



EXAMINING THE STATE BUDGET: THE GOVERNOR'S PROPOSAL

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FEBRUARY 19, 2021

THE CONTEXT: A CONTINUING PANDEMIC

Unusual, fast-changing economic times

- Number of employed New Hampshire residents dropped by an estimated 22 percent from mid-February to mid-April of 2020
- Substantial recovery, but still about 38,000 fewer New Hampshire residents working during December 2020 versus December 2019

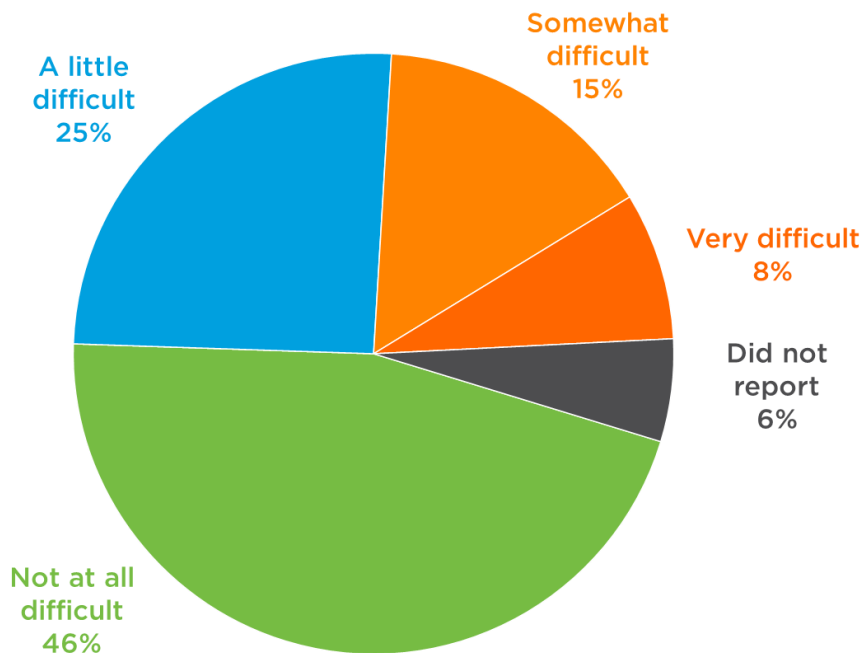
Uneven impacts, disproportionately on more vulnerable

- Low-income workers and households more likely to lose employment, after slow recovery from Great Recession
- In-person services bring greater risk, including low-wage service work, in-home and community-based supports
- More resources and care needed to make congregate or dense housing situations, long-term care facilities safer for residents

Sources: New Hampshire Employment Security, GraniteStats; NHFPI, Designing a State Budget to Meet New Hampshire's Needs During and After the COVID-19 Crisis, February 2021; NHFPI, Challenges Facing New Hampshire's Workers and Economy During the COVID-19 Crisis, September 2020; NHFPI, New and Expanded Challenges Facing Vulnerable Populations in New Hampshire, September 2020

LARGE IMPACTS ON ECONOMIC SECURITY

**DIFFICULTY PAYING FOR USUAL
HOUSEHOLD EXPENSES IN THE
PREVIOUS SEVEN DAYS**
IN NEW HAMPSHIRE,
FROM JANUARY 20 TO FEBRUARY 1, 2021



- 47 percent of New Hampshire households lost employment income between March 13 and the July 2-21 survey
- Nearly 1 in 4 indicated difficulty in paying for usual household expenses in most recent survey, down from 1 in 3 early December (before latest \$600 impact payments, unemployment compensation enhancements)

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

Note: Estimates derived from Week 23 of the Household Pulse Survey, representing the total population age 18 years and older in New Hampshire.

Source: U.S. Census Bureau, Household Pulse Survey, accessed February 17, 2021

BASICS OF THE STATE BUDGET

Two-year, or biennial, operating budget

- Funds *most* State operations for two State fiscal years (SFYs)
- Next State Budget will provide funding for SFYs 2022-2023: July 1, 2021 to June 30, 2023

Comprised of two separate pieces of legislation

- Operating Budget Bill, typically House Bill 1 or “HB1”: the line-item appropriations to specific operations
- Trailer Bill, typically House Bill 2 or “HB2”: the companion omnibus bill with policy changes and separate appropriations

Governor’s proposal starts Legislature’s process

- House first considers budget, then moves to Senate, Committee of Conference final step in Legislature before returning to Governor
- Both chambers must pass a balanced State Budget plan by July 1

MORE EXAMINATION REQUIRED

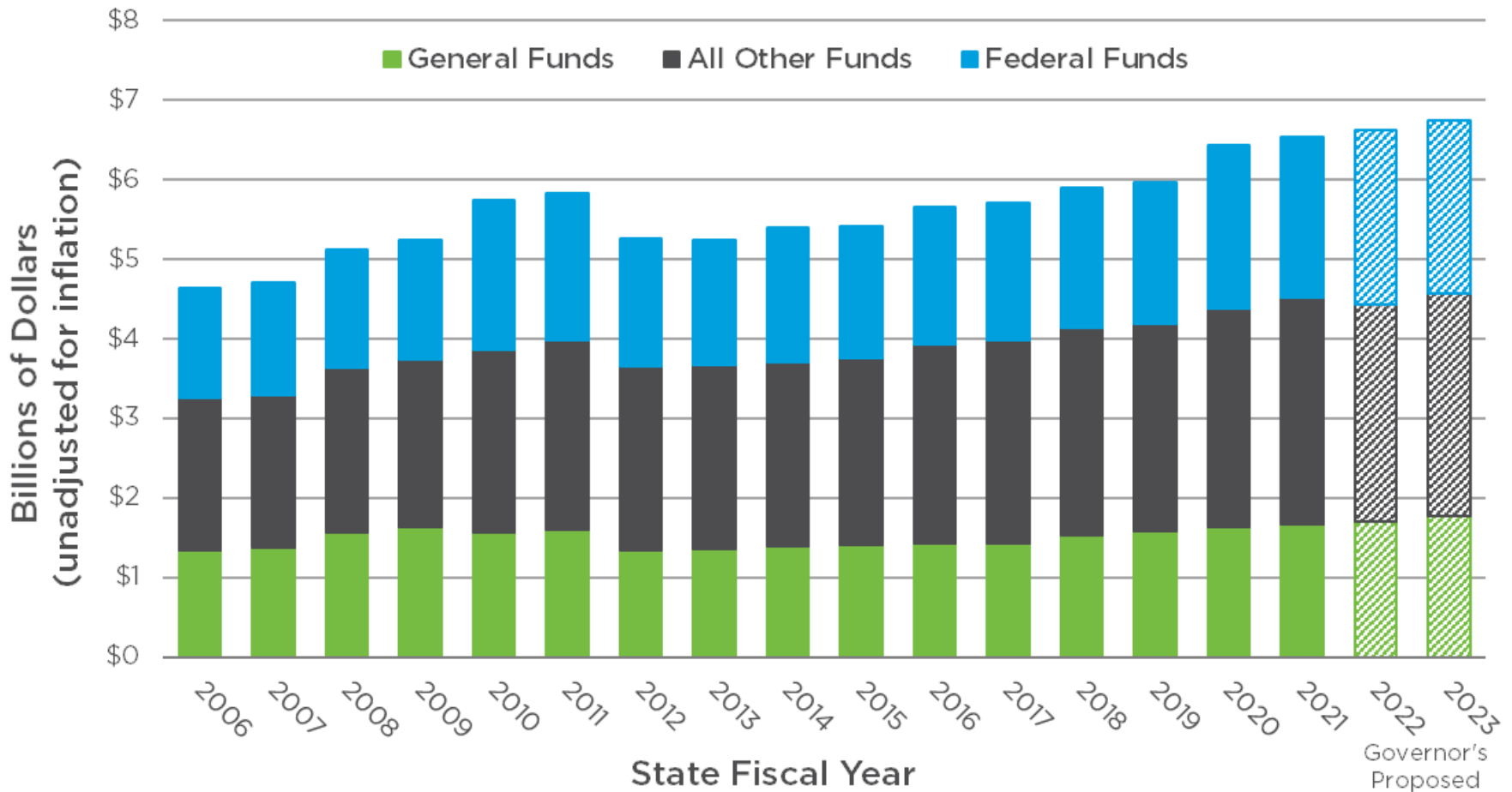
Operating Budget Bill shows most funding changes

- Operating Budget Bill proposes \$13.36 billion over two years
- Governor also provided policy outlines for key areas in his Executive Summary and in companion documents provided with his Operating Budget Bill
- Some policy proposals are recurring or described in detail in the Executive Summary

Trailer Bill includes policy details

- Many policy details not fully known
- Trailer Bill appears to have much more limited appropriations
- First budget cycle during which Trailer Bill is due at the same time as the Operating Budget Bill per statute, past budget cycles have been longer waits

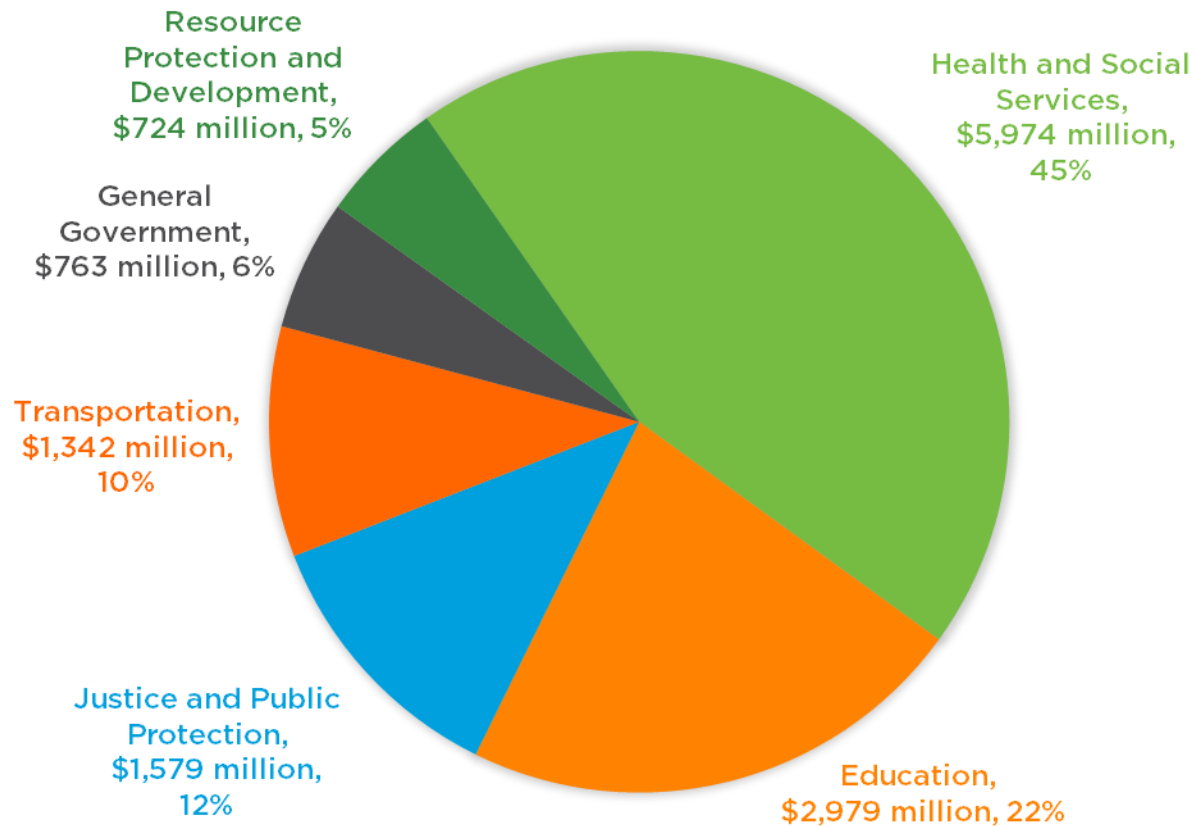
GOVERNOR WOULD INCREASE APPROPRIATIONS OVERALL



Sources: HB 1, Section 1.07 as Approved, Sessions 2005 to 2015; HB 144, Session 2017; HB 3 as Approved, Session 2019; New Hampshire Department of Administrative Services

PROPOSED NEW HAMPSHIRE EXPENDITURES BY CATEGORY

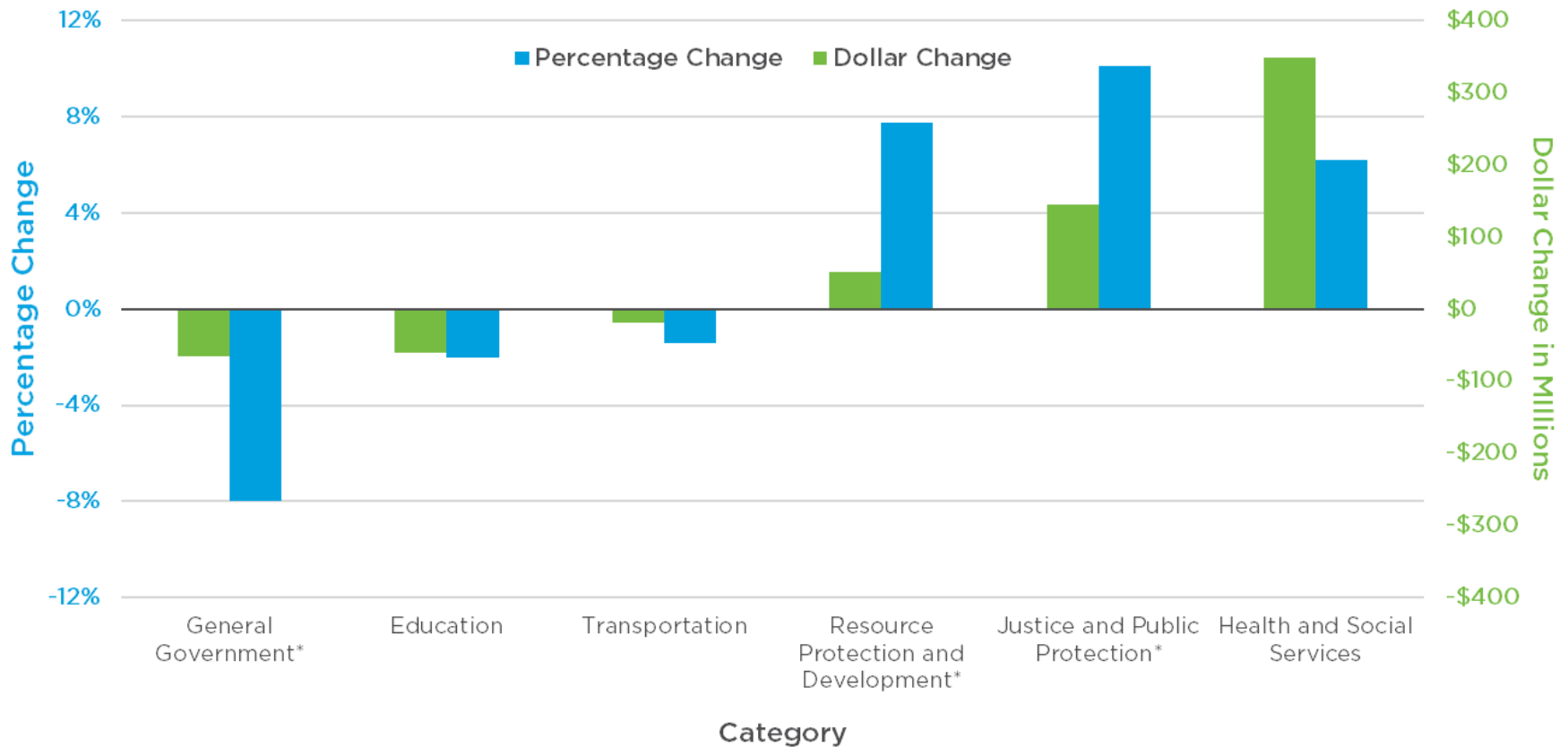
GOVERNOR'S BUDGET PROPOSAL,
STATE FISCAL YEARS 2022 AND 2023



Source: New Hampshire Department of Administrative Services

NOT A UNIFORM INCREASE ACROSS EXPENDITURE CATEGORIES

DIFFERENCE BETWEEN SFY 2020-2021 STATE BUDGET AS ENACTED AND GOVERNOR'S SFY 2022-2023 BUDGET PROPOSAL BY CATEGORY

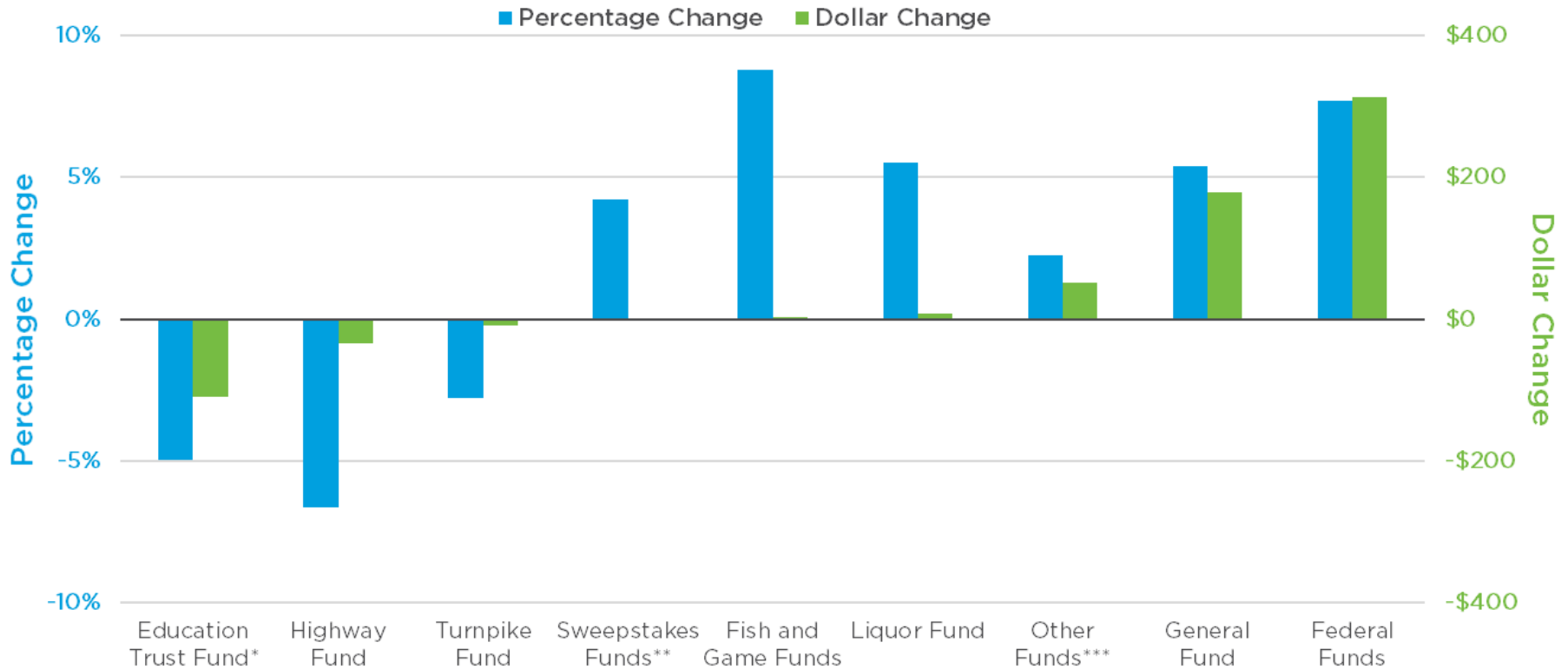


*Note: Proposed agency reorganizations impact these figures.

Sources: New Hampshire Department of Administrative Services; Chapter 345, Laws of 2019

FEDERAL AND GENERAL FUNDS INCREASES, EDUCATION AND TRANSPORTATION DECLINES

DIFFERENCE BETWEEN SFY 2020-2021 STATE BUDGET AS ENACTED AND GOVERNOR'S SFY 2022-2023 BUDGET PROPOSAL BY FUND

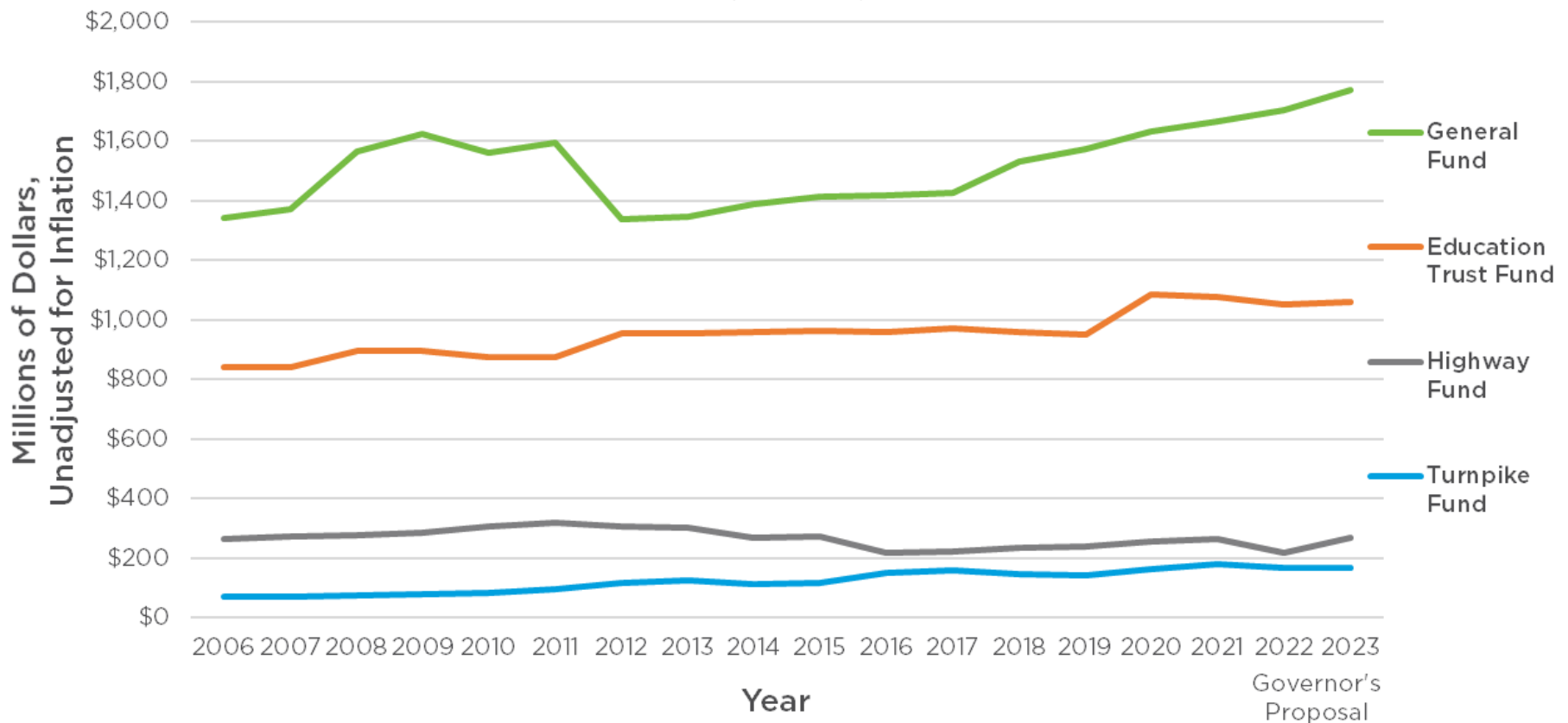


Notes: *Includes \$62.5 million special account funds for SFY 2021. **Includes Sweeps, Racing, and Charitable Gaming. ***Includes reductions for interagency transfers.

Sources: New Hampshire Department of Administrative Services; Chapter 345. Laws of 2019

GENERAL FUND RISES, EDUCATION TRUST FUND DECLINES

KEY NEW HAMPSHIRE FUNDS IN STATE BUDGETS OVER TIME



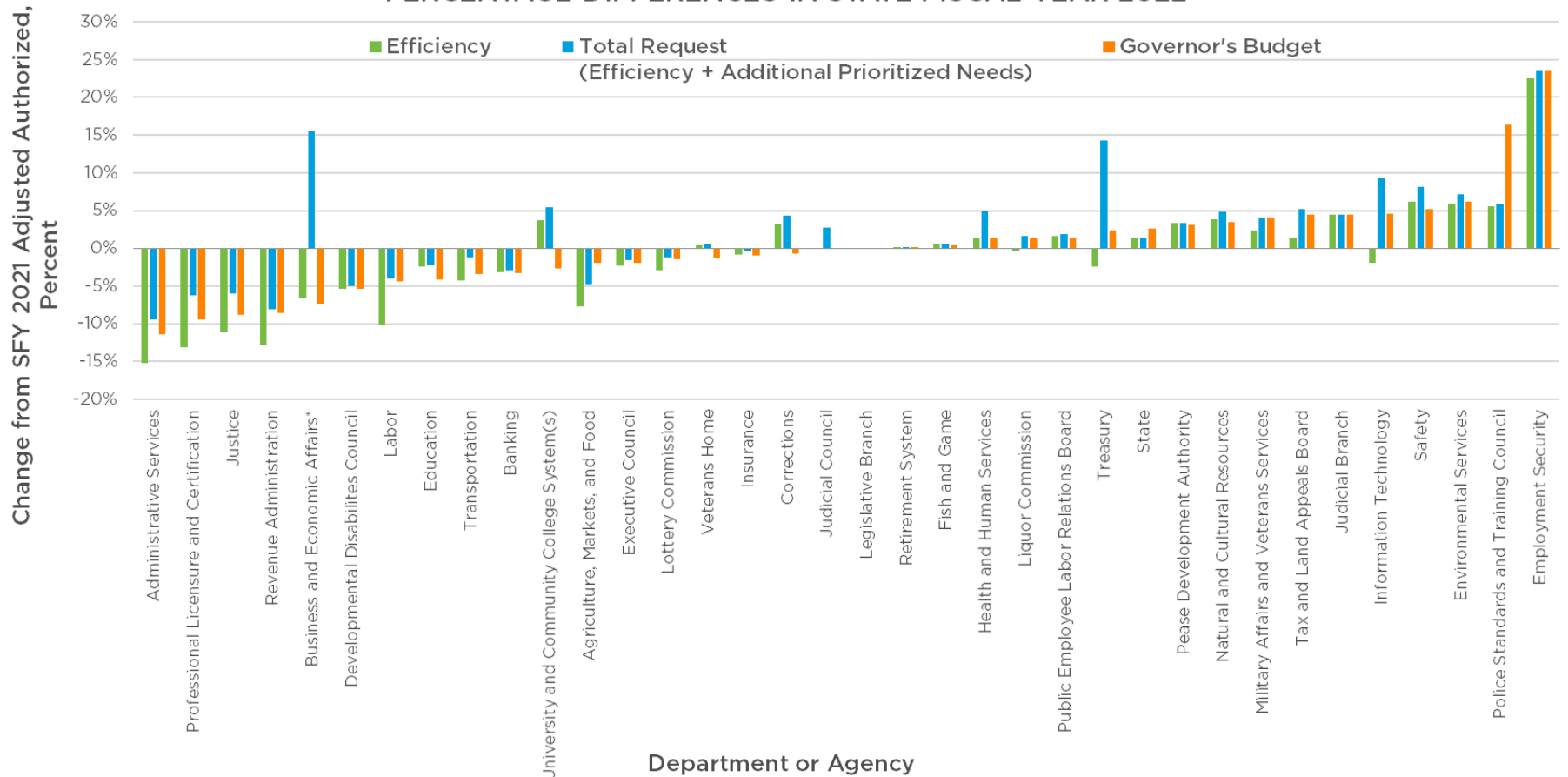
Source: New Hampshire State Budgets, as Passed; Department of Administrative Services

AGENCY-LEVEL COMPARISONS

- Year-over-year changes provide some insight into continuity or changes in services under Governor's budget proposal
- Comparisons between State agency budget requests, both the Efficiency Budget and the Total Request, reflect some organizational shifts planned before Governor's budget
- Needs also changing quickly, and agency requests were submitted on October 1, 2020
- Not a comparison to the prior State Budget as passed in 2019, but a comparison to the most recent amounts authorized, which can change during State Budget biennium

AGENCY EFFICIENCY AND TOTAL REQUESTS INFORM COMPARISONS

STATE AGENCY BUDGET REQUESTS AND THE GOVERNOR'S BUDGET, PERCENTAGE DIFFERENCES IN STATE FISCAL YEAR 2022

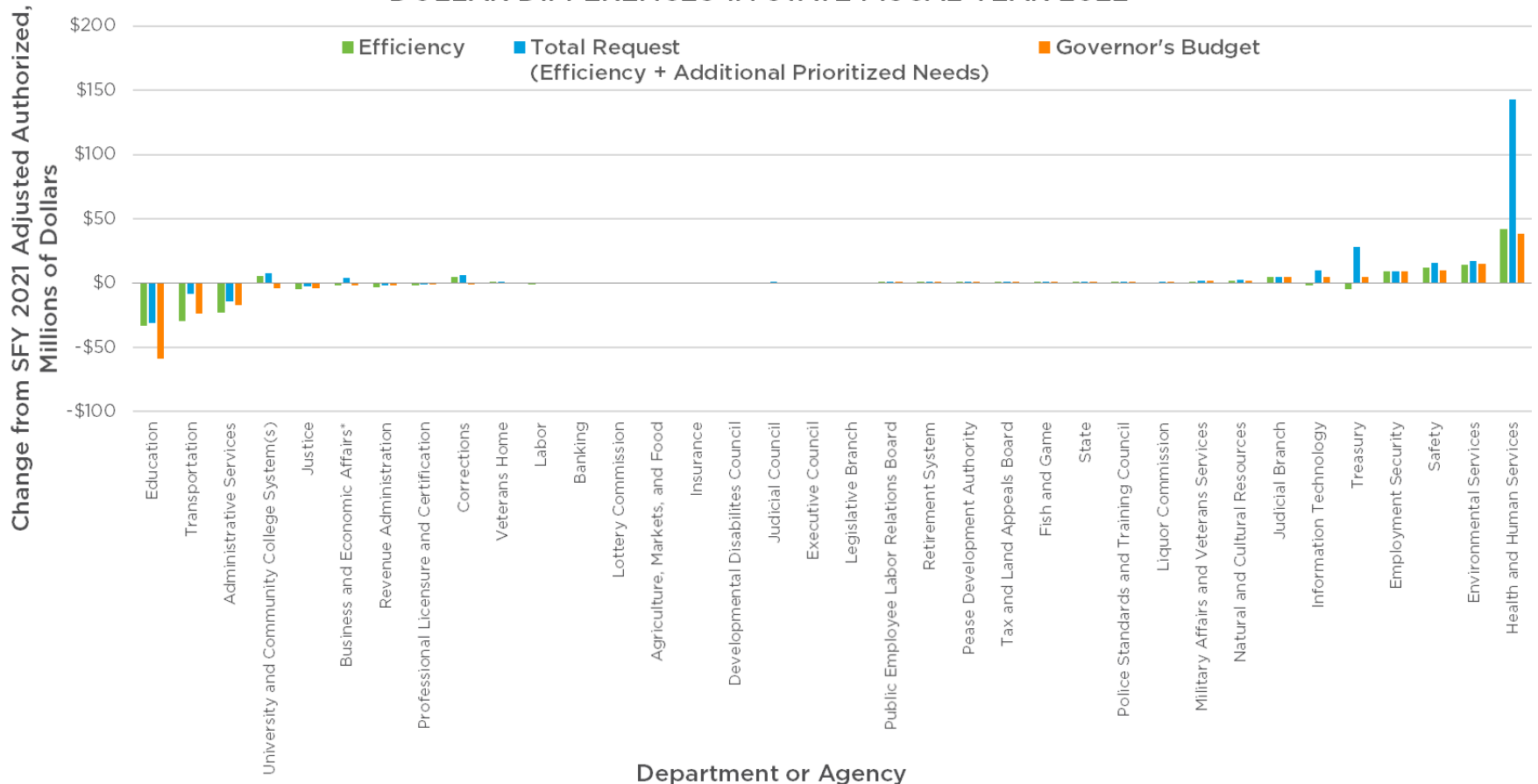


*Note: The Department of Business and Economic Affairs is losing an office to the proposed Department of Energy in the Governor's Budget. That Department would also be allocated the Office of Strategic Initiatives from the Executive Department and the Public Utilities Commission. Both the Executive Department and the Public Utilities Commission are excluded from this graphic.

Source: New Hampshire Department of Administrative Services

LARGEST DOLLAR INCREASES AT HEALTH AND HUMAN SERVICES, DECREASES IN EDUCATION

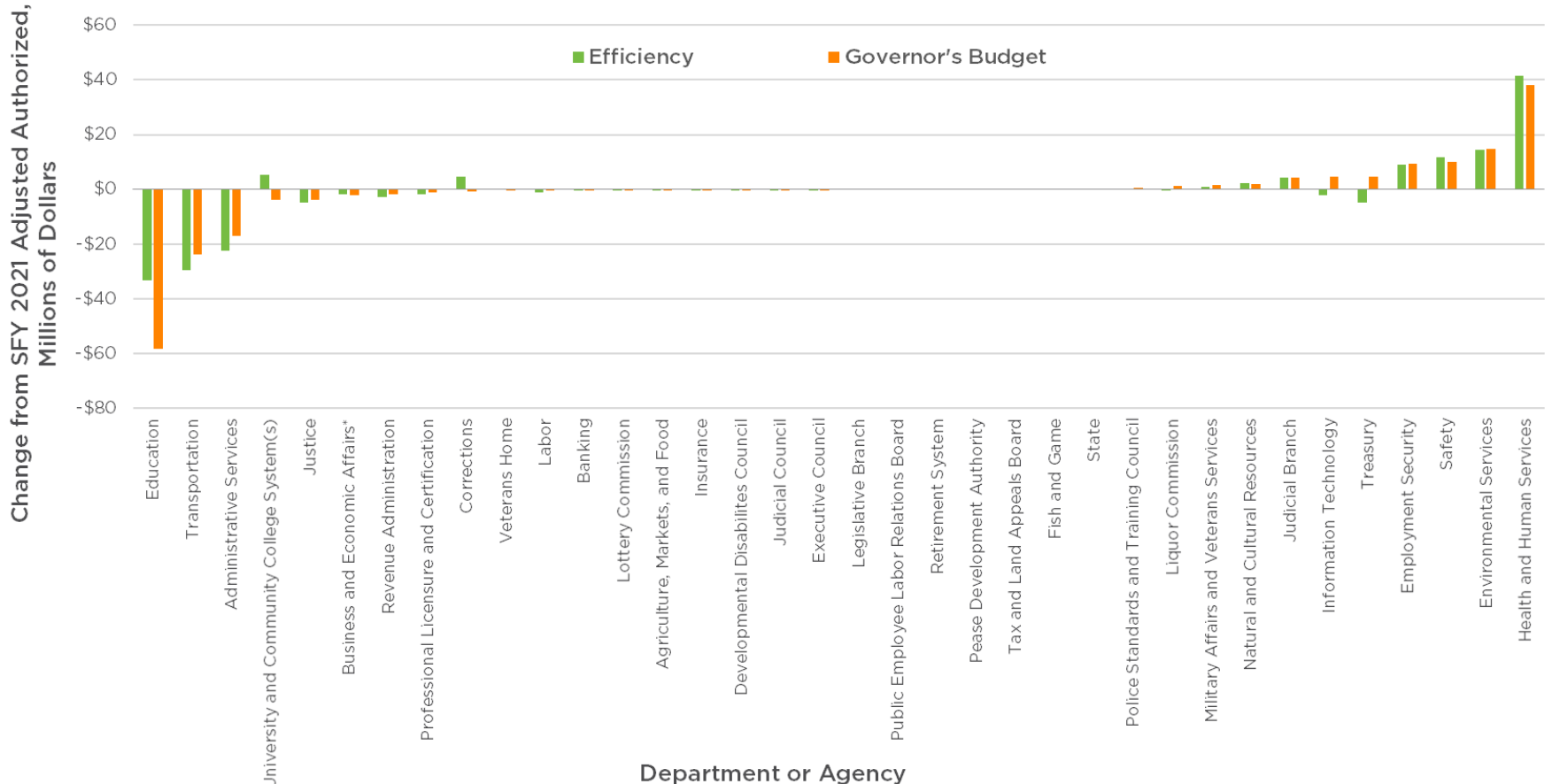
STATE AGENCY BUDGET REQUESTS AND THE GOVERNOR'S BUDGET, DOLLAR DIFFERENCES IN STATE FISCAL YEAR 2022



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Source: New Hampshire Department of Administrative Services

MOST AGENCIES FUNDED IN SAME DIRECTION AS EFFICIENCY REQUEST

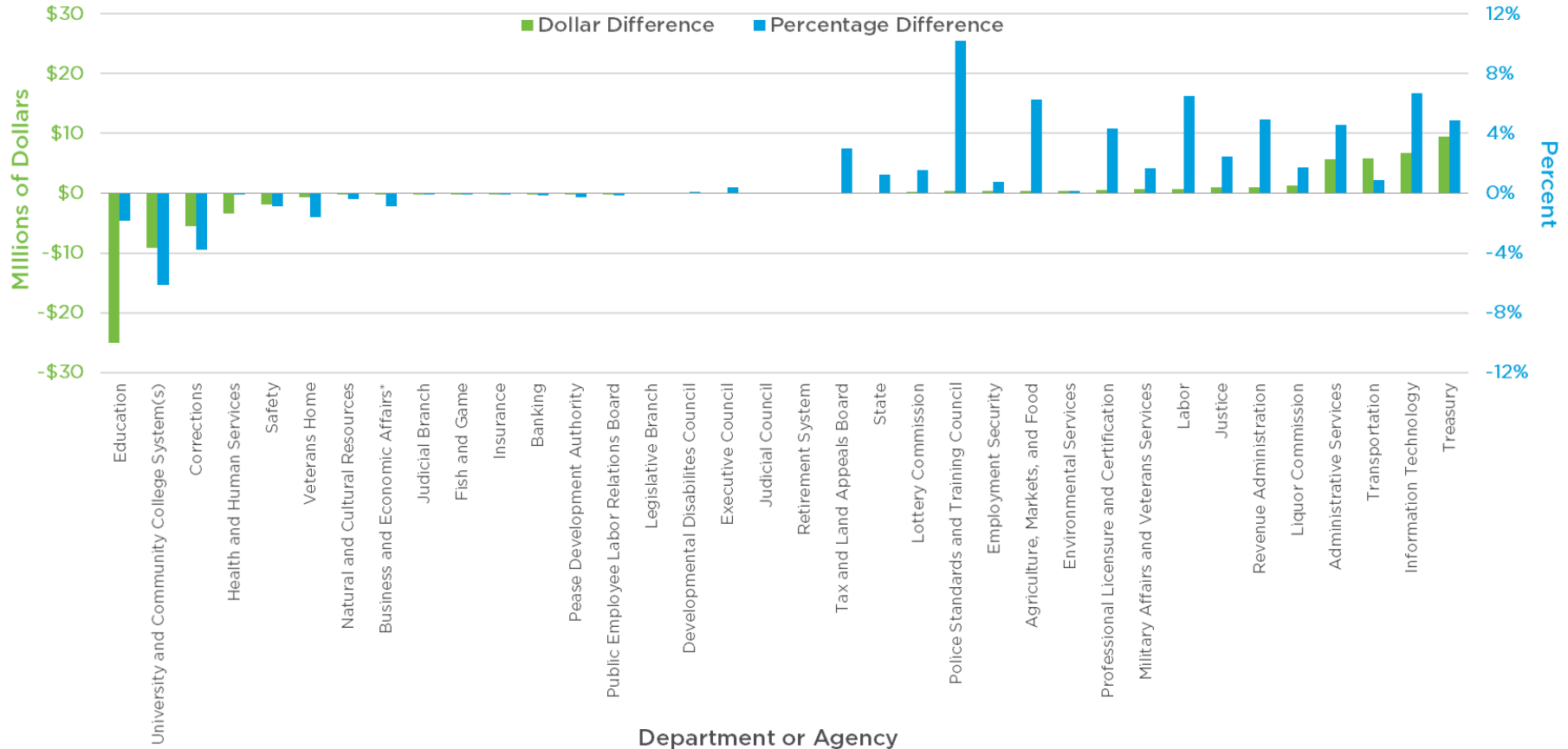
STATE AGENCY EFFICIENCY BUDGET REQUESTS AND THE GOVERNOR'S BUDGET, DOLLAR DIFFERENCES IN STATE FISCAL YEAR 2022



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Source: New Hampshire Department of Administrative Services

GOVERNOR DEVIATED FROM EFFICIENCY BUDGET REQUESTS IN KEY AREAS

DIFFERENCE BETWEEN STATE AGENCY EFFICIENCY BUDGET REQUESTS AND THE GOVERNOR'S BUDGET, STATE FISCAL YEAR 2022



*Note: The Department of Business and Economic Affairs is losing an office to the proposed Department of Energy in the Governor's Budget. That Department would also be allocated the Office of Strategic Initiatives from the Executive Department and the Public Utilities Commission. Both the Executive Department and the Public Utilities Commission are excluded from this graphic.
Source: New Hampshire Department of Administrative Services

AGENCY REORGANIZATIONS

- Creation of the Department of Energy
 - Public Utilities Commission is shifted to a new Department of Energy, division of powers and nature of attachment not yet clear
 - Office of Offshore Wind Industry Development located in the new Department of Energy
 - Energy policy portion from Office of Strategic Initiatives moved to new Department of Energy
- Planning functions of the Office of Strategic Initiatives shifted to the Department of Business and Economic Affairs
- Combining boards of University System and Community College System, to be merged into the New Hampshire College and University System by 2023

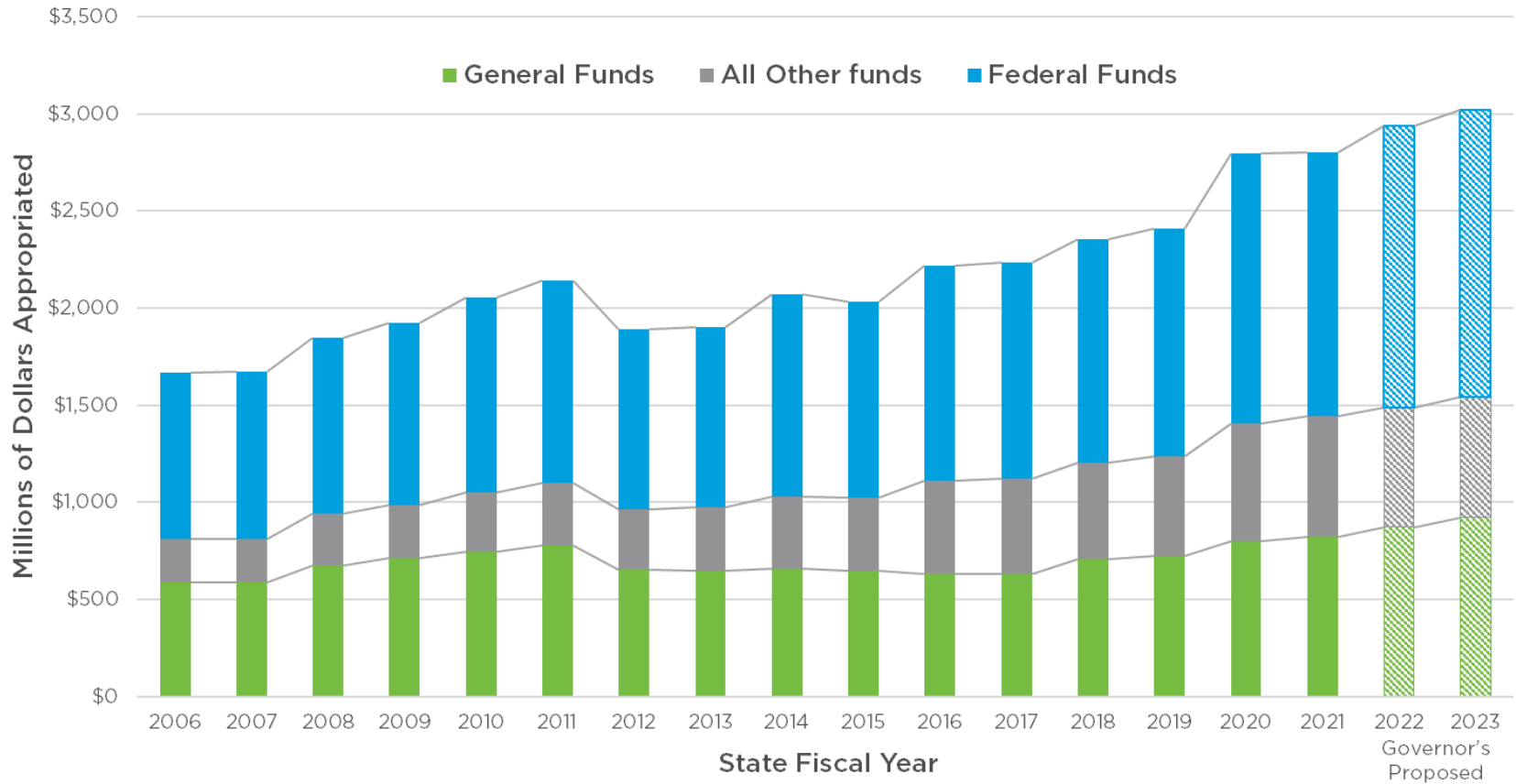
FOCUS AREA: HEALTH AND SOCIAL SERVICES

NEW HAMPSHIRE DEPARTMENT OF HEALTH AND HUMAN SERVICES

- Largest dollar increase, short of Efficiency Budget request
- Not all areas of the DHHS budget saw increases
- Office of Medicaid Services funding appears to anticipate elevated enrollment, keeps January 2021 3.1 percent provider rate increase
- Behavioral Health Division increase significant, federal grant for opioid response to Bureau of Drug and Alcohol Services
- Significant increase in funding at New Hampshire Hospital, slight increase at Bureau of Mental Health Services
- Bureau of Elderly and Adults Services above requested levels
- Developmental services substantially below efficiency request during the first year of the biennium
- Reductions in Child Development Program, and less federal funding budgeted for certain child and maternal health home visits, support for relatives of children in child welfare and foster care systems

OVERALL DHHS BUDGET WOULD RISE

NH DEPARTMENT OF HEALTH AND HUMAN SERVICES OPERATING BUDGET UNADJUSTED FOR INFLATION, PRIMARY BUDGET, NOT INCLUDING OFF-BUDGET CHANGES

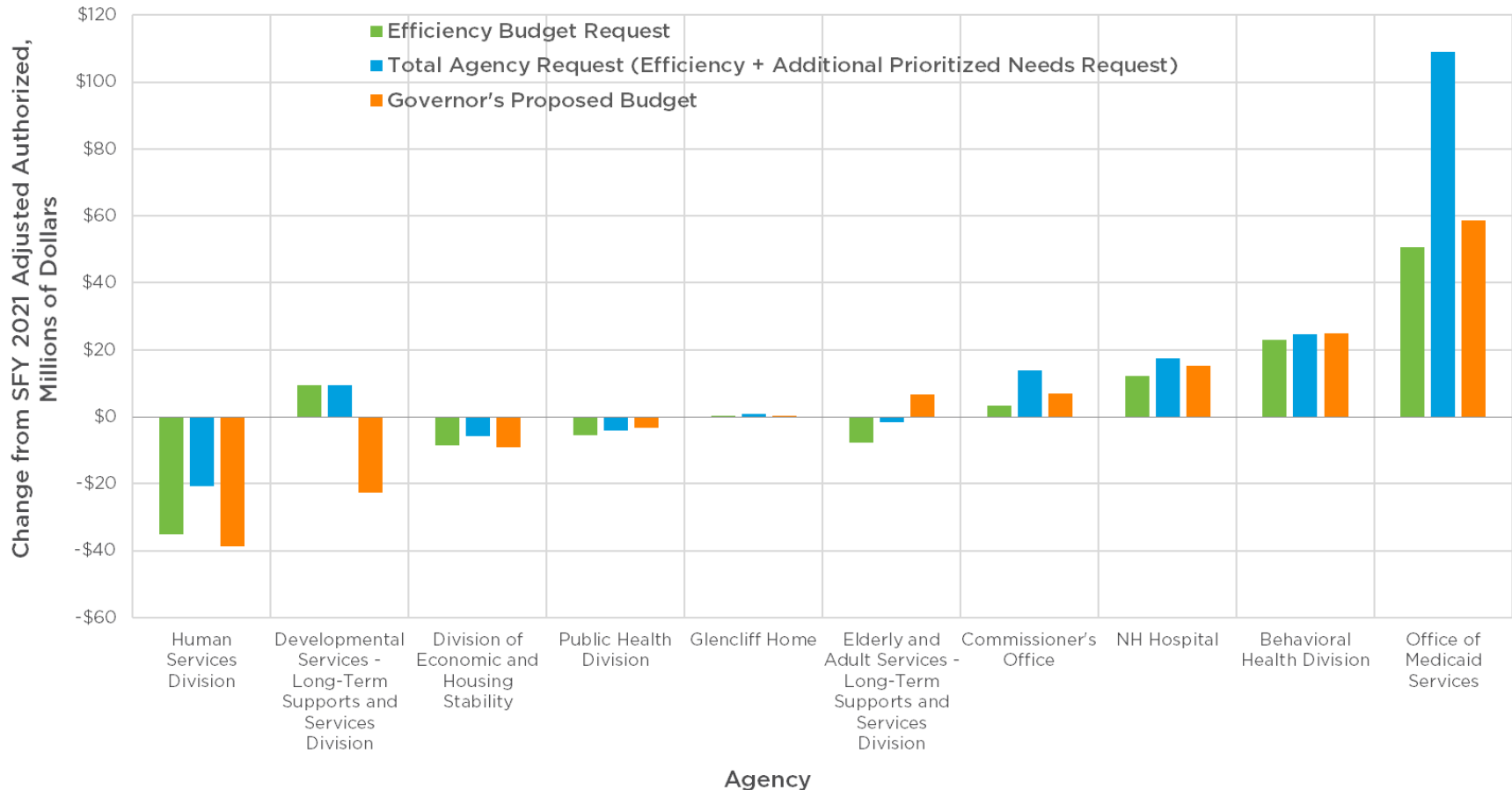


Note: Appropriations do not include trailer bill appropriations, back of the budget changes, information technology-related transfers, or other changes to appropriations outside of the Primary Budget (Section 1 of the State Budget).

Source: New Hampshire State Budgets, as Passed; New Hampshire Department of Administrative Services

MORE DOLLARS FOR MOST MEDICAID SERVICES, SOME SPLITS FROM REQUESTS

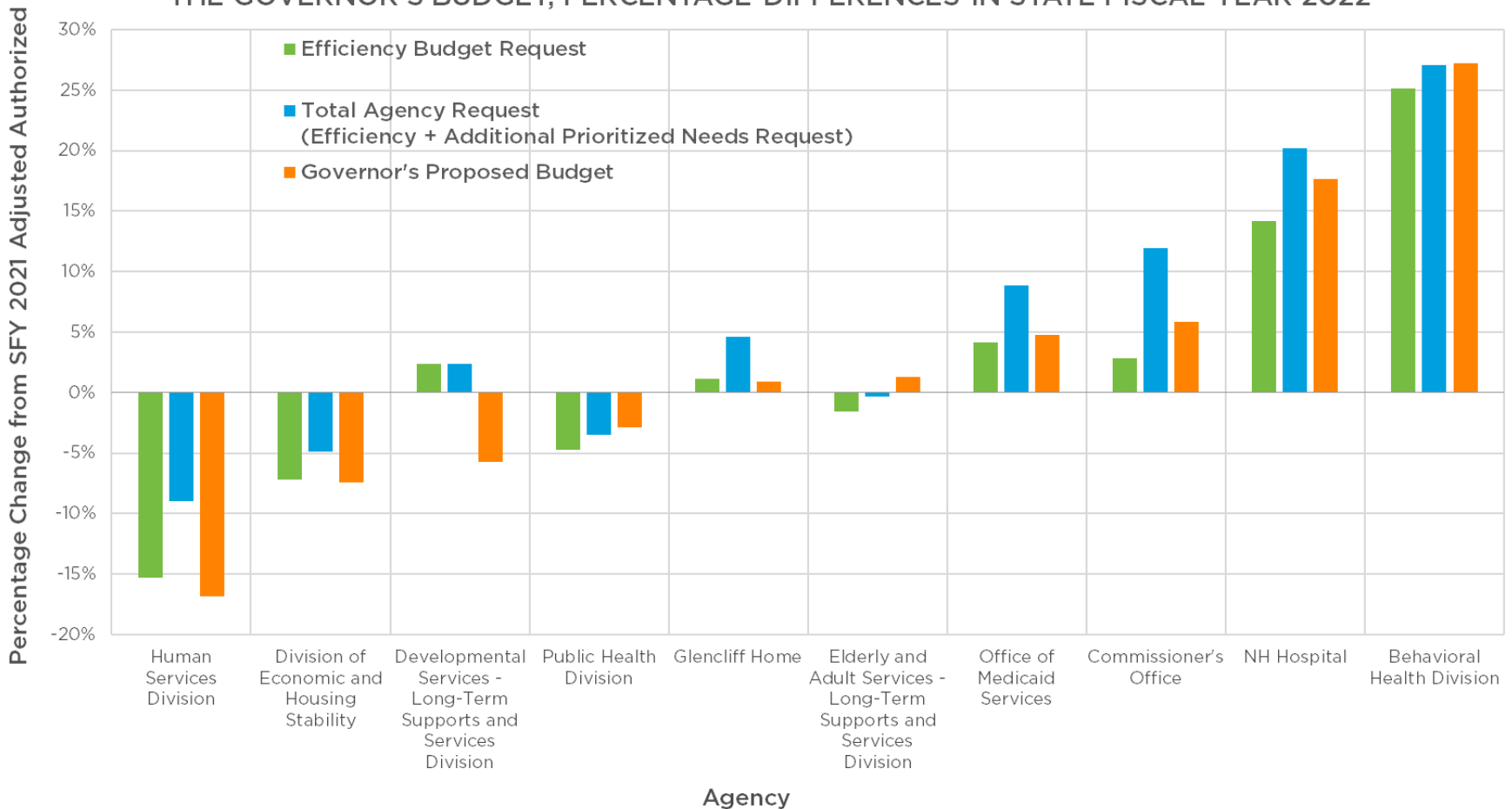
NH DEPARTMENT OF HEALTH AND HUMAN SERVICES BUDGET REQUESTS AND THE GOVERNOR'S BUDGET, DOLLAR DIFFERENCES IN STATE FISCAL YEAR 2022



Source: New Hampshire Department of Administrative Services

LARGEST RELATIVE CHANGES IN BEHAVIORAL HEALTH

NH DEPARTMENT OF HEALTH AND HUMAN SERVICES BUDGET REQUESTS AND THE GOVERNOR'S BUDGET, PERCENTAGE DIFFERENCES IN STATE FISCAL YEAR 2022



Source: New Hampshire Department of Administrative Services

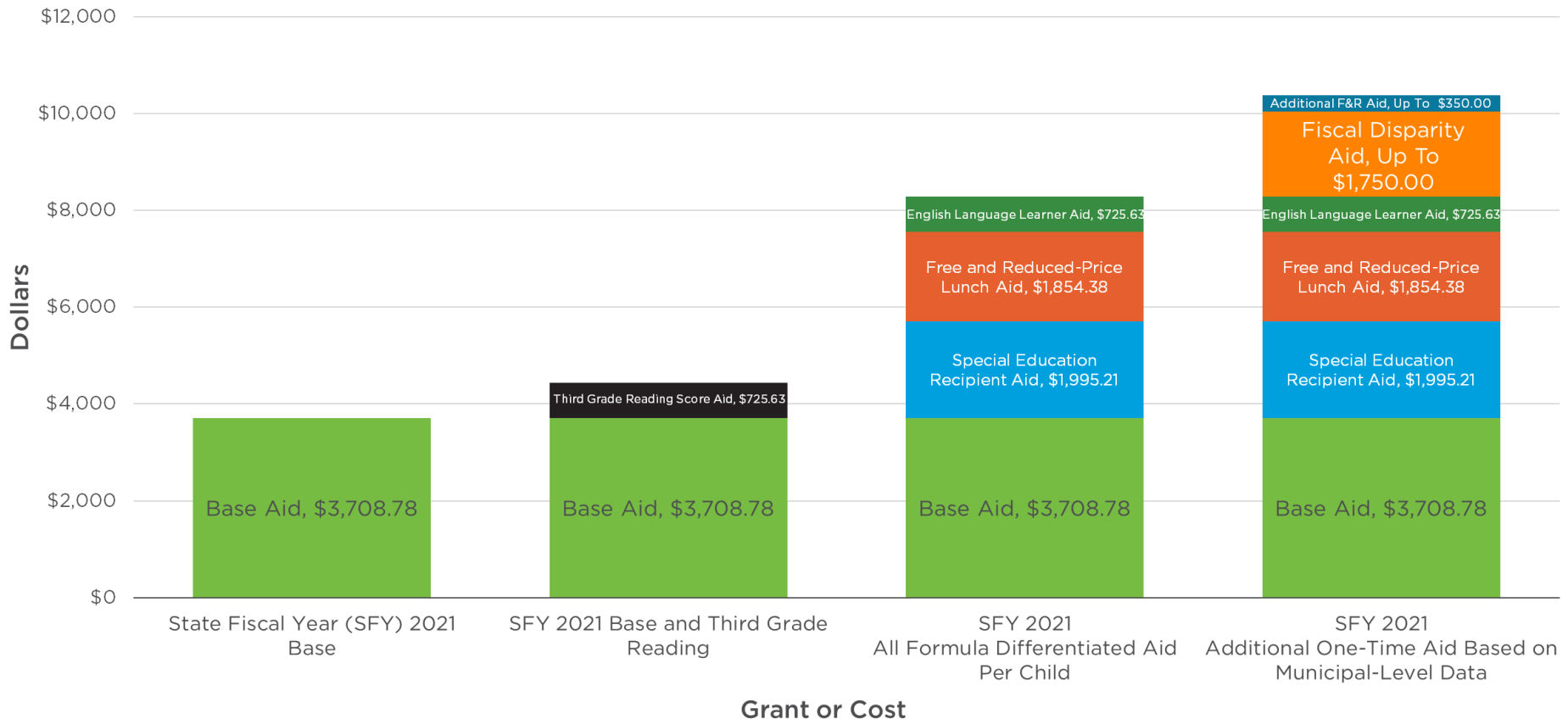
OTHER HEALTH AND SOCIAL SERVICES PROVISIONS

- Paid Family Medical Leave, to be described in final Trailer Bill, based on State employees included, opportunities for businesses to join on a voluntary basis
- New mental health programs for students, both school counseling and peer-to-peer supports, focused on alleviating social isolation
- Added funding for mental health programs for older adults and veterans, and associated new program structures
- Funding focused on DHHS information technology infrastructure improvements and enhance program management

FOCUS AREA: EDUCATION

ADEQUATE EDUCATION GRANTS ALLOCATED PER STUDENT, WITH TARGETED AID

ADEQUATE EDUCATION AID AND SCHOOL COSTS PER STUDENT NEW HAMPSHIRE LOCAL PUBLIC SCHOOLS AND STATE AID



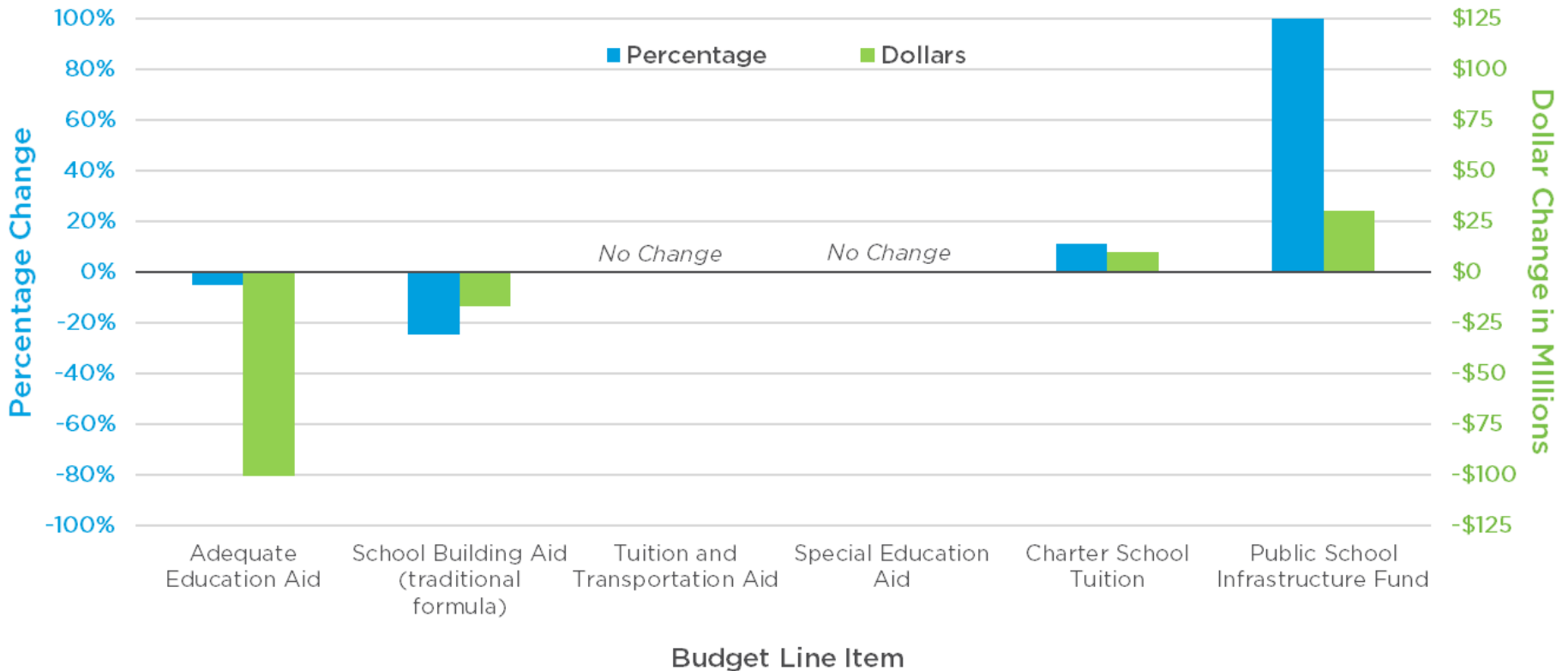
Sources: Office of Legislative Budget Assistant, Fiscal Issue Brief, Calculating Education Grants, January 2019; New Hampshire Department of Education, State Average Cost Per Pupil and Total Expenditures 2019-2020, December 21, 2020.

AGGREGATE EDUCATION FUNDING DECLINE

- Enrollment projections key for per pupil funding
- Boost to education funding in per pupil grants, targeted at districts with more low-income students and less property value, totaled \$62.5 million in SFY 2021 the Governor identified as one-time funding, does not appear to continue
- Adequate Education Aid total about \$100 million less, SFYs 2020-2021 versus SFYs 2022-2023 as proposed by Governor
- More school building aid through Public School Infrastructure Fund, smaller decline through traditional formula
- Flexibility for districts to use pre-pandemic counts for free and reduced-price school meal students for State funding
- Slightly reduced funding for higher education in combined agencies, with no one-time grants

EXPENDITURES RISE IN SOME AREAS, DECLINE IN OTHERS

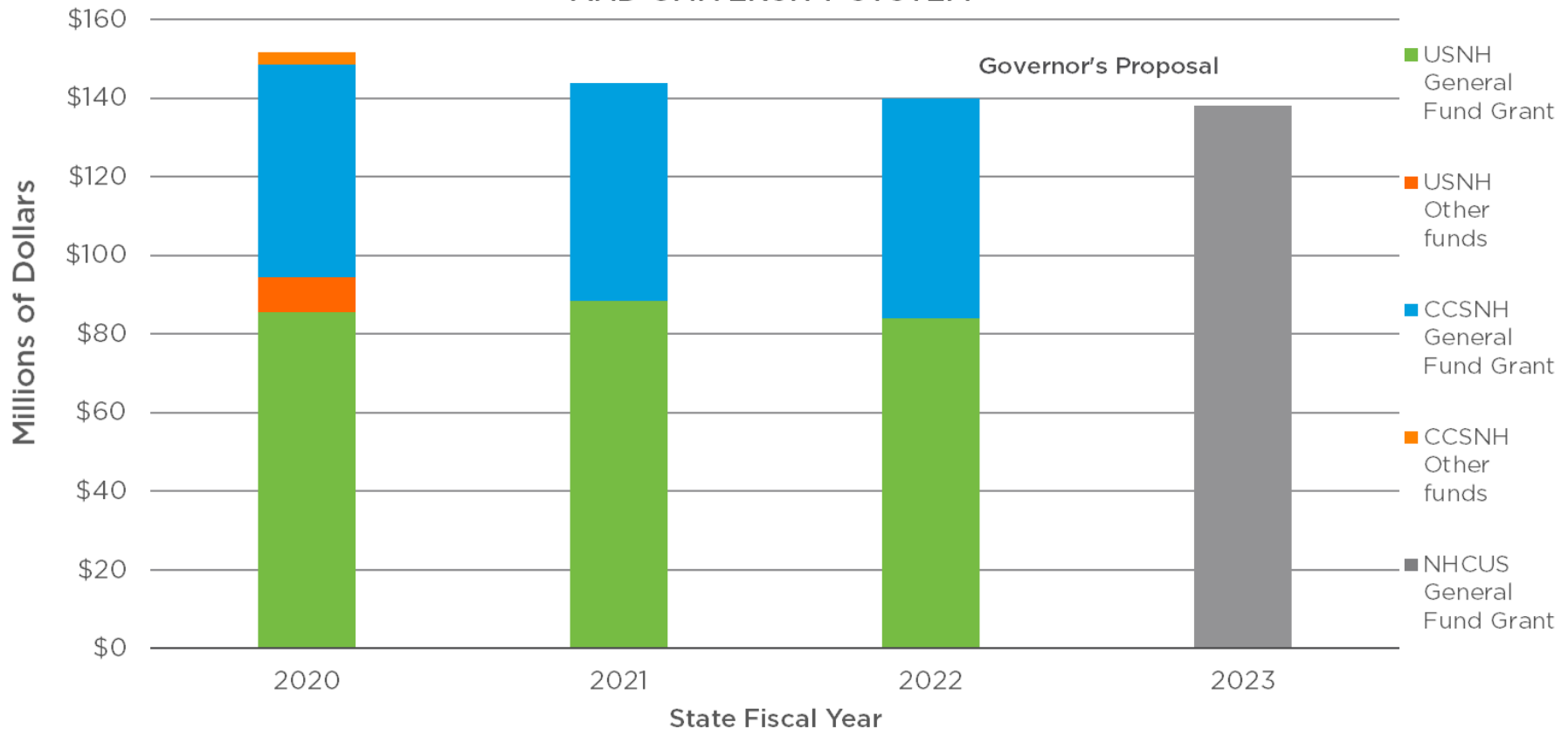
CHANGES TO STATE EDUCATION FUNDING FOR
LOCAL PUBLIC SCHOOLS, SFY 2020-2021 STATE BUDGET AND
GOVERNOR'S SFY 2022-2023 PROPOSAL



Sources: New Hampshire Department of Administrative Services; Chapter 345, Laws of 2019

REDUCTIONS IN FUNDING FOR PROPOSED COMBINED HIGHER EDUCATION SYSTEM

CURRENT AND PROPOSED STATE BUDGET FUNDING FOR THE UNIVERSITY SYSTEM, THE COMMUNITY COLLEGE SYSTEM, AND THE PROPOSED COLLEGE AND UNIVERSITY SYSTEM



Sources: New Hampshire Department of Administrative Services; Chapter 345, Laws of 2019

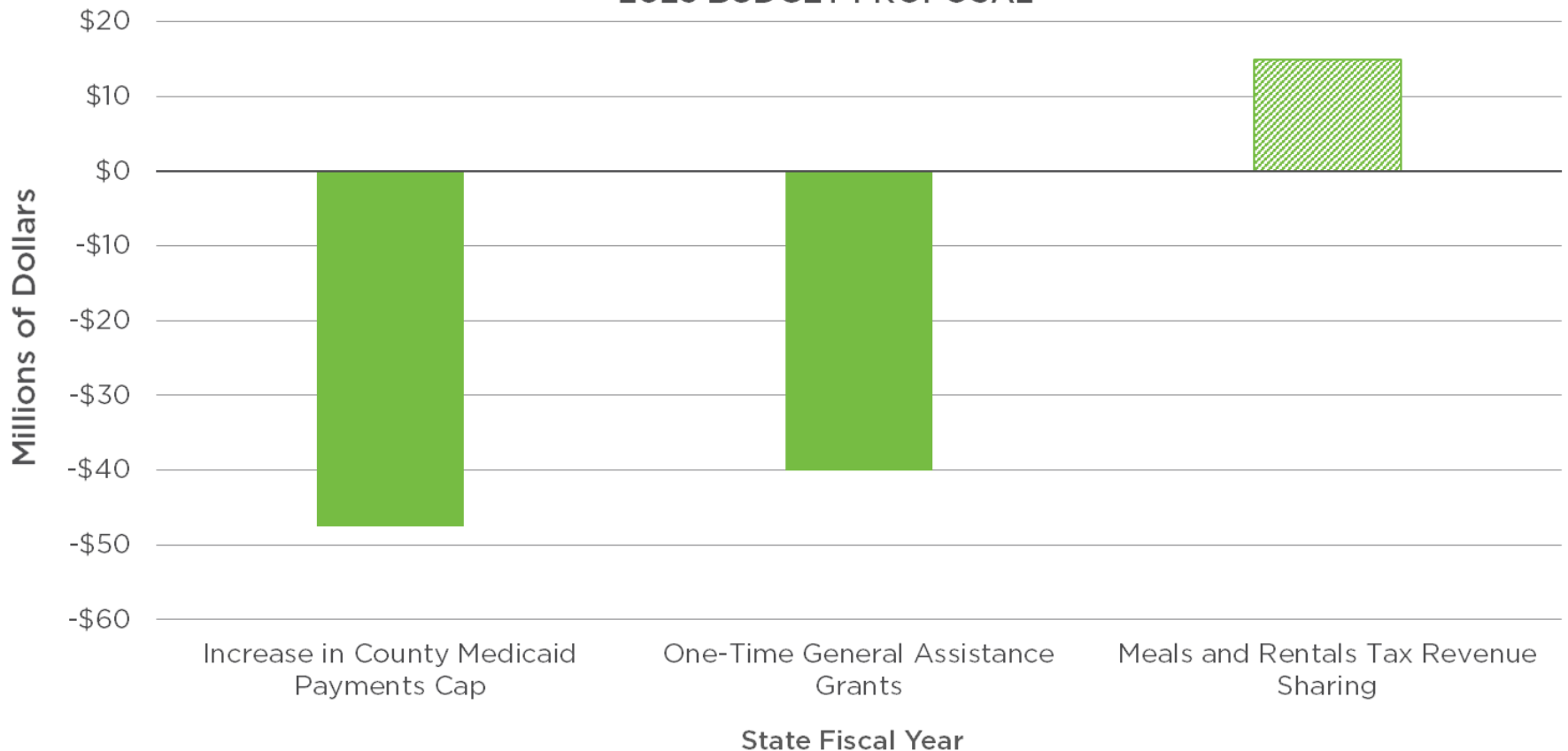
OTHER BUDGET AREAS

NON-EDUCATION LOCAL GOVERNMENT ASSISTANCE

- Meals and Rentals Tax revenue sharing, Governor proposes to permit the existing catch-up formula to operate, up to \$15 million more in revenue sharing with cities and towns, but may be less, dependent on Meals and Rentals Tax receipts
- One-time grants of \$20 million per year (\$40 million total) to cities and towns in current budget do not continue
- Upward pressure on county-level property taxes, as amount expected from county share of Medicaid nursing home and certain waiver services would increase \$47.5 million from SFYs 2020-2021 State Budget, a 19.8 percent increase
- Education aid changes would likely impact local property taxes and expenditure decisions

SIGNIFICANT CHANGES IN ASSISTANCE TO LOCAL GOVERNMENTS

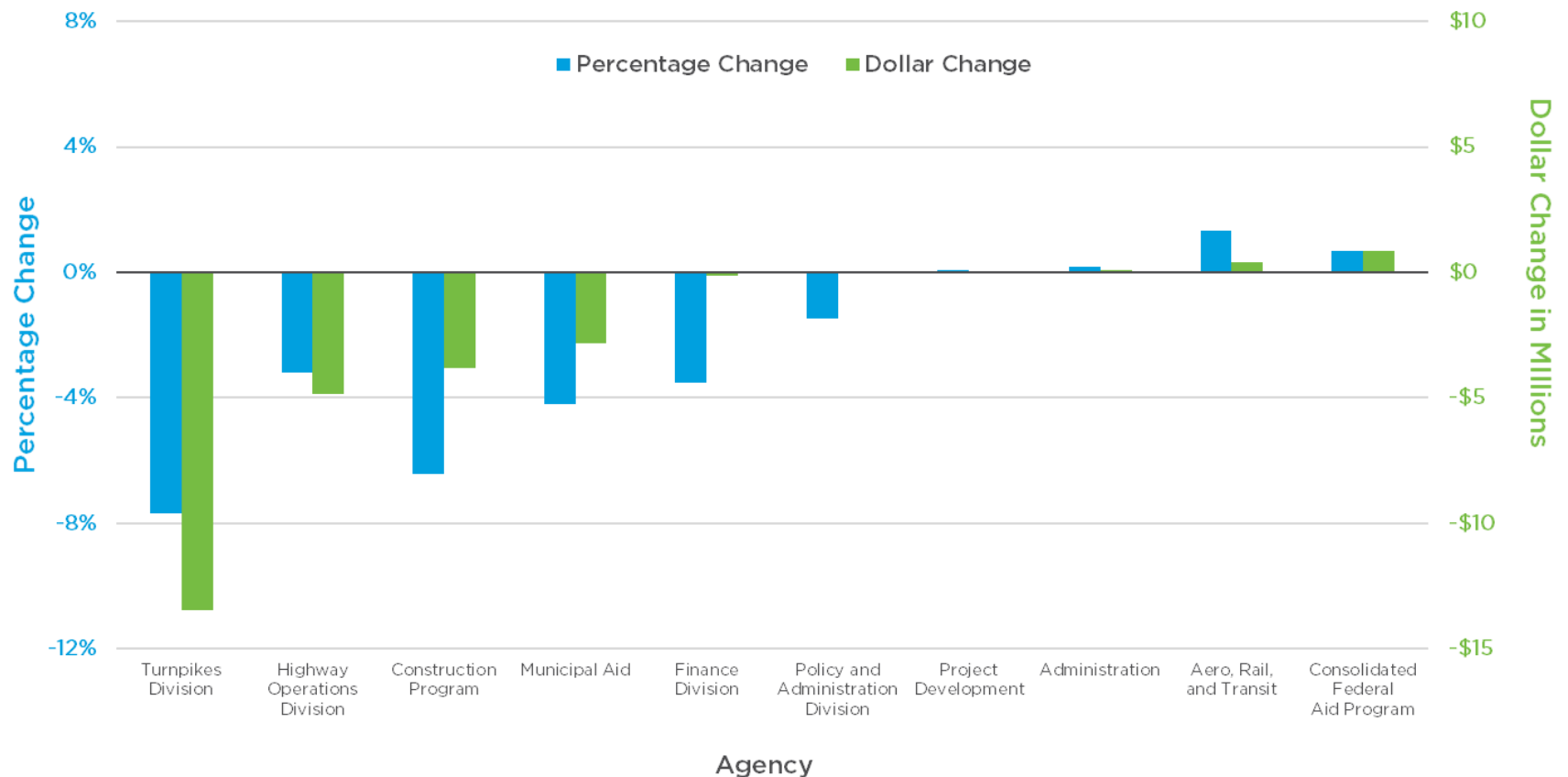
KEY CHANGES IN NON-EDUCATION AID TO COUNTY AND MUNICIPAL GOVERNMENTS, SFY 2020-2021 STATE BUDGET AND GOVERNOR'S SFY 2022-2023 BUDGET PROPOSAL



Sources: New Hampshire Department of Administrative Services; Chapter 345. Laws of 2019

TURNPIKE REVENUES IMPACTED BY PANDEMIC

CHANGE FROM SFY 2021 ADJUSTED AUTHORIZED TO THE GOVERNOR'S PROPOSED BUDGET FOR SFY 2022, WITHIN THE DEPARTMENT OF TRANSPORTATION



Source: New Hampshire Department of Administrative Services

OTHER POLICY CHANGES

- Raising the cap on the Rainy Day Fund, doubling it to 10 percent of General Fund revenues for the biennium
- Allocating funding from restricted higher education funds to fund debt relief for graduates working in key New Hampshire fields for certain periods of time
- Changing the structure for Unemployment Compensation Fund tax revenues, eliminating surcharges for businesses
- Creating a matching fund to support local law enforcement purchases of body and dashboard cameras
- Funding an independent statewide law enforcement misconduct office
- Reorganizing the Adult Parole Board

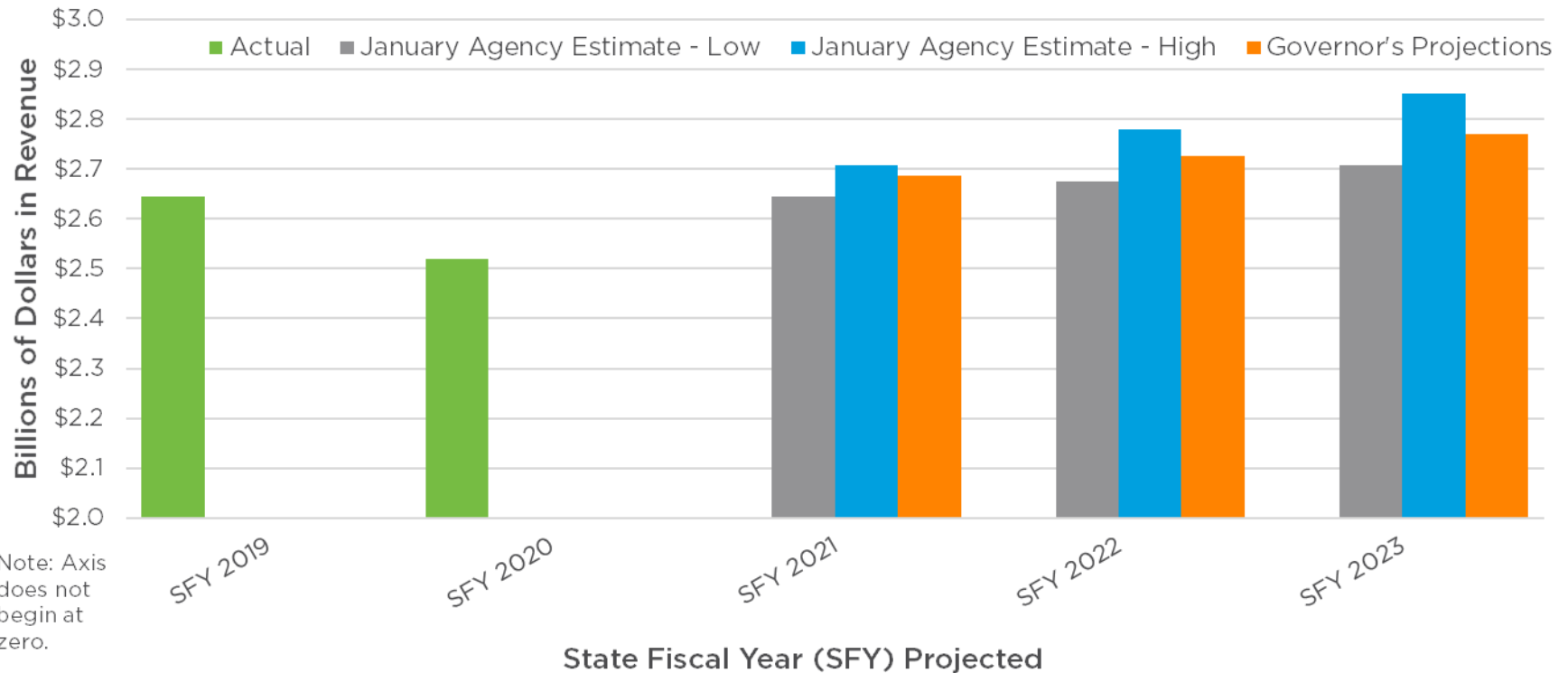
REVENUE PROJECTIONS AND POLICY CHANGES

REVENUE PROJECTIONS

- Revenue projections for General, Education Trust, Highway, and Fish and Game Funds produced by Governor's office
- General and Education Trust Funds revenue in the range projected by State agencies in late January
- Appears to assume a clear economic recovery
- Available housing supply a question for continued receipts from the Real Estate Transfer Tax, which have been notably high and the Governor projects will fall relatively slowly
- Governor's projections include significant Meals and Rentals Tax receipts recovery

REVENUE PROJECTIONS WITHIN AGENCY EXPECTATIONS

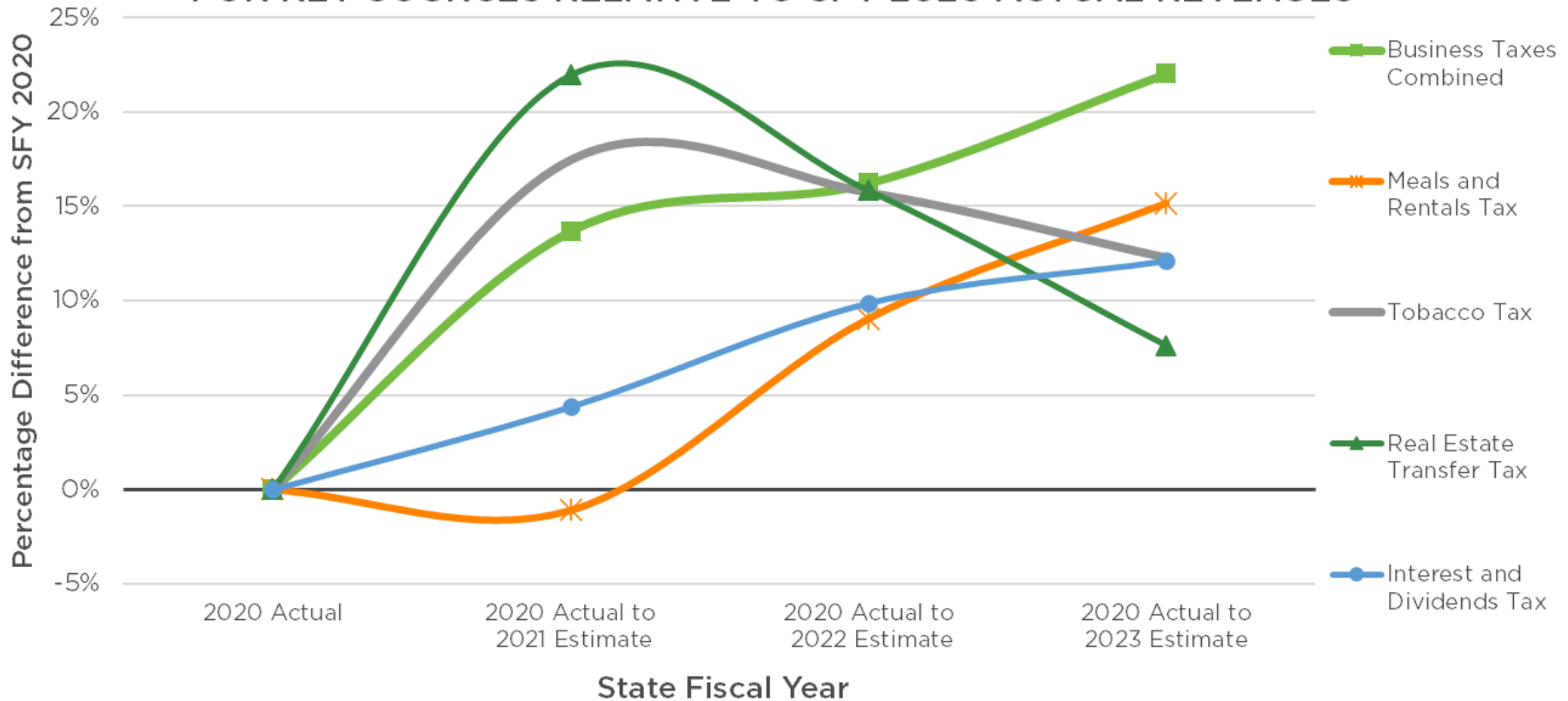
REVENUE PROJECTIONS FROM NEW HAMPSHIRE STATE AGENCIES AND GOVERNOR GENERAL AND EDUCATION TRUST FUNDS



Source: New Hampshire Office of Legislative Budget Assistant, *House Ways and Means Revenue Estimates Worksheets*, February 2-3, 2021; New Hampshire Department of Administrative Services

REVENUE PROJECTIONS SHOW POSITIVE EXPECTATIONS FOR KEY SOURCES

GOVERNOR'S REVENUE PROJECTIONS
FOR KEY SOURCES RELATIVE TO SFY 2020 ACTUAL REVENUES



Note: Does not include proposed revenue policy changes.
Sources: New Hampshire Office of Legislative Budget Assistant, February 17, 2021

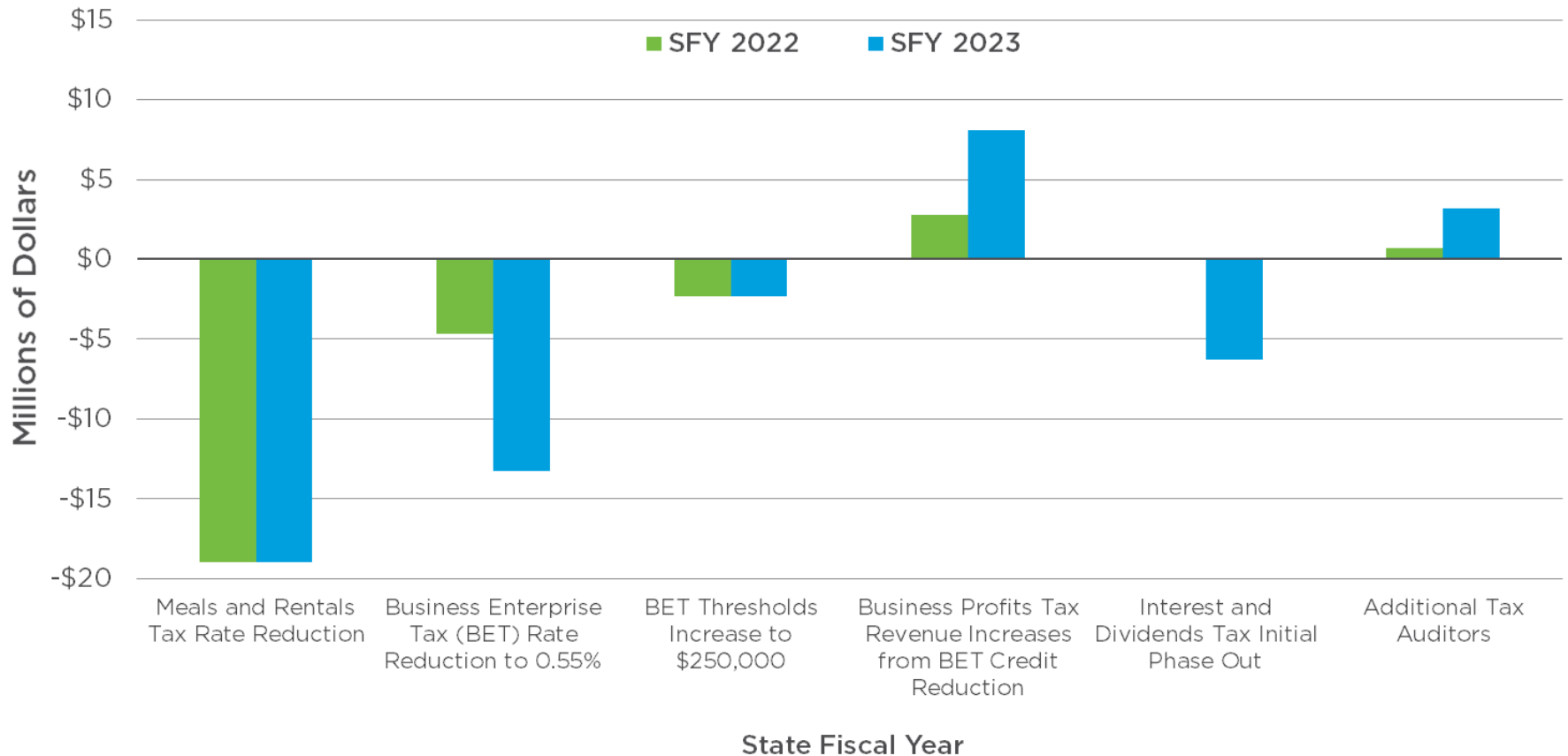
PROPOSED TAX POLICY CHANGES

- Reducing the Meals and Rentals Tax from 9.0% to 8.5%
- Eliminating the Interest and Dividends Tax over five years by lowering rate, \$6.3 million less in SFY 2023, with larger revenue reductions in subsequent years
- Interest and Dividends Tax generated \$125.7 million in revenue for the General Fund in SFY 2020
- Reducing the Business Enterprise Tax from 0.60% to 0.55%
- Raising the Business Enterprise Tax filing threshold
- Revenue impacts not certain until details of tax reductions are finalized and provided during legislative process
- Estimated net impact of policy changes, added tax auditors: \$52.1 million reduction in General and Education Trust Funds¹

¹Source: Office of Legislative Budget Assistant presentation to House Ways and Means Committee, February 17, 2021

ESTIMATED IMPACTS OF POLICY CHANGES

GOVERNOR'S ESTIMATED REVENUE IMPACTS OF PROPOSED TAX-RELATED POLICY CHANGES



Sources: New Hampshire Office of Legislative Budget Assistant

BROAD 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
<p>*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</p>		

HIGH-INCOME INDIVIDUALS KEY PART OF INTEREST AND DIVIDEND TAX BASE

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

VARIABLES DURING THE BUDGET PROCESS

- Potential to be a particularly dynamic budget process
- Key revenues over next few months (March and April)
- Success of vaccination
- Labor force, business participation in recovery
- Federal assistance, both directly to individuals and to the State Budget to fund services
- Learning more about service needs, impacts of COVID-19 crisis on residents as the recovery continues

DESIGNING A BUDGET TO MEET NEW HAMPSHIRE'S NEEDS

- Next budget biennium comes at critical time in recovery
- Both health and economic needs of Granite Staters likely to be higher earlier in the biennium
- Policymakers do have timing flexibility, within the two-year State Budget window, to help ensure those higher early needs are addressed while still balancing the State Budget by June 2023
- Budget operating deficits do not need to be balanced each fiscal year, can be offset by revenue and expenditure adjustments late in the budget biennium
- Federal aid may be key for temporary supports
- Recession has impacted those with the fewest resources most severely, and the next State Budget can help build an equitable, inclusive, and sustainable recovery



EXAMINING THE STATE BUDGET: THE GOVERNOR'S PROPOSAL

FEBRUARY 19, 2021



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