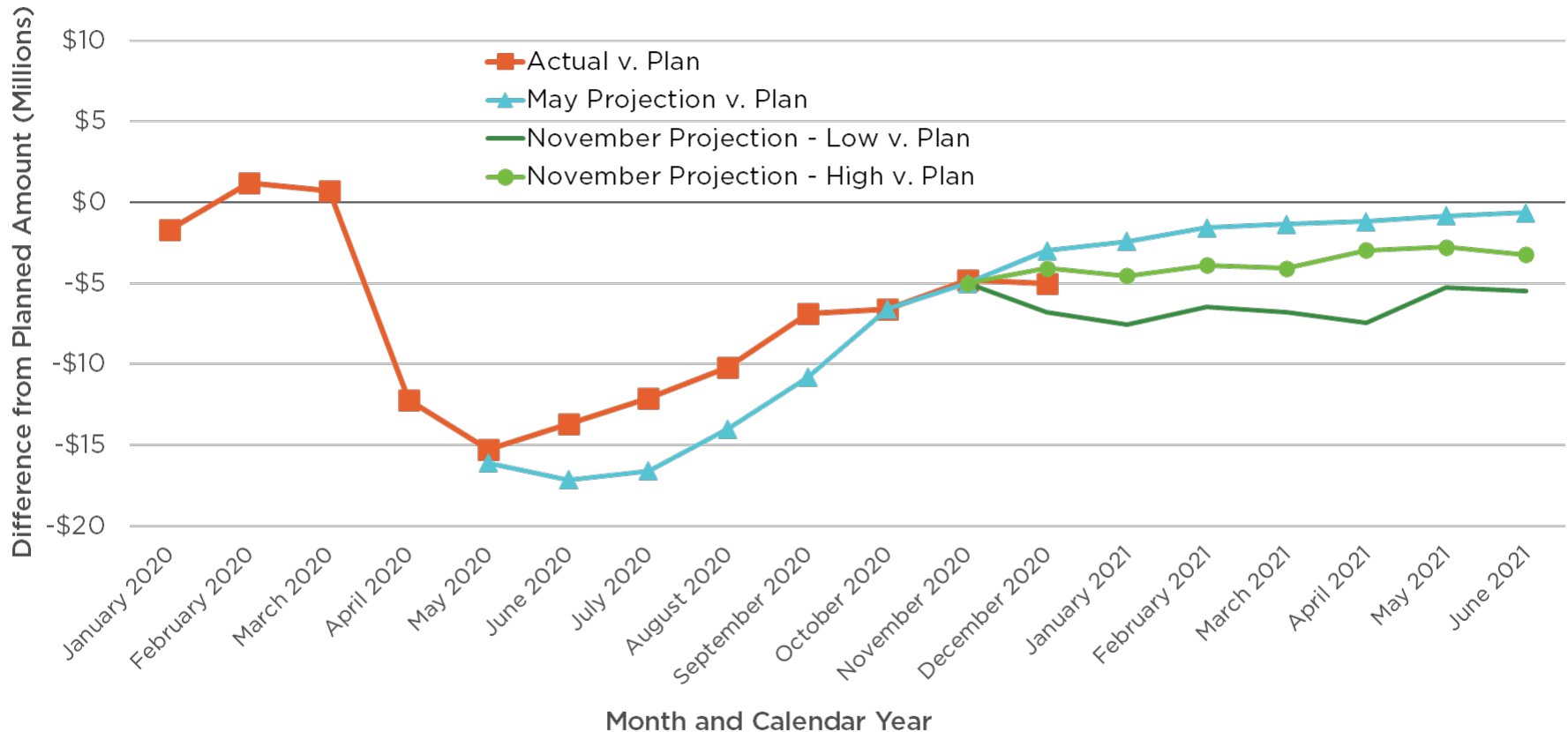
INITIAL UNEMPLOYMENT CLAIMS AND WAGES BY INDUSTRY
IN NEW HAMPSHIRE, FROM MARCH 16 TO DECEMBER 26, 2020



Sources: New Hampshire Employment Security, *COVID-19 Unemployment Update*, January 7, 2021 and New Hampshire Employment Security, Economic and Labor Market Information Bureau, Covered Employment and Wages

STATE REVENUES: MEALS AND RENTALS UP, BUT STILL LOW

NEW HAMPSHIRE MEALS AND RENTALS TAX ACTUAL AND PROJECTED MONTHLY CASH RECEIPTS

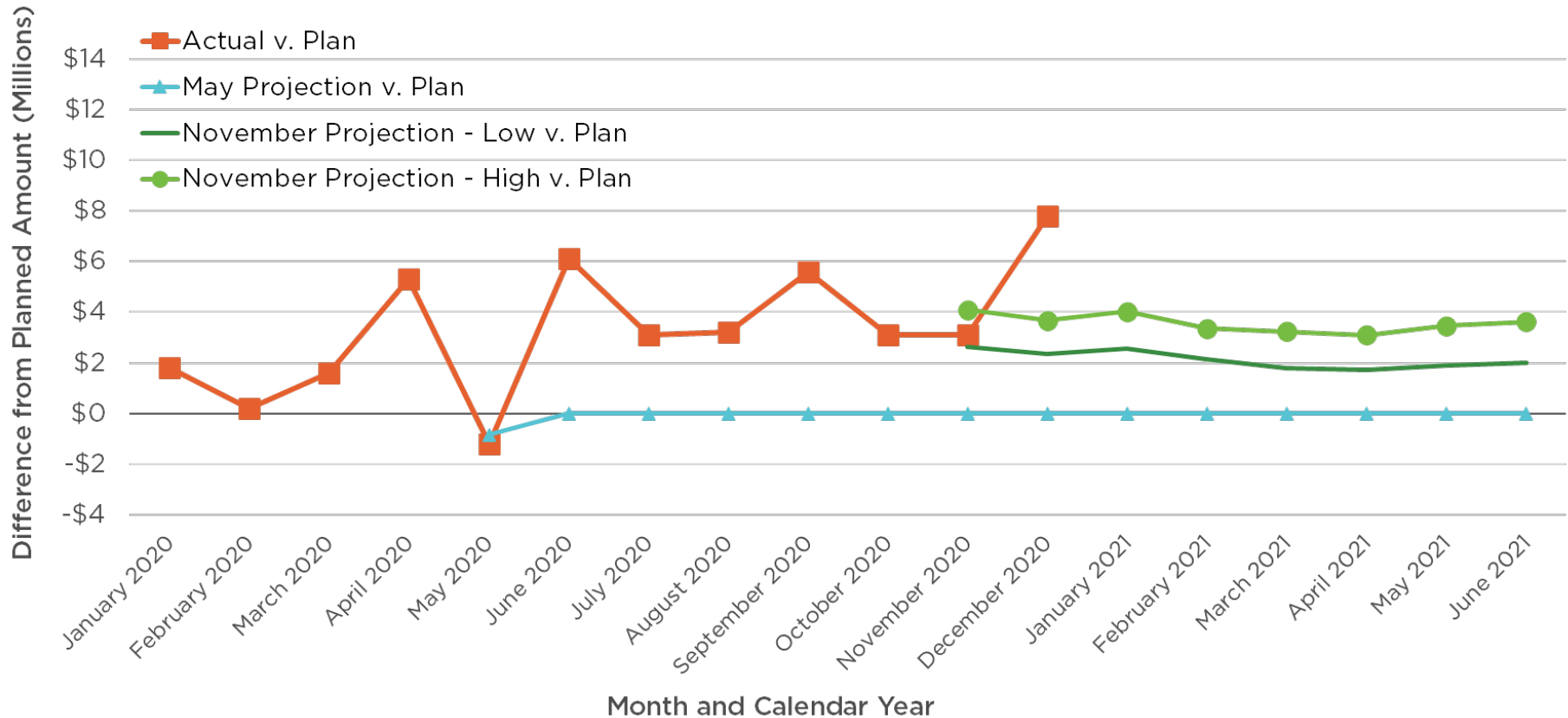


Note: Projected revenue calculations based on Department of Revenue Administration projections and Department of Administrative Services State Revenue Plan. Only includes actual and projected revenue to the General and Education Trust Funds.

Sources: New Hampshire Department of Revenue Administration; New Hampshire Department of Administrative Services

STATE REVENUES: CIGARETTE SALES MUCH HIGHER

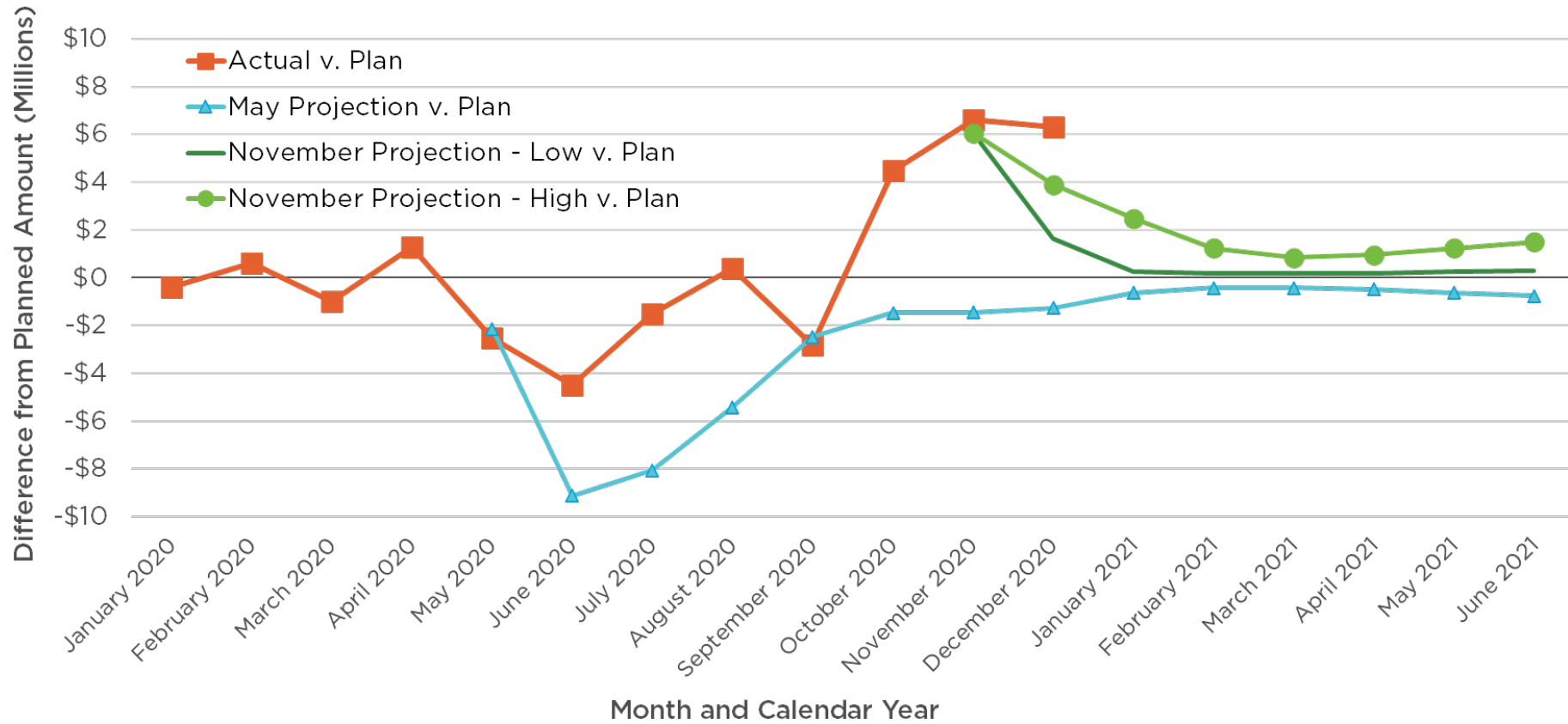
NEW HAMPSHIRE TOBACCO TAX ACTUAL AND PROJECTED MONTHLY CASH RECEIPTS



Note: Projected revenue calculations based on Department of Revenue Administration projections and Department of Administrative Services State Revenue Plan.
Sources: New Hampshire Department of Revenue Administration; New Hampshire Department of Administrative Services; Office of Legislative Budget Assistant.

STATE REVENUES: REAL ESTATE SALES REBOUNDED

NEW HAMPSHIRE REAL ESTATE TRANSFER TAX ACTUAL AND PROJECTED MONTHLY CASH RECEIPTS

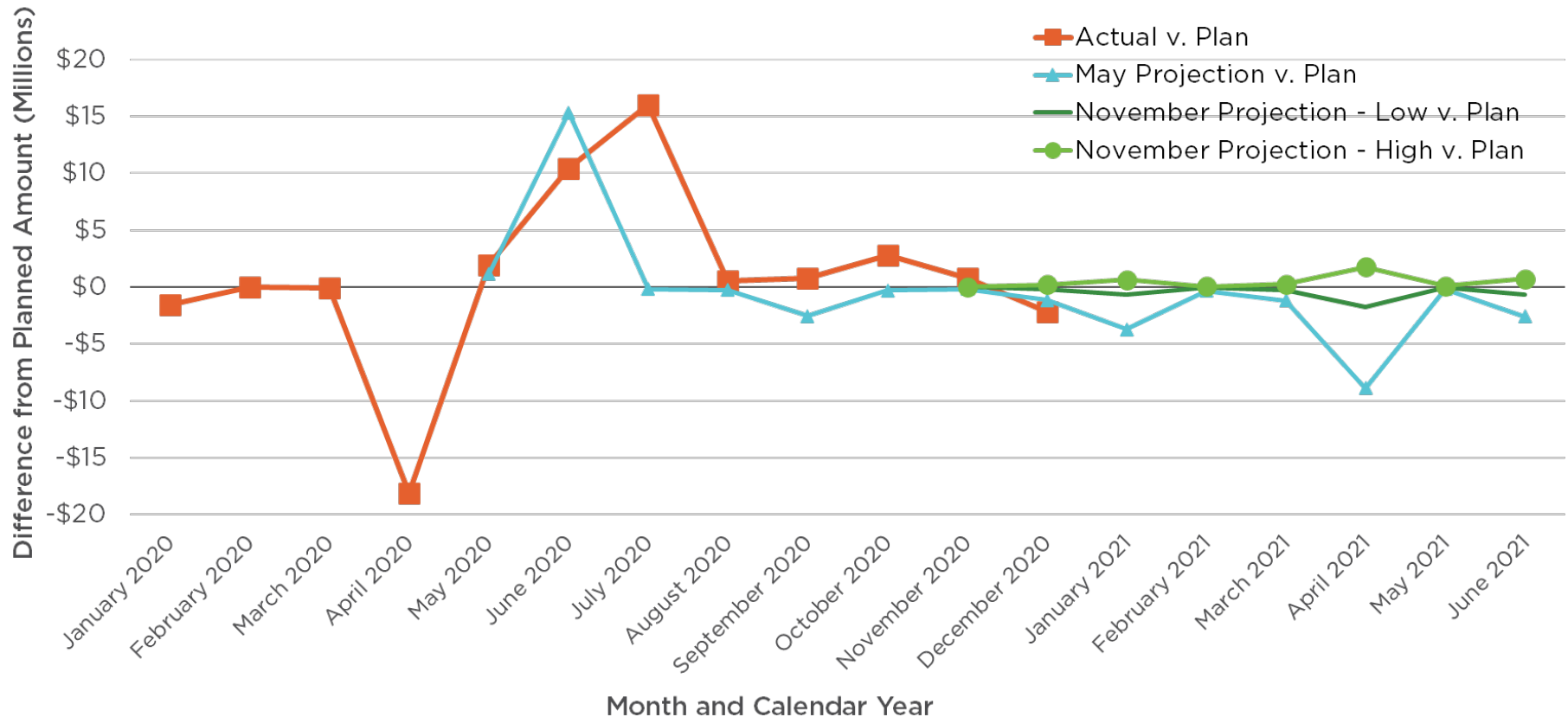


Note: Projected revenue calculations based on Department of Revenue Administration projections and Department of Administrative Services State Revenue Plan. Only includes actual and projected revenue to the General and Education Trust Funds.

Sources: New Hampshire Department of Revenue Administration; New Hampshire Department of Administrative Services

STATE REVENUES: ASSET INCOMES ABOVE EXPECTATIONS

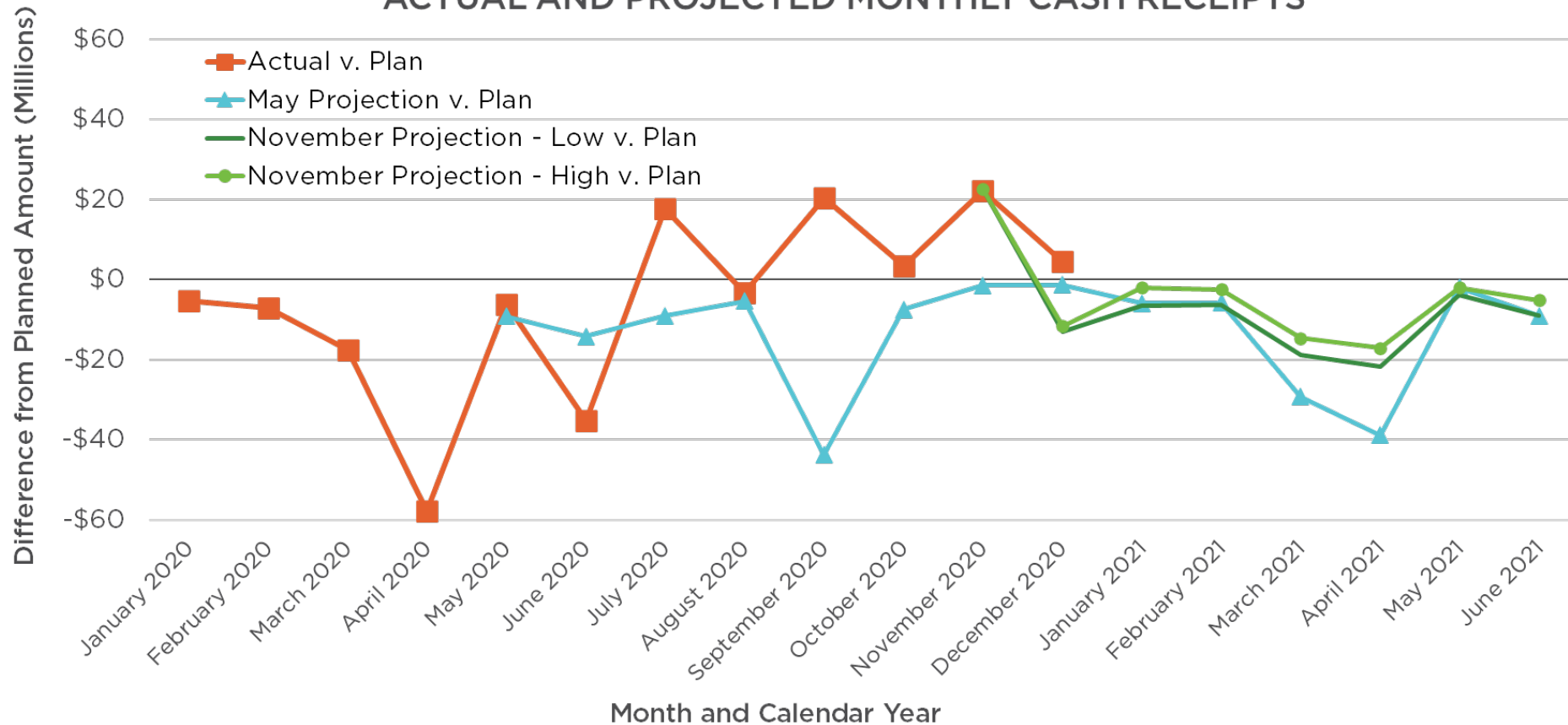
NEW HAMPSHIRE INTEREST AND DIVIDENDS TAX ACTUAL AND PROJECTED MONTHLY CASH RECEIPTS



Note: Projected revenue calculations based on Department of Revenue Administration projections and Department of Administrative Services State Revenue Plan.
Sources: New Hampshire Department of Revenue Administration; New Hampshire Department of Administrative Services; Office of Legislative Budget Assistant.

STATE REVENUES: BUSINESS TAX RECEIPTS ADD TO SURPLUS

NEW HAMPSHIRE BUSINESS PROFITS AND BUSINESS ENTERPRISE TAXES ACTUAL AND PROJECTED MONTHLY CASH RECEIPTS



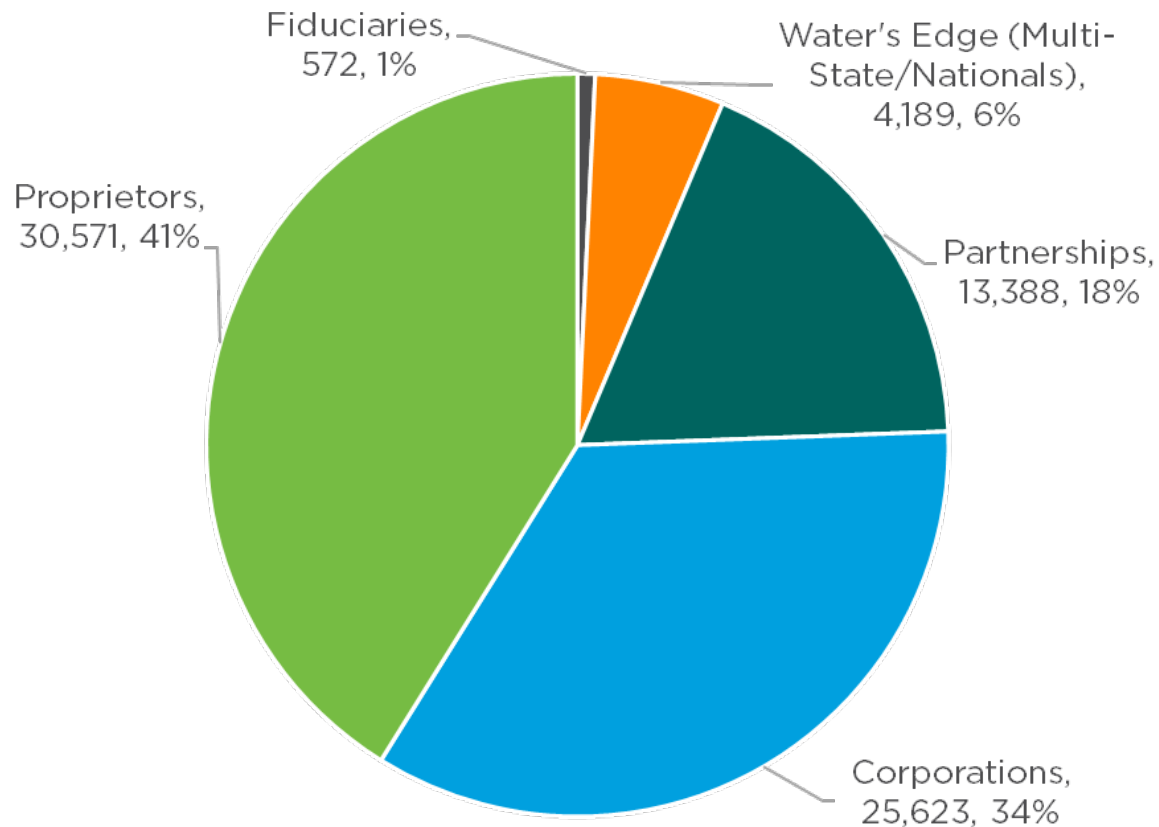
Note: Projected revenue calculations based on Department of Revenue Administration projections and Department of Administrative Services State Revenue Plan.
Sources: New Hampshire Department of Revenue Administration; New Hampshire Department of Administrative Services

STATE REVENUES: 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		

STATE REVENUES: LARGE ENTITIES KEY TO BPT

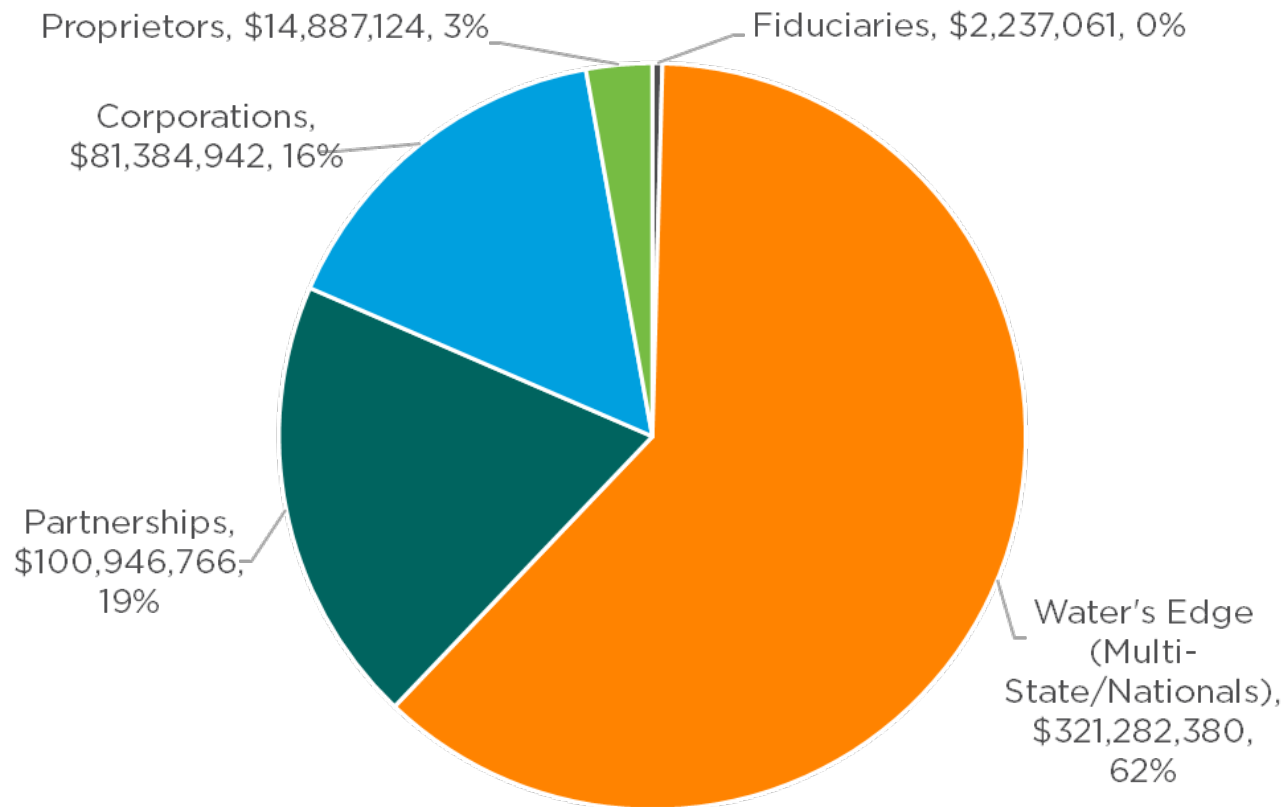
BUSINESS PROFITS TAX FILERS BY TYPE
DRAFT DATA, TAX YEAR 2018



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

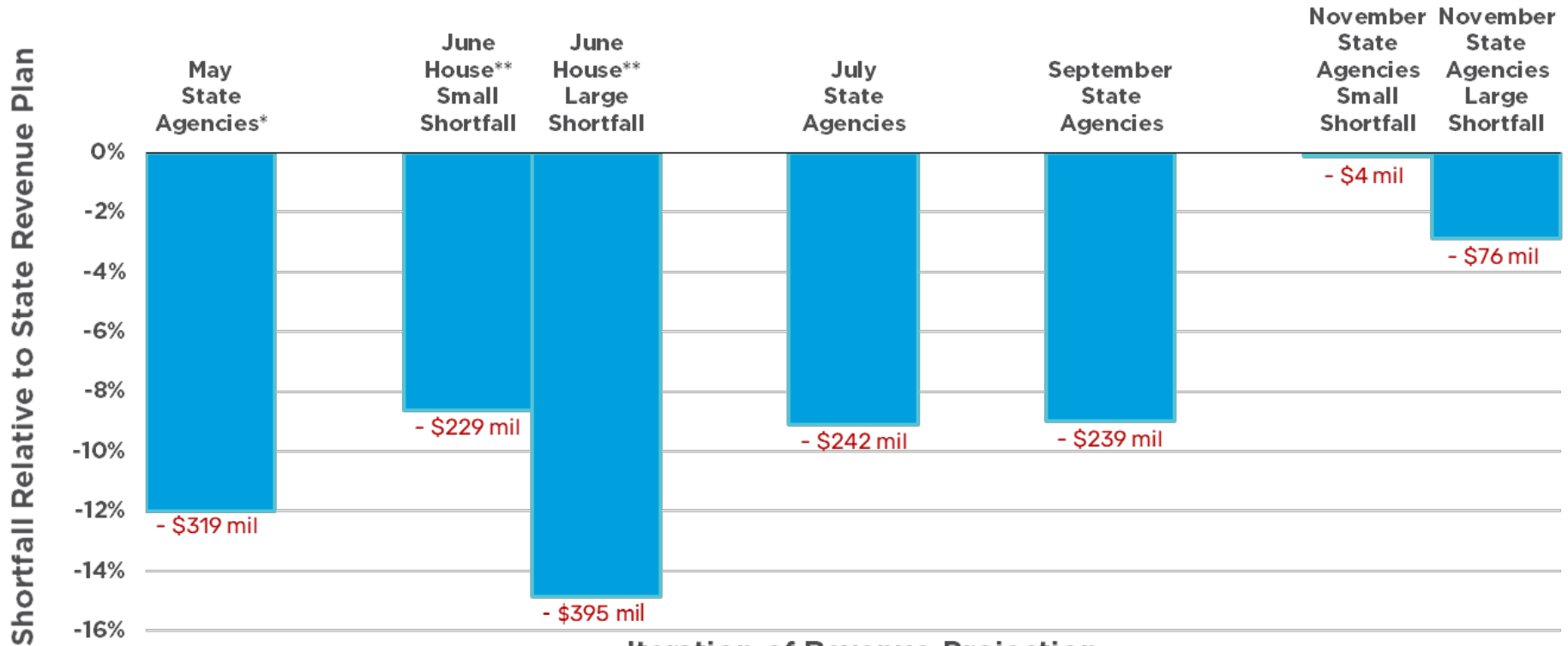
STATE REVENUES: LARGE ENTITIES KEY TO BPT

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



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

SFY 2021 SHORTFALL PROJECTIONS



Iteration of Revenue Projection New Hampshire General and Education Trust Funds

Notes: *Of the agencies providing estimates, only one agency provided a range, while all others provided point estimates; the average of the estimate totals is provided here. **Estimates from the House Ways and Means Committee.

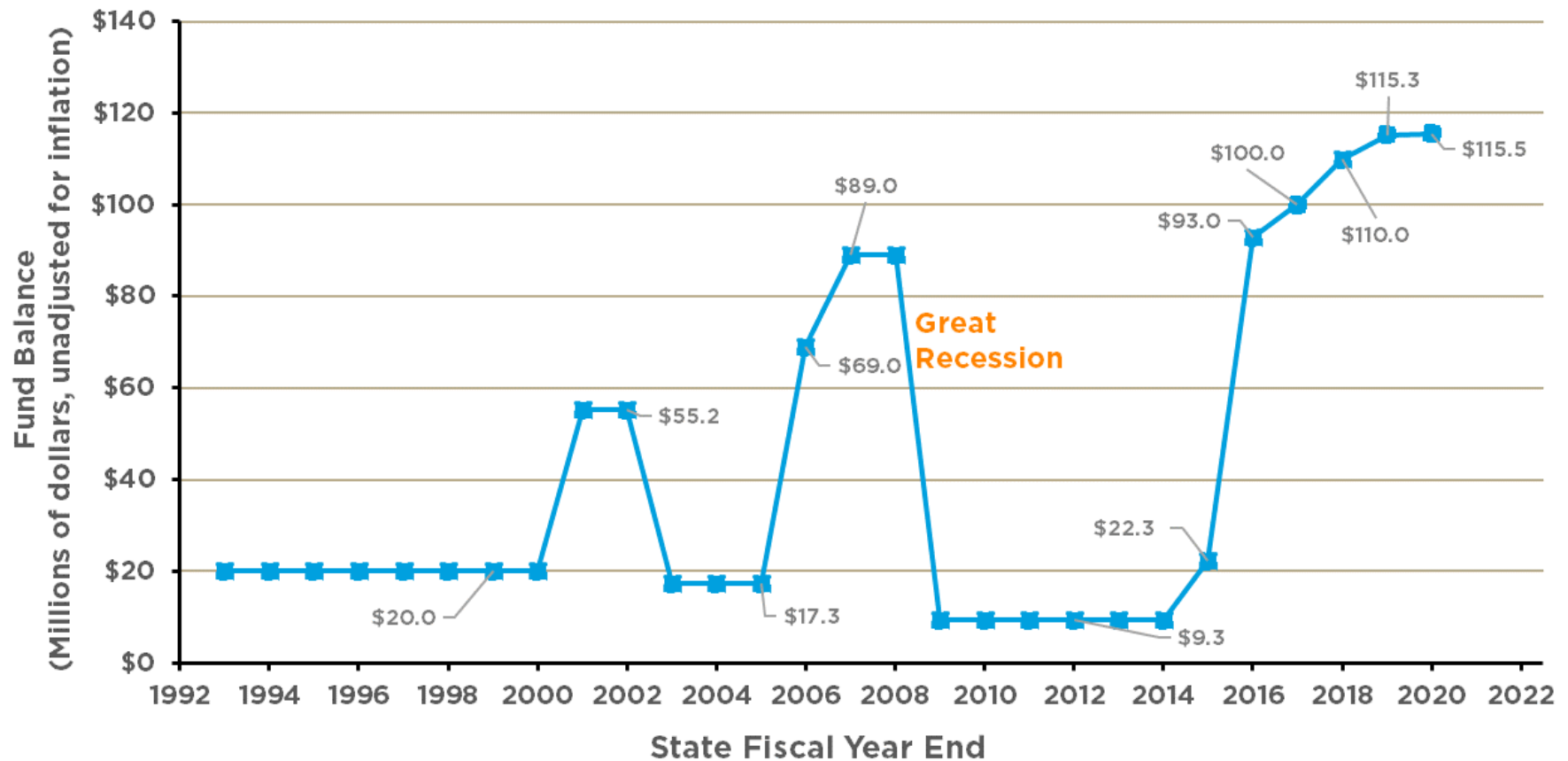
Source: New Hampshire Office of Legislative Budget Assistant, Revenue Estimate Worksheet, November 18, 2020

THE RAINY DAY FUND

- Formally: “Revenue Stabilization Reserve Account”
- Part of General Fund, created in 1986
- Per statute, at close of each biennium, any surplus shall be transferred to nonlapsing account
- Used to fill deficit with certain revenue shortfall circumstances
- Other uses require approval of 2/3 of each chamber and the Governor per statute
- Typically, policymakers decide the amount to appropriate to the Rainy Day Fund at the end of a biennium as part of the State Budget process

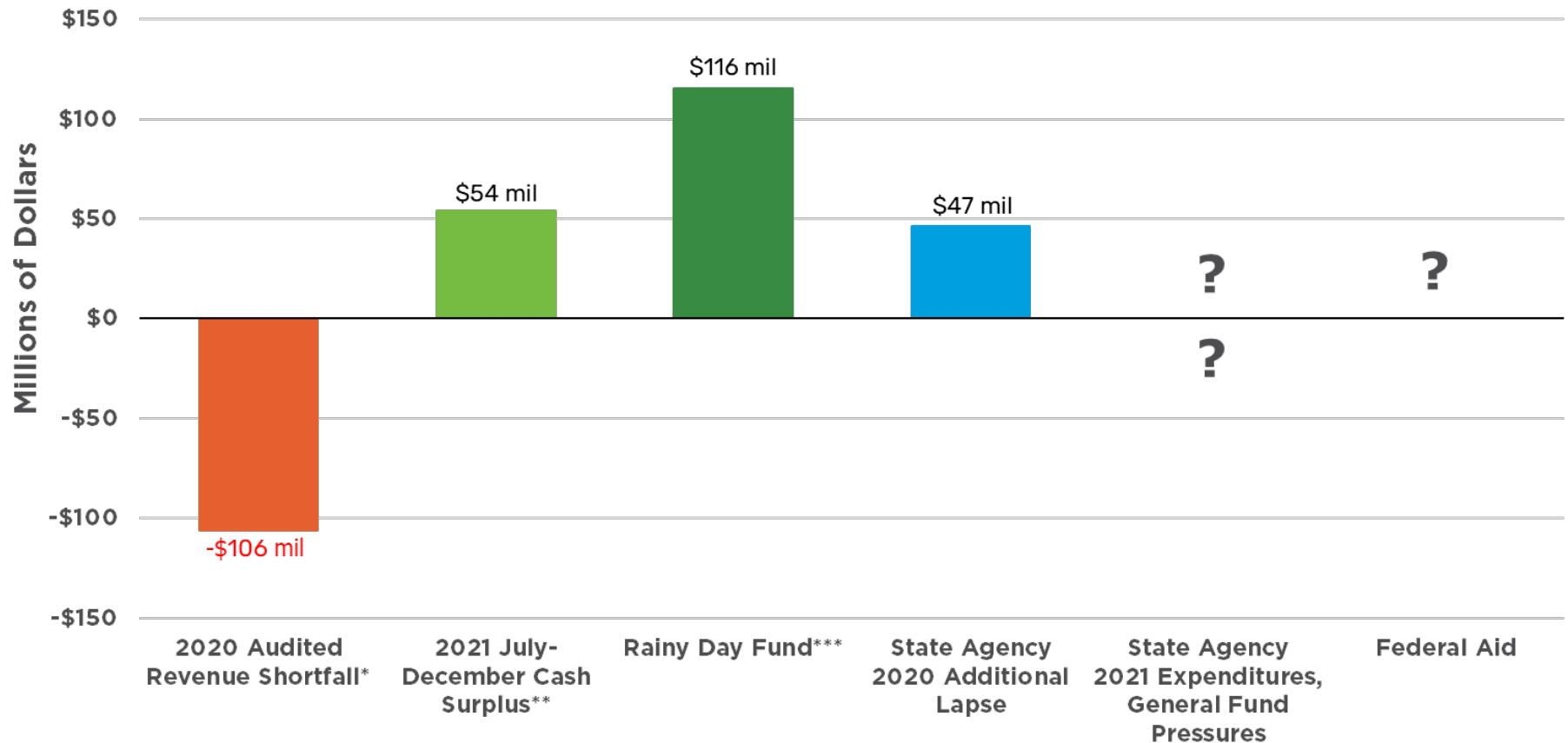
THE RAINY DAY FUND — HISTORY

REVENUE STABILIZATION RESERVE ACCOUNT (IN MILLIONS)



Sources: New Hampshire Comprehensive Annual Financial Reports, SFYs 2019-1997; *LBA Snapshot: Preliminary Analysis of FY 2021 Surplus/(Deficit), General and Education Trust Funds*, 12/15/20

STATE BUDGET SHORTFALL AND ASSETS



Asset or Change from State Budget Plan New Hampshire General and Education Trust Funds, by State Fiscal Year

Notes: *Audited totals from the State Fiscal Year 2020 Comprehensive Annual Financial Report. **Excludes \$30.8 million in anomalous revenue shifted to SFY 2020 from total.

***Rainy Day Fund refers to the Revenue Stabilization Reserve Account, balance from the draft Comprehensive Annual Financial Report.

Sources: New Hampshire Department of Administrative Services; New Hampshire Comprehensive Annual Financial Report for Fiscal Year 2020, December 22, 2020.

KEY TAKEAWAYS

- Budget shortfall smaller than anticipated in the early days of the pandemic, but still significant
- Revenues for SFY 2021 doing very well now, but considerable uncertainty, more clarity after April 2021
- State expenditures and federal action key variables
- Needs may be greatest at beginning of State Budget biennium
- Continued federal action is key to both short-term services and meeting needs, and the long-term recovery
- Recession has impacted those with the fewest resources most severely, and public policy can help build equitable, sustainable, inclusive recovery



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