



EXAMINING THE STATE BUDGET: THE SENATE'S PROPOSAL

JUNE 8, 2021



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

Senate considers State Budget after Governor and House

- 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

ROADMAP FOR SENATE'S BUDGET WEBINAR

Changes from House Budget

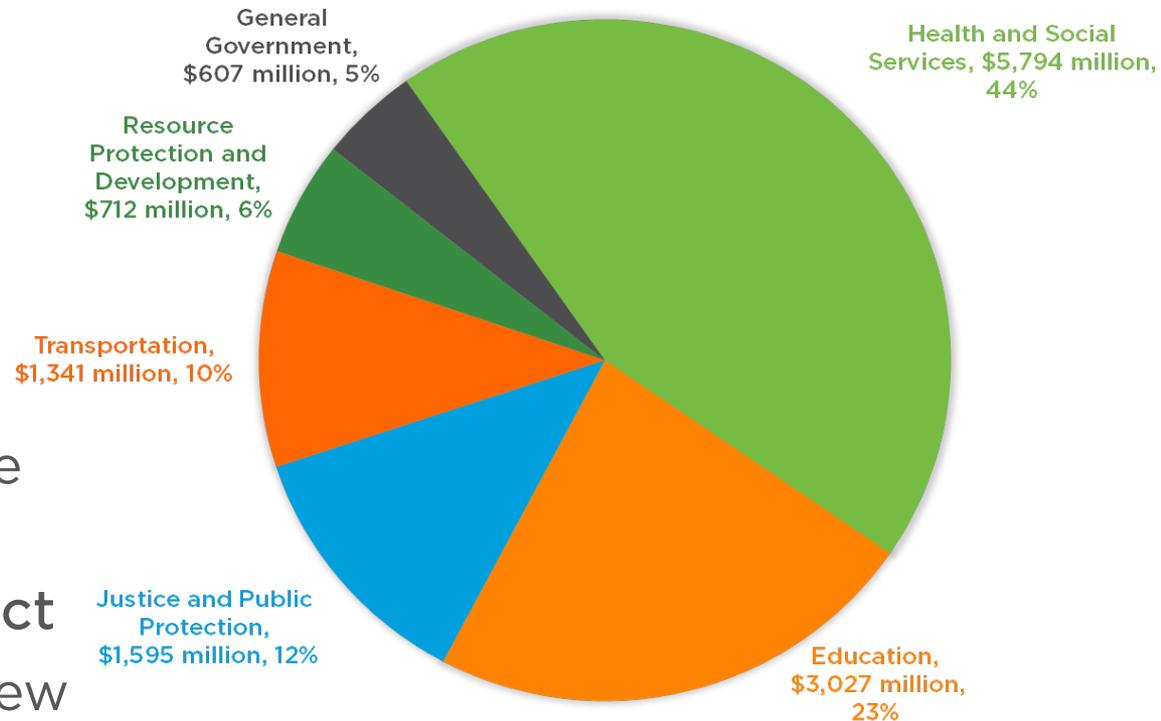
1. Health and Social Services
2. Education
3. Other Budget Areas
4. Revenue Projections and Revenue Policy Changes
5. Comparing the Topline Numbers

American Rescue Plan Act

6. Flexible Funds Overview

SENATE STATE BUDGET PROPOSAL

State Fiscal Years 2022 and 2023



Source: HB 1-A as Amended by the Senate (including back-of-budget changes), June 3, 2021

OTHER NHFPI BUDGET RESOURCES

Budget Issue Briefs in 2021:

- The Governor's Budget Proposal for State Fiscal Years 2022 and 2023 – March 11, 2021
- The House of Representatives Budget Proposal for State Fiscal Years 2022 and 2023 – April 26, 2021
- Designing a State Budget to Meet New Hampshire's Needs During and After the COVID-19 Crisis – February 8, 2021

Budget Webinars in 2021:

- Examining the State Budget: The Governor's Proposal – February 19, 2021
- Examining the State Budget: The House Finance Committee's Proposal – April 6, 2021

All available at nhfpi.org/topic/budget

THE CONTEXT: A BUDGET PROCESS IN AN UNSETTLED ECONOMIC AND PUBLIC HEALTH ENVIRONMENT

Economic situation remains difficult for many Granite Staters

- About one in five Granite State adults reported paying for usual household expenses was somewhat or very difficult (May 12-24)
- Negative economic impacts of COVID-19 crisis have been most severe on people, groups with the fewest resources
- Employment in low-wage work impacted much more deeply and persistently than middle- and high-wage work

Federal actions and State revenues help support residents

- American Rescue Plan Act has improved economic outlook
- State revenues continue to be strong, generating a budget surplus during this biennium

Sources: U.S. Census Bureau, Household Pulse Survey, Week 30, accessed June 5, 2021; Opportunity Insights Economic Tracker/Chetty, Friedman, Hendren, Stepner, et al. data as of March 31, 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 May 2021

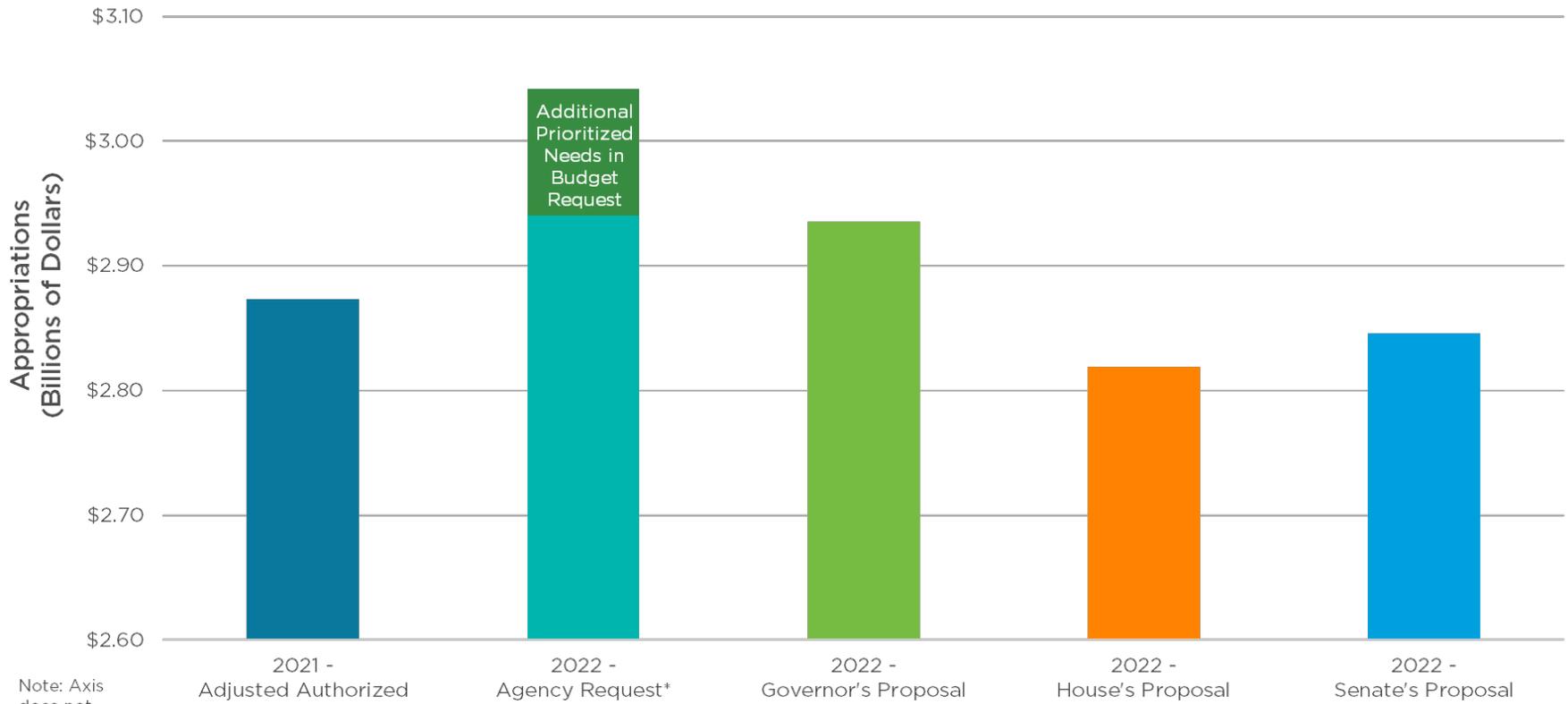
HEALTH AND SOCIAL SERVICES

NEW HAMPSHIRE DEPARTMENT OF HEALTH AND HUMAN SERVICES

- Removes House's proposed \$50 million back-of-budget reduction
- 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
- Reduces DHHS appropriations primarily by reducing federal Medicaid matching funds due to lower caseloads, moving funds off budget, funding services next year with unspent funds from this year
- Closes the Sununu Youth Services Center no later than March 1, 2023, establishes a committee to develop closure and replacement plans
- Adds \$30 million in appropriations to construct a 24-bed forensic psychiatric hospital, \$6 million for new transitional housing beds and enhanced reimbursement rates for behavioral health patients, and \$8.2 million for community mental health care and stabilization
- Funds a dental benefit in Medicaid for adults age 21 and older, with benefit starting no later than January 2023

SENATE PARTIALLY RESTORES DHHS FUNDING

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



Note: Axis does not begin at zero.

Authorized or Proposed Expenditure by State Fiscal Year

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 for a 60-bed secure psychiatric facility in the Governor's proposal.

Sources: New Hampshire Department of Administrative Services; New Hampshire Office of Legislative Budget Assistant

LONG-TERM CARE AND MEDICAID REIMBURSEMENT RATES

- Adds \$21.4 million to increase funding for nursing homes by 5 percent, using General Fund and federal matching funds without added county funding obligations
- At least a 5 percent rate increase for most services for Choices for Independence Medicaid waiver services for home and community-based care as an alternative to nursing homes
- 5 percent increase to skilled nursing facilities and facilities providing intermediate care to people with intellectual disabilities
- Appropriation of \$4 million, including \$2 million from General Fund, for adult medical day services
- \$11 million in dollars that would have lapsed after SFY 2021 for waiver and nursing home services permitted to be used into SFY 2022

HOMELESS AND HOUSING SERVICES

- Adds \$3 million for funding shelter programs at DHHS
- Makes a one-time \$25 million appropriation to the Affordable Housing Fund
- Preserves dedicated funding stream of \$5 million per year to the Affordable Housing Fund from the Real Estate Transfer Tax
- Adds funding to budget for Housing Appeals Board

OTHER HEALTH AND SOCIAL SERVICES PROVISIONS

- Restores family medical leave insurance plan based on State employee participation and included in the Governor's budget proposal, had been removed by House
- Adds \$3 million, including federal and State funds, for additional Medicaid home visiting services
- Adds \$3 million for child care for families with preventive or protective cases previously closed by the DHHS
- Funds additional 10 child protective service worker positions
- Appropriates funding for youth tobacco prevention
- Establishes and funds Food Stamp Program (SNAP) incentive providing matching dollars for fresh fruits and vegetables
- Removes family planning facility separation requirement, prohibits abortions 24 weeks or longer after pregnancy begins

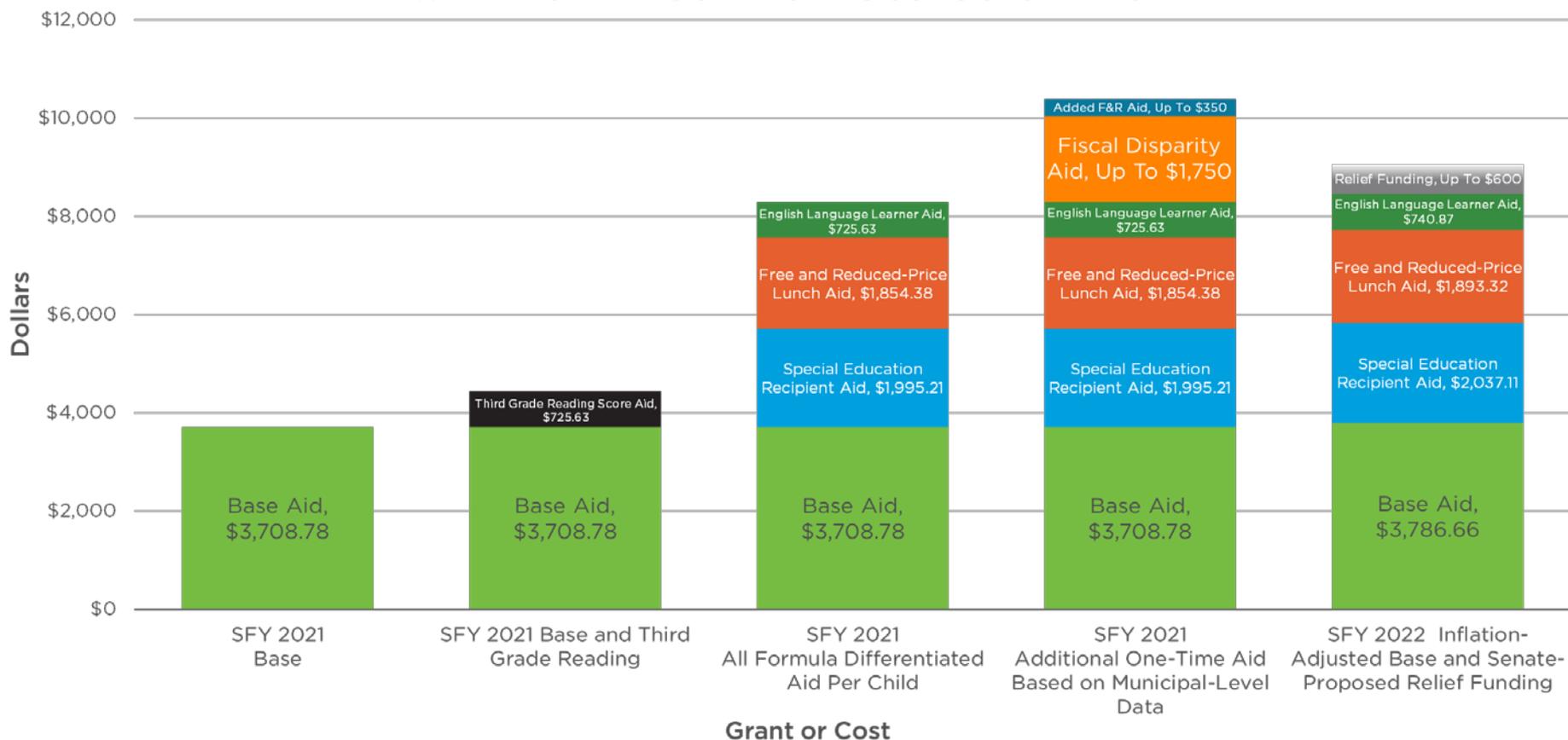
EDUCATION

KEY EDUCATION FUNDING CHANGES

- Enrollment projections key for per pupil funding
- Senate budget adds up to \$17.5 million per year for additional, targeted funding based on free and reduced-price school meal eligibility, appropriated to a special account
- SFY 2021 boosts to education funding in per pupil grants, targeted at districts with less taxable property value per student, totaled \$47.5 million, would not continue
- Holds enrollment at the higher of pre-pandemic and pandemic enrollment levels for purposes of per-pupil grants, adds approximately \$29.0 million for SFY 2022
- Alters House's appropriations for school building aid, changes to a \$30 million contribution to the formula without targeting for debt relief, funded with surplus SFY 2021 dollars through Trailer Bill, removes \$50 million cap on projects for biennium

ADEQUATE EDUCATION GRANTS ALLOCATED PER STUDENT, WITH TARGETED AID

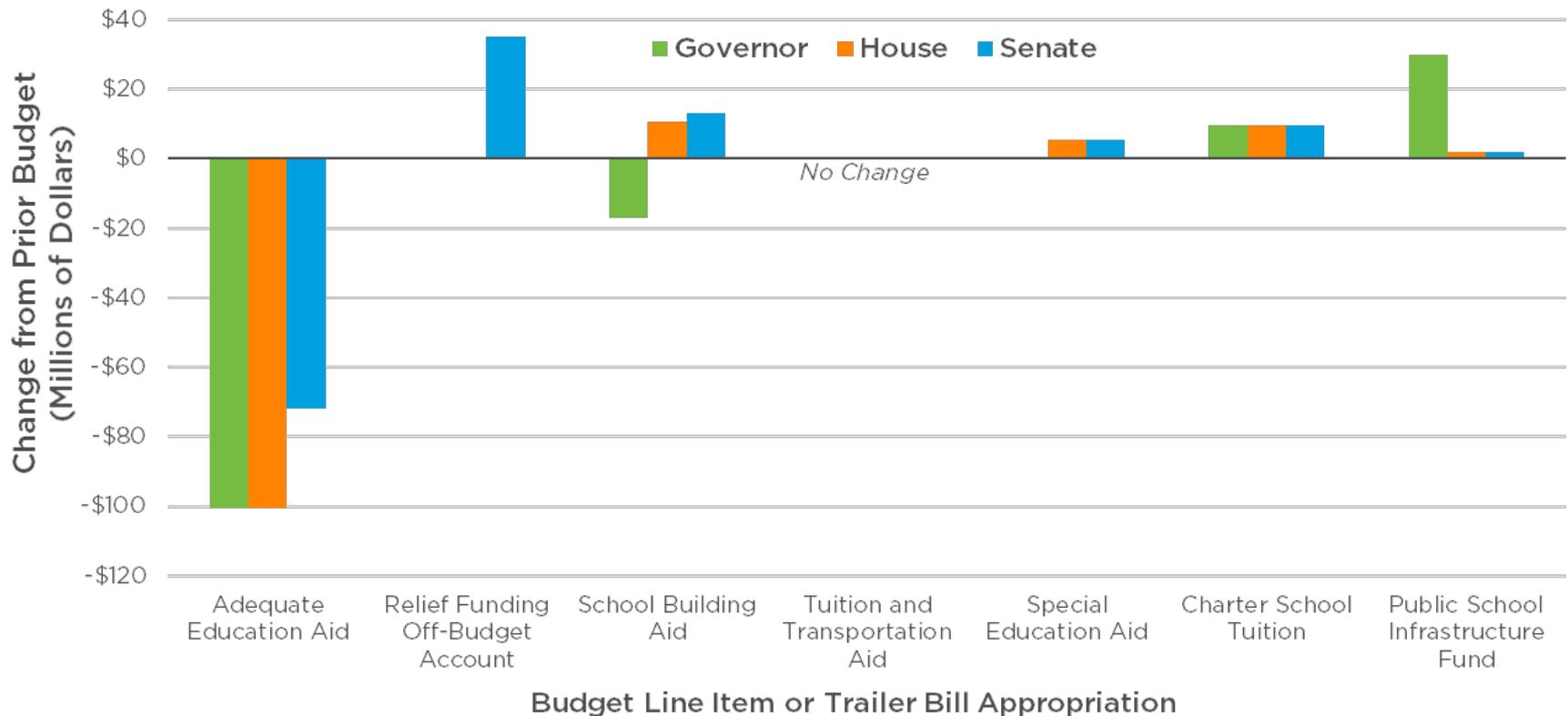
ADEQUATE EDUCATION AID AND SCHOOL COSTS PER STUDENT NEW HAMPSHIRE LOCAL PUBLIC SCHOOLS AND STATE AID



Sources: Office of Legislative Budget Assistant, Fiscal Issue Brief, Calculating Education Grants, January 2019, and updated version January 2021; HB 2 as Amended by the Senate, June 3, 2021.

SENATE ADDS FUNDING FOR ADEQUATE EDUCATION AID, RELIEF FUNDING

CHANGES TO STATE EDUCATION FUNDING FOR LOCAL PUBLIC SCHOOLS FROM CURRENT STATE BUDGET TO 2021 SESSION'S STATE BUDGET PROPOSALS



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

EDUCATION FREEDOM ACCOUNTS

- Permit parents to, if they disenroll their children from school districts, receive the Adequate Education Aid funding the school district would have received to support that student
- Dollars could be used to support education-related expenses, including tuition and fees at private schools, information technology services and hardware used primarily for education, tutoring, textbooks, uniforms, approved expenses
- To be eligible, student must be a resident eligible for public school and from a household with income below 300 percent of the federal poverty guidelines at the time of application
- Cost difficult to project, Department of Education assumes modest cost of \$3.45 million during the biennium
- School districts would receive 50 percent of grant the year after a student departs, 25 percent the next year, no later aid

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, set in 2005, no inflation adjustment included
- 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
- Removes transfer from General Fund added by the House to support reductions, higher revenue estimates erased need

HIGHER EDUCATION MERGER ELIMINATED, FUNDING FOR DEDICATED PURPOSES ADDED

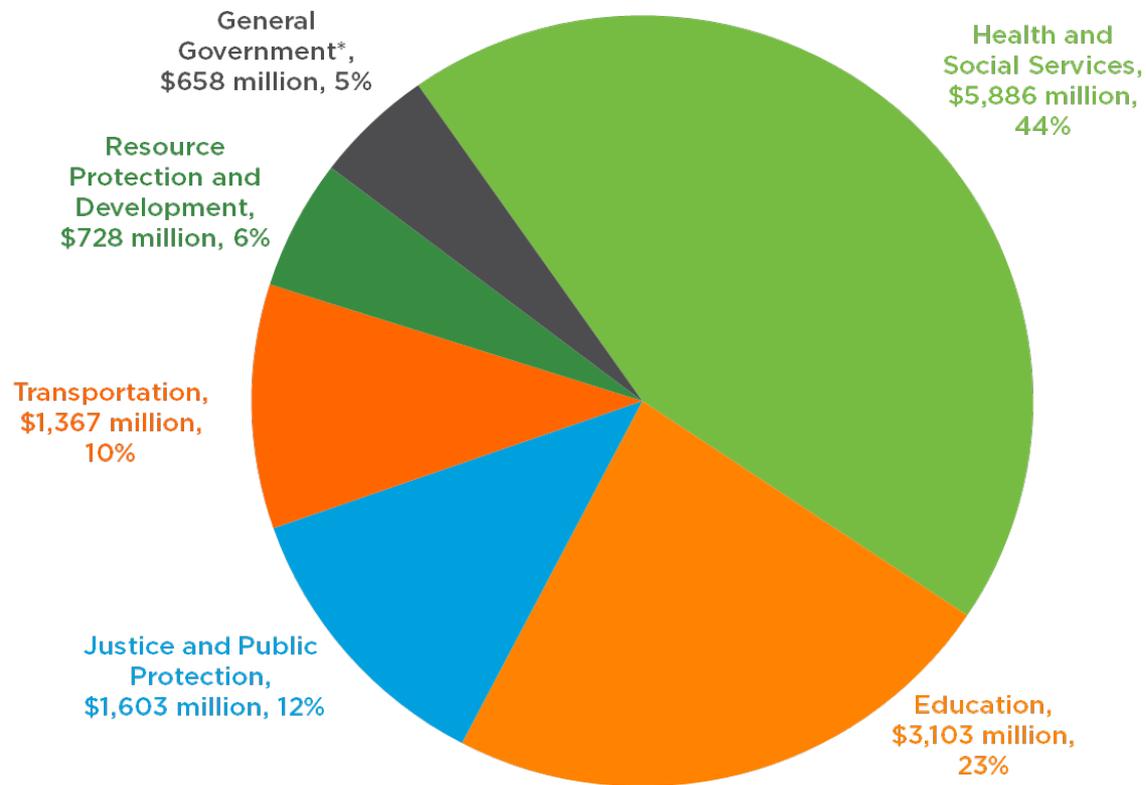
- Removes the requirement for merger of University and Community College Systems and the study commission
- Transfers certain authority over the Dual and Concurrent Enrollment Program to the Community College System and appropriates \$3 million for the Program during biennium
- Adds \$6 million in SFY 2021 surplus dollars to the Governor's Scholarship Program, and does not change House's transferring control of Program to the New Hampshire College Tuition Savings Plan Advisory Commission
- Appropriates \$3 million to the Department of Education for a State student data collection and reporting system

OTHER BUDGET AND POLICY AREAS

PROPOSED NEW HAMPSHIRE BUDGET EXPENDITURES BY CATEGORY

SENATE STATE BUDGET PROPOSAL

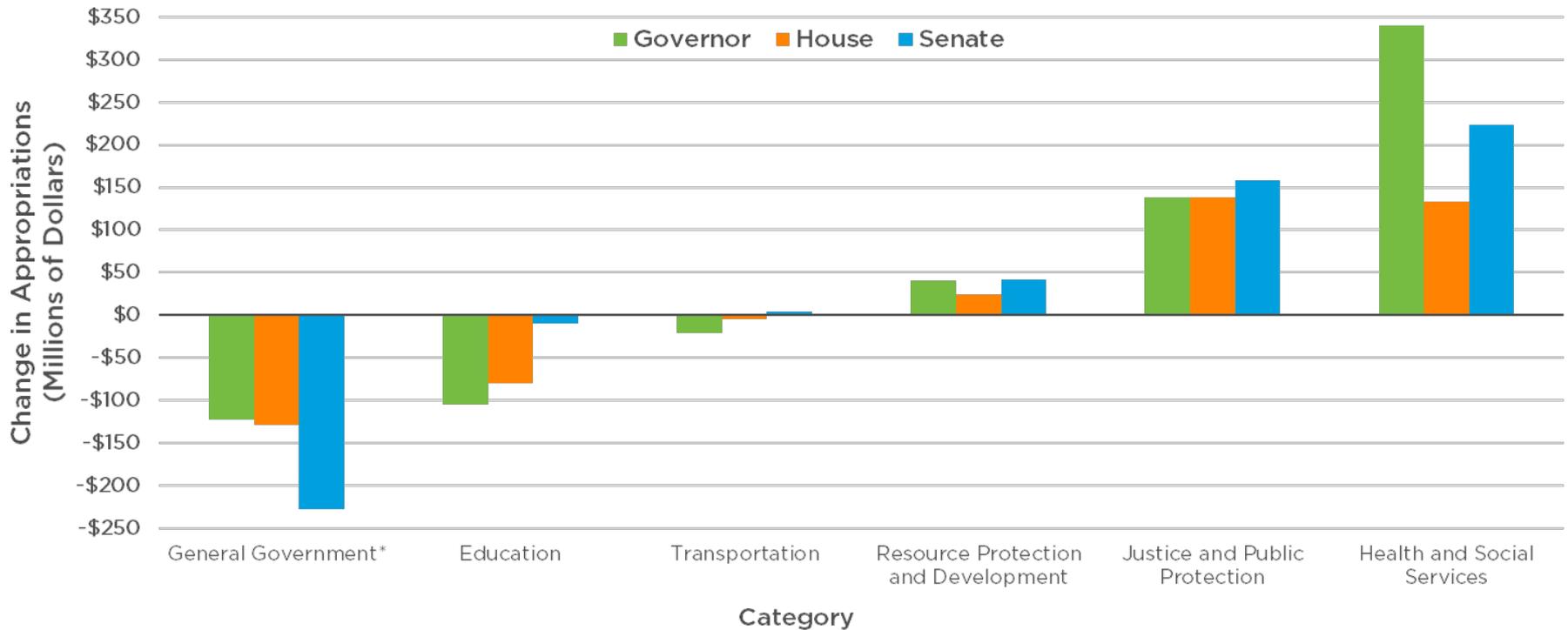
SFYs 2022 and 2023, and Trailer Bill SFY 2021 Appropriations



Note: General Government includes HB2 appropriations for the Affordable Housing Fund, FRM Victim's Fund, and State employee pay raises.
Source: HB 1 and HB 2 as Amended by the Senate (including back-of-budget changes), June 3, 2021

NOT A UNIFORM CHANGE ACROSS EXPENDITURE CATEGORIES

DIFFERENCE BETWEEN THE CURRENT STATE BUDGET'S APPROPRIATIONS AS ENACTED AND THE 2021 SESSION'S STATE BUDGET PROPOSALS FOR APPROPRIATIONS BY CATEGORY

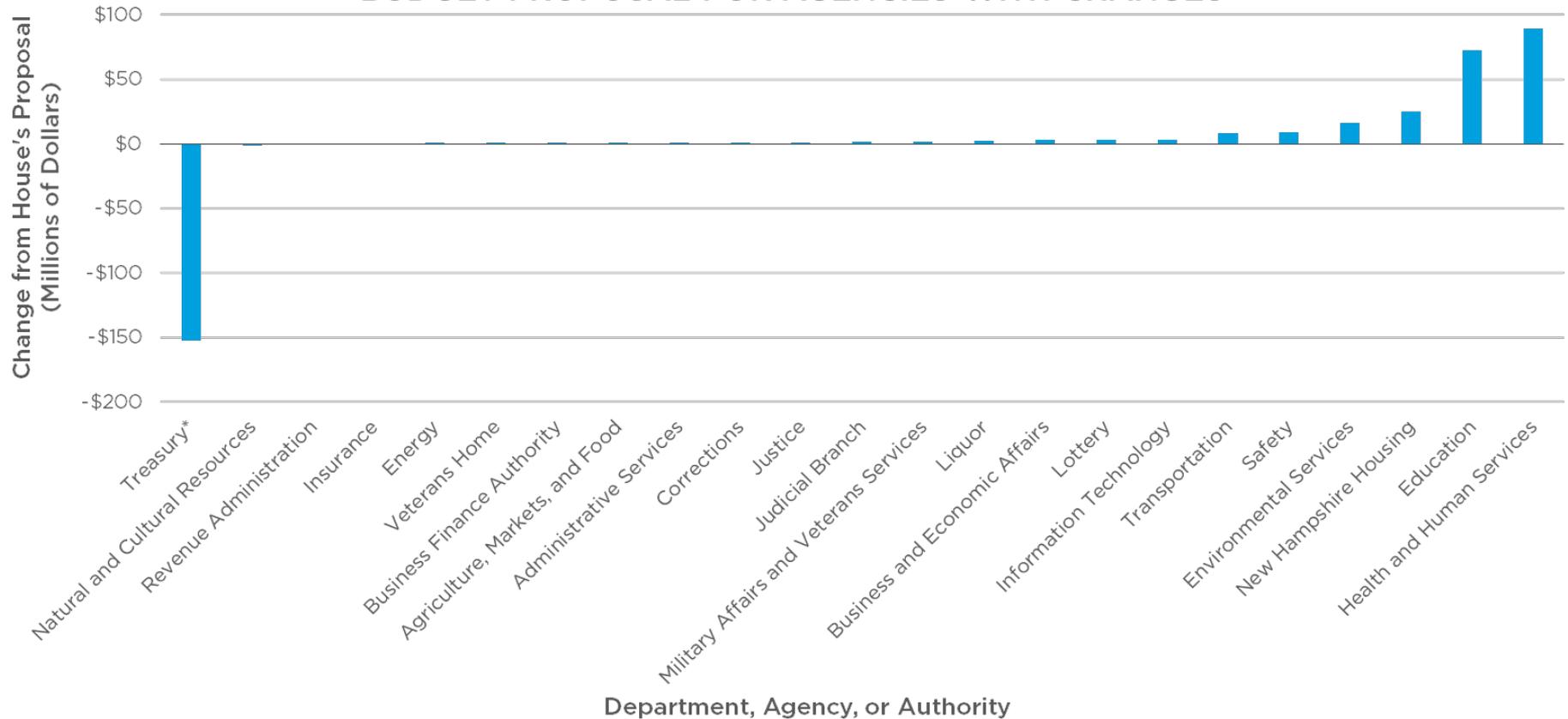


Note: Figures by category do not control for proposed agency reorganizations. Graph shows both Operating Budget Bill and Trailer Bill appropriations. *General Government includes Trailer Bill appropriations for the Affordable Housing Fund, FRM Victim's Fund, and State employee pay raises.

Sources: New Hampshire Office of Legislative Budget Assistant; HB1 and HB2 as Introduced, passed by the House, and passed by the Senate; Chapter 345. Laws of 2019

SENATE MADE SIGNIFICANT CHANGES AT KEY AGENCIES

SENATE CHANGES FROM THE HOUSE'S BUDGET PROPOSAL FOR AGENCIES WITH CHANGES



Notes: Includes all parts of HB1 and HB2 appropriations of State Fiscal Year (SFY) 2021 surplus, as well as SFY 2022-2023 operations. *The change in the Treasury Department is primarily due to the Meals and Rentals Tax revenue sharing distributions that go to municipalities being moved out of the State Budget and into a special account not incorporated into the State Budget. Sources: New Hampshire Office of Legislative Budget Assistant, 2021 documents, June 1 Compare report, June 4 Detail Change, June 3 Surplus Statement.

NON-EDUCATION LOCAL GOVERNMENT ASSISTANCE

- Changes the 40 percent Meals and Rentals Tax revenue sharing pledge to municipalities, with catch-up formula, to a 30 percent revenue sharing pledge and meets it immediately, deleting catch-up formula
- Sends approximately \$35.6 million more from Meals and Rentals Tax revenues to cities and towns than budgeted by Governor and House
- Moves \$188.2 million to dedicated, off-budget fund
- Separately, appropriates \$15.58 million for payments on existing State aid grants from the Department of Environmental Services
- Increases highway block grant aid \$677,730 with higher Highway Fund revenue estimates

REVISED GENERAL FUND SUPPORT FOR TRANSPORTATION

- Makes \$50 million appropriation from General Fund dollars to the Highway Fund for SFY 2022
- Reduces \$19 million the House appropriated in General Funds to the Department of Transportation to \$11 million, removing an apportionment distribution and winter maintenance
- Funds the Department of Transportation's ability to leverage federal discretionary grants with \$5 million in General Funds
- Appropriates \$7 million to pay the federal government back for funds drawn for the abandoned Conway Bypass project
- Allocates \$3.25 million specifically to repair nearly two miles of Calef Hill Road in Tilton
- Removes toll booths in Merrimack, Exit 10 on Everett Turnpike

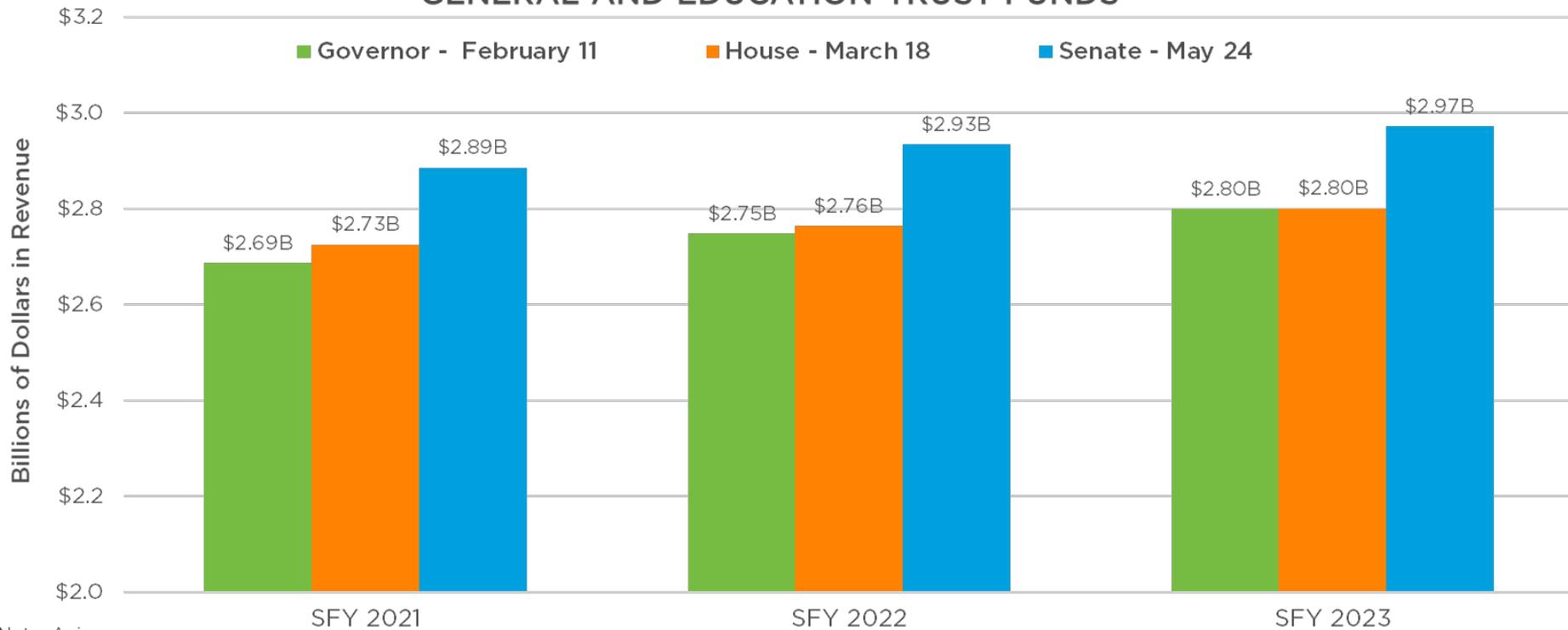
OTHER CHANGES

- Requires all classified full-time positions vacant prior to July 1, 2018 and remain vacant as of July 1, 2021 be abolished
- Raises pay for certain groups of State employees
- Restores Liquor Commission law enforcement authority, 20 positions
- Appropriates \$10 million to help people who suffered financially due to Financial Resources Mortgage
- Adds \$2.2 million to travel and tourism development efforts
- Establishes two funds for small businesses and public venues
- Removes proposed limits on Governor's emergency powers
- Narrows House's prohibitions on certain discussions related to systemic racism and sexism from including entities contracting with the State to focus on public employers and school districts, includes language forbidding teaching certain characteristics may create inherent conscious or unconscious racism, sexism, or oppression

REVENUE PROJECTIONS AND REVENUE POLICY CHANGES

SENATE PROJECTS A HALF BILLION DOLLARS MORE REVENUE THAN HOUSE

NEW HAMPSHIRE STATE REVENUE PROJECTIONS USED FOR BUDGET PROPOSALS, GENERAL AND EDUCATION TRUST FUNDS



Note: Axis does not begin at zero.

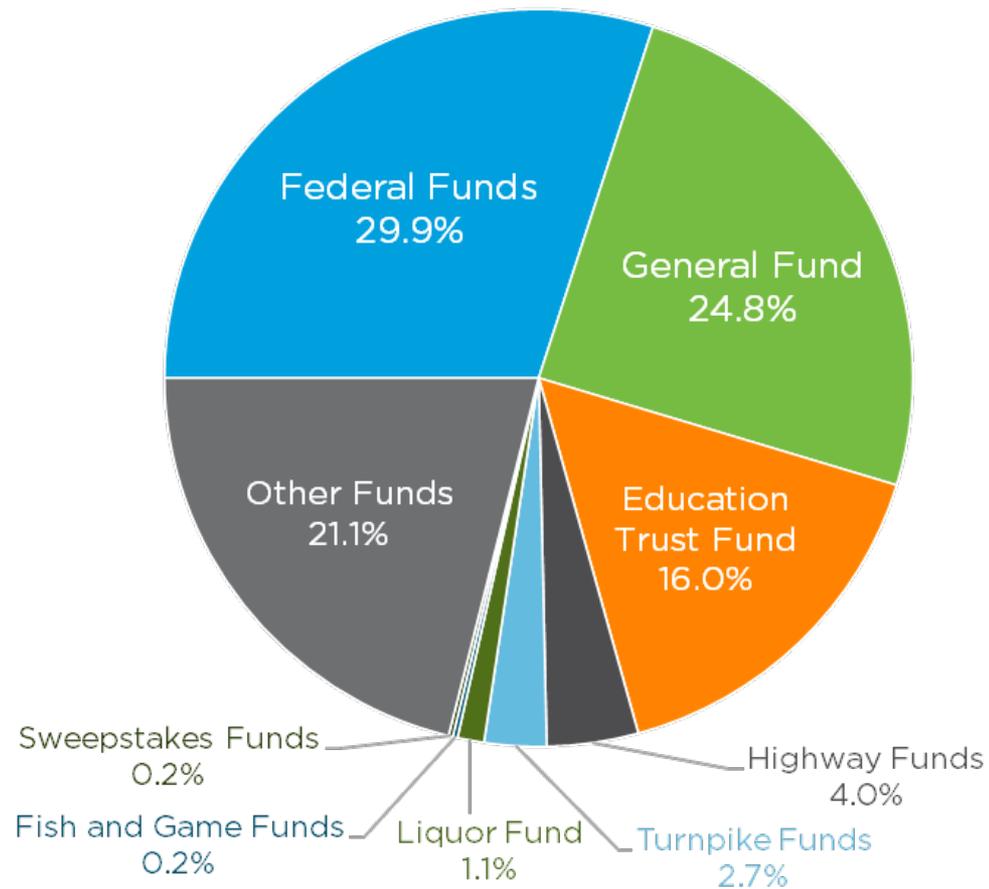
State Fiscal Year (SFY) Projected

Source: New Hampshire Office of Legislative Budget Assistant, *House Ways and Means Revenue Estimate Worksheet*, March 18, 2021, and *Senate Ways and Means Revenue Estimates*, May 27, 2021

NEW HAMPSHIRE'S STATE BUDGET FUNDS

NEW HAMPSHIRE, STATE FISCAL YEAR 2021

Source: Chapter 345, Laws of 2019



SENATE APPROVES TAX RATE CHANGES FROM HOUSE, MAKES TWO MODIFICATIONS

Retained proposals:

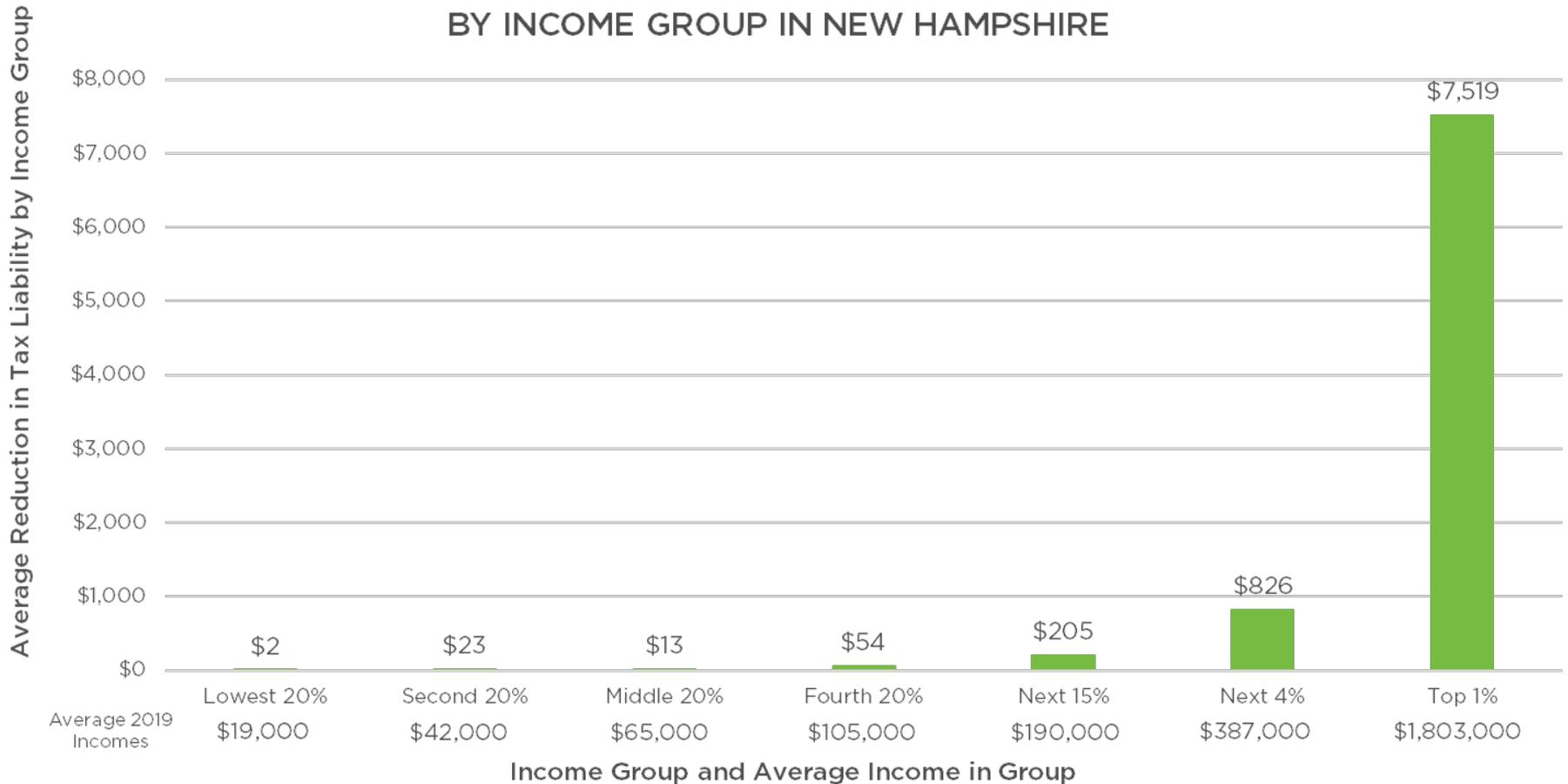
- Reducing the Meals and Rentals Tax from 9.0% to 8.5%
- Reducing Business Profits Tax (BPT) rate to 7.6%
- Reducing Business Enterprise Tax rate, raising filing thresholds
- Eliminating the Interest and Dividends Tax over five years
- Limiting business tax credit carryforward (adds study commission)
- Lowering Statewide Education Property Tax for SFY 2023 only
- Permits wagering on historic horse races (tweak to timing)

Modifications:

- Making Paycheck Protection Program (PPP) aid nontaxable under the BPT for profitable businesses that received PPP (-\$69.4M)
- Accelerating apportionment changes for single sales factor (-\$20M)

INTEREST AND DIVIDENDS TAX REPEAL BENEFITS HIGH-INCOME INDIVIDUALS

AVERAGE TAX REDUCTION FROM
INTEREST AND DIVIDENDS TAX ELIMINATION
BY INCOME GROUP IN NEW HAMPSHIRE



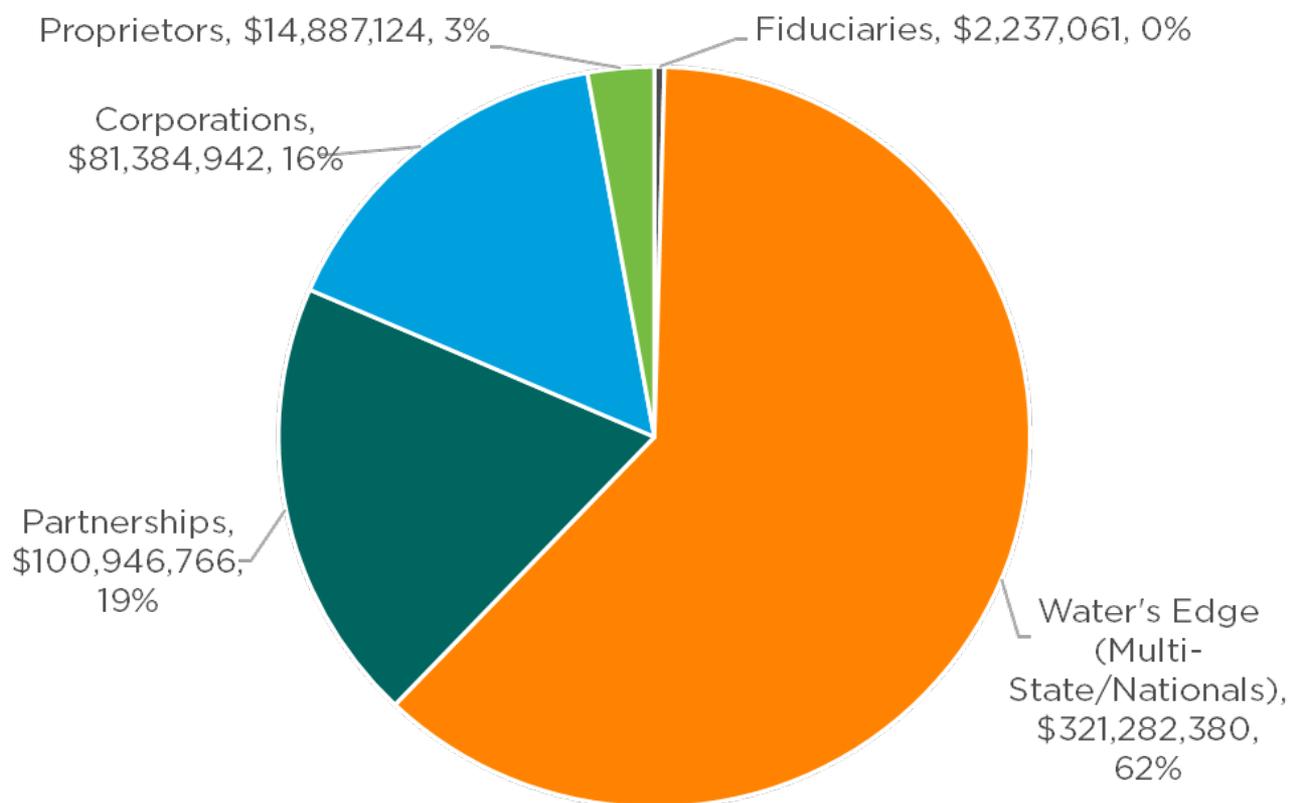
Source: Institute on Taxation and Economic Policy, May 2021

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		

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

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

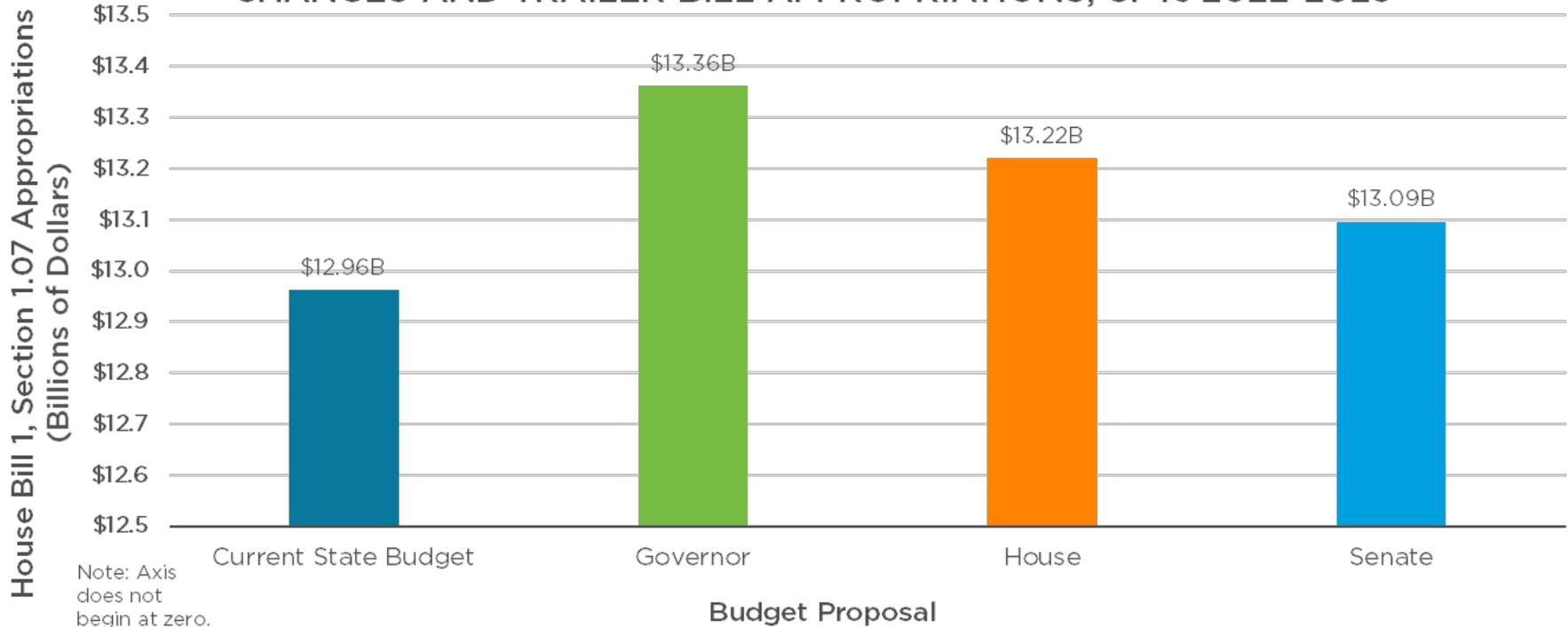


Source: New Hampshire Department of Revenue Administration, 2018 Annual Report

COMPARING THE TOPLINE NUMBERS

PRIMARY SECTION OF BUDGET SHOWS SMALLER TOTAL IN SENATE BUDGET

CURRENT STATE BUDGET AND BUDGET PROPOSALS, FUNDING LEVELS IN PRIMARY BUDGET, EXCLUDING BACK-OF-BUDGET CHANGES AND TRAILER BILL APPROPRIATIONS, SFYs 2022-2023



Note: Figures do not include any changes made in House Bill 1, Section 1.08 and beyond in the bill, nor do they include Trailer Bill (House Bill 2) changes.

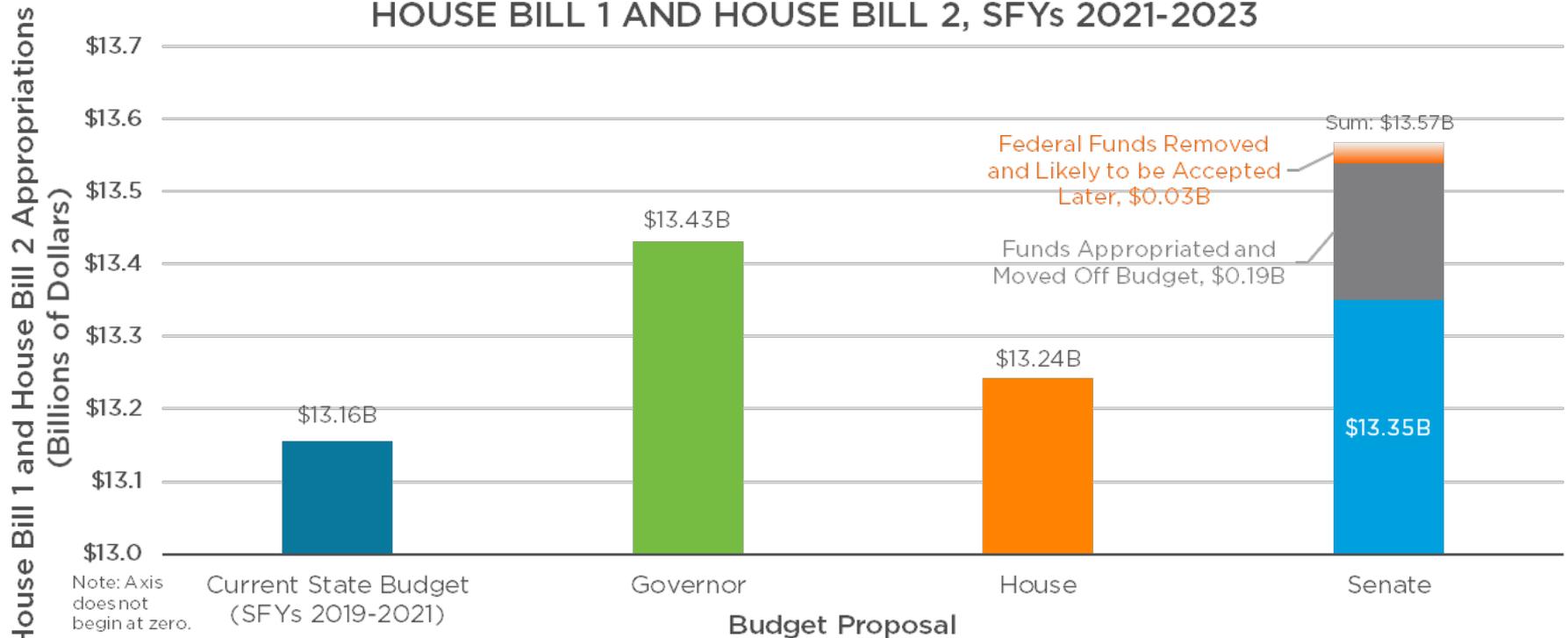
Sources: New Hampshire Office of Legislative Budget Assistant; Chapter 345. Laws of 2019

CHANGES FROM HOUSE: HIGHER REVENUES AND LOWER SPENDING?

- Senate had General and Education Trust Funds revenue estimates \$501.4 million higher than the House Budget across three fiscal years
- Higher SFY 2021 surplus can be used to support State Budget, and higher SFY 2022 and 2023 revenues during biennium
- Senate voted to reduce revenues relative to House Budget by \$89.4 million with two additional changes to business taxes
- House would add \$34.9 million to the Rainy Day Fund at the end of the biennium and have no Education Trust Fund surplus
- Senate would also add \$34.9 million to the Rainy Day Fund at the end of the biennium and have a \$23.7 million balance in Education Trust Fund
- Accounts for \$113.1 million of \$501.4 million in additional General and Education Trust Funds revenue (not including other parts of budget)
- Where is remaining \$338.3 million? How is the Senate budget smaller?

SENATE APPROPRIATED FUNDS IN SFY 2021, MOVED FUNDS TO HB 2 OR OFF-BUDGET

CURRENT STATE BUDGET AND BUDGET PROPOSALS, INCLUDING ALL APPROPRIATIONS MADE BY PROPOSED HOUSE BILL 1 AND HOUSE BILL 2, SFYs 2021-2023



Note: Figures include all Back-of-Budget changes and Trailer Bill Appropriations, including changes identified on General, Education Trust, Highway, and Fish and Game Funds surplus statements prepared by the Office of Legislative Budget Assistant and changes to other funds identified in Office of Legislative Budget Assistant compare reports and legislative language.

Sources: New Hampshire Office of Legislative Budget Assistant; Chapter 345, Laws of 2019; NHFPI analysis of HB 1 and HB 2 as Introduced, as passed by the House, and as passed by the Senate, as well as supporting Office of Legislative Budget Assistant documents.

THE AMERICAN RESCUE PLAN ACT AND STATE FINANCES

SIGNIFICANT NEW FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

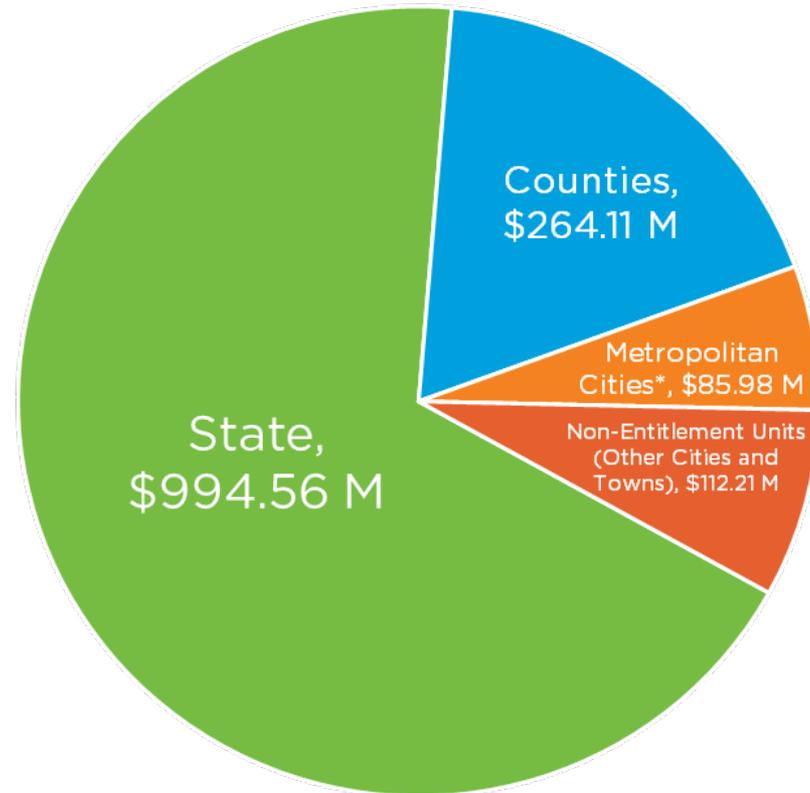
- Elementary and Secondary School Emergency Relief, reopening schools and addressing pandemic learning loss (\$350M to New Hampshire K-12 schools)
- Temporary Assistance to Needy Families one-time allocation (\$4M to New Hampshire)
- Enhanced federal funding for home and community-based services through Medicaid, April 2021-March 2022
- Capital Projects Fund, critical investments in broadband, capital assets (\$122M to New Hampshire)
- State Small Business Credit Initiative (\$56M to New Hampshire)
- Coronavirus State and Local Fiscal Recovery Funds (\$1,457M to New Hampshire)

Sources: NHFPI, Federal American Rescue Plan Act Directs Aid to Lower-Income Children, Unemployed Workers, and Public Services, March 26, 2021; U.S. Department of Health and Human Services; U.S. Department of Education; U.S. Department of the Treasury; New Hampshire Office of Legislative Budget Assistant

CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS IN NEW HAMPSHIRE

NEW HAMPSHIRE'S ALLOCATIONS OF AMERICAN RESCUE PLAN ACT CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS

Source: U.S. Department of the Treasury, *Coronavirus State and Local Fiscal Recovery Funds*, accessed May 23, 2021



*"Metropolitan Cities" in New Hampshire include Dover, Manchester, Nashua, Portsmouth, and Rochester.

PERMITTED AND EXAMPLE USES

- Considerable flexibility, community engagement urged
- Support pandemic response, vital public services and jobs
- Address health disparities exacerbated by COVID-19, including behavioral and mental health services, substance misuse aid
- Respond to economic impacts with aid to workers, households, families, small businesses, nonprofits, and impacted industries
- Conduct outreach and helping people access services
- Premium pay, including for previous work, for essential workers
- Certain housing services, lead paint remediation
- Broadband infrastructure, wide array of water, sewer infrastructure
- Help to most impacted, foster long-term health, economic benefits
- Address systemic health, economic challenges causing unequal impacts

Sources: U.S. Department of the Treasury, Interim Final Rule, Quick Reference Guide for Coronavirus State and Local Fiscal Recovery Funds, and Frequently Asked Questions, May 10, 2021; Center on Budget and Policy Priorities

PROHIBITIONS AND LIMITATIONS

- Cannot directly or indirectly fund offsets to net State tax reductions
- Cannot be deposited into pension funds or rainy day funds
- Cannot be used to increase Unemployment Compensation Fund balance to beyond pre-pandemic levels
- Cannot be used to pay interest or principal on existing debt
- Cannot match other federal funds, such as Medicaid
- Generally may not be used to support governmental pandemic expenses from before March 3, 2021
- Generally cannot be used for non-specific economic or workforce development outside of pandemic-specific impacts
- Costs must be incurred and obligated by the end of 2024, expended by December 31, 2026

Sources: U.S. Department of the Treasury, Interim Final Rule, Quick Reference Guide for Coronavirus State and Local Fiscal Recovery Funds, and Frequently Asked Questions, May 10, 2021; Center on Budget and Policy Priorities

SUMMARY AND KEY POINTS

- Senate restored some of the funding to health and social services removed in the House's proposal
- Education funding receives significant boost relative to House, still slightly less overall and less targeted than current budget
- More support directed to housing, transportation, long-term care
- Tax changes increase risk of insufficient funds for future services

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

- Committee of Conference formation deadline: June 10, 2021
- Committee of Conference report deadline: June 17, 2021
- Last day for House and Senate to pass Committee of Conference reports: June 24, 2021
- Governor must sign, or permit to become law without his signature, new spending authority before the end of State Fiscal Year 2021
- State Fiscal Year 2022 Begins: July 1, 2021
- American Rescue Plan Act flexible funding decisions



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