



PIECING IT TOGETHER: AN INTRODUCTION TO NEW HAMPSHIRE'S STATE BUDGET

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LEADERSHIP NEW HAMPSHIRE
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BASICS OF THE STATE BUDGET

Two-year, or biennial, operating budget

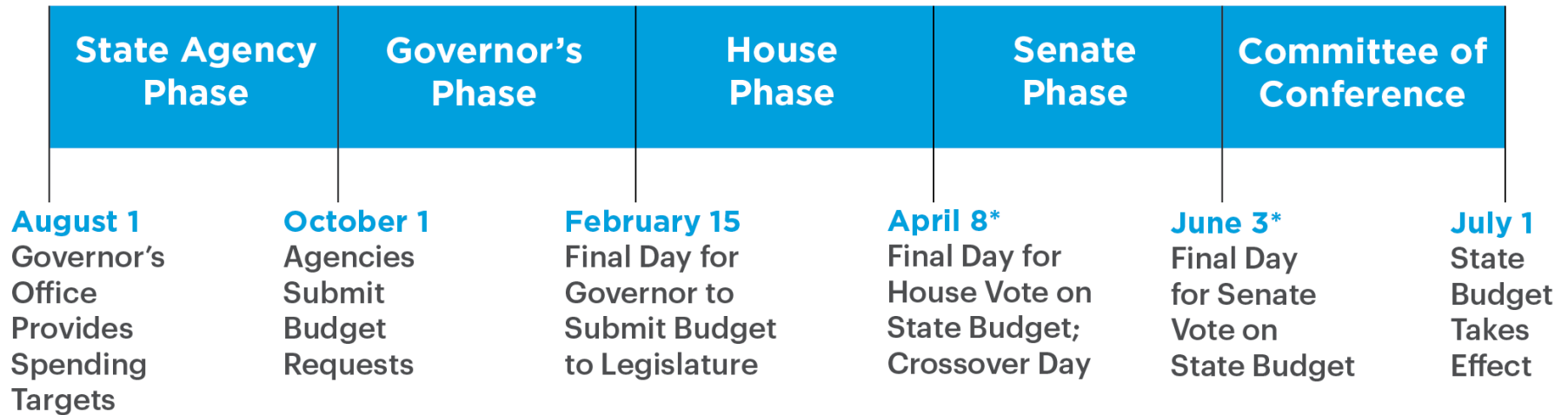
- Funds most State operations for two State fiscal years (SFYs)
- Current State Budget provides funding for SFYs 2020-2021: July 1, 2019 to June 30, 2021
- Approximately \$13 billion in appropriations for SFYs 2020-2021

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
- Introduced as the Governor’s proposal, submitted by February 15

BUILDING THE STATE BUDGET

STATE BUDGET PROCESS TIMELINE



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

KEY BUDGET MECHANICS

Most budget amendments happen in Finance Committees

- House and Senate floor amendments permitted, but less common
- House has a larger committee, with three separate divisions
- Senate has a smaller committee
- Committee of Conference is usually a combination of House and Senate Finance Committee members, legislative leadership
- No amendments for final floor votes after Committee of Conference

Two bills move through process together

- Hearings generally combined for two bills
- Language in Trailer Bill can interact with Operating Budget Bill, or can include separate topics and appropriations as well

KEY BUDGET MECHANICS, CONTINUED

Not all State expenditures are in the State Budget

- Capital Budget, covers six years with changes every two years
- Ten Year Transportation Improvement Plan, altered every two years
- Separately authorized expenditures in other bills, including significant ones such as expanded Medicaid
- Federal funds accepted later by the Joint Legislative Fiscal Committee

Budget bill numbers can change

- 2017: House did not pass HB1 and HB2, Senate amended HB144 and HB517
- 2019: Governor vetoed HB1 and HB2, final agreement was HB3 and HB4

State Budget plan must balance over two years

- Per statute, including any surplus/deficit carried from prior budget

Sources: NHFPI, *Building the Budget*, February 2017, for more details, as well as the Office of Legislative Budget Assistant, FY 2020-2021 Operating and Capital Budget.

QUESTION

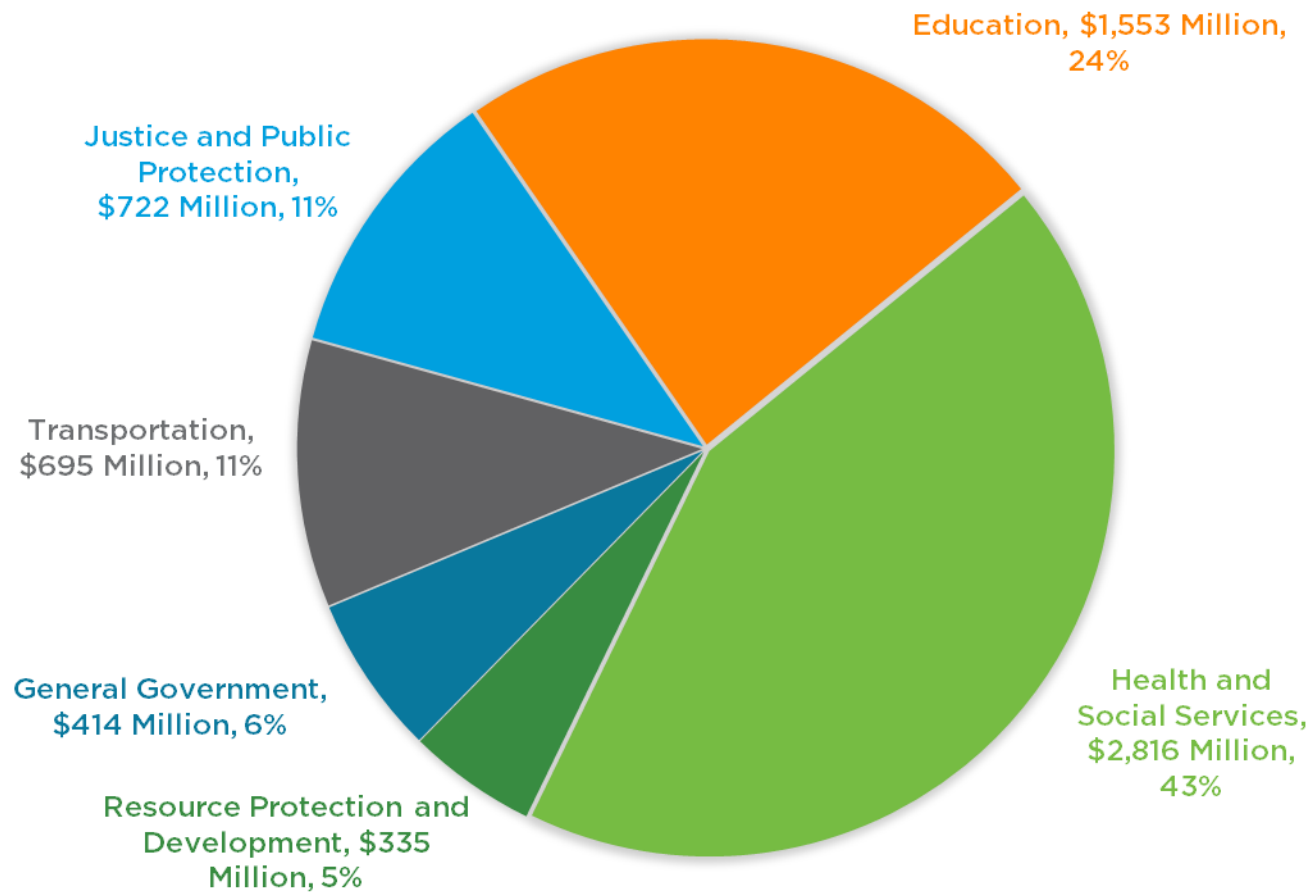
**WHAT PERCENTAGE
OF THE STATE BUDGET
IS APPROPRIATED TO:**

- 1. TRANSPORTATION?**
- 2. EDUCATION?**
- 3. JUSTICE AND PUBLIC PROTECTION?**

STATE BUDGET APPROPRIATIONS BY CATEGORY

NEW HAMPSHIRE, STATE FISCAL YEAR 2021

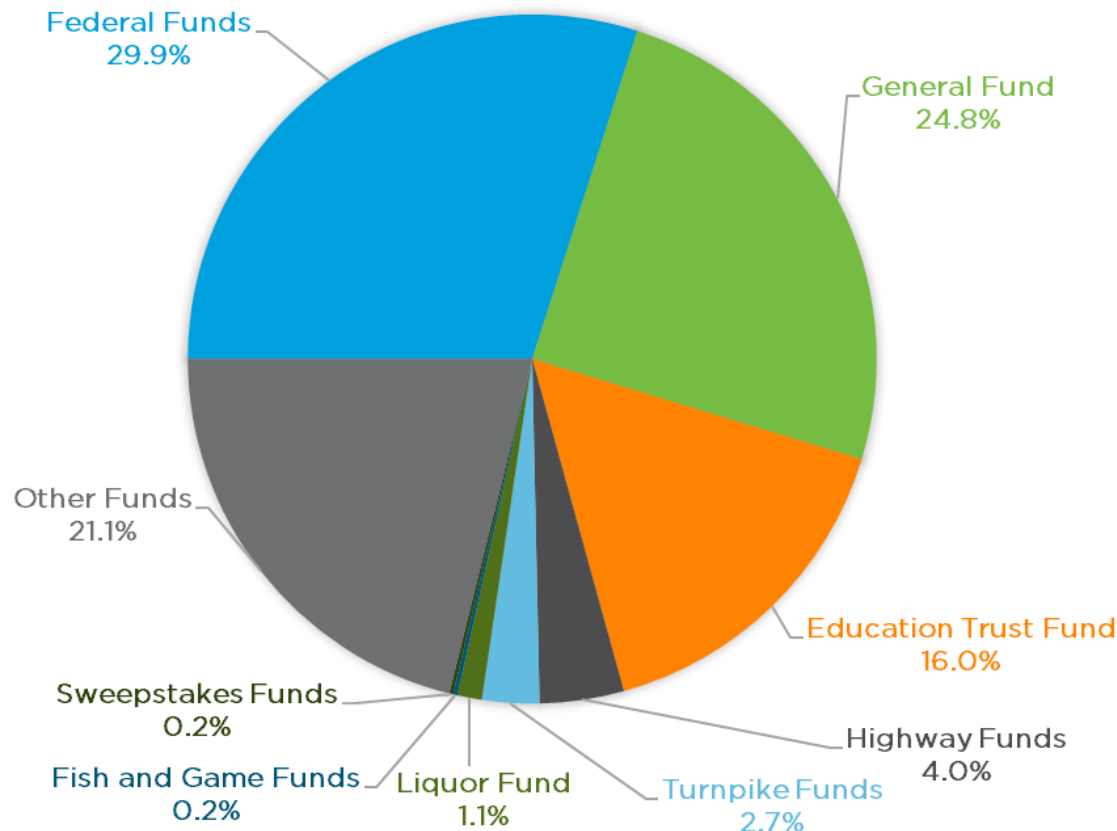
Source: Chapter 345, Laws of 2019



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 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.

QUESTIONS

WHERE DOES STATE REVENUE
COME FROM?

WHAT ARE THE FIVE LARGEST
TAX REVENUE SOURCES?

LARGEST TAX REVENUE SOURCES

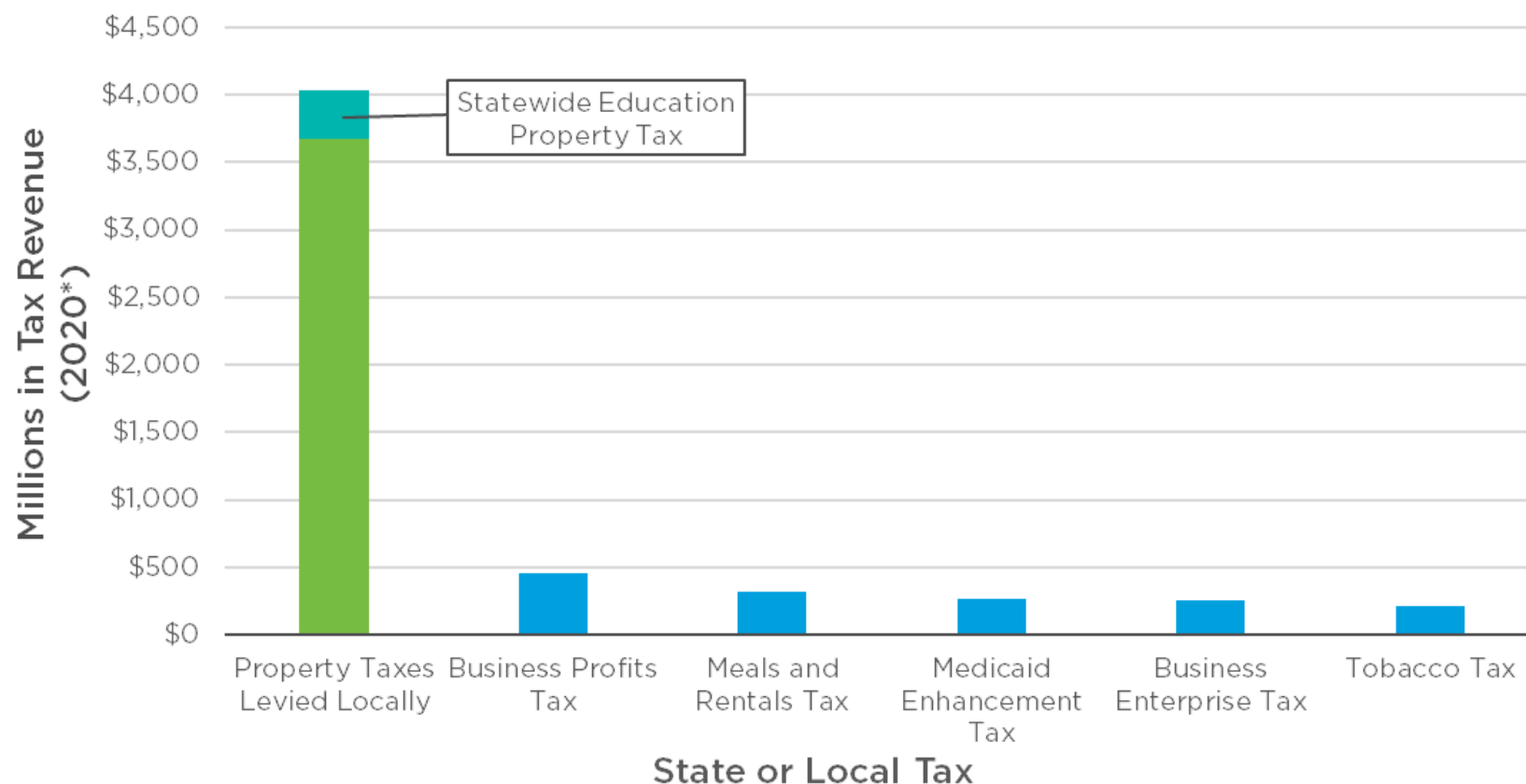
To All Funds (State Fiscal Year 2020)

- 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.

STATE AND LOCAL REVENUES: PROPERTY TAXES KEY

LARGEST STATE AND LOCAL TAXES IN NEW HAMPSHIRE

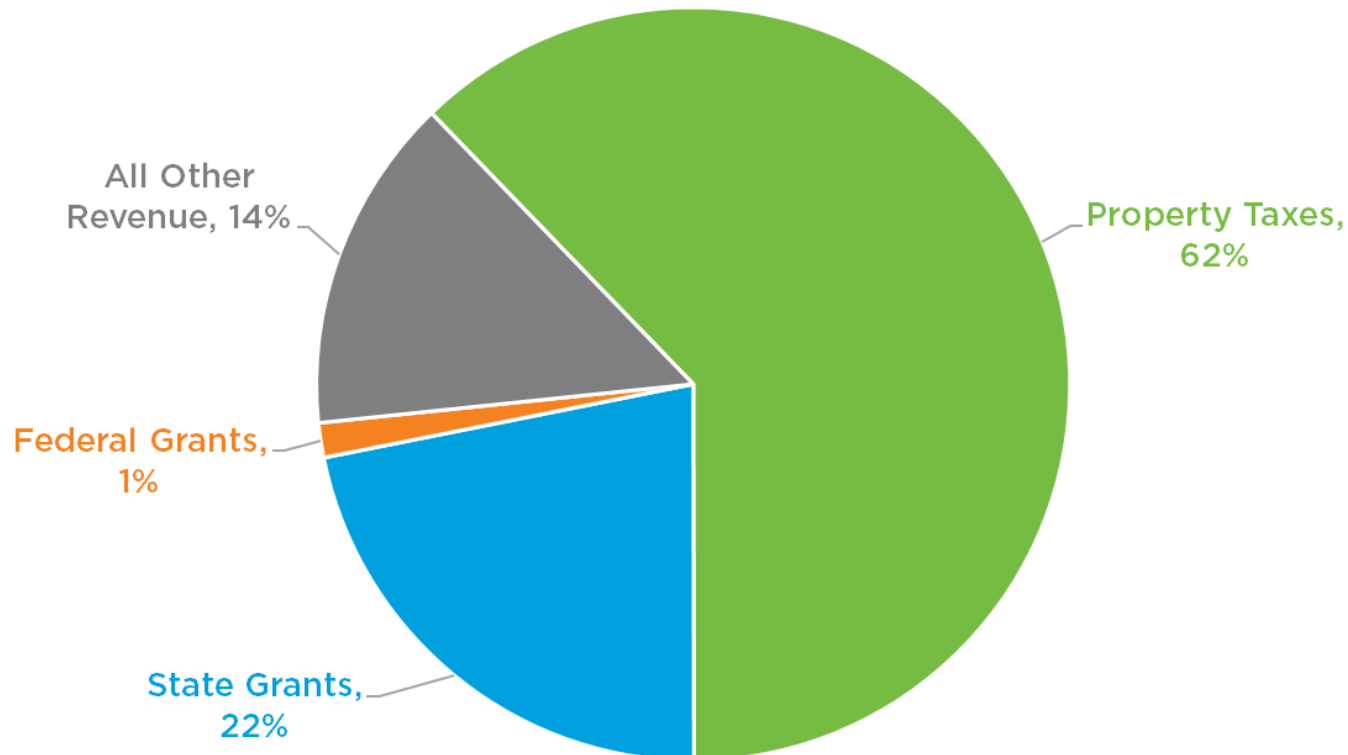


*Note: Tax Year 2020 commitments used for property taxes. All other data for State Fiscal Year 2020.
Sources: New Hampshire Comprehensive Annual Financial Report, State Fiscal Year 2020; New Hampshire Department of Revenue Administration, 2020 Annual Report and 2020 Tax Rates.

PROPERTY TAXES ARE A MAJORITY OF LOCAL REVENUE IN NEW HAMPSHIRE

LOCAL GOVERNMENT REVENUE SOURCES NEW HAMPSHIRE, FISCAL YEAR 2018

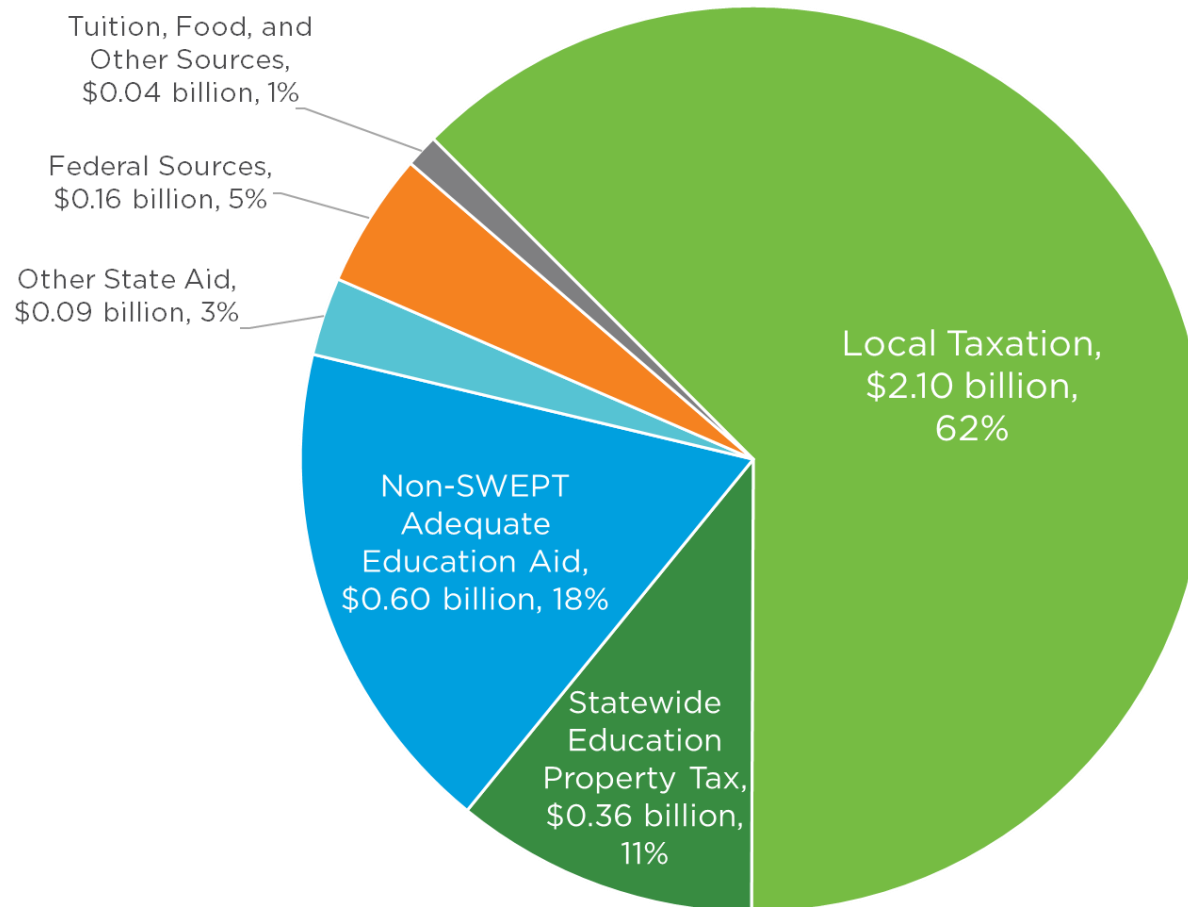
Source: U.S. Census Bureau, Census of State and Local Government Finances



MOST LOCAL PUBLIC SCHOOL DISTRICT REVENUE PRODUCED BY PROPERTY TAXES

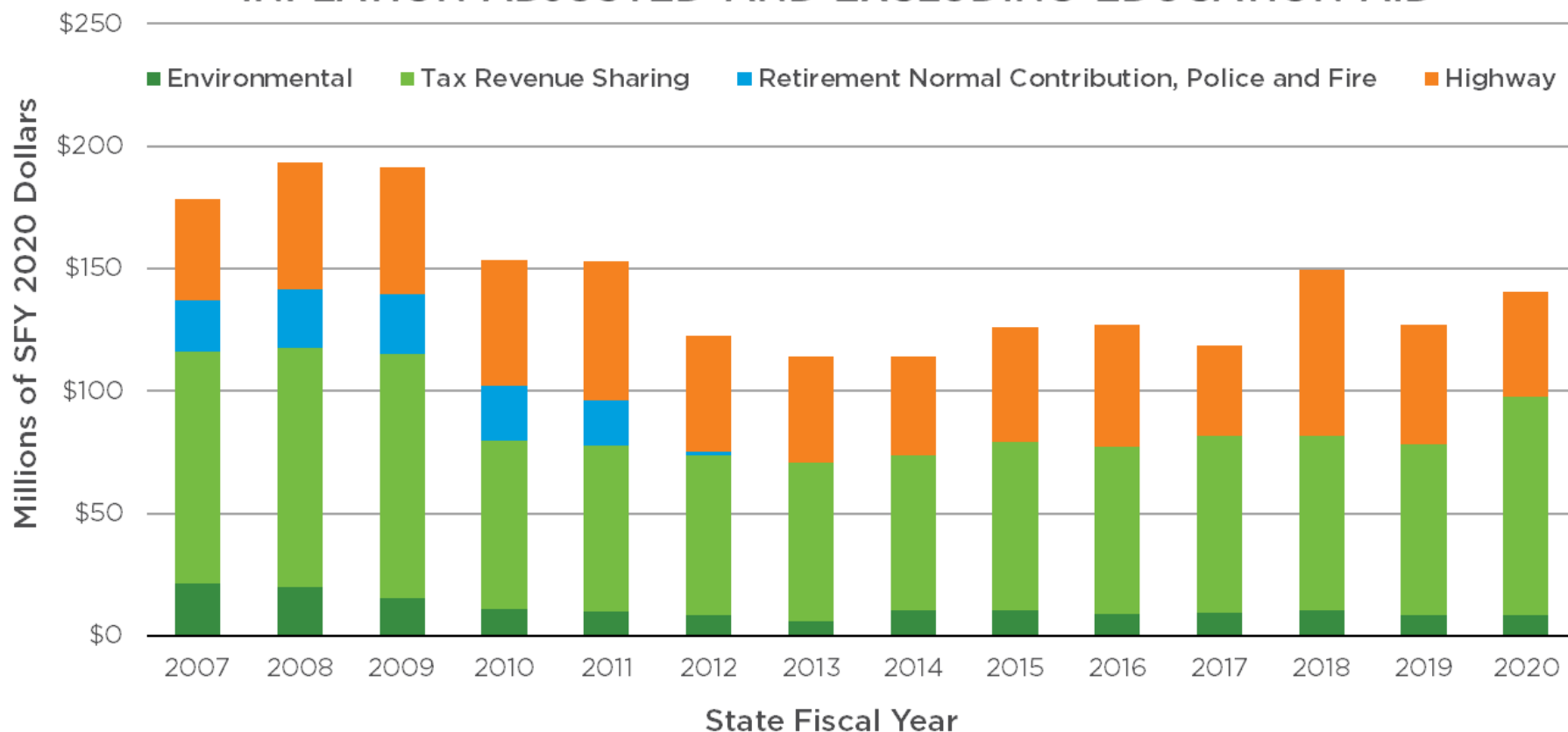
SCHOOL DISTRICT REVENUE 2019-2020

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



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

LARGEST NON-TAX REVENUE SOURCES

To All Funds (State Fiscal Year 2020)

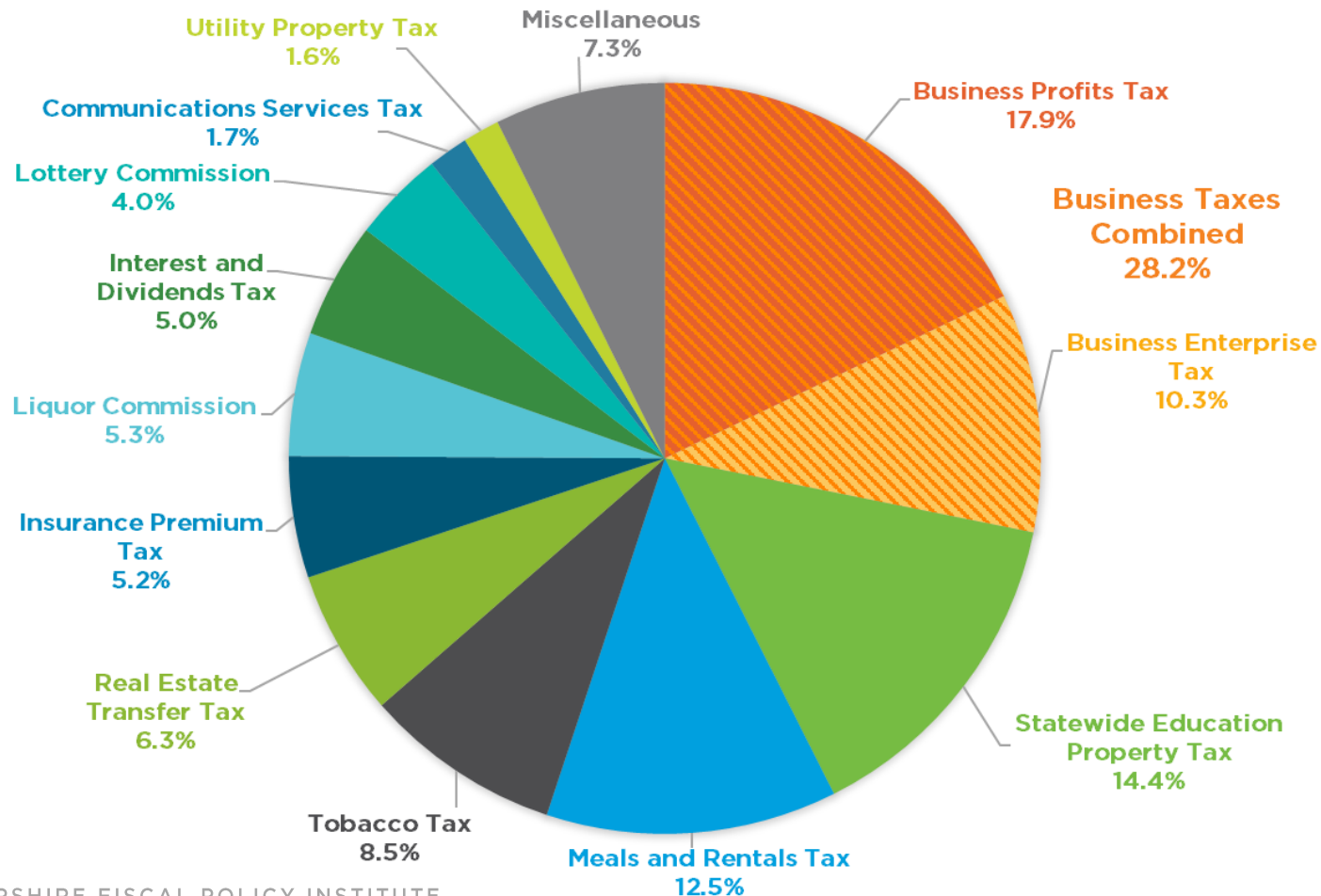
- Federal Grants - \$2,867.2 million
(includes \$493.3 million in Coronavirus Relief Funds)
- Liquor Commission Sales - \$739.6 million
(\$141.8 million in operating profits for other State use)
- Lottery Commission Sales - \$392.2 million
(\$99.8 million in profits for Education Trust Fund)
- Turnpike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

GENERAL AND EDUCATION TRUST FUNDS REVENUE SOURCES

STATE FISCAL YEAR 2020

Source: New Hampshire Comprehensive Annual Financial Report, SFY 2020



KEY BUDGET MECHANICS – REVENUE

Five sets of revenue estimates throughout process

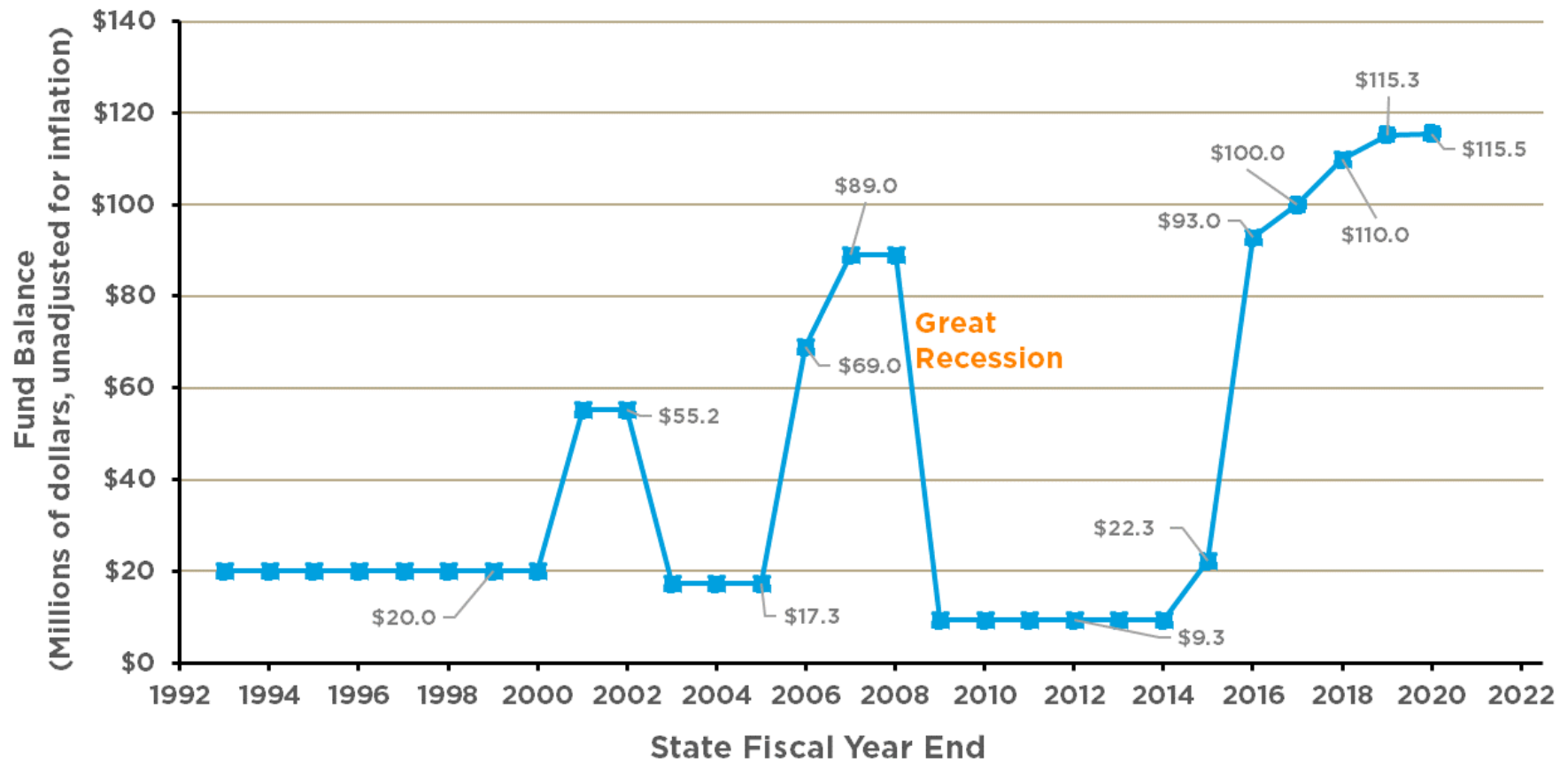
- Governor's estimates supplied to agencies (August 1)
- Governor's State Budget proposal (February 15)
- House Ways and Means projections for House Budget (March)
- Senate Ways and Means projections for Senate Budget (May)
- Committee of Conference projections for Legislature's budget (June)

Different groups of estimators

- House typically has entirely separate set of legislators in Finance and Ways and Means Committees
- Senate has significant overlap in membership (five of seven Finance members also sit on Ways and Means in the 2021 session)
- Senate estimates completed later, with more information than House

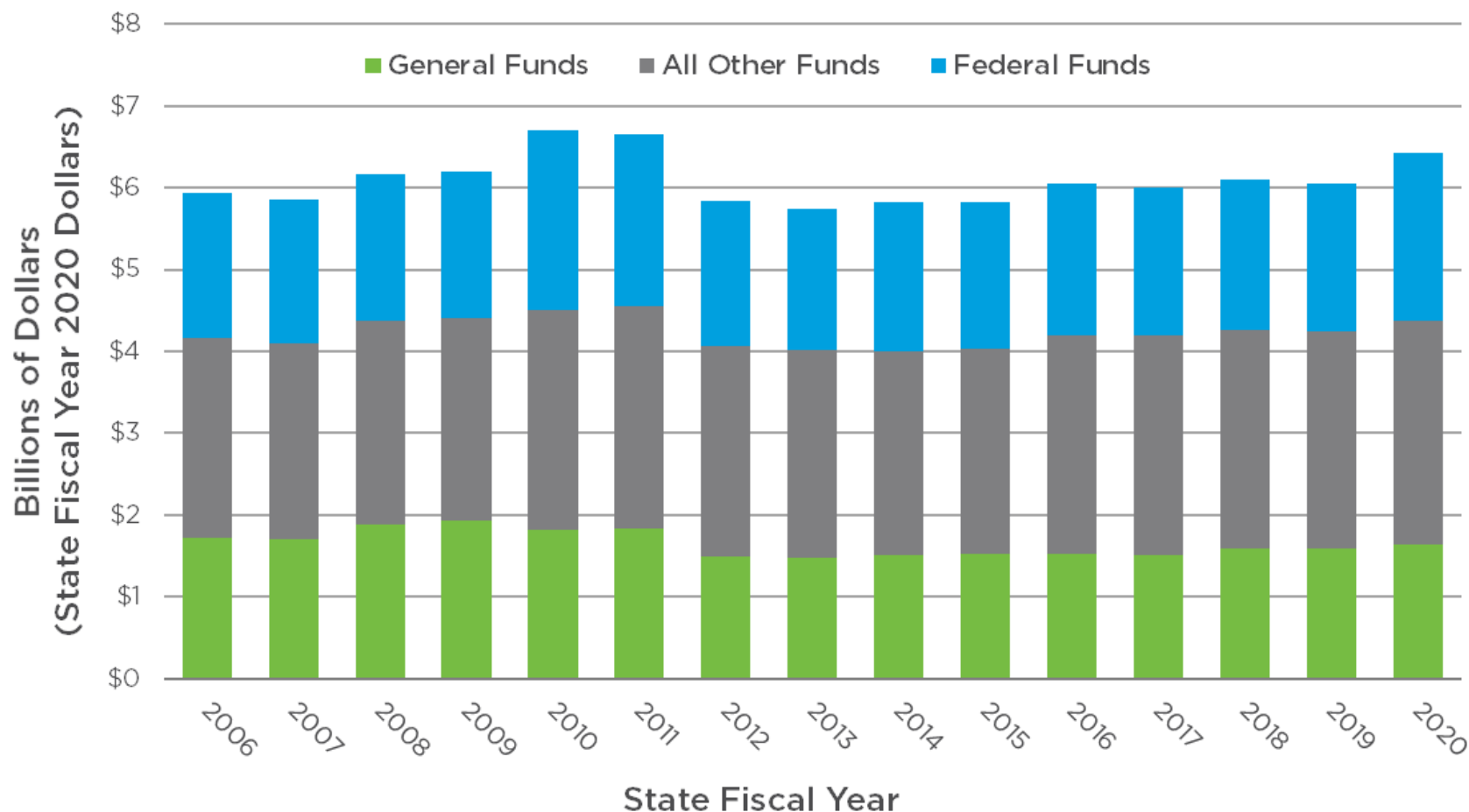
THE RAINY DAY FUND

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 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

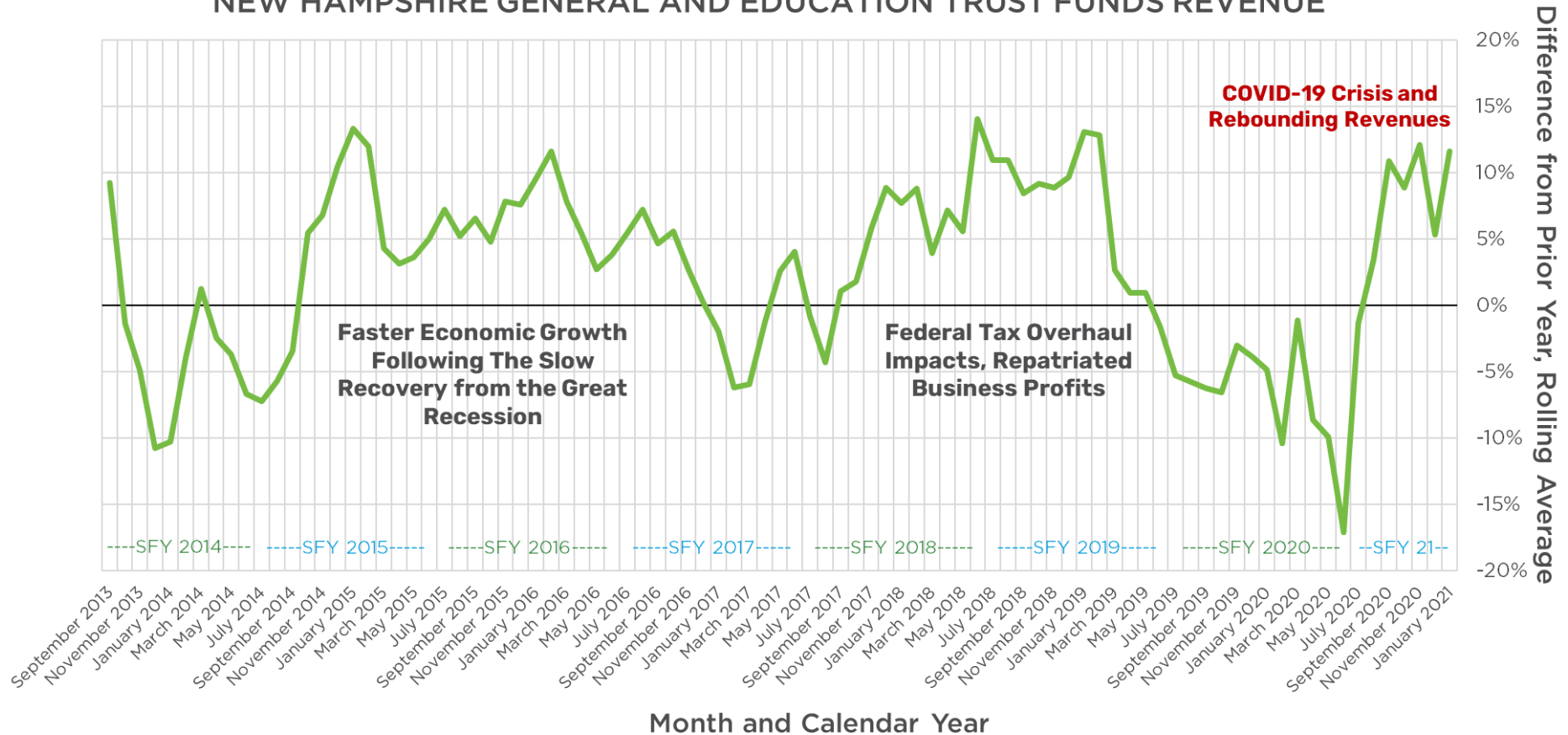
WHAT ABOUT THE NEXT STATE BUDGET?

CONSIDERATIONS FOR THE NEXT BUDGET

- Course of the COVID-19 pandemic
- Needs changing among residents, Medicaid caseloads, housing and other assistance, state policy responsiveness
- Federal assistance to states, individuals
- State agency spending relative to the pandemic, federal funds available may be more limited
- Current State Budget relies on surplus funding carried forward from prior budget
- Timing flexibility: current State Budget *can* end in deficit, policymakers have two years to address needs when most acute, resolve deficits when needs are lower and by end of biennium
- Crisis may be more like a “regular” recession over time

REVENUE REBOUND FOLLOWING DROP

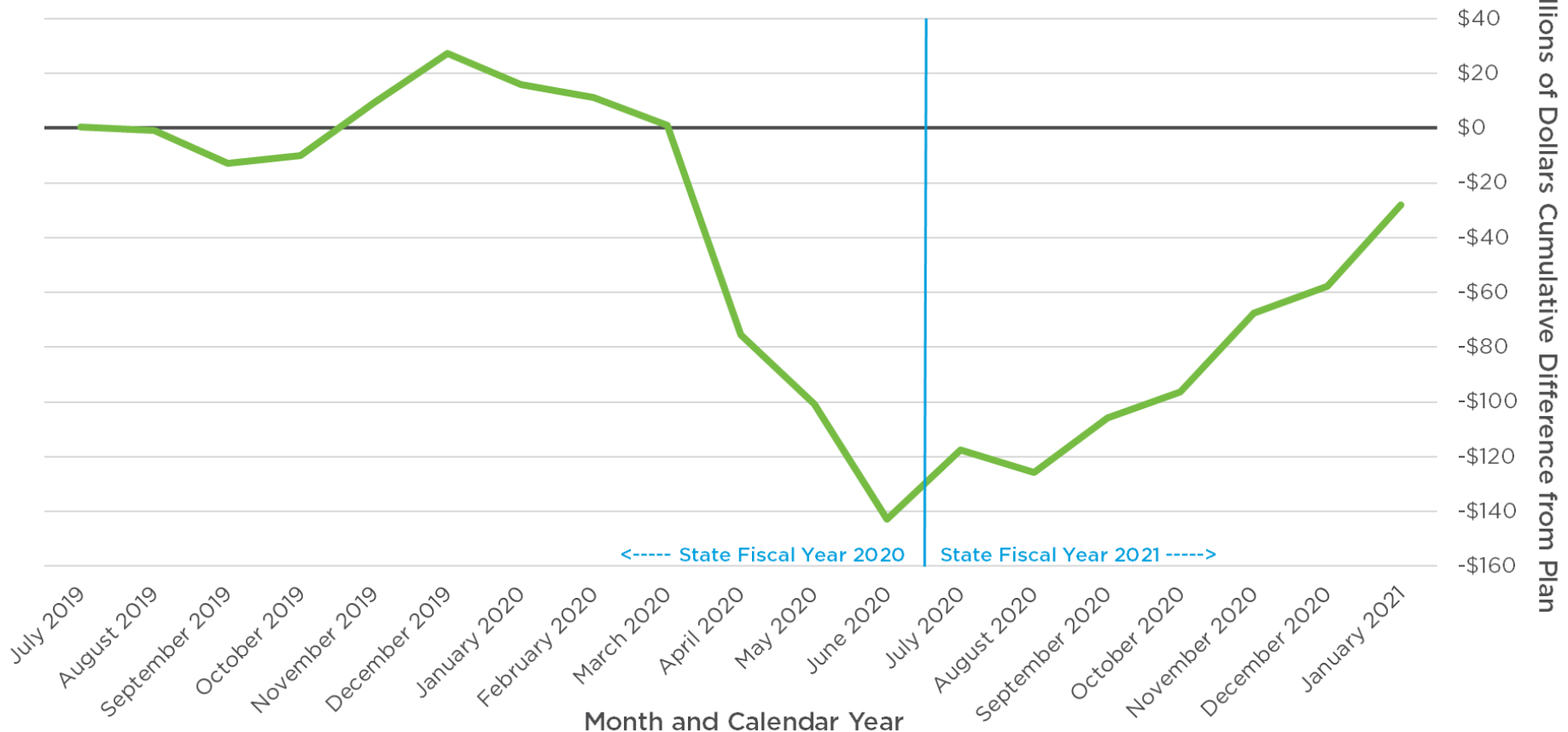
ANNUAL CHANGE IN THREE-MONTH ROLLING AVERAGES OF NEW HAMPSHIRE GENERAL AND EDUCATION TRUST FUNDS REVENUE



Note: Medicaid Enhancement Tax excluded from data. Analysis of revenues on a cash basis. State fiscal year (SFY) also shown.
Sources: New Hampshire Department of Administrative Services Monthly Revenue Focus Reports

UNAUDITED CASH RECEIPTS IN BIENNIUM CLOSE TO A BALANCED BUDGET

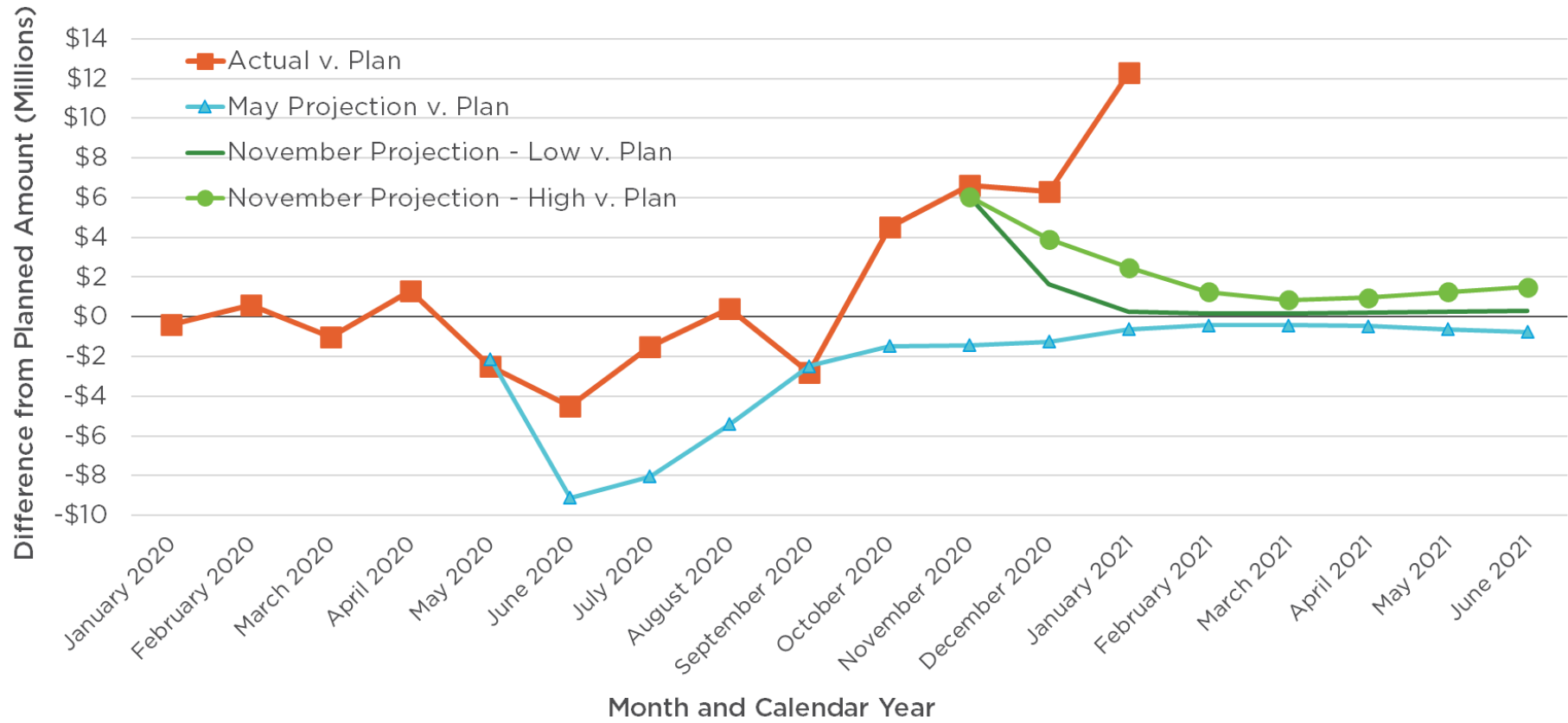
NEW HAMPSHIRE GENERAL AND EDUCATION TRUST FUNDS MONTHLY UNAUDITED CASH RECEIPTS IN CURRENT STATE BUDGET



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

REAL ESTATE TRANSFER TAX HELPED RECENT REVENUE RECOVERY

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

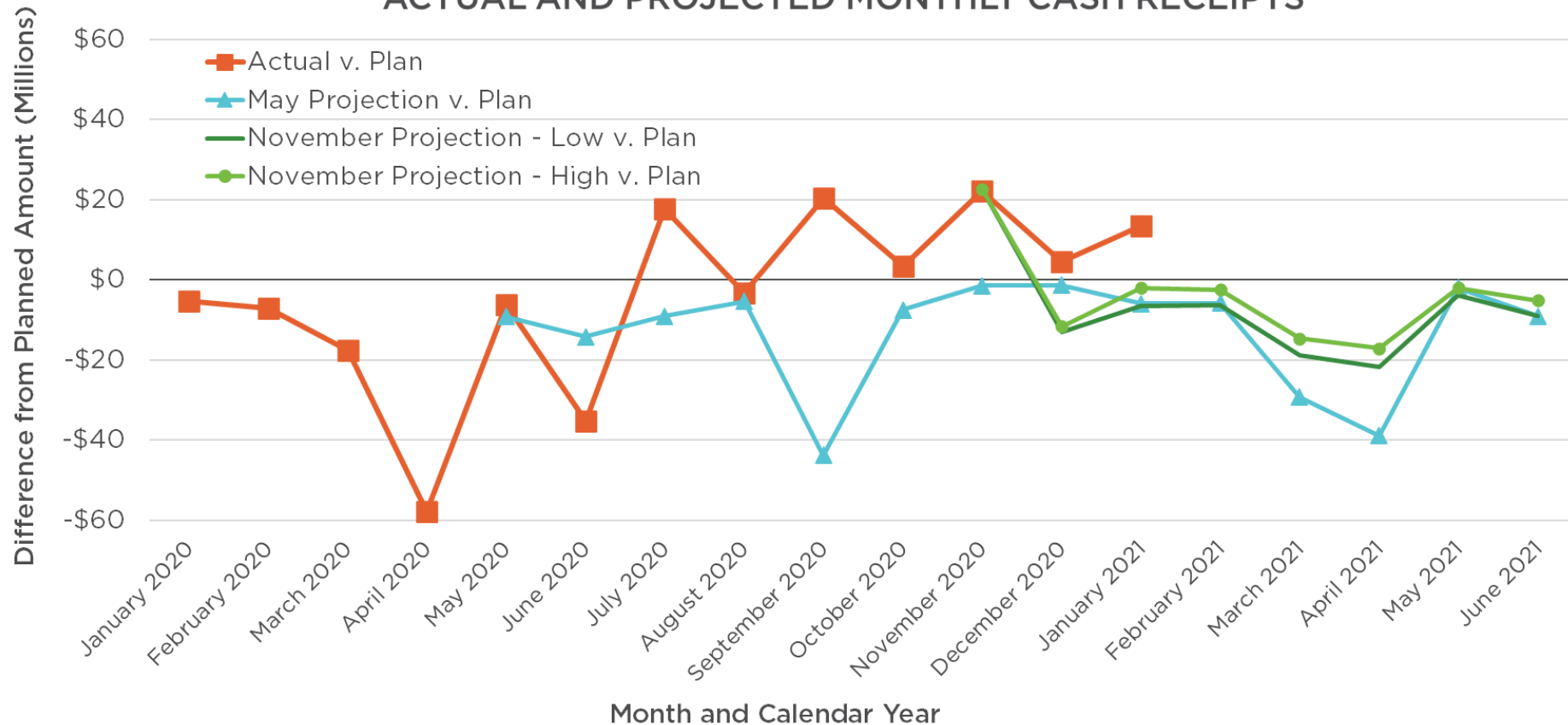


Note: Projected revenue calculations based on Department of Revenue Administration projections and Department of Administrative Services State Revenue Plan. Only includes actual and projected revenue to the General and Education Trust Funds.

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

TWO BUSINESS TAXES OVERPERFORM

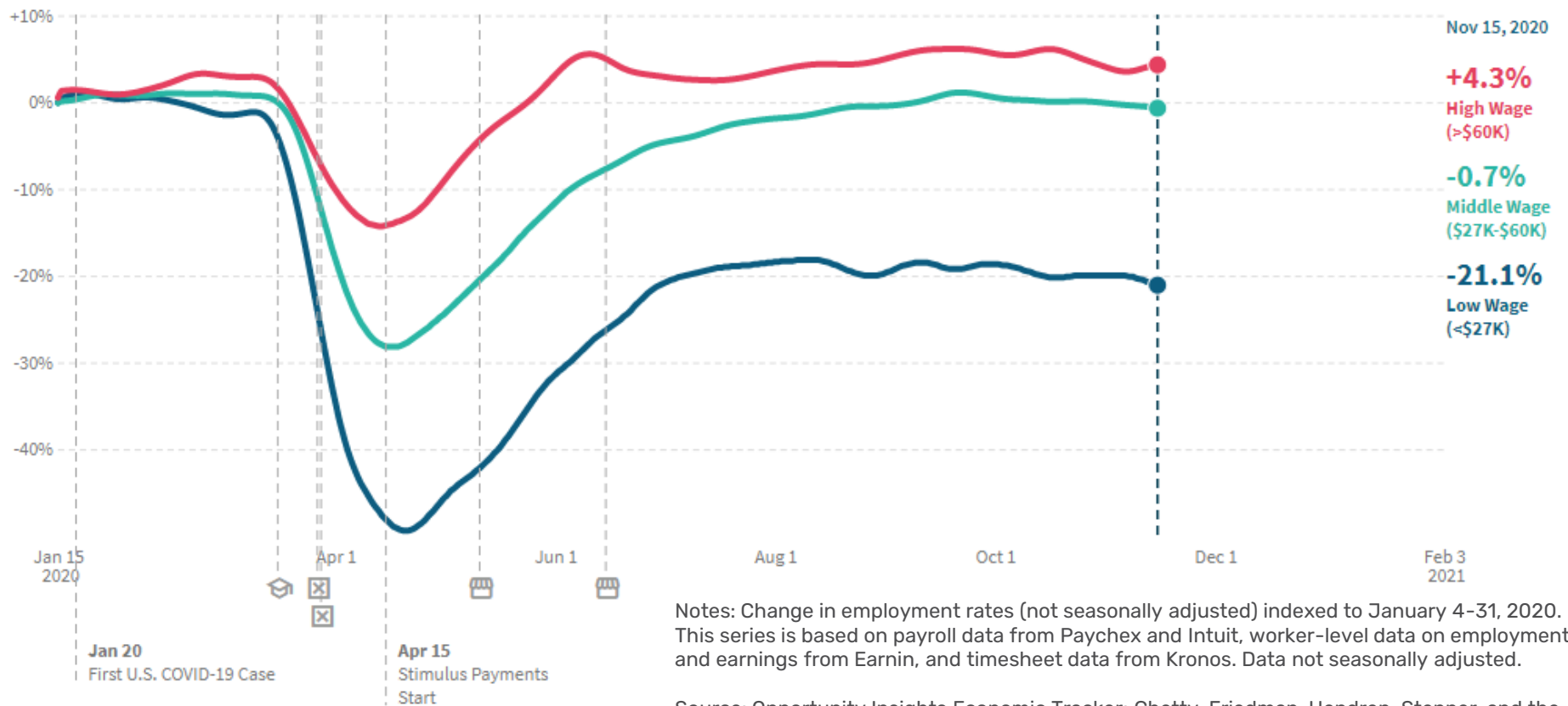
NEW HAMPSHIRE BUSINESS PROFITS AND BUSINESS ENTERPRISE TAXES ACTUAL AND PROJECTED MONTHLY CASH RECEIPTS



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

COVID-19 CRISIS: EMPLOYMENT IMPACTS UNEVEN

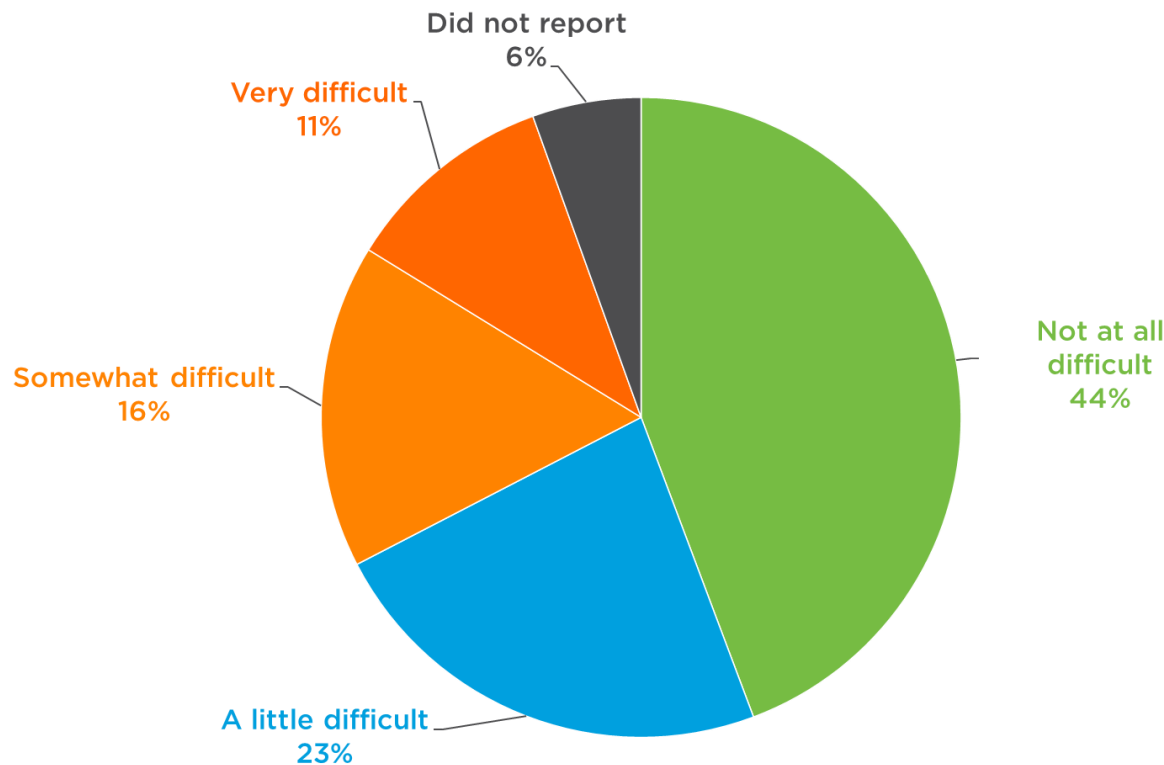
PERCENT CHANGE IN NEW HAMPSHIRE EMPLOYMENT



COVID-19 CRISIS: HOUSEHOLD FINANCES

DIFFICULTY PAYING FOR USUAL HOUSEHOLD EXPENSES IN THE PREVIOUS SEVEN DAYS

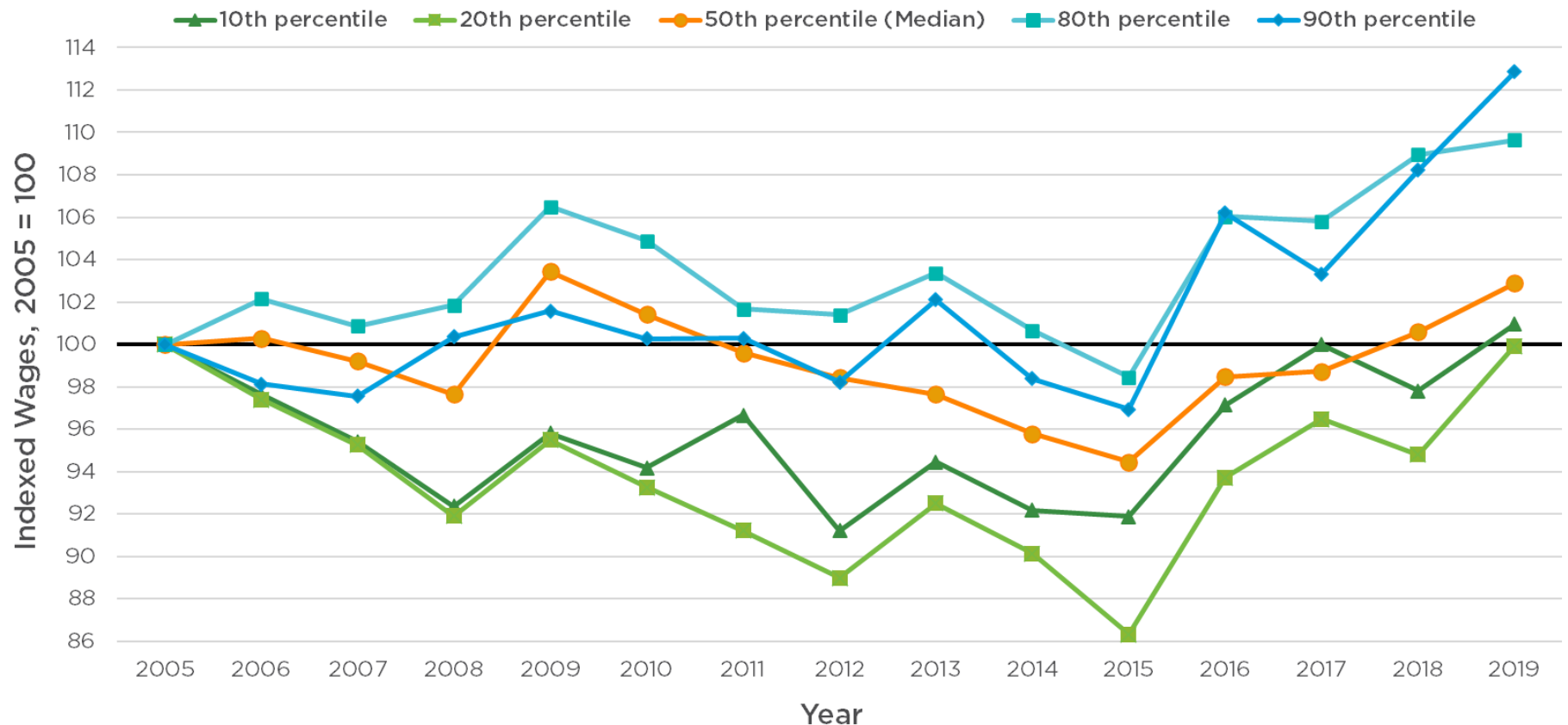
In New Hampshire, from January 6 to January 18, 2021



Note: Estimates derived from Week 22 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 January 27, 2021

BEFORE THE CRISIS: LESS PURCHASING POWER IN LOW WAGES

INFLATION-ADJUSTED WAGES IN NEW HAMPSHIRE



Notes: Inflation adjustment using Consumer Price Index-Urban-Research Series (current methods).
Includes workers aged 16 years and older and all income from work.
Source: Economic Policy Institute analysis of Current Population Survey Outgoing Rotation

TAKEAWAYS

- Budget shortfall smaller than anticipated in the early days of the pandemic, but still may be significant
- Needs likely to be higher earlier in the State Budget biennium
- Policymakers have timing flexibility, more resource flexibility than anticipated early in the pandemic
- Federal funding has a key role in funding operations
- Continued federal action is key to both meeting short-term needs and aiding the long-term recovery
- 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/>
- Presentation: New Hampshire's Economy, Household Finances, and State Revenues – January 20, 2021
<https://nhfpi.org/resource/new-hampshires-economy-household-finances-and-state-revenues/>
- Publication: Building the Budget: New Hampshire's State Budget Process and Recent Funding Trends – February 9, 2017
<https://nhfpi.org/resource/building-the-budget-new-hampshires-state-budget-process-and-recent-funding-trends/>
- Resource Page: Budget
<https://nhfpi.org/topic/budget/>



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