



EXAMINING THE STATE BUDGET: THE HOUSE FINANCE COMMITTEE'S PROPOSAL

APRIL 6, 2021



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THE CONTEXT: A BUDGET PROCESS IN AN ONGOING PANDEMIC

Difficult economic situation for many New Hampshire residents

- More than one in four Granite State adults reported paying for usual household expenses was somewhat or very difficult (March 3-15)
- Employment in low-wage work still substantially lower than pre-pandemic in New Hampshire, suggesting fewer opportunities
- Negative economic impacts of COVID-19 crisis have been most severe on those with the fewest resources

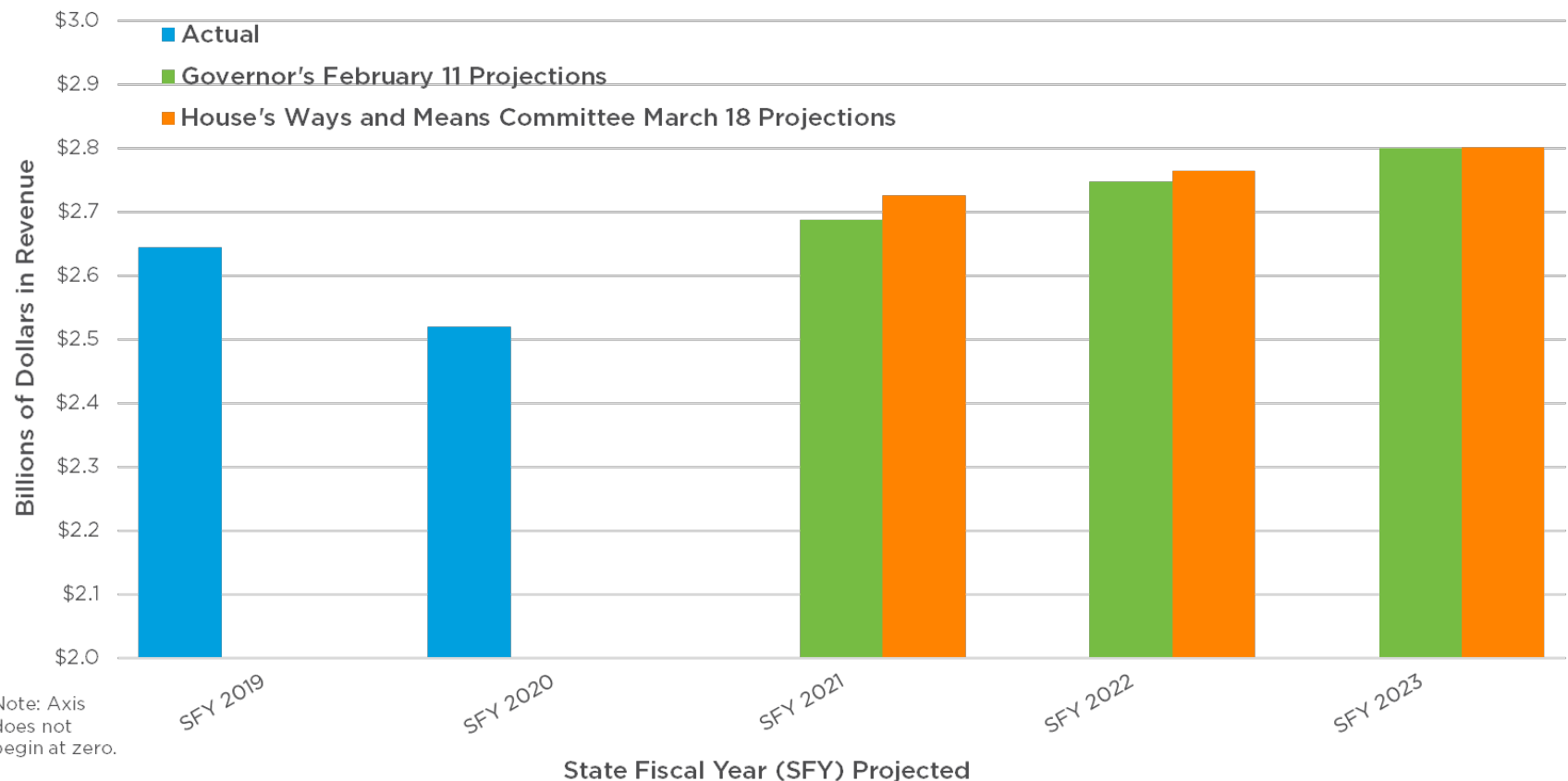
Federal actions and State revenues help support services

- American Rescue Plan Act improves short-term economic outlook
- State revenues continue to be strong, generate budget surplus in State Fiscal Year 2021

Sources: U.S. Census Bureau, Household Pulse Survey, Week 26, accessed April 4, 2021; Opportunity Insights Economic Tracker/Chetty, Friedman, Hendren, Stepner, et al. data as of February 5, 2021; NHFPI, Economic Impacts of the COVID-19 Crisis, March 19, 2021; NHFPI, New Hampshire's Economy, Household Finances, and State Revenues, January 20, 2021; NHFPI, Federal American Rescue Plan Act Directs Aid to Lower-Income Children, Unemployed Workers, and Public Services, March 26, 2021; New Hampshire Department of Administrative Services, Monthly Revenue Focus and Daily Preliminary Revenue Reports to March 31, 2021

RECENT STATE REVENUE FORECASTS MORE OPTIMISTIC

NEW HAMPSHIRE STATE REVENUE PROJECTIONS FROM THE GOVERNOR AND THE HOUSE WAYS AND MEANS COMMITTEE GENERAL AND EDUCATION TRUST FUNDS



Source: New Hampshire Office of Legislative Budget Assistant, *House Ways and Means Revenue Estimate Worksheet*, March 18, 2021;
New Hampshire Comprehensive Annual Financial Report, State Fiscal Year 2020

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

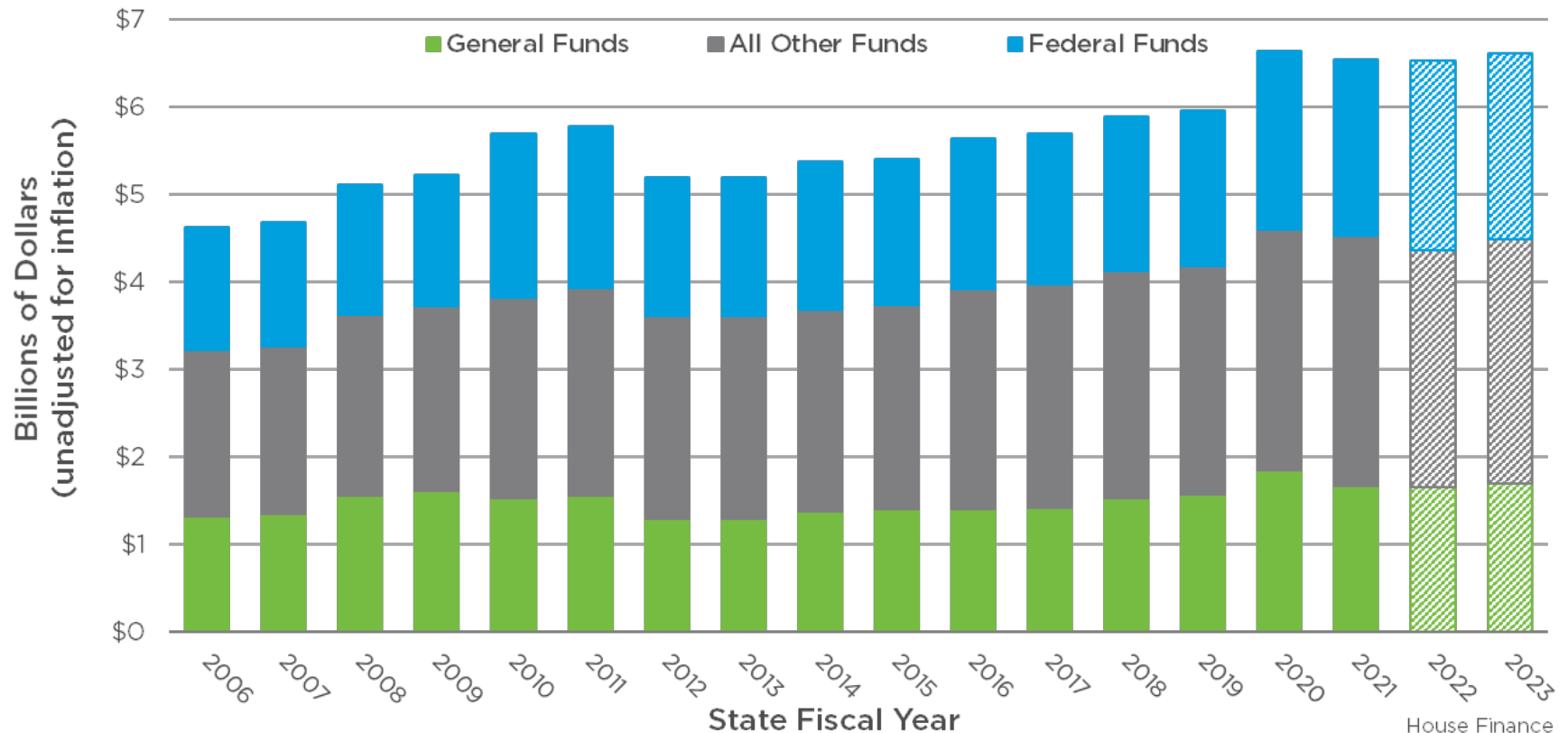
- Operating Budget Bill, typically House Bill 1 or “HB1”: the line-item appropriations to specific operations
- Trailer Bill, typically House Bill 2 or “HB2”: the companion omnibus bill with policy changes and separate appropriations

House considers State Budget after Governor, before Senate

- Agencies submit requests to Governor, and Governor presents budget to the Legislature in February of odd-numbered years
- House first considers budget, then moves to Senate, Committee of Conference final step in Legislature before returning to Governor

HOUSE FINANCE COMMITTEE WOULD DEVIATE FROM DECADE-LONG TREND

HISTORICAL STATE BUDGET APPROPRIATIONS AS ENACTED AND THE HOUSE FINANCE COMMITTEE PROPOSAL



Note: Includes Trailer Bill and Back of Budget adjustments as represented in Surplus Statements, and Back of Budget reductions only for State Fiscal Years 2006 to 2009.

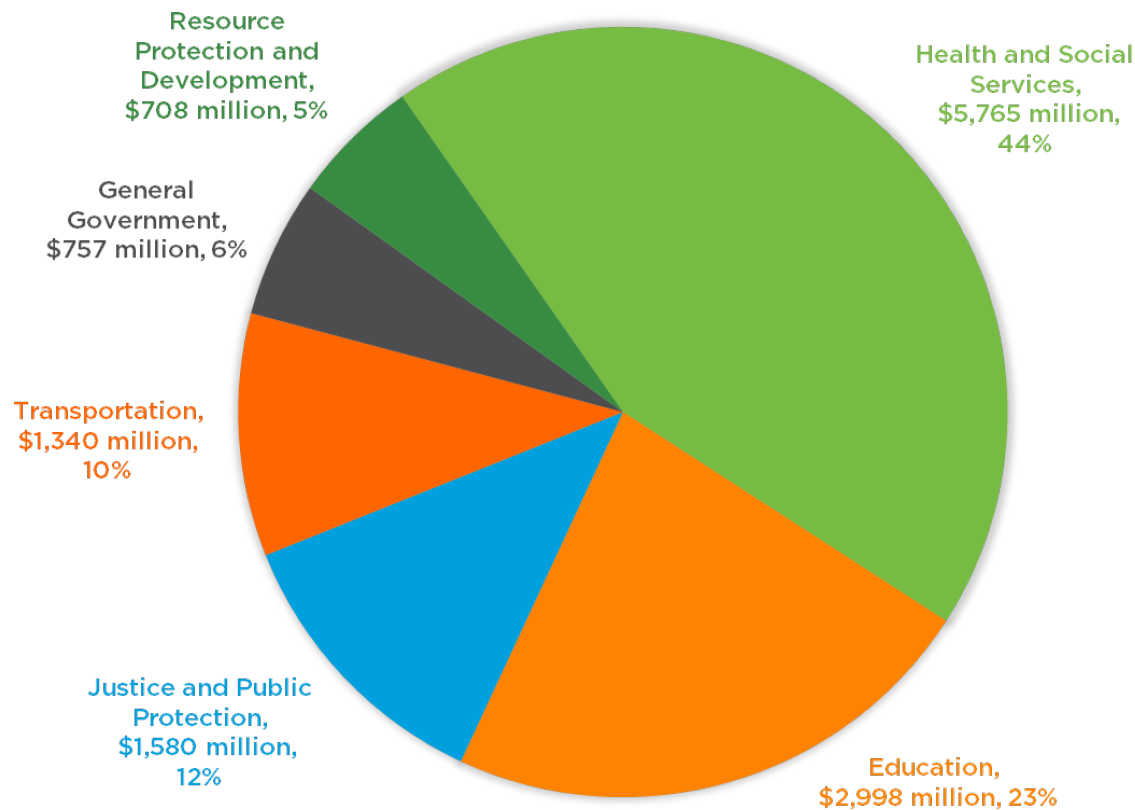
Sources: New Hampshire Office of Legislative Budget Assistant, Surplus Statements;

HB 1, Section 1.07 as Approved, Sessions 2005 to 2015; HB 144, Session 2017; HB 3 as Approved, Session 2019; 2021-1045h

House Finance Committee's Proposal

PROPOSED NEW HAMPSHIRE EXPENDITURES BY CATEGORY

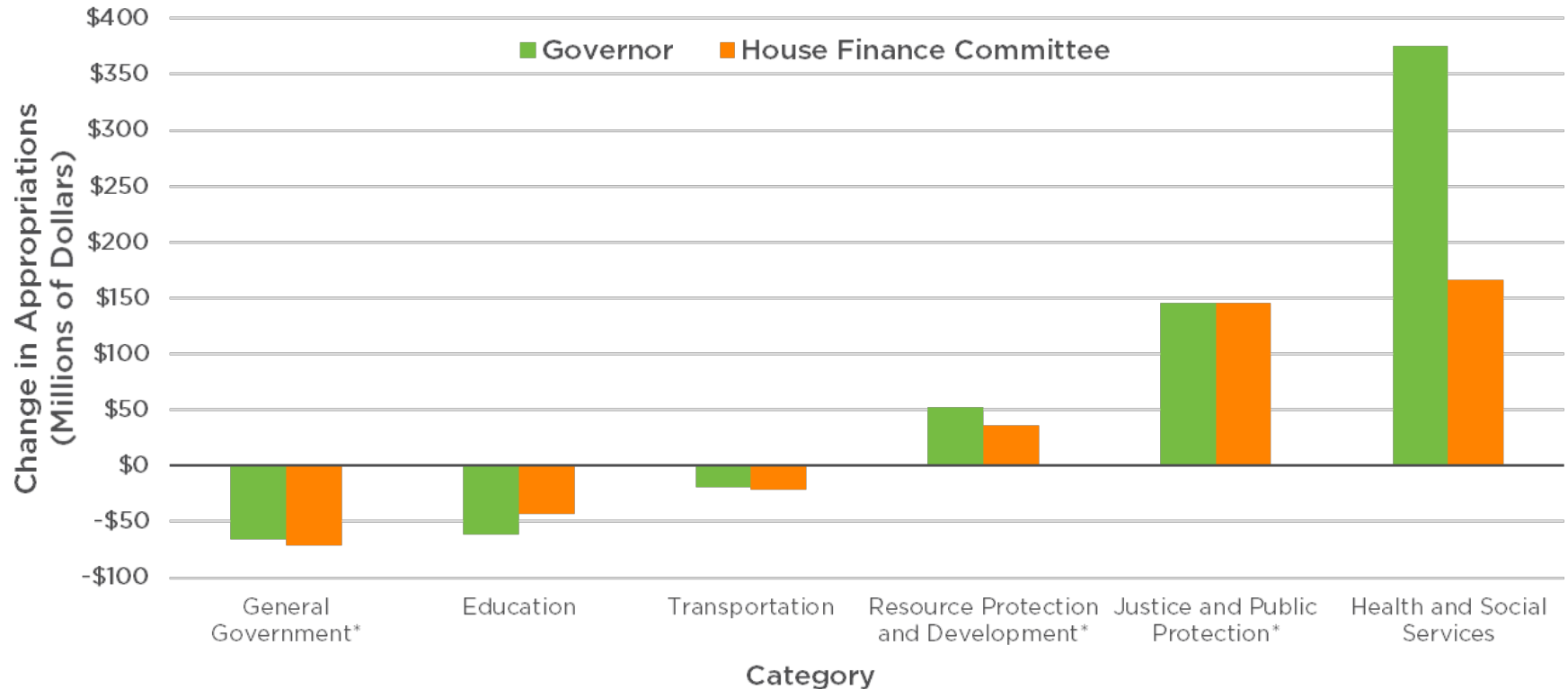
HOUSE FINANCE COMMITTEE'S BUDGET PROPOSAL
State Fiscal Years 2022 and 2023



Source: House Finance Committee, 2021-1045h

NOT A UNIFORM CHANGE ACROSS EXPENDITURE CATEGORIES

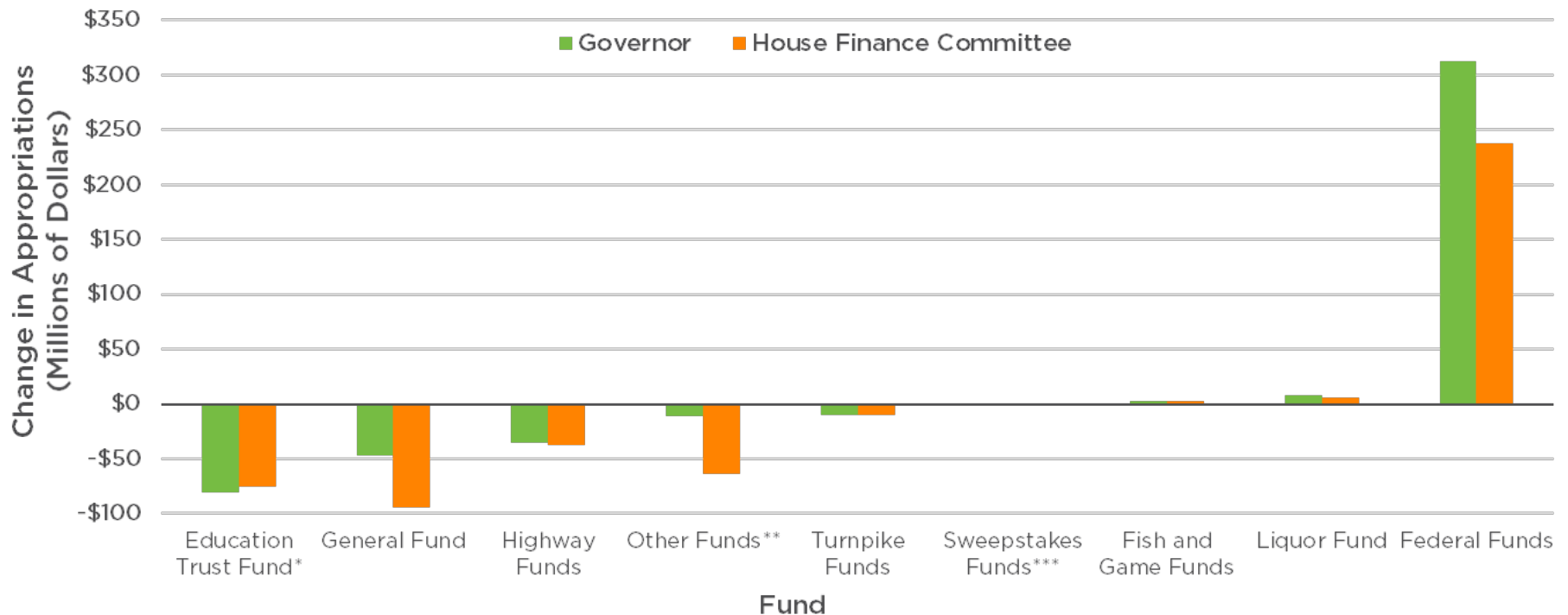
DIFFERENCE BETWEEN SFY 2020-2021 STATE BUDGET AS ENACTED,
AND THE SFY 2022-2023 GOVERNOR'S AND
HOUSE FINANCE COMMITTEE'S PROPOSALS BY CATEGORY



*Note: Proposed agency reorganizations impact these figures.
Graph shows Operating Budget Bill changes only, including back-of-budget reductions but not Trailer Bill changes.
Sources: New Hampshire Office of Legislative Budget Assistant; Chapter 345. Laws of 2019

GENERAL AND FEDERAL FUNDS SMALLER THAN GOVERNOR'S PROPOSAL

DIFFERENCE BETWEEN SFY 2020-2021 STATE OPERATING BUDGET AND TRAILER BILL APPROPRIATIONS AS ENACTED, AND THE SFY 2022-2023 THE GOVERNOR'S BUDGET PROPOSAL AND HOUSE FINANCE COMMITTEE'S PROPOSAL BY FUND

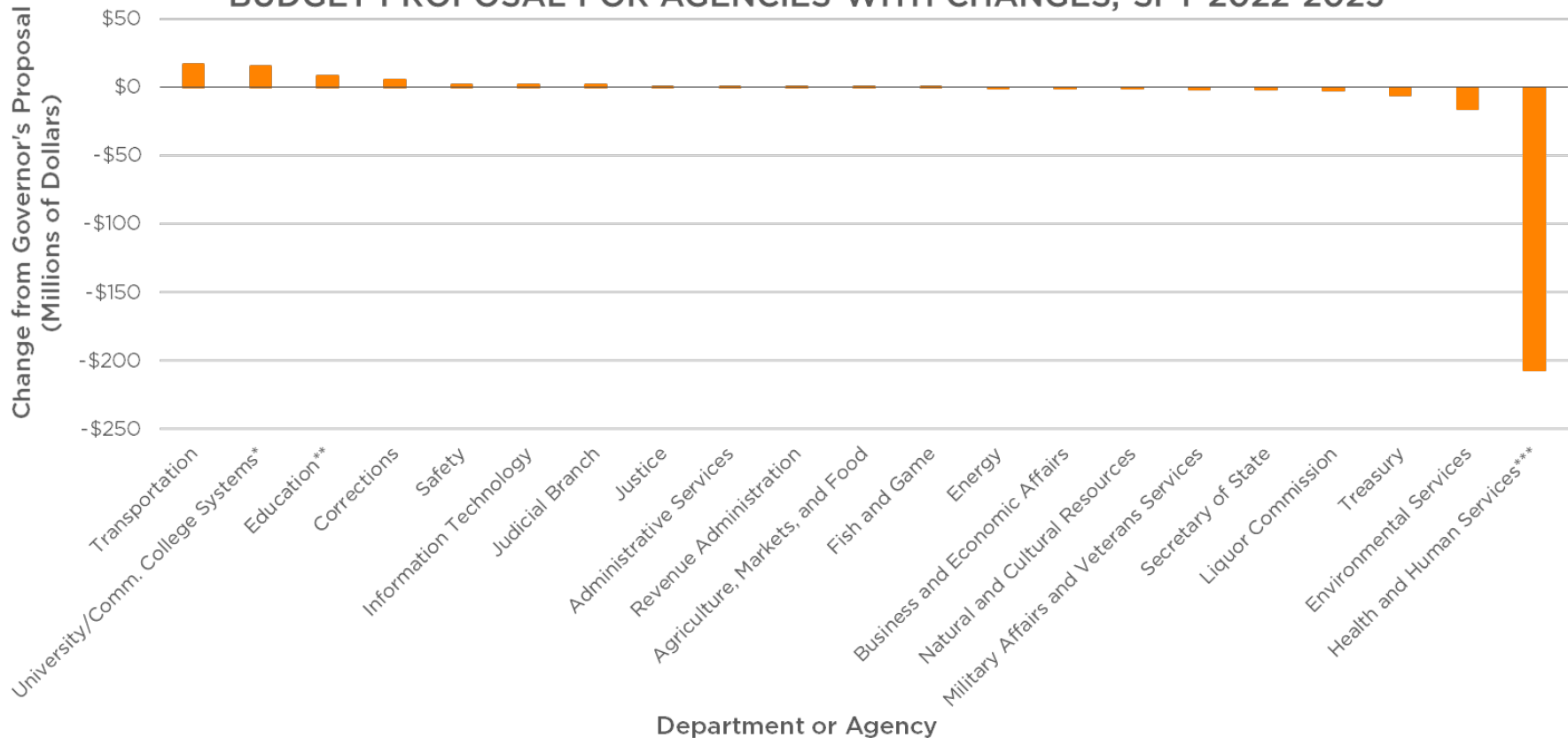


Notes: Trailer Bill appropriation changes included from all three proposals as presented in Surplus Statements. *Includes \$62.5 million special account funds for SFY 2021. **Includes reductions for interagency transfers. ***Includes Sweeps, Racing, and Charitable Gaming.

Sources: New Hampshire Office of Legislative Budget Assistant; Chapter 345. Laws of 2019

MORE THAN HALF OF AGENCY FUNDING LEVELS CHANGED

HOUSE FINANCE COMMITTEE CHANGES FROM THE GOVERNOR'S BUDGET PROPOSAL FOR AGENCIES WITH CHANGES, SFY 2022-2023



Notes: Includes all parts of HB1 and HB2 appropriations. *The Governor proposed combining the University System and the Community College System; the House Finance Committee altered that proposal and made separate appropriations for the separate systems; this comparison contrasts the combined figures for the two entities in both budgets and includes funding for the commission to study the merger. **Total does not include the reduction in the Statewide Education Property Tax, as that is a change in revenue source rather than an increased expenditure. ***The funding change includes the removal of an \$17.25 million appropriation, through either federal or borrowed funds, to build a forensic psychiatric hospital.

Source: New Hampshire Office of Legislative Budget Assistant, Detail Change Documents, March 26, 2021, and Full Committee Amendments, March 29, 2021.

AGENCY REORGANIZATIONS LARGELY RETAINED FROM GOVERNOR'S PROPOSAL

- Delays the merging of the University System and Community College System
 - Creates a commission (with \$1.5 million appropriation) to study issue, would have to provide recommendation to merge or not by January 2022, single entity created by July 2023 if merger approved legislatively
- Creates the Department of Energy
 - Public Utilities Commission would be administratively attached to a new Department of Energy, certain proposed statutes altered by the House Finance Committee
 - 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 shift to the Department of Business and Economic Affairs

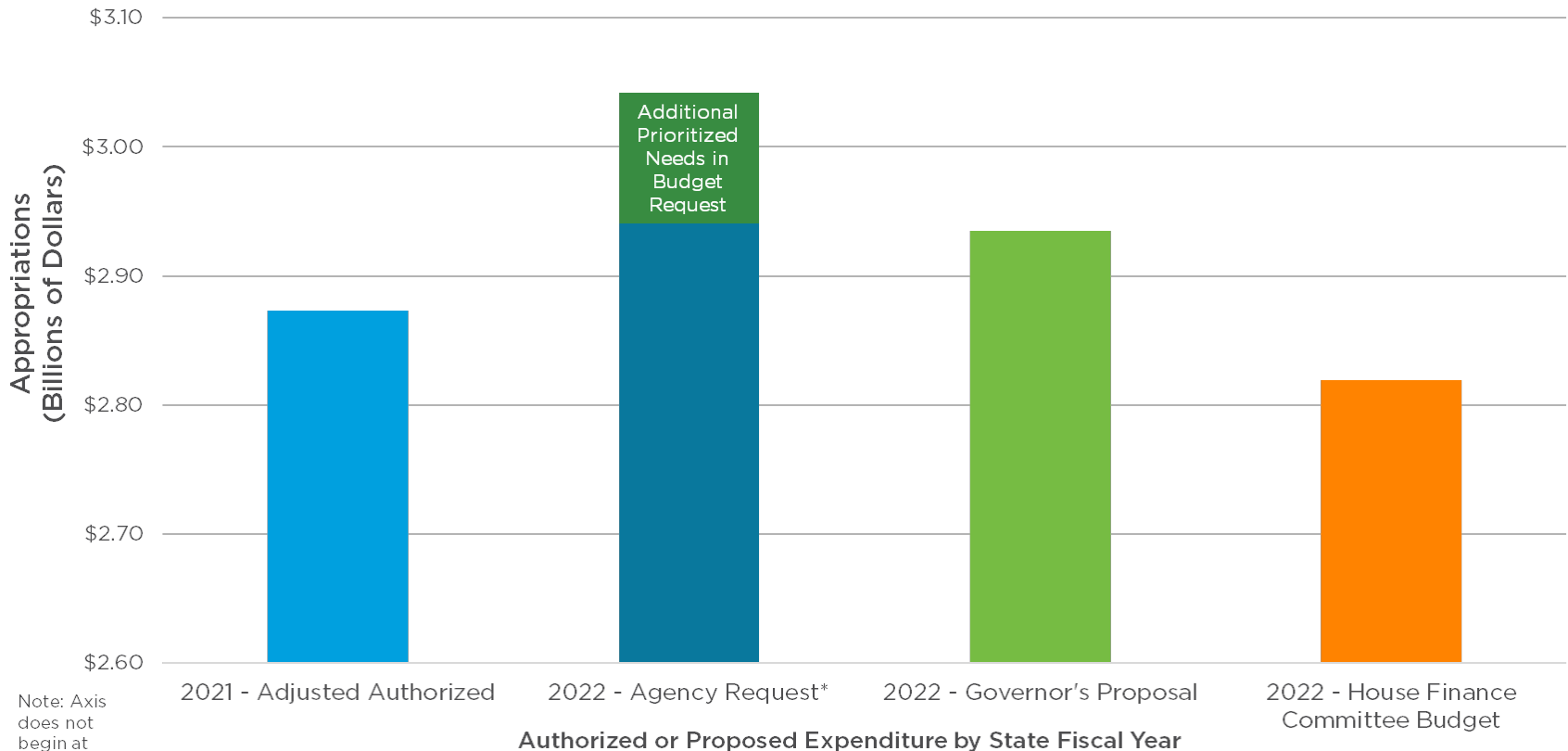
FOCUS AREA: HEALTH AND SOCIAL SERVICES

NEW HAMPSHIRE DEPARTMENT OF HEALTH AND HUMAN SERVICES

- Back of budget reduction to DHHS of \$30 million in General Funds in SFY 2022, \$20 million in SFY 2023, not specific to any operation and may have federal fund implications; cannot be drawn from developmental services, the Children's Health Insurance Program, or county programs such as nursing facility funding and long-term care
- Eliminates 226 positions, reducing appropriations by \$22.6 million in General Funds, during the biennium and limiting the DHHS to 3,000 full-time positions
- Closes the Sununu Youth Services Center, allocates funding for the placement of children who cannot be placed in the community
- Adds language to ensure funding to prevent a waitlist for employment-related child care services, which has lower funding
- Removes a \$17.25 million appropriation, from either federal relief funds or through bonds, to build a 60-bed forensic psychiatric facility on grounds of New Hampshire Hospital

REDUCED DHHS BUDGET DUE IN PART TO NON-SPECIFIC APPROPRIATION REDUCTIONS

STATE BUDGET APPROPRIATIONS FOR THE NEW HAMPSHIRE DEPARTMENT OF HEALTH AND HUMAN SERVICES BY PROPOSAL



Notes: *Agency request includes Efficiency Budget, with Additional Prioritized Needs labeled in graph. The agency request totals may not include the interagency transfers associated with information technology services. Figures based on HB 1 proposals, adjustments in the Surplus Statements, and the appropriation made for a 60-bed secure psychiatric facility.

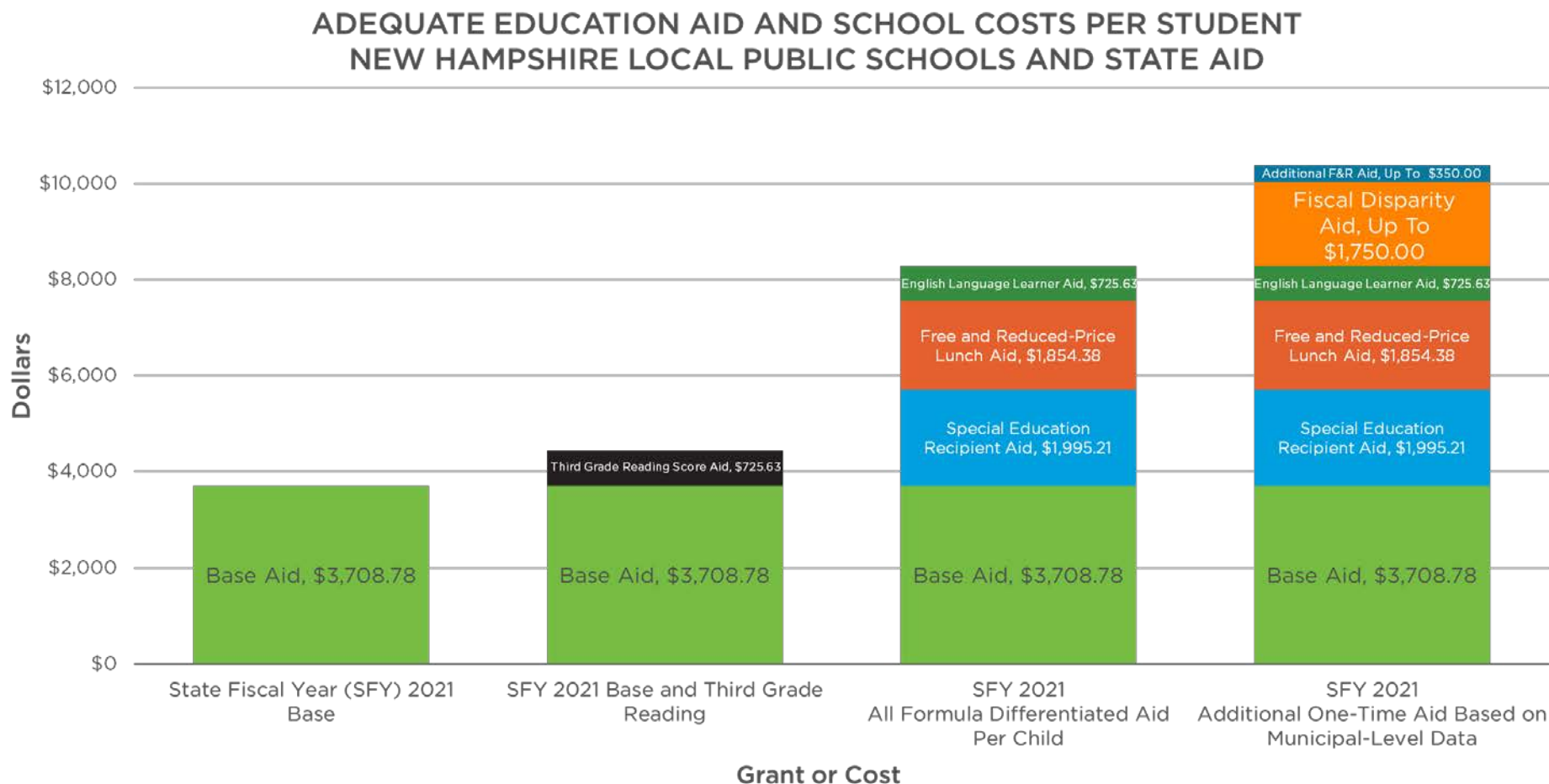
Source: New Hampshire Department of Administrative Services (Agency Request and Governor's Budget) and Office of Legislative Budget Assistant (HB 1 and 3.31.21 Surplus Statement)

OTHER HEALTH AND SOCIAL SERVICES PROVISIONS

- Removes voluntary Family Medical Leave Insurance plan based on State employee participation included in the Governor's budget proposal
- Requires family planning programs to be financially and physically separate from certain reproductive health operations to continue receiving Medicaid funding
- Removes Governor's proposed mental health and social isolation programs targeted at older adults and veterans, respectively, with alternative funding identified for veterans
- Reduces funding to address the recommendations of the review of the DHHS by firm Alvarez and Marsal, defunds the amount for potential changes to the developmental disabilities service delivery system

FOCUS AREA: EDUCATION

ADEQUATE EDUCATION GRANTS ALLOCATED PER STUDENT, WITH TARGETED AID



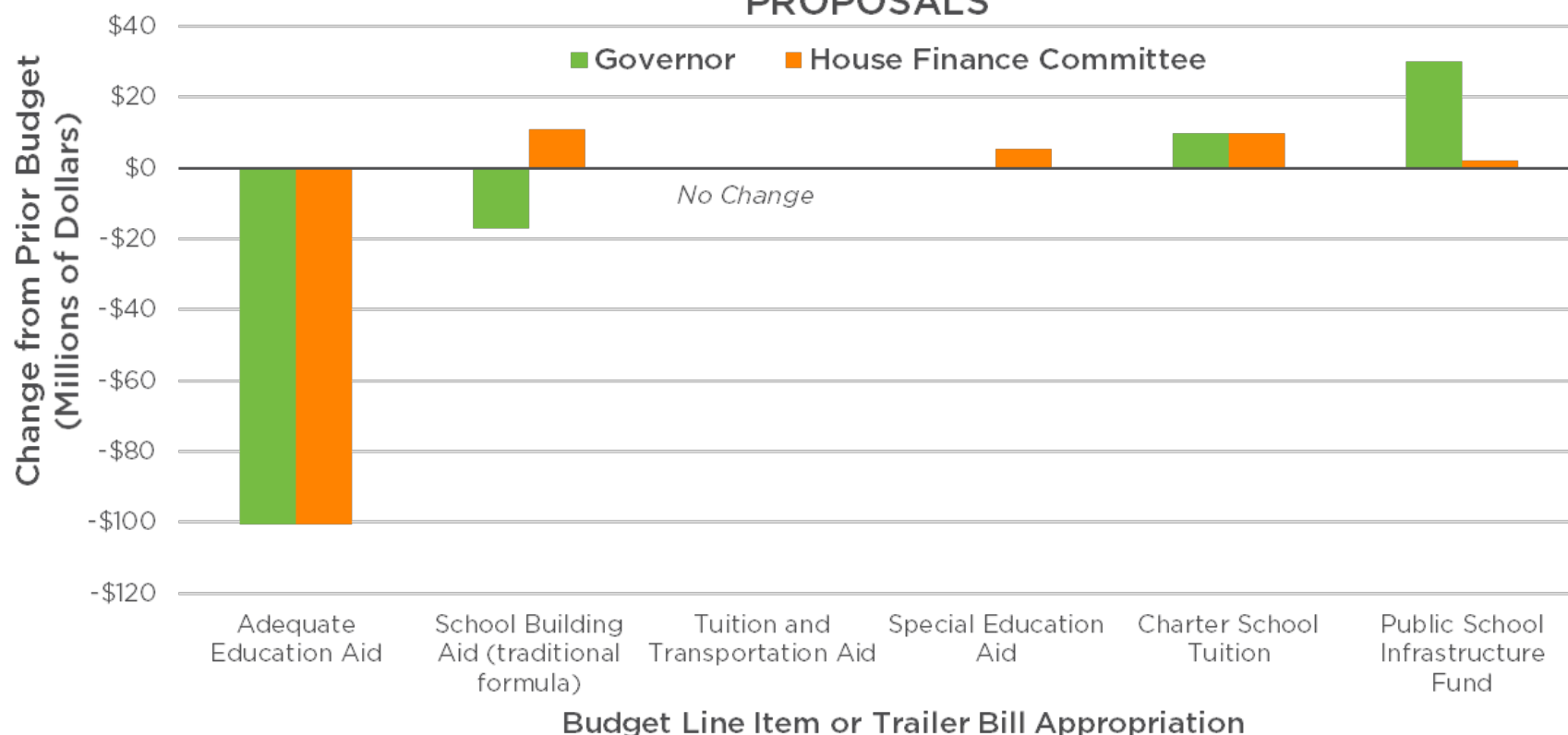
Sources: Office of Legislative Budget Assistant, Fiscal Issue Brief, Calculating Education Grants, January 2019; New Hampshire Department of Education, State Average Cost Per Pupil and Total Expenditures 2019-2020, December 21, 2020.

AGGREGATE EDUCATION FUNDING DECLINE

- Enrollment projections key for per pupil funding
- SFY 2021 boosts to education funding in per pupil grants, targeted at districts with more low-income students and less property value, totaled \$62.5 million, would not continue
- More school building aid added, including paying off debt faster and permitting new projects, reduces funding for Public School Infrastructure Fund from Governor's proposal
- Adds retroactive funding for certain full-day kindergarten operations, funding for special education services
- Maintains General Fund operating grants for University System at SFY 2021 levels, slight increase for Community College System, adds appropriation for the Dual and Concurrent Enrollment program to Community College System

ADDITIONS TO SCHOOL BUILDING AND SPECIAL EDUCATION AID

CHANGES TO STATE EDUCATION FUNDING FOR LOCAL PUBLIC SCHOOLS FROM SFY 2020-2021 STATE BUDGET, SFY 2022-2023 GOVERNOR'S AND HOUSE FINANCE COMMITTEE PROPOSALS



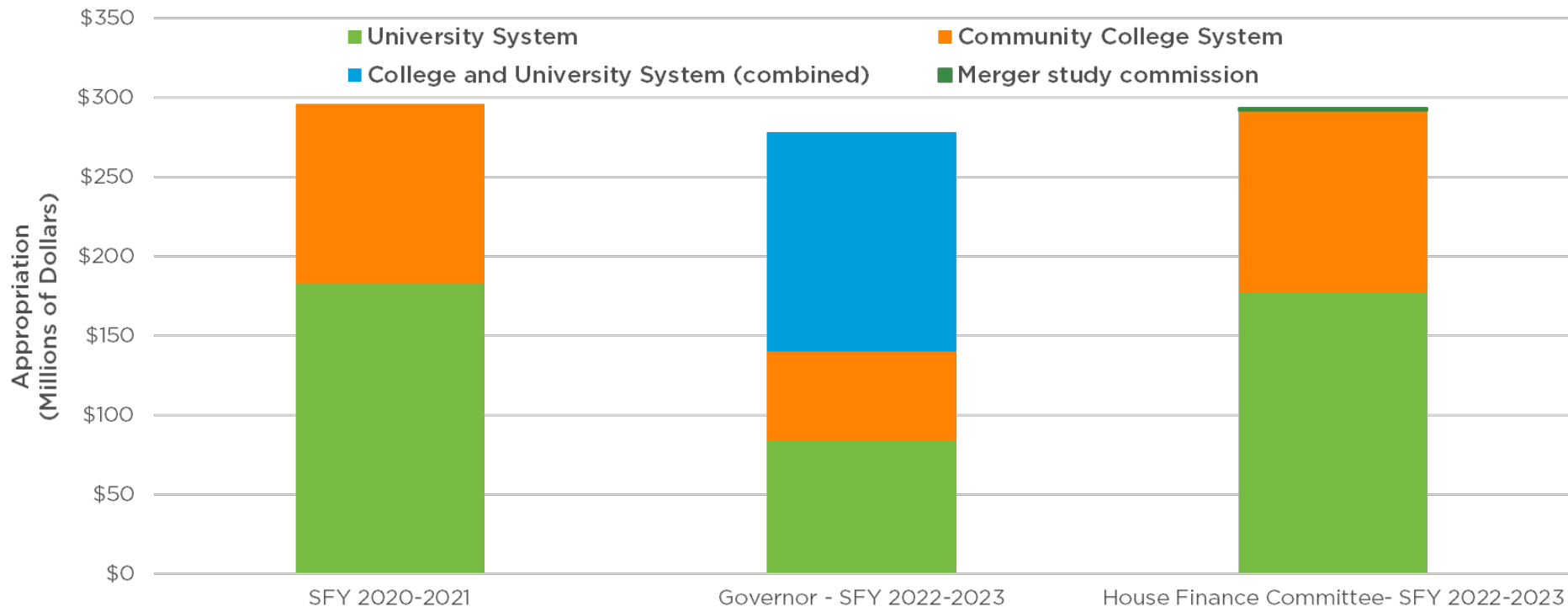
Sources: New Hampshire Office of Legislative Budget Assistant; Chapter 345. Laws of 2019

REDUCTION TO STATEWIDE EDUCATION PROPERTY TAX, AID FROM OTHER TAXES

- Statewide Education Property Tax based on statewide estimate of property value
- State tax that is raised and retained locally, dollars do not flow to the State, pays for a portion of State obligation to fund local public education
- Set to raise a target of \$363 million, target established in 2005, no inflation adjustment included
- Committee reduces the Statewide Education Property Tax by \$100 million in SFY 2023, effectively means more money will flow to local governments from other State revenue sources for the Education Trust Fund
- However, net State tax reductions may result in foregone federal assistance under the American Rescue Plan Act

HIGHER EDUCATION MERGER WOULD BE STUDIED AND FUNDING BOOSTED

NEW HAMPSHIRE HIGHER EDUCATION FUNDING IN THE CURRENT BUDGET AND TOTALS PROPOSED BY GOVERNOR AND HOUSE FINANCE COMMITTEE



Current State Budget and Funding Proposal

Sources: Chapter 345, Laws of 2019; Chapter 346, Laws of 2019; New Hampshire Office of Legislative Budget Assistant, *Detail Change - House Finance vs. Governor - Division 2*, March 26, 2021.

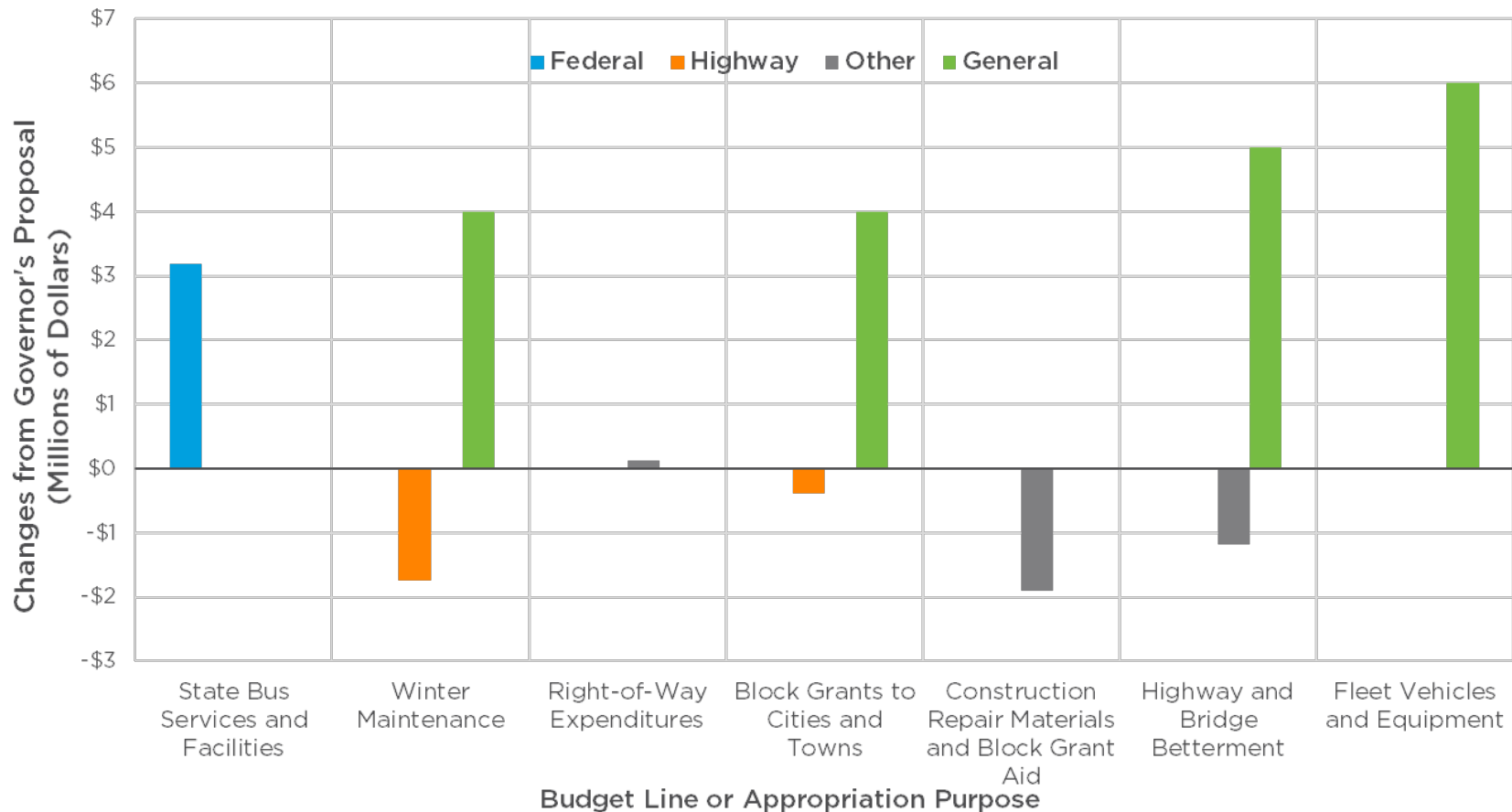
OTHER BUDGET AND POLICY AREAS

NON-EDUCATION LOCAL GOVERNMENT ASSISTANCE

- Adds funding for county-supported nursing home and in-home services, offsetting most of cost increase for counties under Governor's proposal, and inserts language to limit annual increases to two percent
- Removes funding for certain Department of Environmental Services grants to municipalities
- Retains the Governor's proposed Meals and Rentals Tax revenue sharing, permits the existing catch-up formula to operate, up to \$15 million more in revenue sharing with cities and towns, but may be less depending 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

GENERAL FUNDS SUPPORT TRANSPORTATION BUDGET PROPOSAL

HOUSE FINANCE COMMITTEE CHANGES FROM GOVERNOR'S PROPOSED
SFY 2022-2023 DEPARTMENT OF TRANSPORTATION BUDGET



Source: New Hampshire Office of Legislative Budget Assistant, *Detail Change - House Finance vs. Governor Division 2*, March 26, 2021

OTHER POLICY CHANGES

- Removes Governor's proposed student debt relief program, adds Governor's Scholarship Program funding source
- Eliminates 21 law enforcement positions at the Liquor Commission, shifts focus from enforcement to education, enforcement authority and responsibility removed from Commission, shifts to local and county law enforcement
- Prohibits defined teachings or trainings by certain State and educational officials and contractors related to race, gender, racism, sexism, and oppression
- Limits the Governor's ability to renew a state of emergency to one 21-day period before requiring the Legislature's involvement in most cases
- Refunds businesses fined for violating COVID-19 restrictions created by executive or emergency orders

TAX AND REVENUE POLICY CHANGES

COMMITTEE ADDS BUSINESS PROFITS TAX REDUCTION TO GOVERNOR'S TAX CHANGES

Retained Governor's proposals:

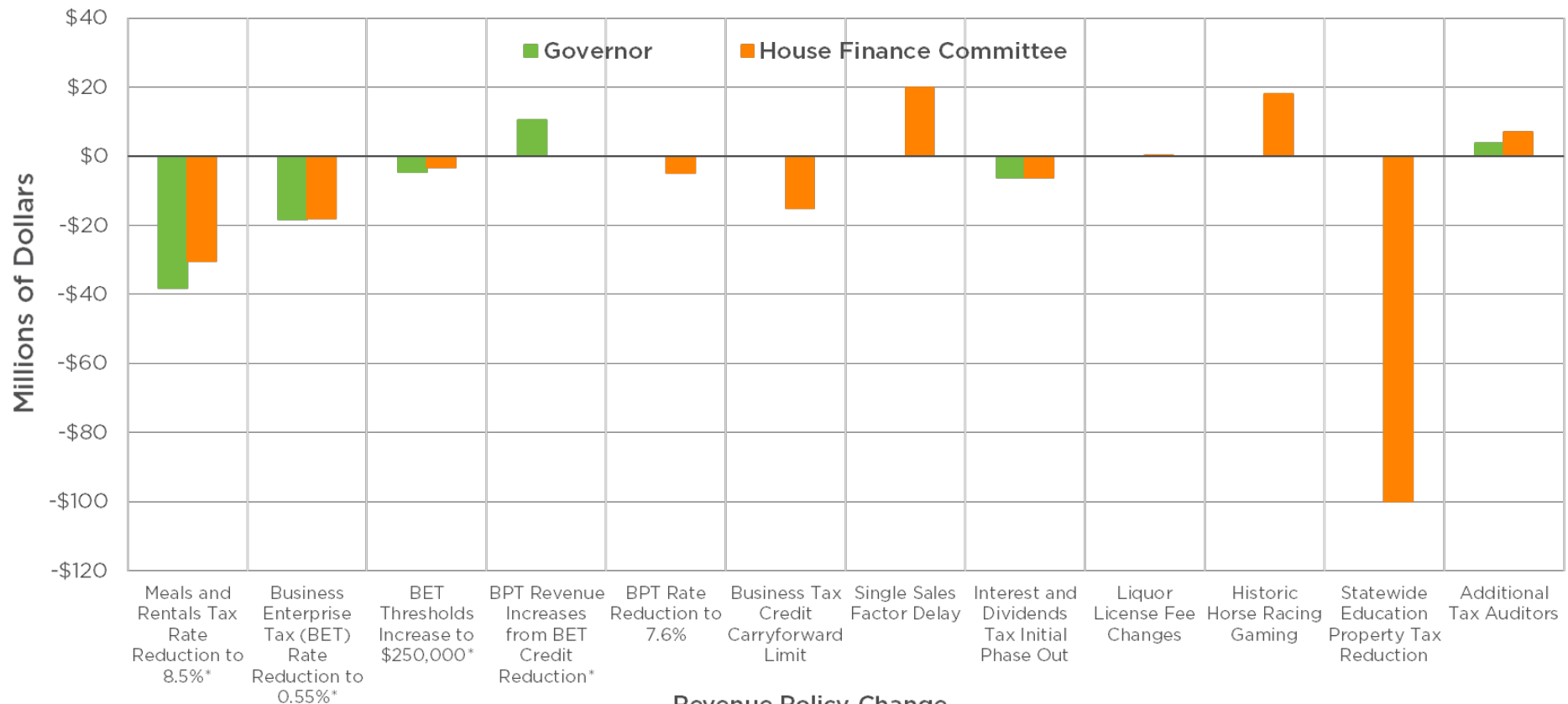
- Reducing the Meals and Rentals Tax from 9.0% to 8.5%
- Eliminating the Interest and Dividends Tax over five years, \$6.3 million less in SFY 2023, larger revenue reductions in future
- Reducing the Business Enterprise Tax from 0.60% to 0.55%
- Raising the Business Enterprise Tax filing thresholds

Added new revenue changes:

- Reducing Business Profits Tax rate to 7.6%
- Lowering Statewide Education Property Tax for SFY 2023 only
- Permitting wagering on historic horse races
- Delaying apportionment change, limiting carryforward credits

GREATER REDUCTIONS IN TAXES, CHANGES TO ESTIMATED IMPACTS

ESTIMATED REVENUE IMPACTS OF GOVERNOR'S AND HOUSE FINANCE COMMITTEE'S PROPOSED TAX-RELATED POLICY CHANGES, SFY 2022-2023



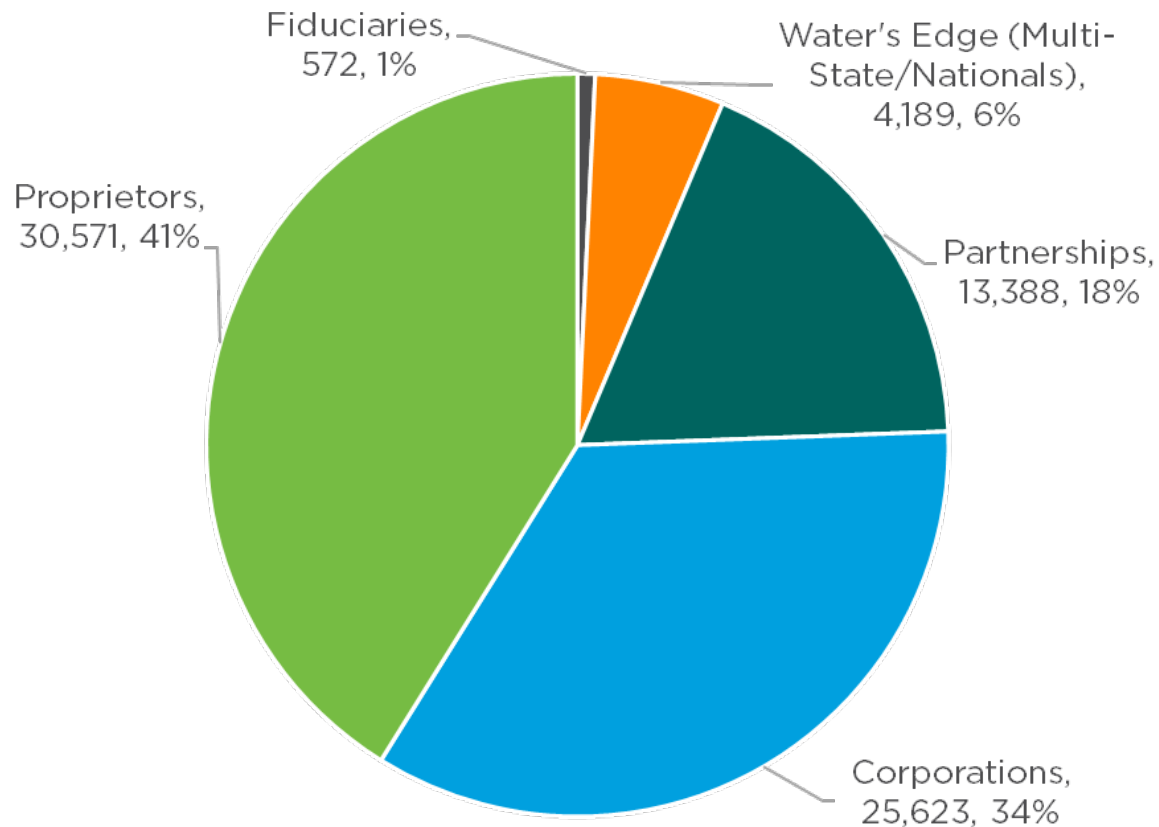
Note: *No specific policy differences between Governor and House Finance Committee proposals, but different revenue estimates or interactions with other proposals.
Sources: New Hampshire Office of Legislative Budget Assistant, Surplus Statement, March 31, 2021

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		

DIFFERENT CATEGORIES OF BPT FILERS

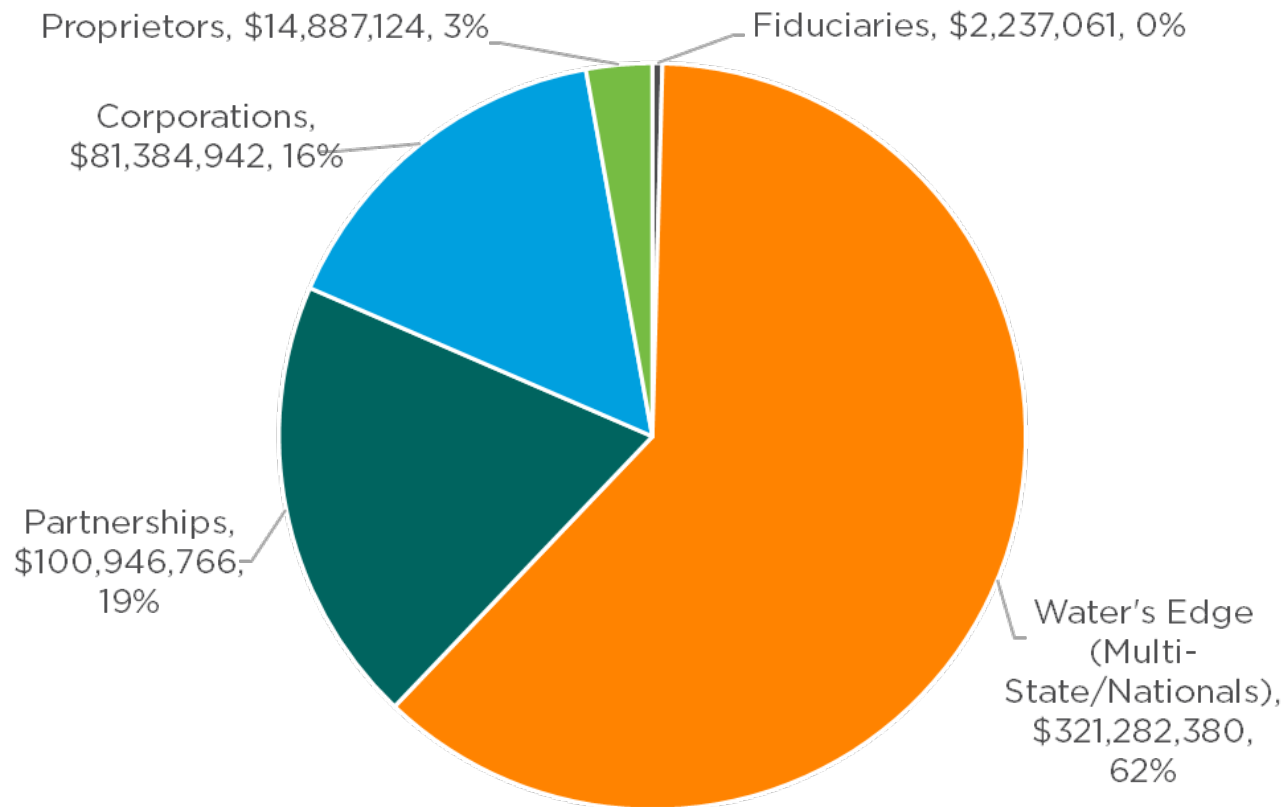
BUSINESS PROFITS TAX FILERS BY TYPE
DRAFT DATA, TAX YEAR 2018



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

LARGE MUTLI-STATE, MULTI-NATIONAL ENTITIES KEY TO BPT BASE

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



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

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
*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		

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

THE AMERICAN RESCUE PLAN ACT AND AID TO NEW HAMPSHIRE

AID TO STATE AND LOCAL GOVERNMENTS

- Permitted uses through December 2024:
 - Responding to COVID-19 or negative economic impacts
 - Premium pay for eligible essential workers
 - Funding services to extent of revenue loss from pandemic
 - Necessary investments in water, sewer, broadband infrastructure
 - Cannot be used for pensions, State net tax revenue reductions
- Estimates based on statutes (not final rules):
 - State of New Hampshire: \$960 million
 - Counties in New Hampshire: \$264 million total
 - Cities and towns in New Hampshire: \$194 million total
- Separate allocation of about \$350 million for local public education

NET TAX REVENUE REDUCTION PROVISION

- American Rescue Plan Act provision for States:
“A State or territory shall not use the funds...to either directly or indirectly offset a reduction in the net tax revenue of such State or territory resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase.”
- No regulations or specific guidance yet
- U.S. Treasury Secretary signaled policy would be a dollar-for-dollar loss of federal aid for net tax revenue reductions
- In House Finance Committee proposal, based on Surplus Statement estimates, \$157.7 million in net tax revenue reductions during biennium, more in future years

EFFECTIVE ECONOMIC STIMULUS

- American Rescue Plan Act adds certainty to economic outlook, likely to support faster recovery
- Past economic modeling suggests enhanced food assistance, unemployment benefits, and aid to states efficiently stimulate economic growth
- Estimates indicate Act might reduce child poverty rate by half, primarily through expanded Child Tax Credit
- Also aid to support medical care and state financing, such as enhanced Medicaid for home- and community-based services
- Likely at least \$3.8 billion flowing to New Hampshire from Act, based on available state-by-state estimates and depending on economy, details of federal rules
- Economic boost from Act helps State revenue outlook

For more information and sources, see NHPFI's March 26, 2021 post *Federal American Rescue Plan Act Directs Aid to Lower-Income Children, Unemployed Workers, and Public Services*.

KEY SUMMARY POINTS

- House Finance Committee shifts funding away from health and social services, primarily through back of budget and aggregate position reductions, relative to Governor's budget proposal
- Committee shifts funding toward counties and local property tax payers, aid less targeted than in current budget
- Proposed tax reductions risk loss of significant portion of available federal funds

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
- Recession has impacted those with the fewest resources most severely, and the next State Budget can help build an equitable, inclusive, and sustainable recovery

NEXT STEPS

- Budget Crossover: April 9, 2021, House Budget deadline
- March and April Cash Revenues Known: Early May 2021
- Senate Acts on House Bills: June 3, 2021, Senate Budget deadline
- Committee of Conference report deadline: June 17, 2021
- Last day for House and Senate to pass Committee of Conference reports: June 24, 2021
- State Fiscal Year 2022 Begins: July 1, 2021



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