



# HOW PUBLIC SERVICES ARE FUNDED IN NEW HAMPSHIRE

PRESENTED BY PHIL SLETTEN, SENIOR POLICY ANALYST

FEBRUARY 25, 2021

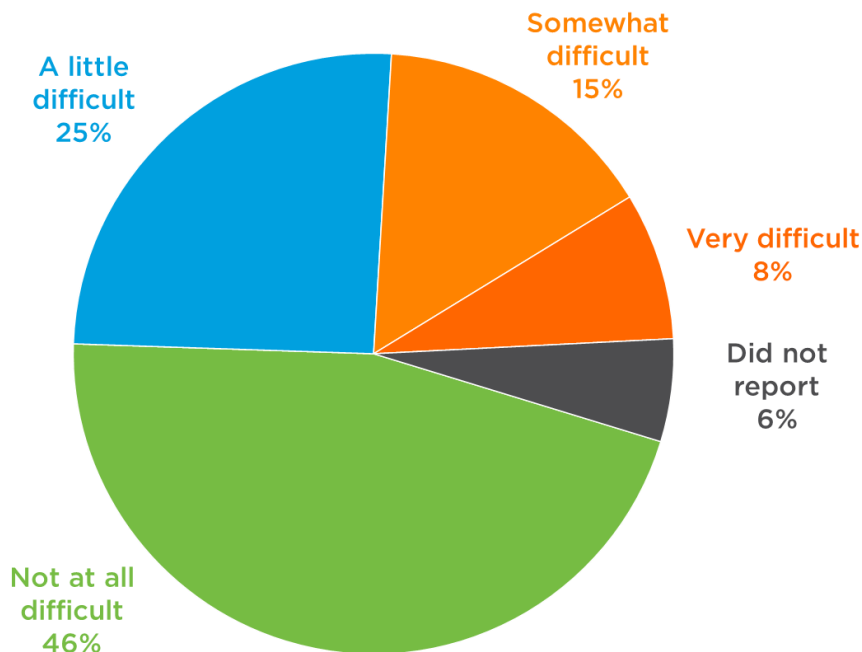


# HOW HAS COVID-19 IMPACTED NEW HAMPSHIRE?



# HOUSEHOLD ECONOMIC SECURITY IMPACTS

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



- About 22 percent fewer New Hampshire residents were employed in mid-April 2020 than in mid-February 2020
- 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 in early December (before latest federal \$600 impact payments, unemployment compensation enhancements)

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



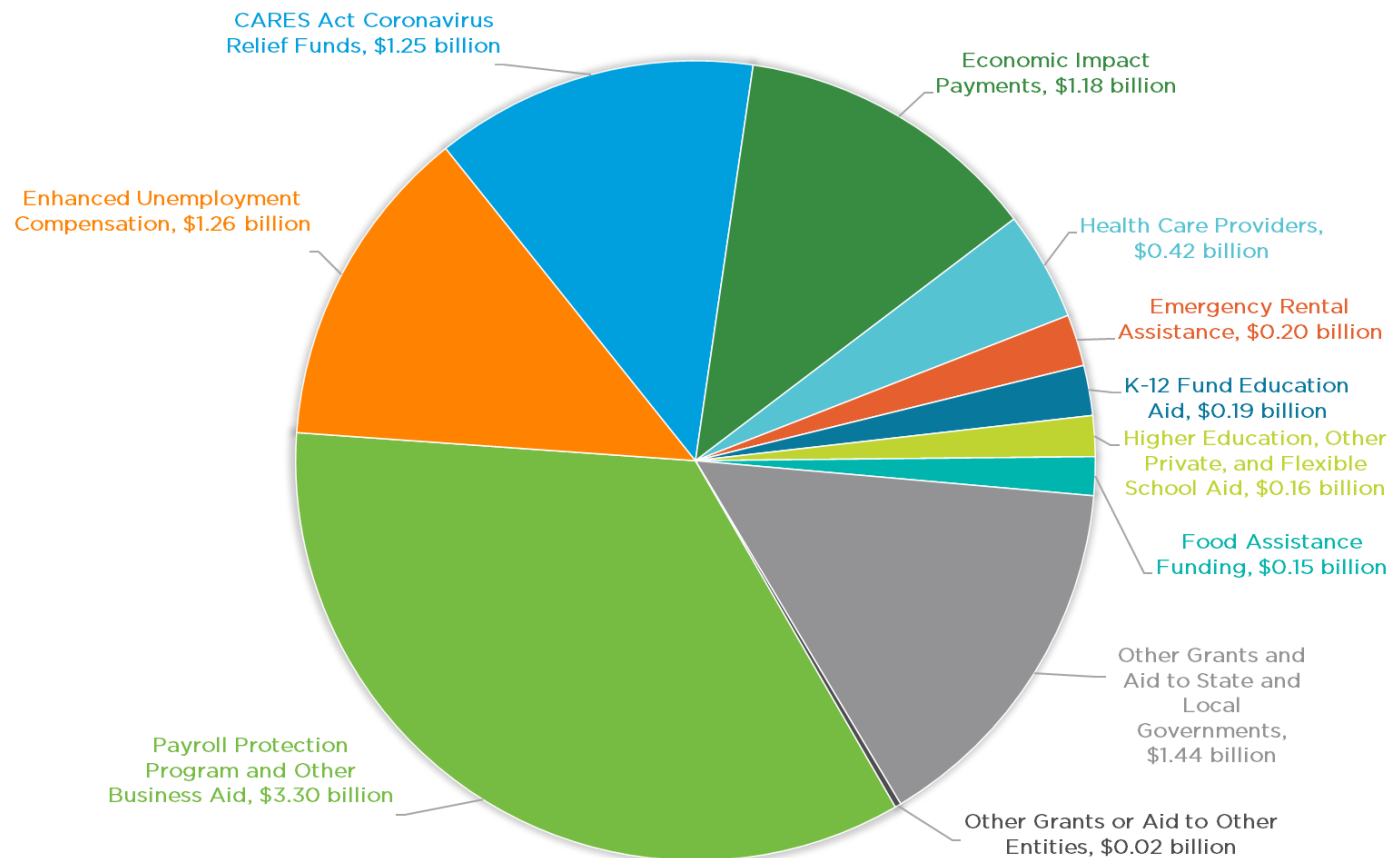
# FUNDING FROM FEDERAL ASSISTANCE

- Assistance to individuals and families
  - Enhanced unemployment compensation benefits
  - Extended unemployment compensation benefits
  - Economic Impact Payments
  - Food assistance enhancements
- Grants to businesses
  - Payroll Protection Program
  - Disaster loans for small businesses
- Aid to governments
  - Coronavirus Relief Fund (\$1.25 billion to New Hampshire)
  - Emergency Rental Assistance
  - Local public education aid
  - Higher education and other education aid
  - Other grants to state and local governments
- Relief funds for health care providers



# OVER \$9 BILLION TO NEW HAMPSHIRE

## FEDERAL ASSISTANCE RELATED TO COVID-19 TO NEW HAMPSHIRE

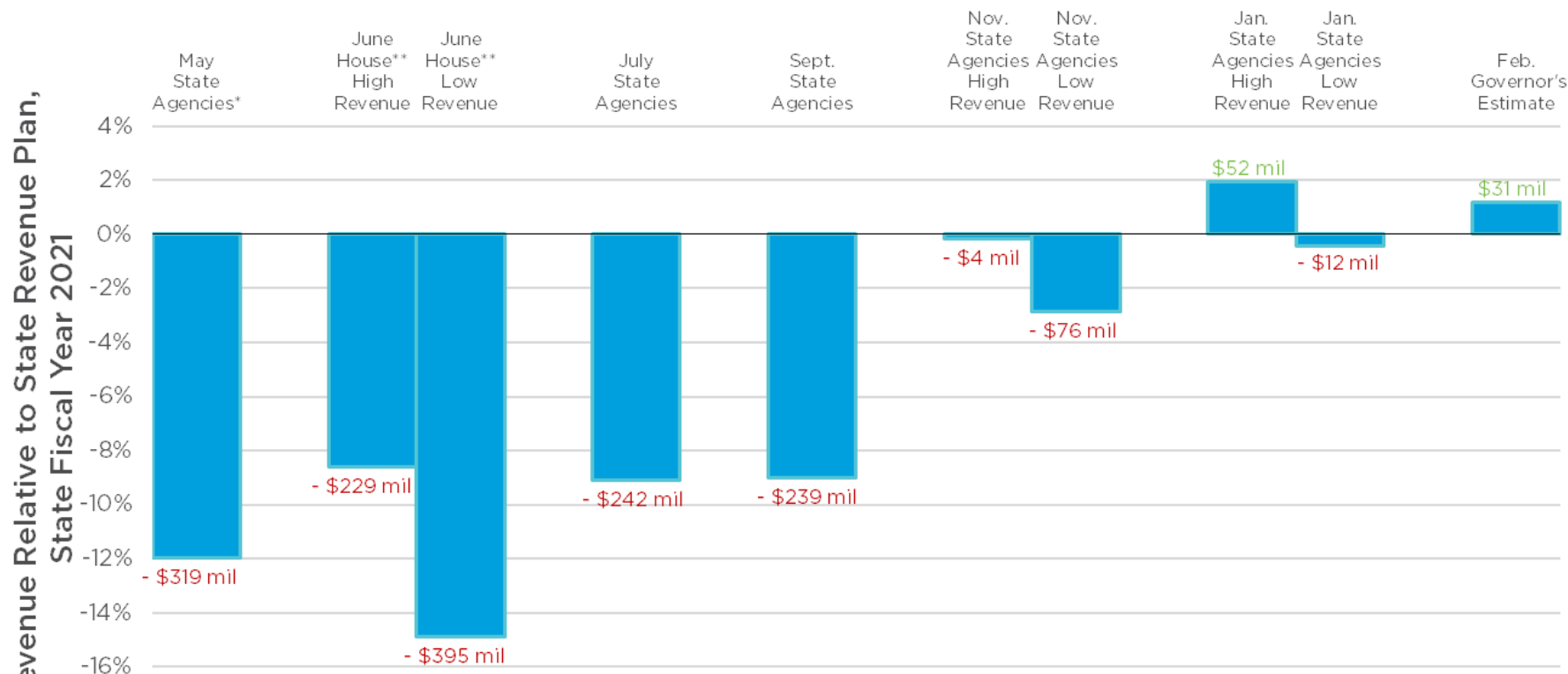


Note: CARES Act refers to the federal Coronavirus Aid, Relief, and Economic Security Act. Sums may include small amounts of double-counting due to summation mismatches. Totals presented are derivations.

Source: Office of Legislative Budget Assistant, Federal COVID-19 Funds, New Hampshire Allocations, February 17, 2021.



# STATE FISCAL YEAR 2021 SHORTFALL PROJECTIONS SHOW IMPROVED OUTLOOK



## Iteration of Revenue Projection New Hampshire General and Education Trust Funds

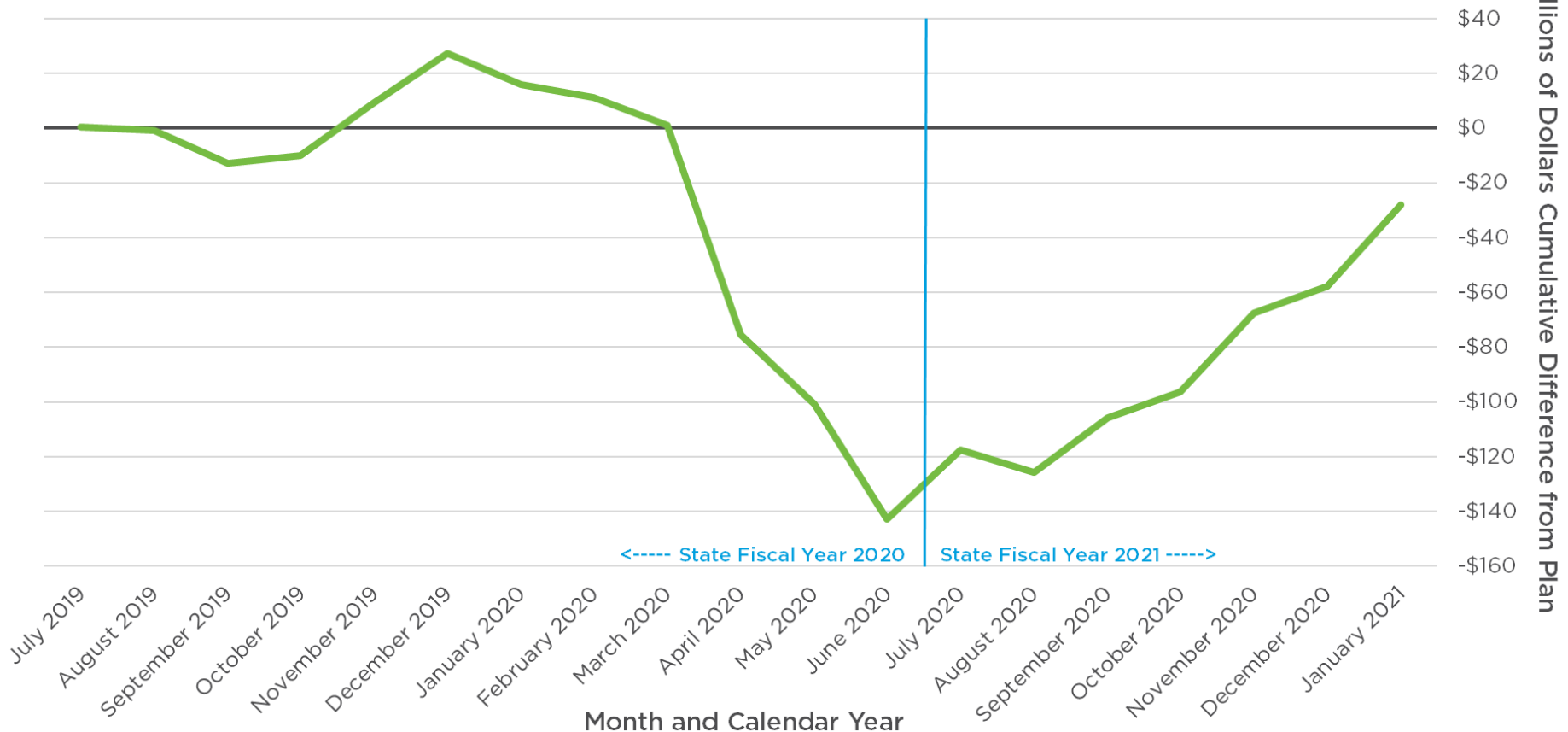
Notes: \*Of the agencies providing estimates, only one agency provided a range, while all others provided point estimates; the average of the estimate totals is provided here. \*\*Estimates from the House Ways and Means Committee.

Sources: New Hampshire Office of Legislative Budget Assistant, Revenue Estimate Worksheets, November 18, 2020 and February 2, 2021; Governor's Executive Budget Summary, February 11, 2021.



# UNAUDITED CASH RECEIPTS IN BIENNIUM CLOSE TO A BALANCED BUDGET

## NEW HAMPSHIRE GENERAL AND EDUCATION TRUST FUNDS MONTHLY UNAUDITED CASH RECEIPTS IN CURRENT STATE BUDGET



Source: New Hampshire Department of Revenue Administration Monthly Revenue Focus Reports



# WHAT ARE THE PRIMARY STATE REVENUE SOURCES?



# LARGEST TAX REVENUE SOURCES

## To All Funds (State Fiscal Year 2020)

- Business Profits Tax - \$450.8 million (estimate)
- Statewide Education Property Tax - \$363.2 million
- Meals and Rentals Tax - \$315.4 million
- Medicaid Enhancement Tax - \$262.3 million
- Business Enterprise Tax - \$258.9 million (estimate)
- Tobacco Tax - \$214.0 million
- Motor Fuels Tax - \$174.7 million
- Real Estate Transfer Tax - \$158.4 million
- Insurance Premium Tax - \$134.0 million
- Interest and Dividends Tax - \$125.7 million

Sources: New Hampshire Comprehensive Annual Financial Report for the Fiscal Year Ending June 30, 2020; New Hampshire Dept. of Revenue Administration.



# LARGEST NON-TAX REVENUE SOURCES

## To All Funds (State Fiscal Year 2020)

- Federal Grants - \$2,867.2 million  
(includes \$493.3 million in Coronavirus Relief Funds)
- Liquor Commission Sales - \$739.6 million  
(\$141.8 million in operating profits for other State uses)
- Lottery Commission Sales - \$392.2 million  
(\$99.8 million in profits for Education Trust Fund)
- Turnpike Tolling - \$130.9 million

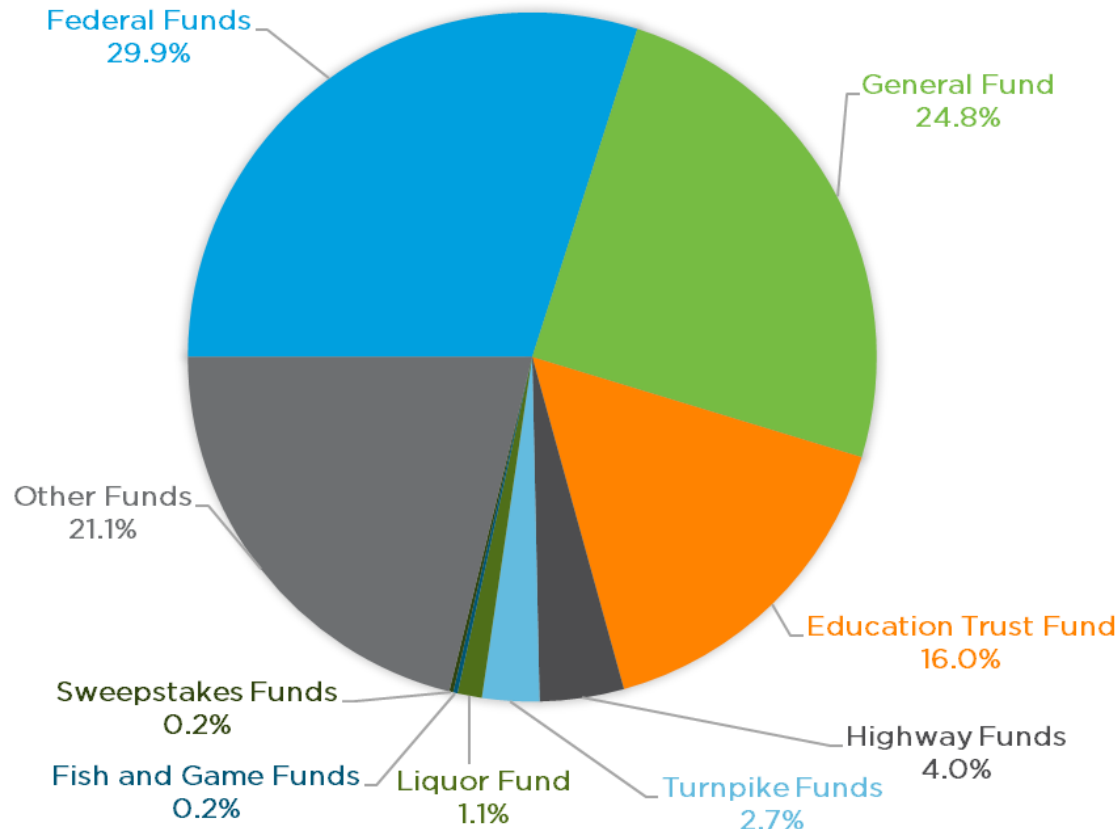
Sources: New Hampshire Comprehensive Annual Financial Report for the Fiscal Year Ending June 30, 2020; New Hampshire Liquor Commission 2020 Comprehensive Annual Financial Report; New Hampshire Lottery Commission Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.



# 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 BUDGET

## Medicaid

- Approximately \$2.1 billion expenditure in SFY 2020, more than half of that total is federal funds
- About 214,000 Granite Staters have access to health care through the program as of January 2021, significant increase (about 20 percent) 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

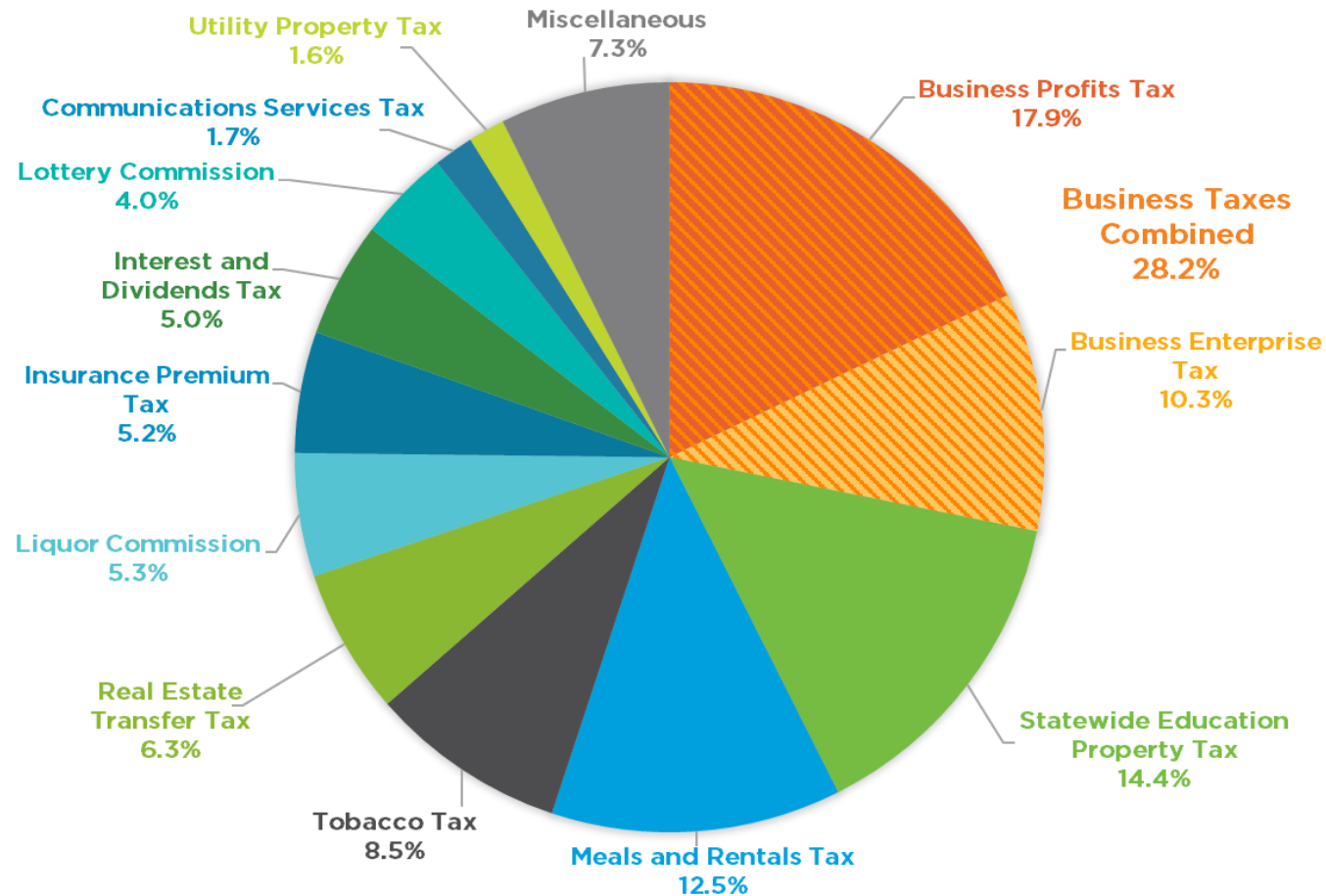
Sources: New Hampshire Office of Legislative Budget Assistant; Chapter 155, Laws of 2017; New Hampshire Department of Health and Human Services.



# GENERAL AND EDUCATION TRUST FUNDS REVENUE SOURCES

## STATE FISCAL YEAR 2020

Source: New Hampshire Comprehensive Annual Financial Report, SFY 2020





# THE TWO PRIMARY BUSINESS TAXES

## Business Profits Tax

- Tax based on gross business profits, adjustments (BET), and apportionment
- Tax base likely about \$6.6 billion in Tax Year 2018
- Supports the General Fund and the Education Trust Fund
- Recent rate reductions
  - 8.5% in 2001-2015, 8.2% in 2016-2017, 7.9% in 2018, 7.7% in 2019-present

## Business Enterprise Tax

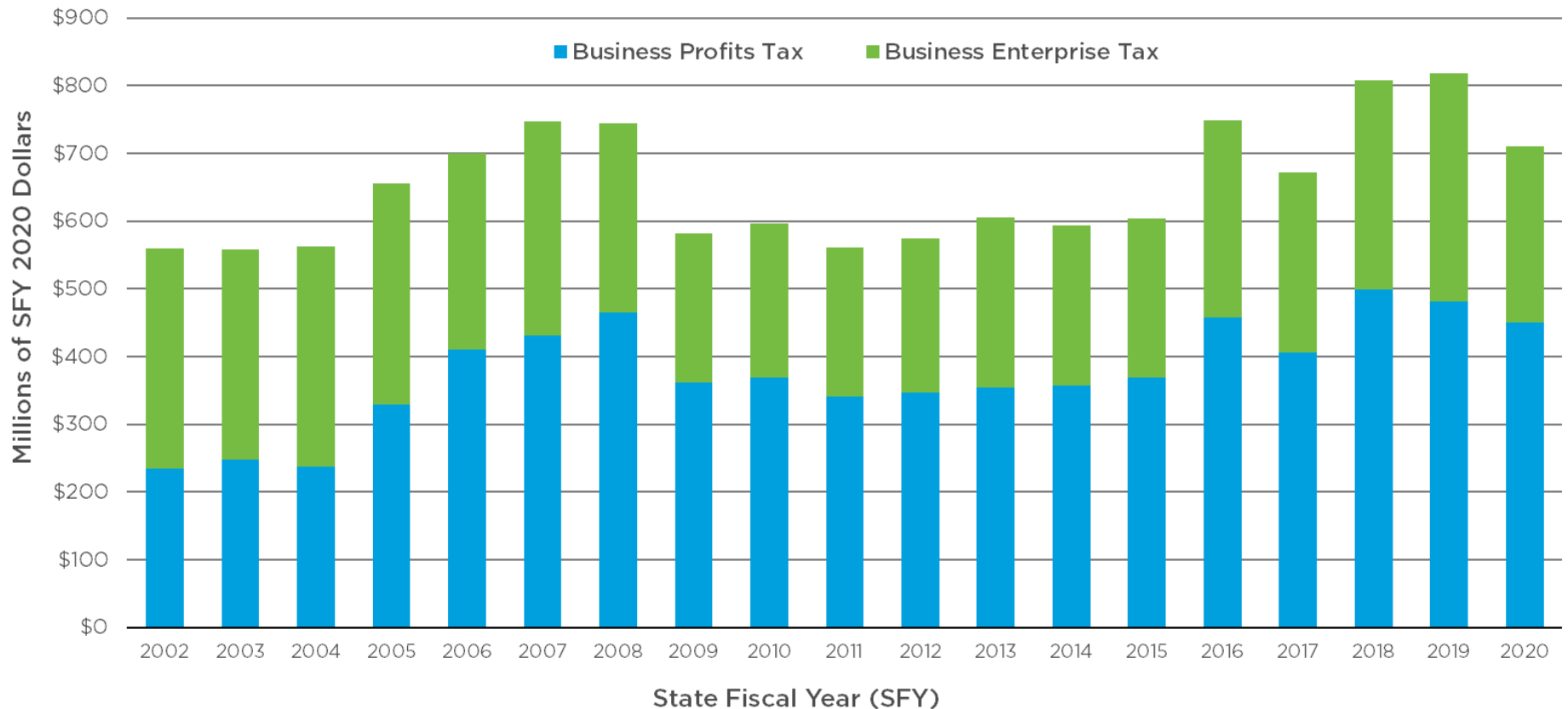
- Relatively unique among state business taxes, based on compensation and interest paid or accrued and dividends paid, adjustments, and apportionment
- Broader tax base, likely about \$34.2 billion in Tax Year 2018
- Supports the General Fund and the Education Trust Fund
- Recent rate reductions
  - 0.75% in 2001-2015, 0.72% in 2016-2017, 0.675% in 2018, 0.60% in 2019-present

Sources: New Hampshire Fiscal Policy Institute, *Revenue in Review*, May 2017; New Hampshire Department of Revenue Administration



# INFLATION-ADJUSTED REVENUE OVER TIME

## NEW HAMPSHIRE BUSINESS PROFITS TAX AND BUSINESS ENTERPRISE TAX GENERAL AND EDUCATION TRUST FUNDS INFLATION-ADJUSTED REVENUE



Note: Final sorting between these two taxes not reported fully in the Comprehensive Annual Financial Reports.  
Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



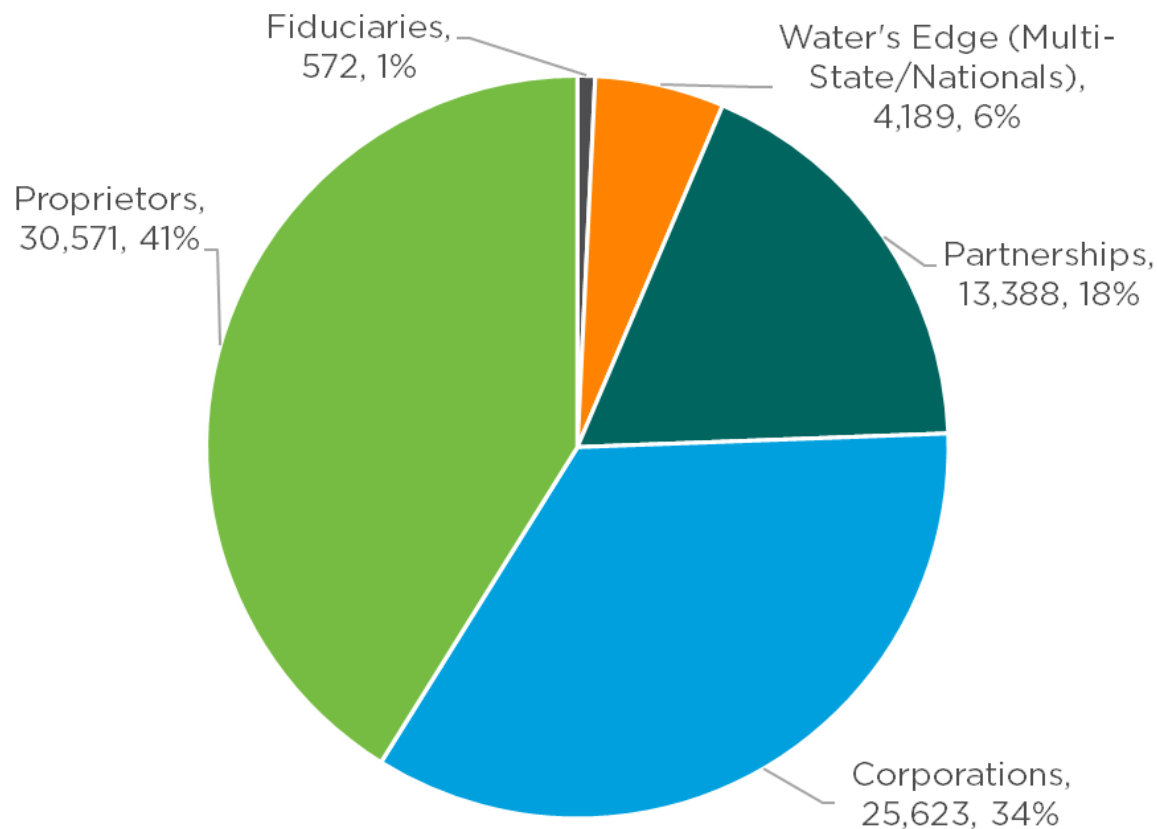
# LARGE ENTITIES KEY TO BPT BASE

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%
<b>Total Filers/Revenue</b>	<b>74,343</b>	<b>\$520,738,272</b>
Source: New Hampshire Department of Revenue Administration, 2020 Annual Report		



# BUSINESS TYPES IN THE BPT BASE

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

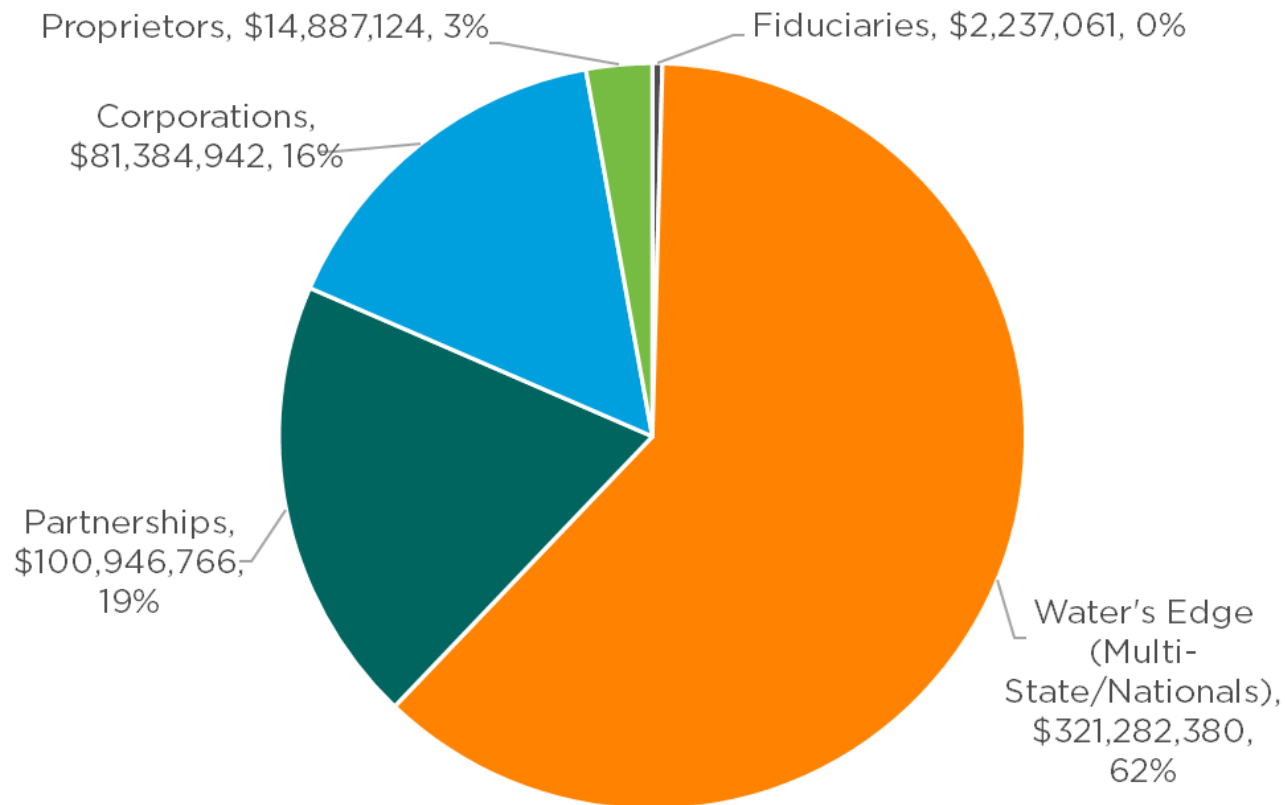


Source: New Hampshire Department of Revenue Administration, 2018 Annual Report



# WATER'S EDGE FILERS PAY MAJORITY OF TAX REVENUE

**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, NOT DEPENDENT ON LARGE PROFITS

## 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%
<b>Total Filers/Revenue</b>	<b>74,343</b>	<b>\$230,544,164</b>

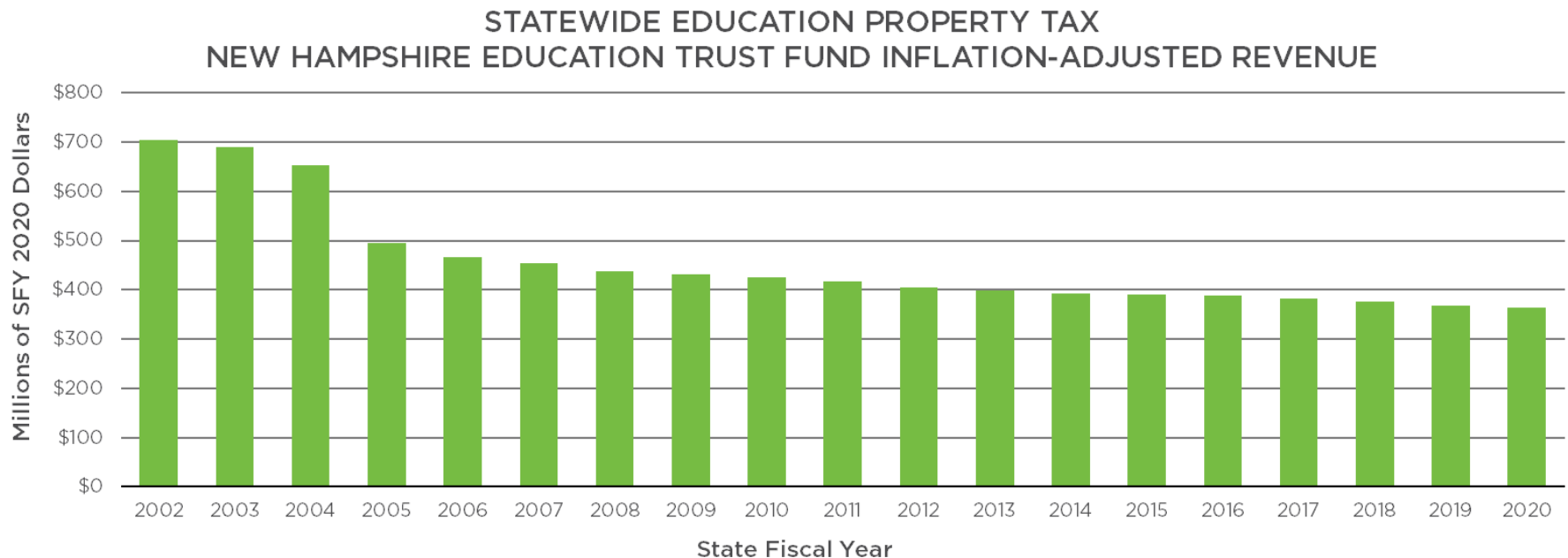
\*Note: Taxable enterprise value tax base determined by amount of compensation and interest paid or accrued, dividends paid, and adjustments for interstate liabilities and certain dividends.

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



# STATEWIDE EDUCATION PROPERTY TAX

- Established in 1999 to support newly created Education Trust Fund for Adequate Education Grants funding education on a per pupil basis
- Set to raise \$363 million in 2005, does not adjust for inflation
- State requires local governments to raise this revenue
- Retained locally; revenue went to state previously, but not after 2011



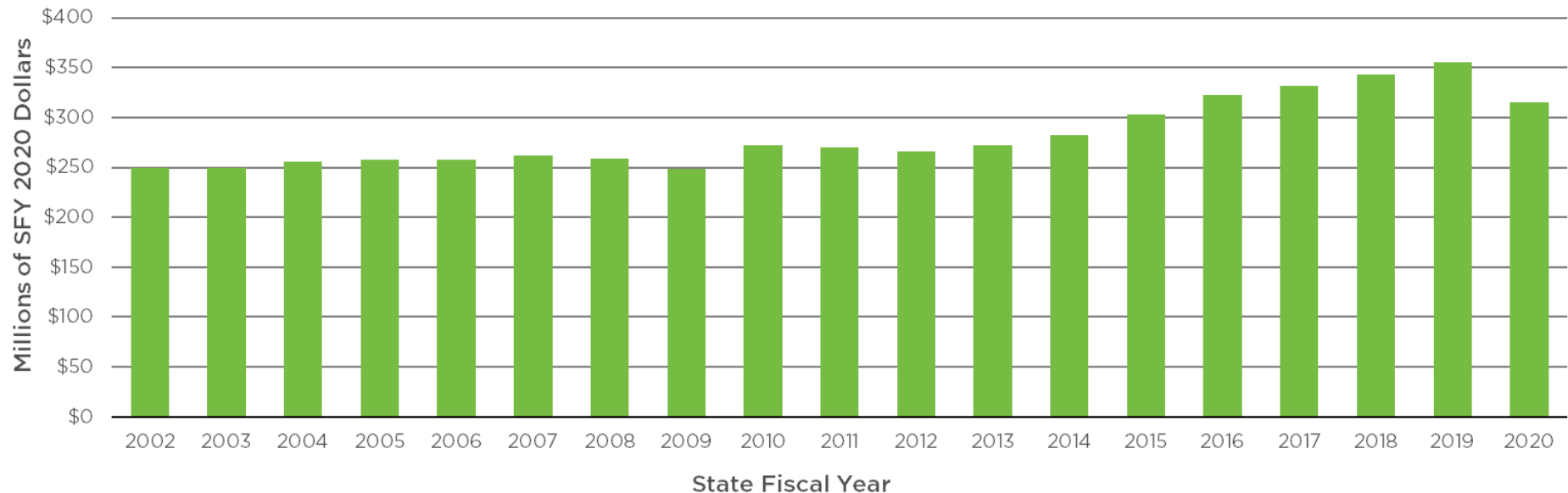
Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



# MEALS AND RENTALS TAX

- Tax of 9 percent levied on most purchases of food or beverages from restaurants, also on hotel rooms and car rentals; 8 percent before SFY 2010
- Funds the General Fund, Education Trust Fund (car rentals portion), certain school building aid, State's travel and tourism development agency, municipalities (40 percent set in statute, intervening statutes have reduced that amount)

NEW HAMPSHIRE MEALS AND RENTALS TAX  
GENERAL AND EDUCATION TRUST FUNDS INFLATION-ADJUSTED REVENUE

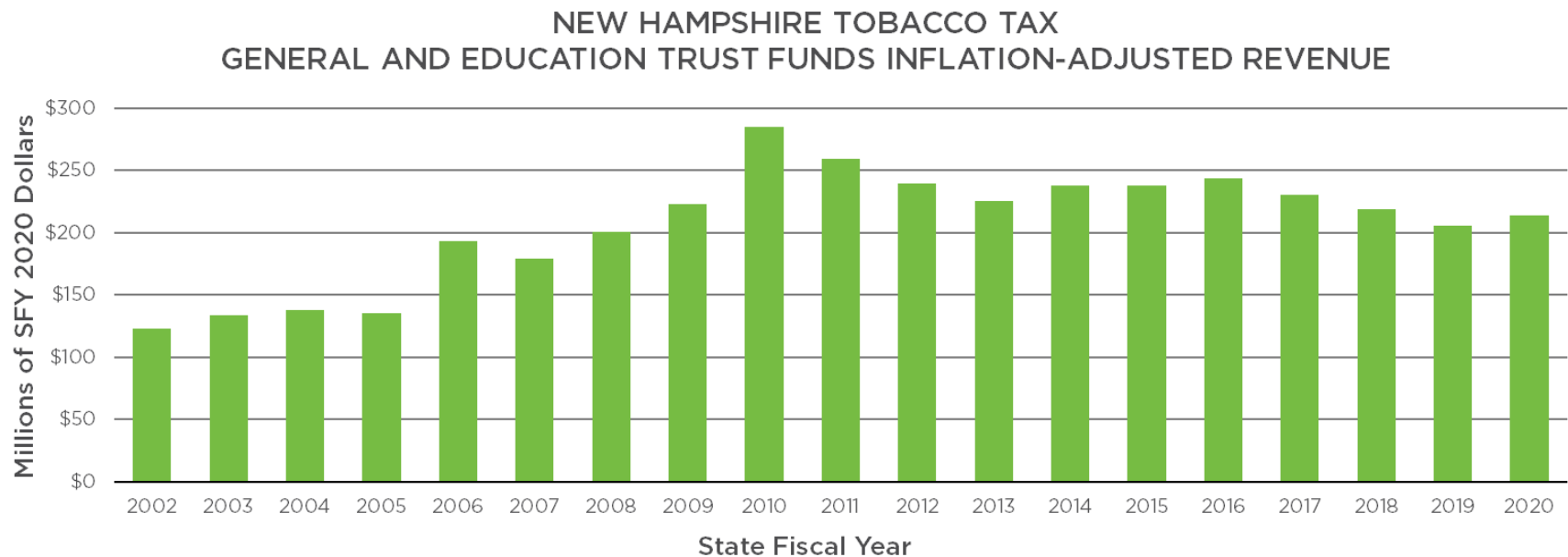


Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



# TOBACCO TAX

- \$1.78 per 20-cigarette pack, adjusted-proportionally for pack size
- 65.03 percent on wholesale price of other tobacco products
- Also includes e-cigarettes, certain nicotine products, 8 percent tax
- Several rate changes in last 25 years (boosted up to \$0.37/pack in 1997)
- Supports General (\$1.00/pack) and Education Trust Funds (\$0.78/pack)



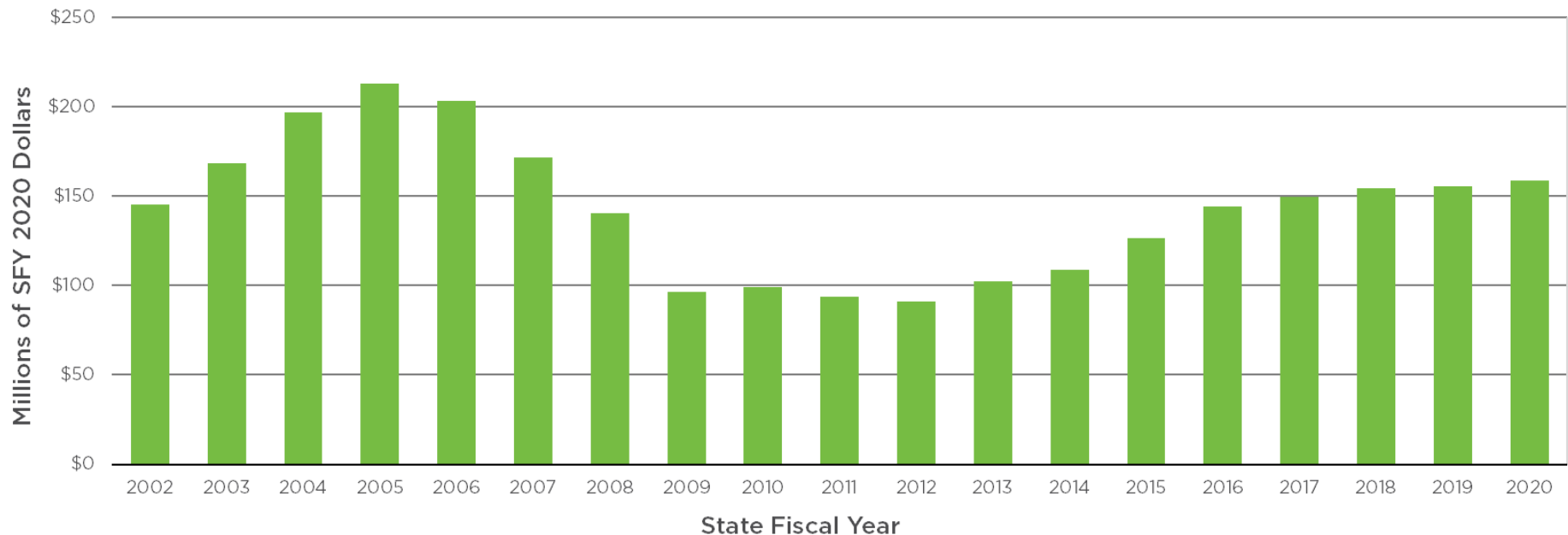
Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



# REAL ESTATE TRANSFER TAX

- \$0.75 per \$100 of sale of real estate or interest in real estate
- Levied against buyer and seller for total revenue of \$1.50 per \$100
- \$0.25 of the \$0.75 goes to the Education Trust Fund, rest to General Fund

NEW HAMPSHIRE REAL ESTATE TRANSFER TAX  
GENERAL AND EDUCATION TRUST FUNDS INFLATION-ADJUSTED REVENUE



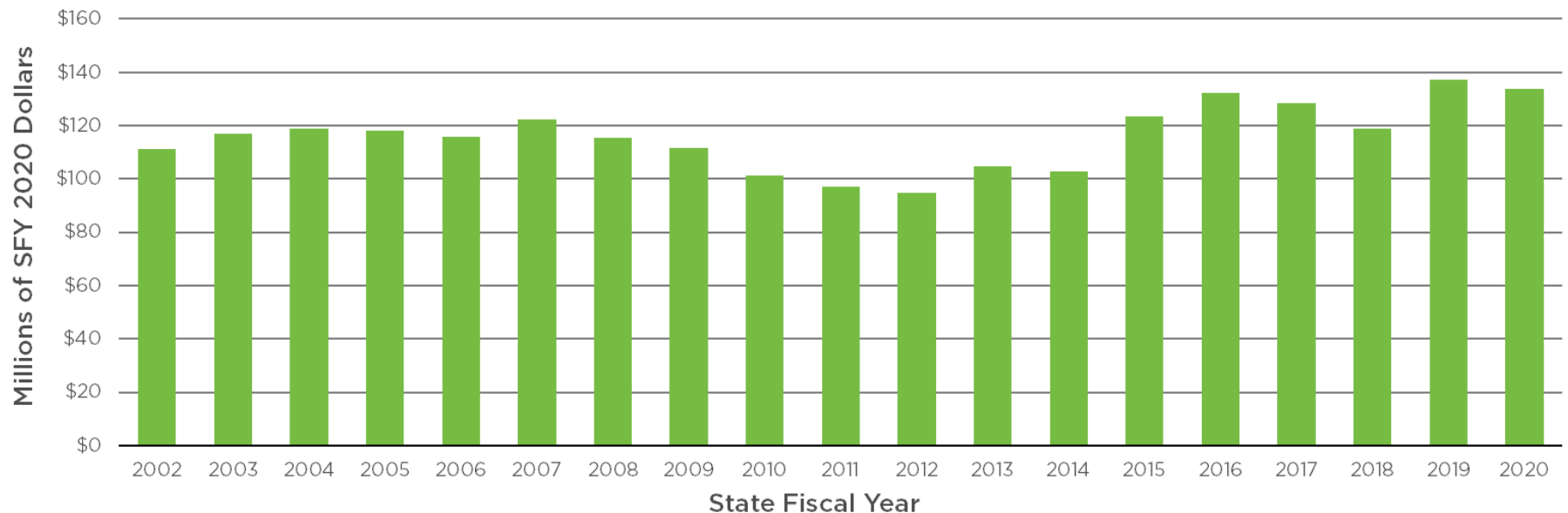
Sources: NH Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



# INSURANCE PREMIUM TAX

- 1.25 percent on premiums from insurers
- 2 percent health, accident, and certain life insurance premiums
- Supports General Fund, except revenues from those insured under the NH Granite Advantage Health Care Program, which go to the Program's trust fund

NEW HAMPSHIRE INSURANCE PREMIUM TAX  
GENERAL FUND INFLATION-ADJUSTED REVENUE



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



# MOTOR FUELS TAX

- \$0.222 per gallon on motor fuels, aviation fuel taxed at different rate
- Can only be used for highway-related purposes, other restrictions on portions
- Revenues go to the Highway Fund, used for interest on highway bonds and notes as well as operations

NEW HAMPSHIRE MOTOR FUELS TAX  
HIGHWAY FUND INFLATION-ADJUSTED REVENUE



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



# INTEREST AND DIVIDENDS TAX

- 5 percent tax on interest, dividend, and distribution income from assets
- Individuals, joint filers, certain companies and partnerships
- Filing threshold of \$2,400, and \$4,800 for joint filers; additional \$1,200 exemptions for older adults, blind individuals, or certain disabilities
- \$125.7 million to the General Fund in SFY 2020

NEW HAMPSHIRE INTEREST AND DIVIDENDS TAX  
GENERAL FUND INFLATION-ADJUSTED REVENUE



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



# HIGH-INCOME INDIVIDUALS KEY PART OF INTEREST AND DIVIDENDS 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%
<b>Total Filers/Revenue</b>	<b>66,284</b>	<b>\$105,888,793</b>

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



# HOW DO STATE AND LOCAL REVENUES COMPARE?



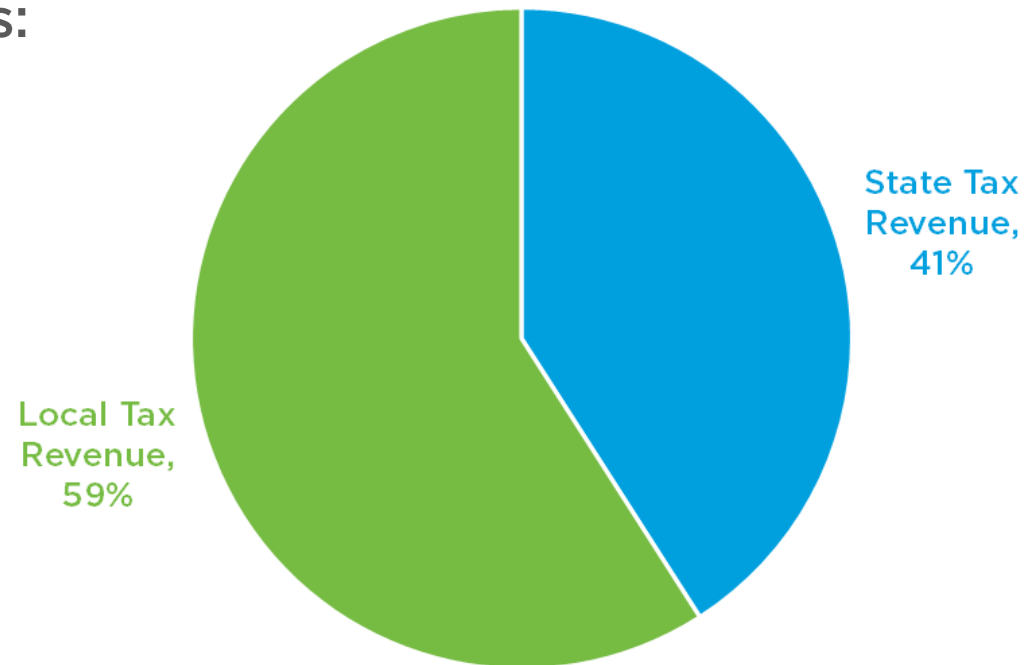
# LOCAL GOVERNMENTS AND REVENUES

## NEW HAMPSHIRE TAX REVENUE BY GOVERNMENT LEVEL, FISCAL YEAR 2018

Source: U.S. Census Bureau, 2018 Survey of State and Local Government Finances

### Local Governments includes:

- Municipal governments (town and city)
- School districts
- County governments

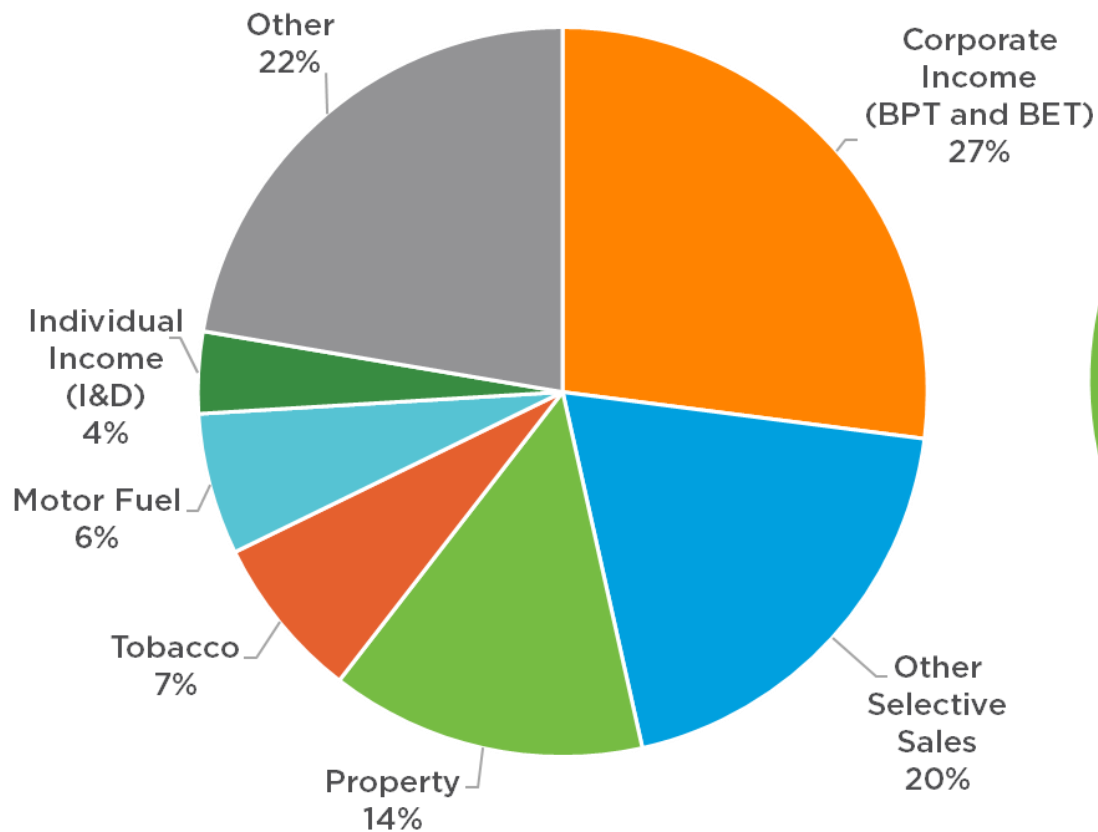




# FEWER LOCAL TAX REVENUE SOURCES

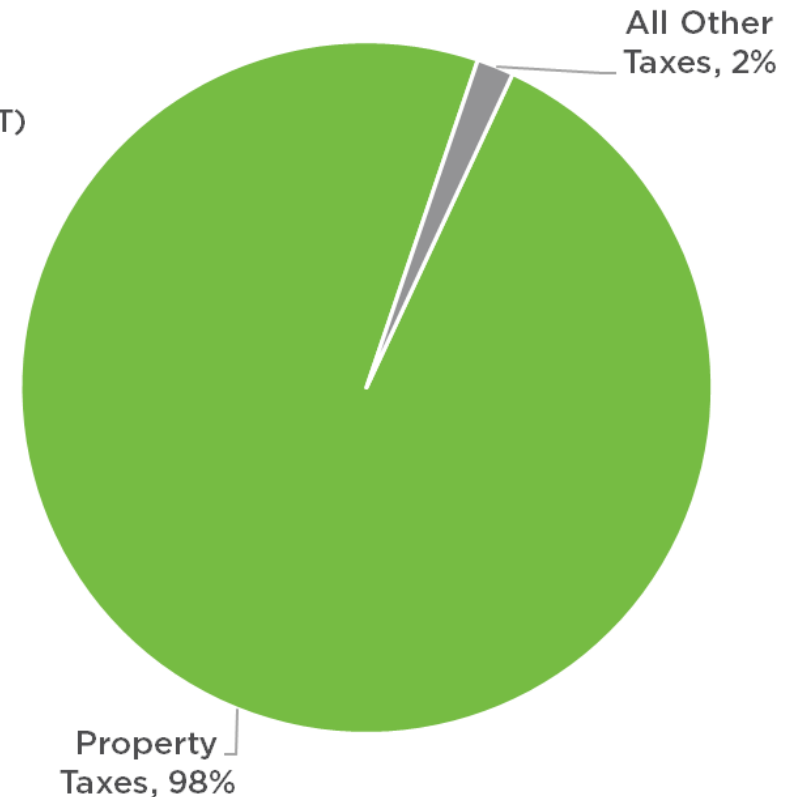
## ALL STATE TAX REVENUE IN NEW HAMPSHIRE FISCAL YEAR 2018

Source: U.S. Census Bureau, Survey of State and Local Government Finances



## ALL LOCAL TAX REVENUE IN NEW HAMPSHIRE FISCAL YEAR 2018

Source: U.S. Census Bureau, Survey of State and Local Government Finances

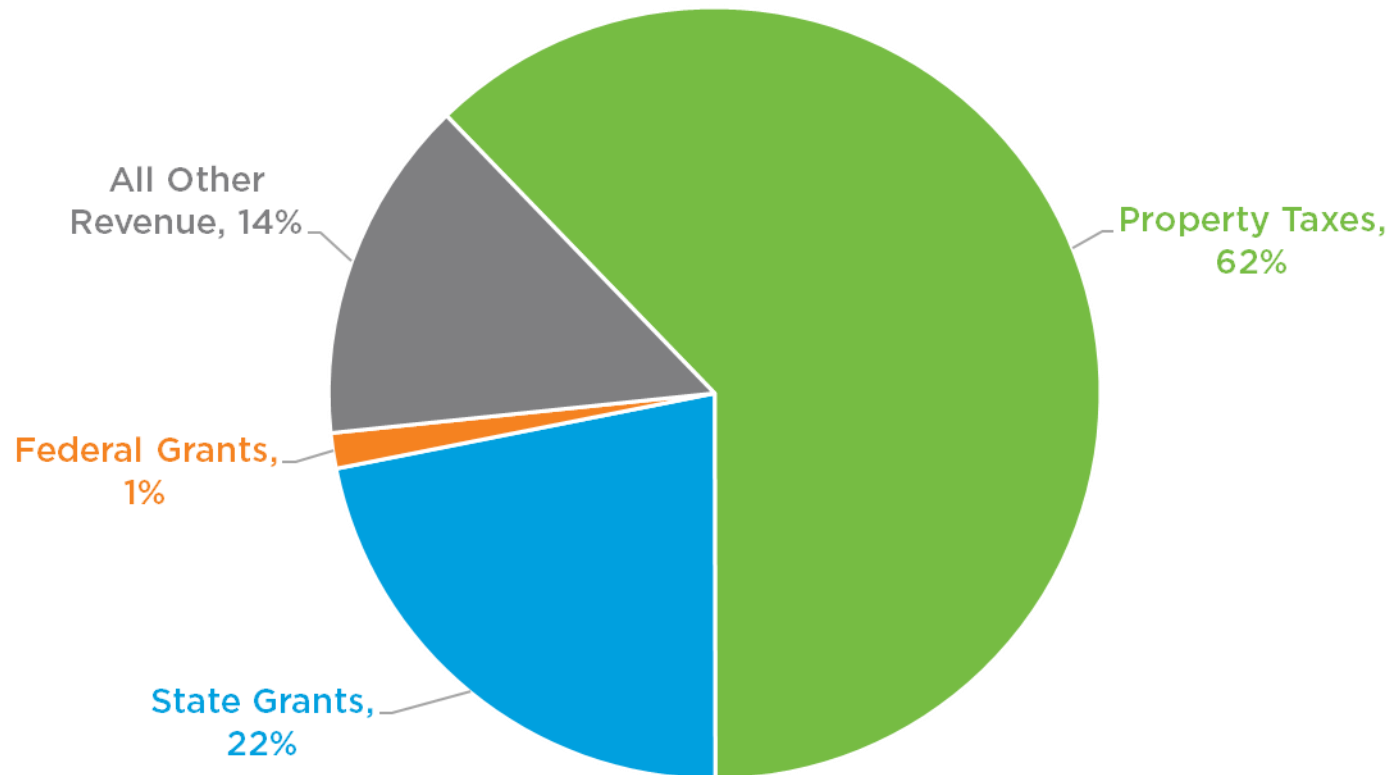




# PROPERTY TAX RECEIPTS A MAJORITY OF LOCAL REVENUE IN NEW HAMPSHIRE

## LOCAL GOVERNMENT REVENUE SOURCES NEW HAMPSHIRE, FISCAL YEAR 2018

Source: U.S. Census Bureau, Survey of State and Local Government Finances

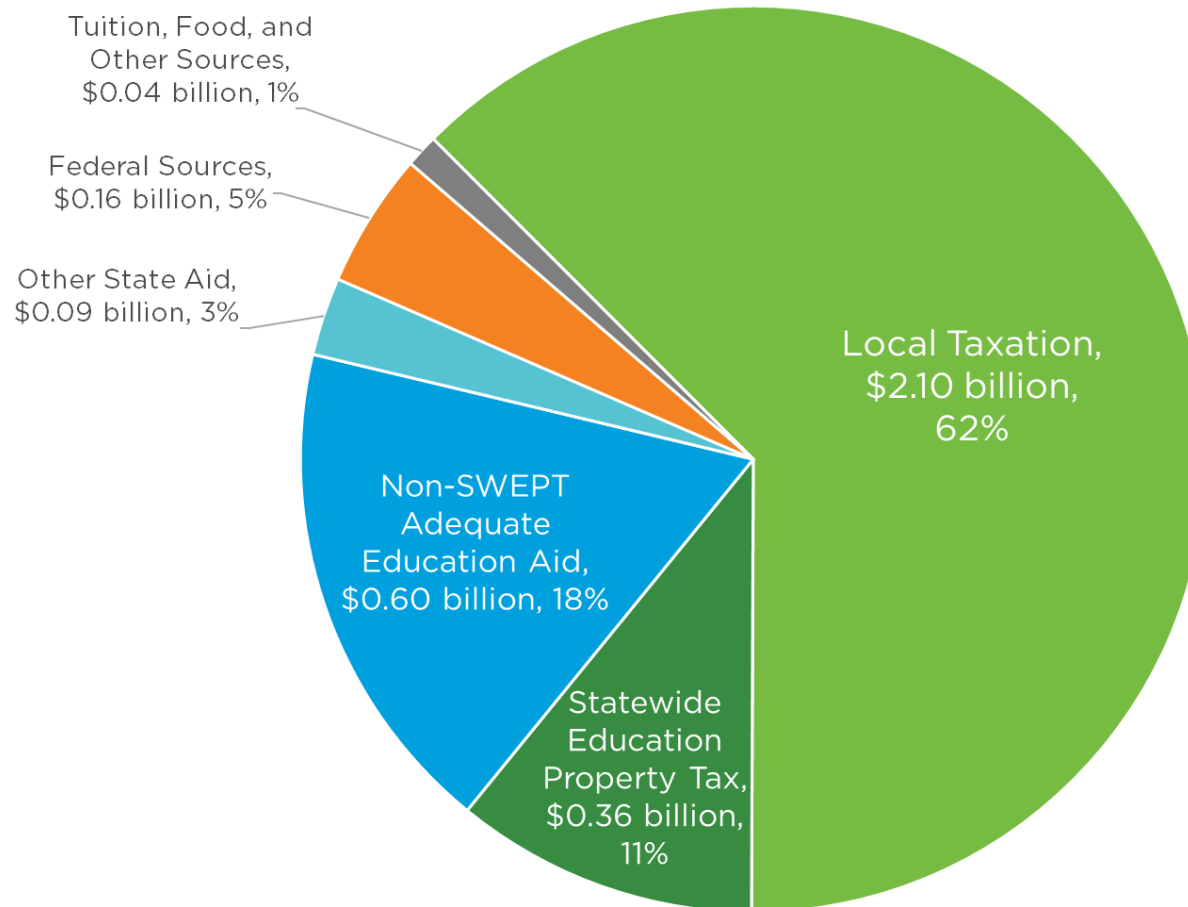




# MOST LOCAL PUBLIC SCHOOL DISTRICT REVENUE PRODUCED BY PROPERTY TAXES

## SCHOOL DISTRICT REVENUE 2019-2020

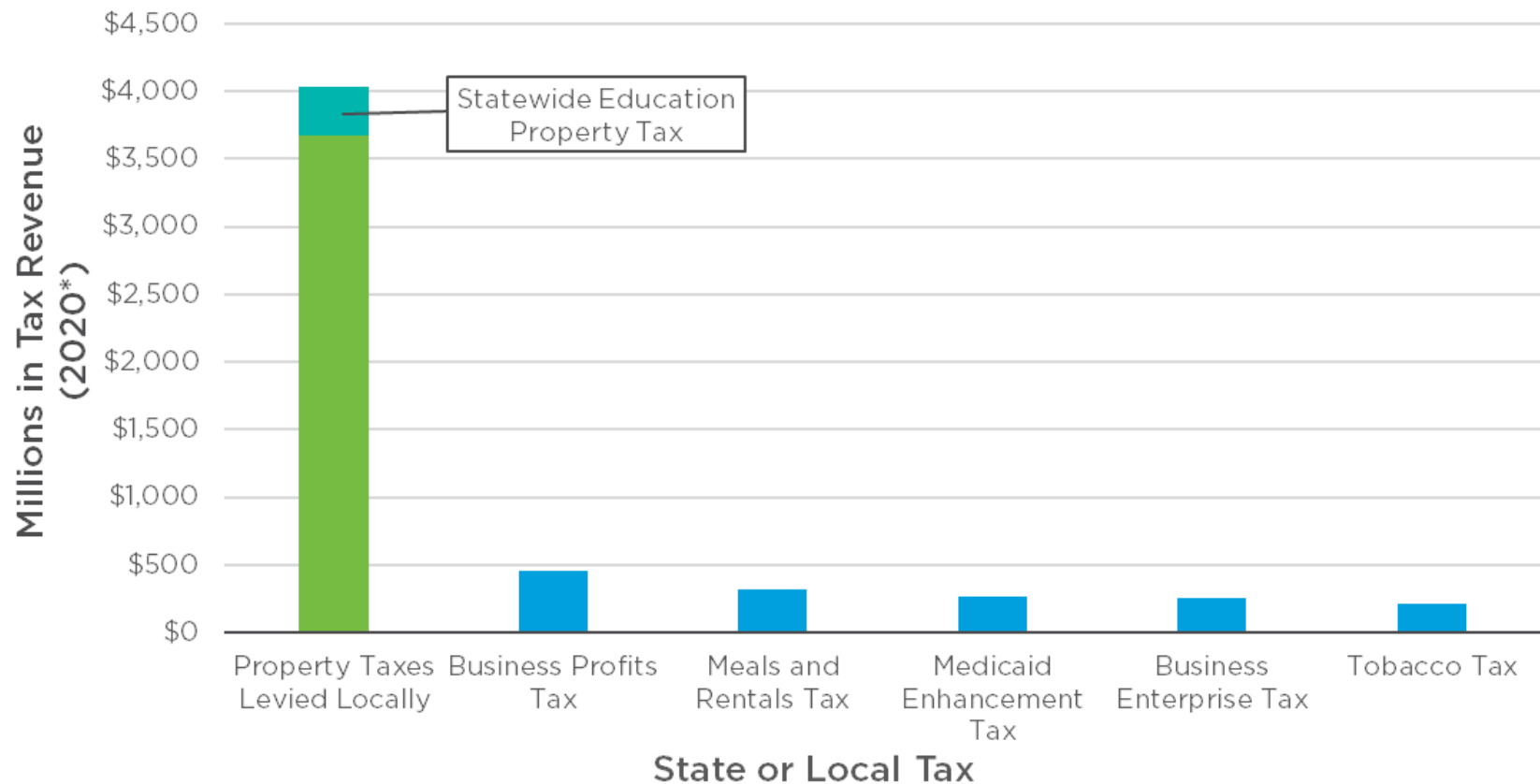
Source: New Hampshire Department of Education, December 21, 2020





# PROPERTY TAXES KEY TO COMBINED STATE AND LOCAL REVENUES

## LARGEST STATE AND LOCAL TAXES IN NEW HAMPSHIRE



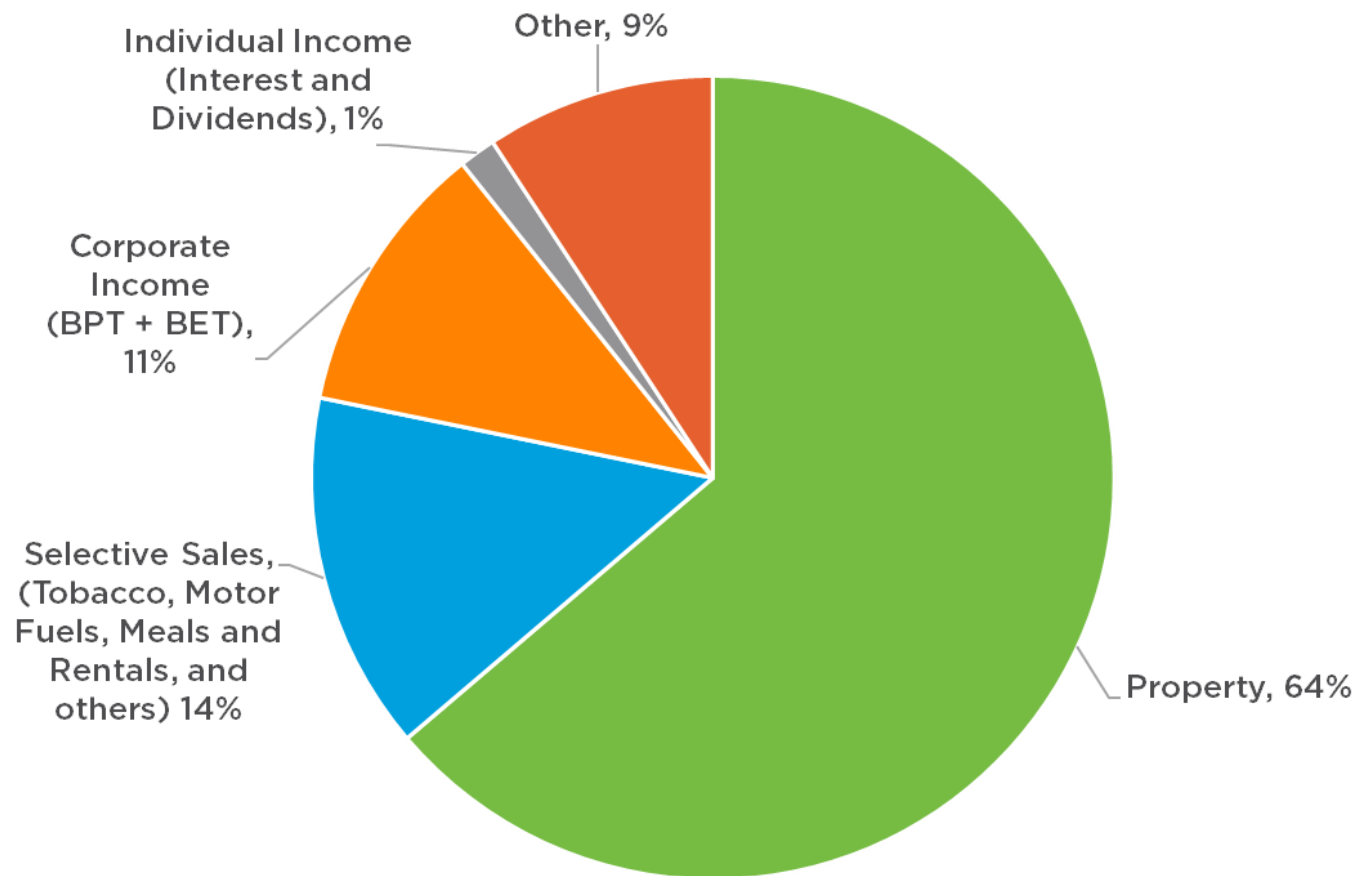
\*Note: Tax Year 2020 commitments used for property taxes. All other data for State Fiscal Year 2020.  
Sources: New Hampshire Comprehensive Annual Financial Report, State Fiscal Year 2020; New Hampshire Department of Revenue Administration, 2020 Annual Report and 2020 Tax Rates.



# PROPERTY TAXES MORE THAN HALF OF STATE AND LOCAL TAX REVENUES

## STATE AND LOCAL TAX REVENUE NEW HAMPSHIRE, FISCAL YEAR 2018

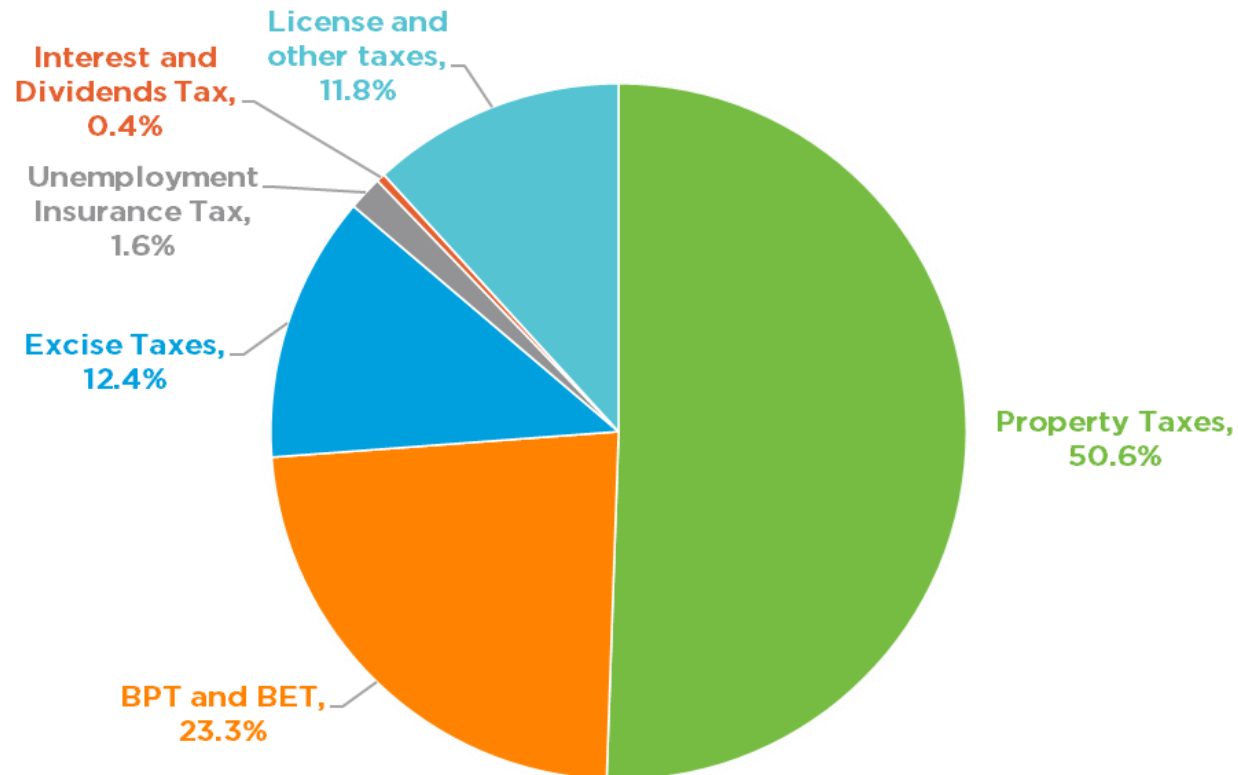
Source: U.S. Census Bureau, Survey of State and Local Government Finances





# HALF OF STATE AND LOCAL TAX DOLLARS PAID BY BUSINESSES ARE PROPERTY TAXES

## TAXES PAID BY BUSINESSES NEW HAMPSHIRE STATE AND LOCAL TAXES, FISCAL YEAR 2019



Note: Totals do not sum to 100 percent due to rounding.

Source: Council on State Taxation, *Total State and Local Business Taxes*, Oct. 2020

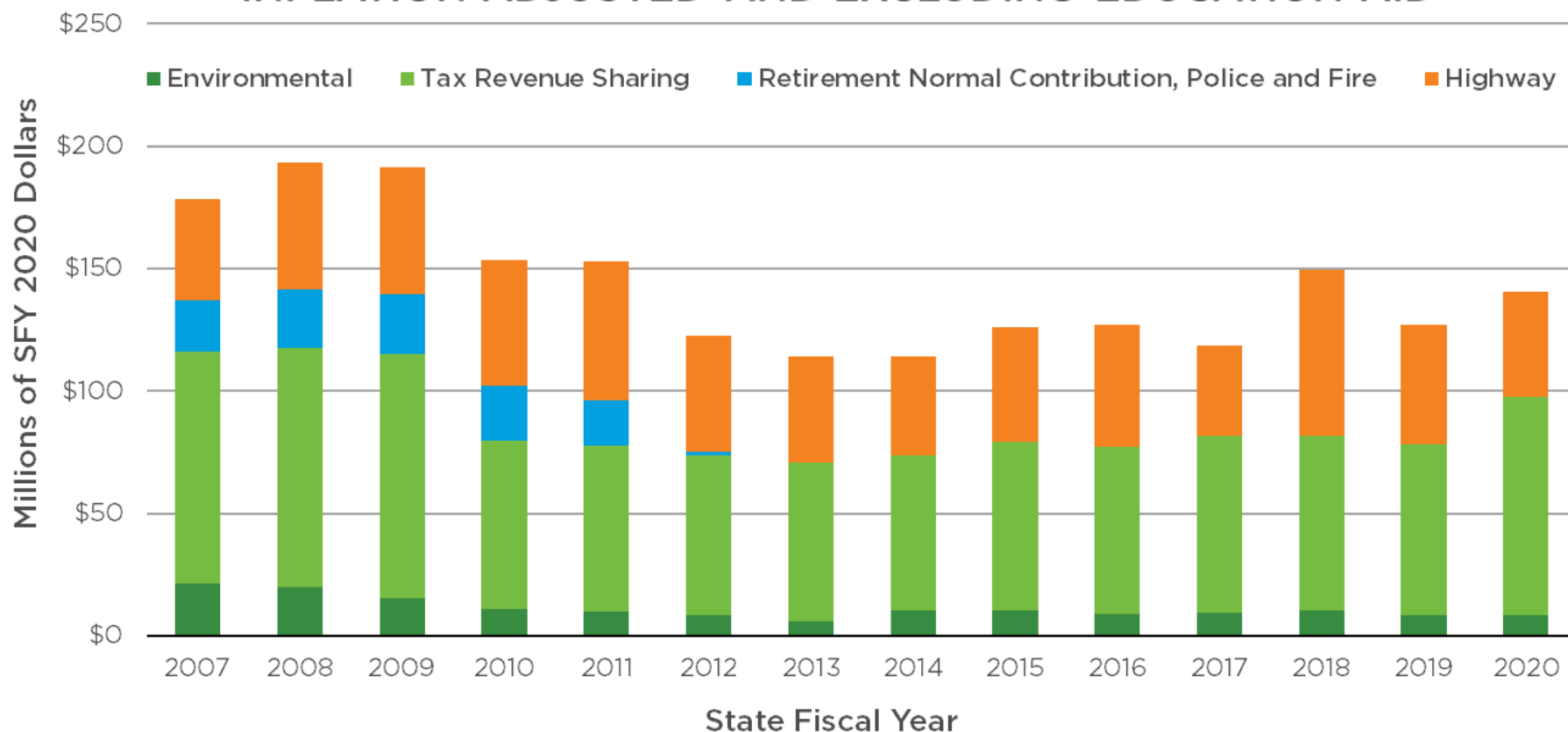


# HOW DO STATE AND LOCAL BUDGETS INTERACT?



# STATE AID TO MUNICIPALITIES DECLINED AFTER THE GREAT RECESSION

## NEW HAMPSHIRE STATE AID TO LOCAL GOVERNMENTS, INFLATION-ADJUSTED AND EXCLUDING EDUCATION AID

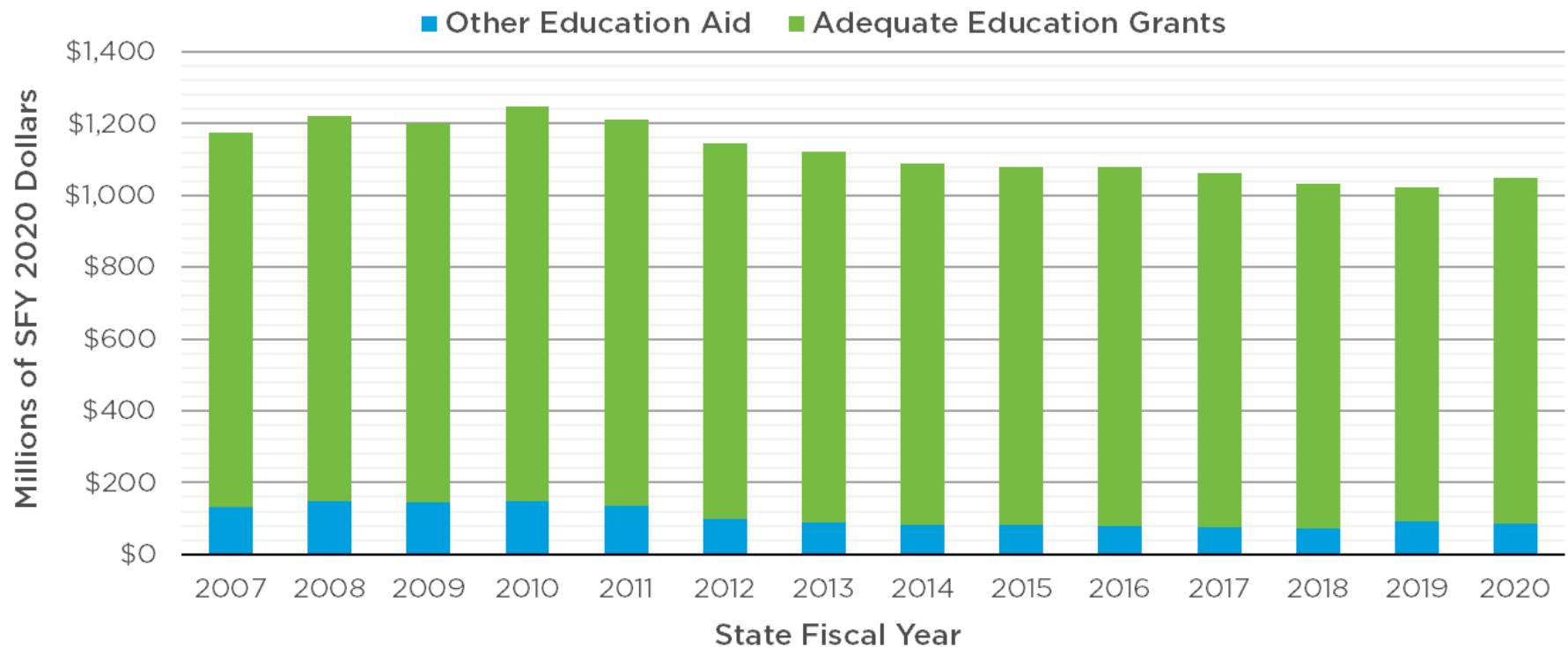


Sources: New Hampshire Office of Legislative Budget Assistant, *State Aid to Cities, Towns and School Districts*, October 20, 2020; U.S. Bureau of Labor Statistics, Consumer Price Index-Northeast, State Fiscal Year Adjustment from NHFPI Calculations



# EDUCATION AID DRIVEN LARGELY BY ENROLLMENT, BUT ALSO DECLINED

## EDUCATION AID TO LOCAL GOVERNMENTS NEW HAMPSHIRE STATE BUDGET, INFLATION-ADJUSTED DOLLARS



Sources: New Hampshire Office of Legislative Budget Assistant, *State Aid to Cities, Towns and School Districts*, October 20, 2020;  
U.S. Bureau of Labor Statistics, Consumer Price Index-Northeast, State Fiscal Year Adjustment from NHFPI Calculations

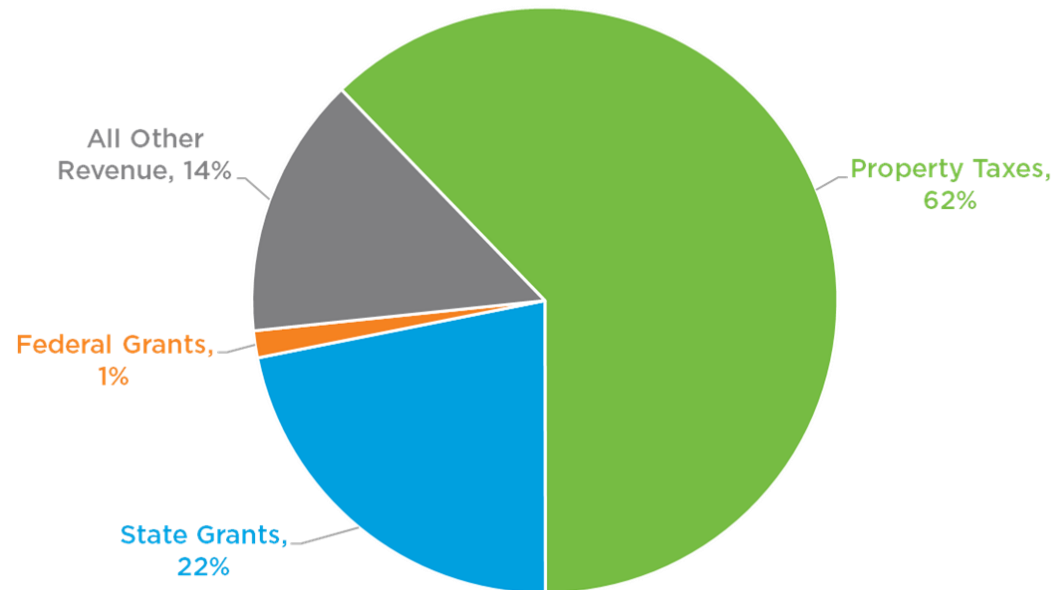


# COVID-19 AND MUNICIPAL BUDGETS

- Federal assistance may have helped keep property tax payments flowing
- Impacts can be long-term, including late payments and changes to property tax bases
- Both residential and commercial property value impacts
- Potentially increased local welfare assistance needs

## LOCAL GOVERNMENT REVENUE SOURCES NEW HAMPSHIRE, FISCAL YEAR 2018

Source: U.S. Census Bureau, Census of State and Local Government Finances





# KEY FACTORS IN THE NEXT STATE BUDGET

- Budget shortfall smaller than anticipated in the early days of the pandemic, but needs likely to be higher
- Policymakers have timing flexibility, more resource flexibility than anticipated early in the pandemic
- Federal funding has a critical role in funding operations, and most has not been able to directly fill State and local budget shortfalls thus far during the pandemic
- Continued federal action is key to both meeting short-term needs and aiding the long-term recovery
- Federal assistance to states, and state revenue decisions, can impact state funding for local governments
- COVID-19 crisis is not like a regular recession, recovery path unclear
- Recession has impacted those with the fewest resources most severely, and policy can help build an equitable, inclusive, and sustainable recovery



# ADDITIONAL RESOURCES

- Issue Brief: Designing a State Budget to Meet New Hampshire's Needs During and After the COVID-19 Crisis – February 8, 2021  
<https://nhfpi.org/resource/designing-a-state-budget-to-meet-new-hampshires-needs-during-and-after-the-covid-19-crisis/>
- Webinar: Examining the State Budget: The Governor's Proposal – February 19, 2021  
<https://nhfpi.org/events/examining-the-state-budget-the-governors-proposal/>
- Publication: Revenue in Review: An Overview of New Hampshire's Tax System and Major Revenue Sources – May 24, 2017  
<https://nhfpi.org/resource/revenue-in-review-an-overview-of-new-hampshires-tax-system-and-major-revenue-sources/>
- Resource Pages: Budget, Revenue & Tax  
<https://nhfpi.org/topic/budget/> and  
<https://nhfpi.org/topic/revenue-tax/>





**ADDRESS:** 100 North Main Street, Suite 400, Concord, NH 03301

**PHONE:** 603.856.8337

**WEBSITE:** [www.nhfpf.org](http://www.nhfpf.org)

**EMAIL:** [info@nhfpf.org](mailto:info@nhfpf.org)

**TWITTER:** @NHFPI

**FACEBOOK:** NewHampshireFiscalPolicyInstitute