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
Sources: NHFPI, Designing a State Budget to Meet New Hampshire’s Needs During and After the COVID-19 Crisis, February 8, 2021; U.S. Census Bureau, Household Pulse Survey; National Conference of State Legislatures, COVID-19 Economic Relief Bill, January 4, 2021
FUNDING FROM FEDERAL ASSISTANCE

• Assistance to individuals and families
  o Enhanced unemployment compensation benefits
  o Extended unemployment compensation benefits
  o Economic Impact Payments
  o Food assistance enhancements

• Grants to businesses
  o Payroll Protection Program
  o Disaster loans for small businesses

• Aid to governments
  o Coronavirus Relief Fund ($1.25 billion to New Hampshire)
  o Emergency Rental Assistance
  o Local public education aid
  o Higher education and other education aid
  o 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

- Economic Impact Payments, $1.18 billion
- Enhanced Unemployment Compensation, $1.26 billion
- CARES Act Coronavirus Relief Funds, $1.25 billion
- Health Care Providers, $0.42 billion
- Emergency Rental Assistance, $0.20 billion
- K-12 Fund Education Aid, $0.19 billion
- Higher Education, Other Private, and Flexible School Aid, $0.16 billion
- Food Assistance Funding, $0.15 billion
- Other Grants and Aid to State and Local Governments, $1.44 billion
- Other Grants or Aid to Other Entities, $0.02 billion

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 derivatives.

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.

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

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

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

Sources: New Hampshire State Constitution, Part 2, Articles 6-a and 6-b; NHFPI, Building the Budget, February 2017.
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

- Business Profits Tax: 17.9%
- Business Taxes Combined: 28.2%
- Business Enterprise Tax: 10.3%
- Statewide Education Property Tax: 14.4%
- Meals and Rentals Tax: 12.5%
- Tobacco Tax: 8.5%
- Real Estate Transfer Tax: 6.3%
- Liquor Commission: 5.3%
- Insurance Premium Tax: 5.2%
- Interest and Dividends Tax: 5.0%
- Lottery Commission: 4.0%
- Communications Services Tax: 1.7%
- Utility Property Tax: 1.6%
- Miscellaneous: 7.3%
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
  o 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
  o 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.
## LARGE ENTITIES KEY TO BPT BASE

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

<table>
<thead>
<tr>
<th>Taxable New Hampshire Business Profits of At Least:</th>
<th>Percentage of Filers</th>
<th>Percentage of Total Tax Revenue Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$12,658,228</td>
<td>0.10%</td>
<td>49.10%</td>
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<tr>
<td>$1,265,823</td>
<td>0.82%</td>
<td>78.28%</td>
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<tr>
<td>$632,911</td>
<td>1.45%</td>
<td>84.54%</td>
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<tr>
<td>$126,582</td>
<td>4.70%</td>
<td>94.32%</td>
</tr>
<tr>
<td>$12,658</td>
<td>14.51%</td>
<td>99.59%</td>
</tr>
<tr>
<td>$6,329</td>
<td>16.93%</td>
<td>99.85%</td>
</tr>
<tr>
<td>$13</td>
<td>23.52%</td>
<td>100.00%</td>
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<tr>
<td>$0</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

| Total Filers/Revenue                              | 74,343               | $520,738,272                        |

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

- Corporations, 25,623, 34%
- Partnerships, 13,388, 18%
- Proprietors, 30,571, 41%
- Fiduciaries, 572, 1%
- Water’s Edge (Multi-State/Nationals), 4,189, 6%

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

- Proprietors, $14,887,124, 3%
- Corporations, $81,384,942, 16%
- Partnerships, $100,946,766, 19%
- Water’s Edge (Multi-State/Nationals), $321,282,380, 62%
- Fiduciaries, $2,237,061, 0%

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

<table>
<thead>
<tr>
<th>Taxable Enterprise Value Tax Base* of At Least:</th>
<th>Percentage of Filers</th>
<th>Percentage of Total Tax Revenue Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$148,148,148</td>
<td>0.02%</td>
<td>17.34%</td>
</tr>
<tr>
<td>$14,814,814</td>
<td>0.36%</td>
<td>43.06%</td>
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<tr>
<td>$7,407,407</td>
<td>0.81%</td>
<td>53.00%</td>
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<tr>
<td>$1,481,481</td>
<td>4.04%</td>
<td>74.03%</td>
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<tr>
<td>$148,148</td>
<td>27.47%</td>
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<td>$74,074</td>
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<tr>
<td>$148</td>
<td>51.80%</td>
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<td>$0</td>
<td>100.00%</td>
<td>100.00%</td>
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<tr>
<td><strong>Total Filers/Revenue</strong></td>
<td><strong>74,343</strong></td>
<td><strong>$230,544,164</strong></td>
</tr>
</tbody>
</table>

*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

![Bar chart showing state fiscal years 2002 to 2020 with revenue data in millions of SFY 2020 dollars. The chart indicates a general decrease in revenue over the years.]

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

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)

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

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

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

<table>
<thead>
<tr>
<th>State Fiscal Year</th>
<th>Millions of SFY 2020 Dollars</th>
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</thead>
<tbody>
<tr>
<td>2002</td>
<td>$110</td>
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<td>2003</td>
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<td>2019</td>
<td>$110</td>
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<tr>
<td>2020</td>
<td>$110</td>
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</tbody>
</table>

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

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**

### HIGH-INCOME INDIVIDUALS KEY PART OF INTEREST AND DIVIDENDS TAX BASE

<table>
<thead>
<tr>
<th>Taxable Interest and Dividend Income of At Least:</th>
<th>Percentage of Filers</th>
<th>Percentage of Total Tax Revenue Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,000,000</td>
<td>0.02%</td>
<td>6.69%</td>
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<tr>
<td>$2,000,000</td>
<td>0.12%</td>
<td>15.93%</td>
</tr>
<tr>
<td>$1,000,000</td>
<td>0.32%</td>
<td>24.10%</td>
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<tr>
<td>$200,000</td>
<td>2.40%</td>
<td>48.99%</td>
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<td>$20,000</td>
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<td>38.54%</td>
<td>95.09%</td>
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<td>$20</td>
<td>79.69%</td>
<td>100.00%</td>
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<tr>
<td>$0</td>
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<td>100.00%</td>
</tr>
<tr>
<td><strong>Total Filers/Revenue</strong></td>
<td>66,284</td>
<td><strong>$105,888,793</strong></td>
</tr>
</tbody>
</table>

Source: New Hampshire Department of Revenue Administration, 2020 Annual Report
HOW DO STATE AND LOCAL REVENUES COMPARE?
LOCAL GOVERNMENTS AND REVENUES

Local Governments includes:

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

NEW HAMPSHIRE TAX REVENUE
BY GOVERNMENT LEVEL,
FISCAL YEAR 2018

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

Local Tax Revenue, 59%
State Tax Revenue, 41%
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

- Corporate Income (BPT and BET) 27%
- Other 22%
- Individual Income (I&D) 4%
- Motor Fuel 6%
- Tobacco 7%
- Property 14%
- Other Selective Sales 20%

ALL LOCAL TAX REVENUE IN NEW HAMPSHIRE FISCAL YEAR 2018
Source: U.S. Census Bureau, Survey of State and Local Government Finances

- Property Taxes, 98%
- All Other Taxes, 2%
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

- Property Taxes, 62%
- State Grants, 22%
- Federal Grants, 1%
- All Other Revenue, 14%
MOST LOCAL PUBLIC SCHOOL DISTRICT REVENUE PRODUCED BY PROPERTY TAXES

SCHOOL DISTRICT REVENUE 2019-2020

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

- Local Taxation, $2.10 billion, 62%
- Non-SWEPT Adequate Education Aid, $0.60 billion, 18%
- Statewide Education Property Tax, $0.36 billion, 11%
- Other State Aid, $0.09 billion, 3%
- Federal Sources, $0.16 billion, 5%
- Tuition, Food, and Other Sources, $0.04 billion, 1%
PROPERTY TAXES KEY TO COMBINED STATE AND LOCAL REVENUES

LARGEST STATE AND LOCAL TAXES IN NEW HAMPSHIRE

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

- Property, 64%
- Selective Sales, (Tobacco, Motor Fuels, Meals and Rentals, and others) 14%
- Corporate Income (BPT + BET), 11%
- Individual Income (Interest and Dividends), 1%
- Other, 9%
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

- Property Taxes, 50.6%
- BPT and BET, 23.3%
- Excise Taxes, 12.4%
- Unemployment Insurance Tax, 1.6%
- License and other taxes, 11.8%
- Interest and Dividends Tax, 0.4%

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

<table>
<thead>
<tr>
<th>State Fiscal Year</th>
<th>Environmental</th>
<th>Tax Revenue Sharing</th>
<th>Retirement Normal Contribution, Police and Fire</th>
<th>Highway</th>
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<tbody>
<tr>
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<td>2020</td>
<td>$50</td>
<td>$150</td>
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</tbody>
</table>

EDUCATION AID DRIVEN LARGELY BY ENROLLMENT, BUT ALSO DECLINED

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

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
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

• **Webinar:** Examining the State Budget: The Governor’s Proposal – February 19, 2021

• **Publication:** Revenue in Review: An Overview of New Hampshire’s Tax System and Major Revenue Sources – May 24, 2017

• **Resource Pages:** Budget, Revenue & Tax
  [https://nhfpi.org/topic/budget/](https://nhfpi.org/topic/budget/) and
  [https://nhfpi.org/topic/revenue-tax/](https://nhfpi.org/topic/revenue-tax/)
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