NEW HAMPSHIRE FISCAL POLICY INSTITUTE

STATE REVENUE AND FUNDING FOR PUBLIC SERVICES IN NEW HAMPSHIRE

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NEW HAMPSHIRE GOVERNMENT FINANCE OFFICERS ASSOCIATION
36TH ANNUAL CONFERENCE

JUNE 29, 2022

THREE LEVELS OF GOVERNMENT REVENUE

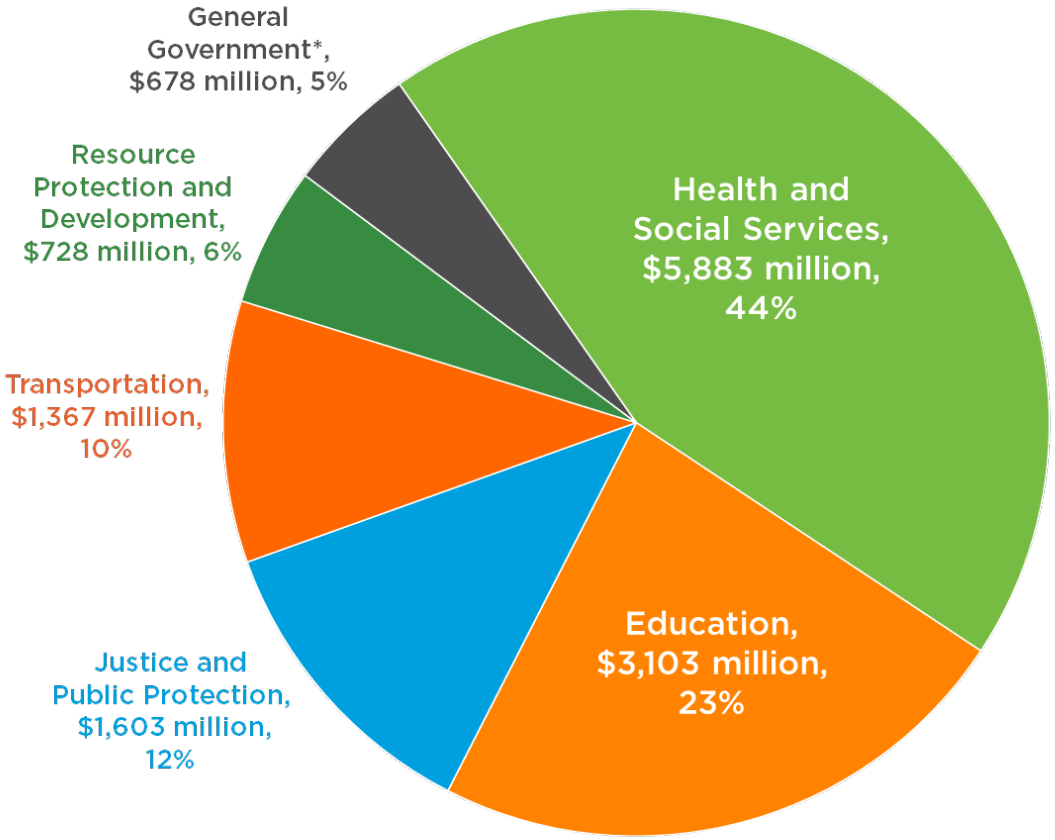
- State Revenue: money collected through New Hampshire State taxation and other sources, including grants from the federal government
- Local Revenue: money collected by New Hampshire's local governments (counties, school districts, and municipalities), with tax revenue collected primarily through property taxes
- Federal Revenue: money raised from economic activity in New Hampshire and nationwide that flows to state and local budgets, but federal revenue collections are not a focus in this presentation

NEW HAMPSHIRE'S STATE REVENUE SYSTEM

SERVICES FUNDED BY NH STATE REVENUES

STATE BUDGET LEGISLATION APPROPRIATIONS

State Fiscal Years 2022-23 and Trailer Bill SFY 2021 Appropriations



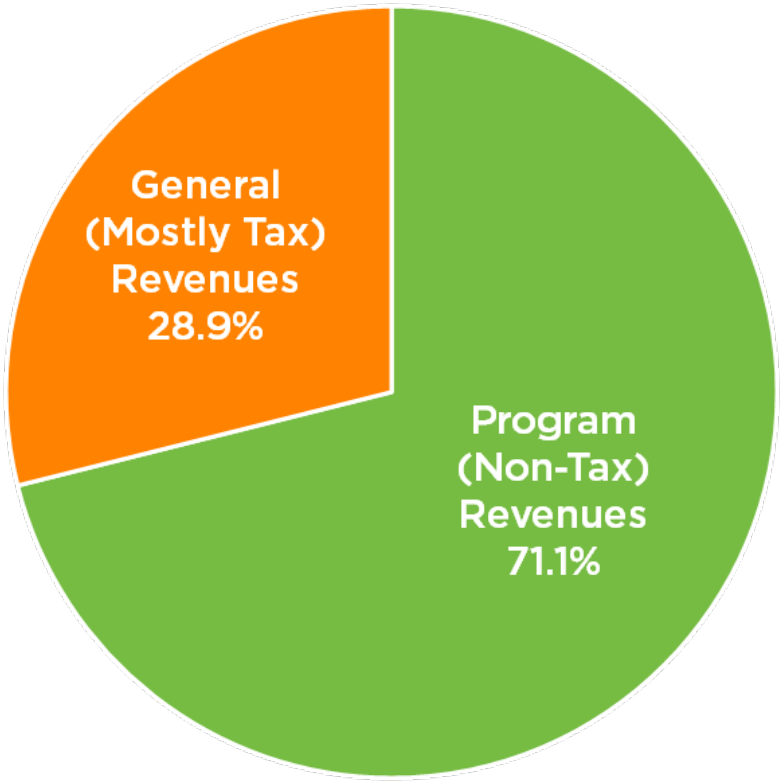
Note: General Government includes HB 2 appropriations for the Affordable Housing Fund, FRM Victim's Fund, and State employee pay raises.
Source: HB 1 and HB 2 as Approved, 2021 Session; New Hampshire Office of Legislative Budget Assistant, Surplus Statements, June 2021

MOST STATE REVENUE FROM SOURCES OTHER THAN STATE TAXES

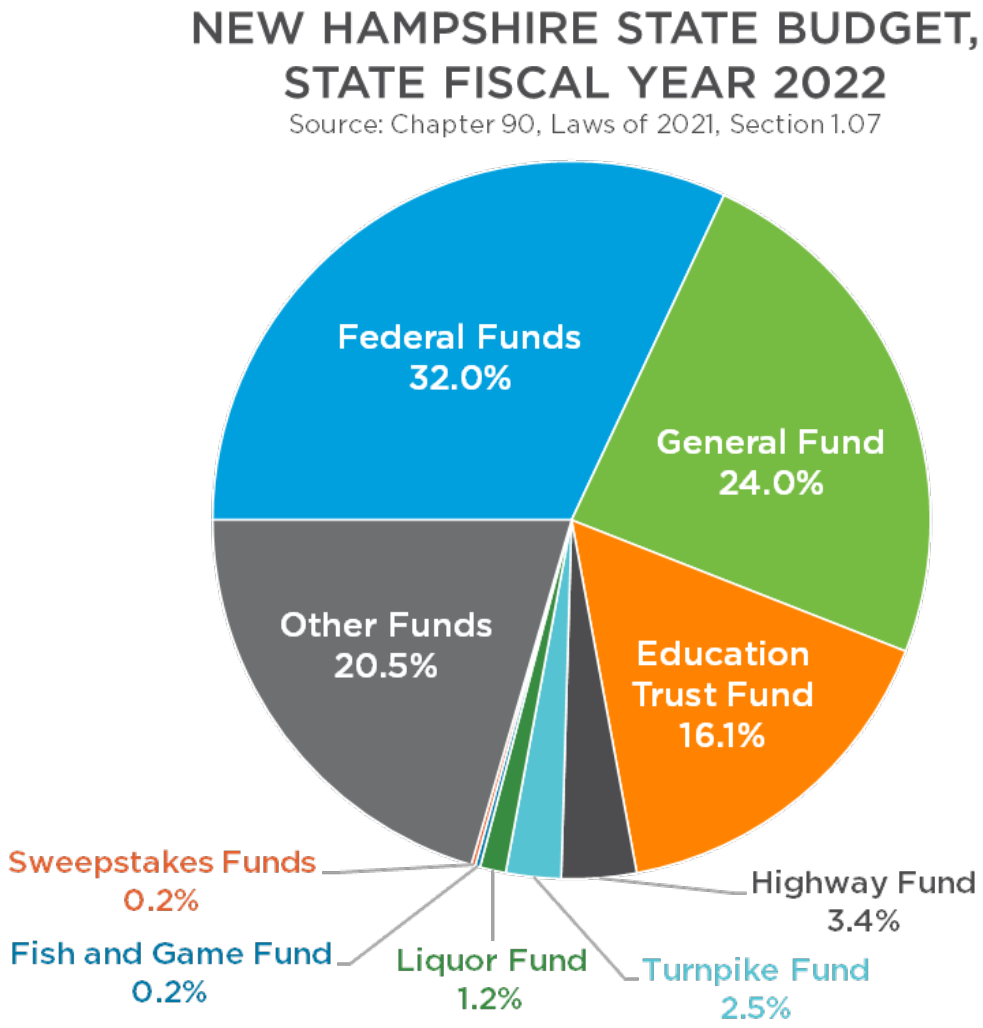
- Collections through fees, charges, interest, and programs that sell products or services
- Federal programs, grants, and aid supply a large amount of revenue to the State government directly, also may provide funding for local government initiatives and support for other organizations
- Federal pandemic-related legislation has recently provided significant revenue

GENERAL AND PROGRAM REVENUES NEW HAMPSHIRE, STATE FISCAL YEAR 2021

Source: New Hampshire Annual Comprehensive Financial Report, SFY 2021



NEW HAMPSHIRE'S STATE BUDGET FUNDS



- Funds act like accounts
- Interact with one another
- General Fund most flexible
- General Fund fills any Education Trust Fund shortfall
- Lottery revenues, gasoline and motor-vehicle revenues directed by the State Constitution
- Other funds directed by statute
- Federal Funds support about a third of the State Budget

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

FEDERAL FUNDING AND STATE SERVICES

Medicaid

- Approximately $2.3 billion expenditure in SFY 2021 from all sources, with more than half of the total supported by federal funds
- About 238,000 Granite Staters have access to health care through the program at the end of March 2022, significant increase (33 percent) during pandemic

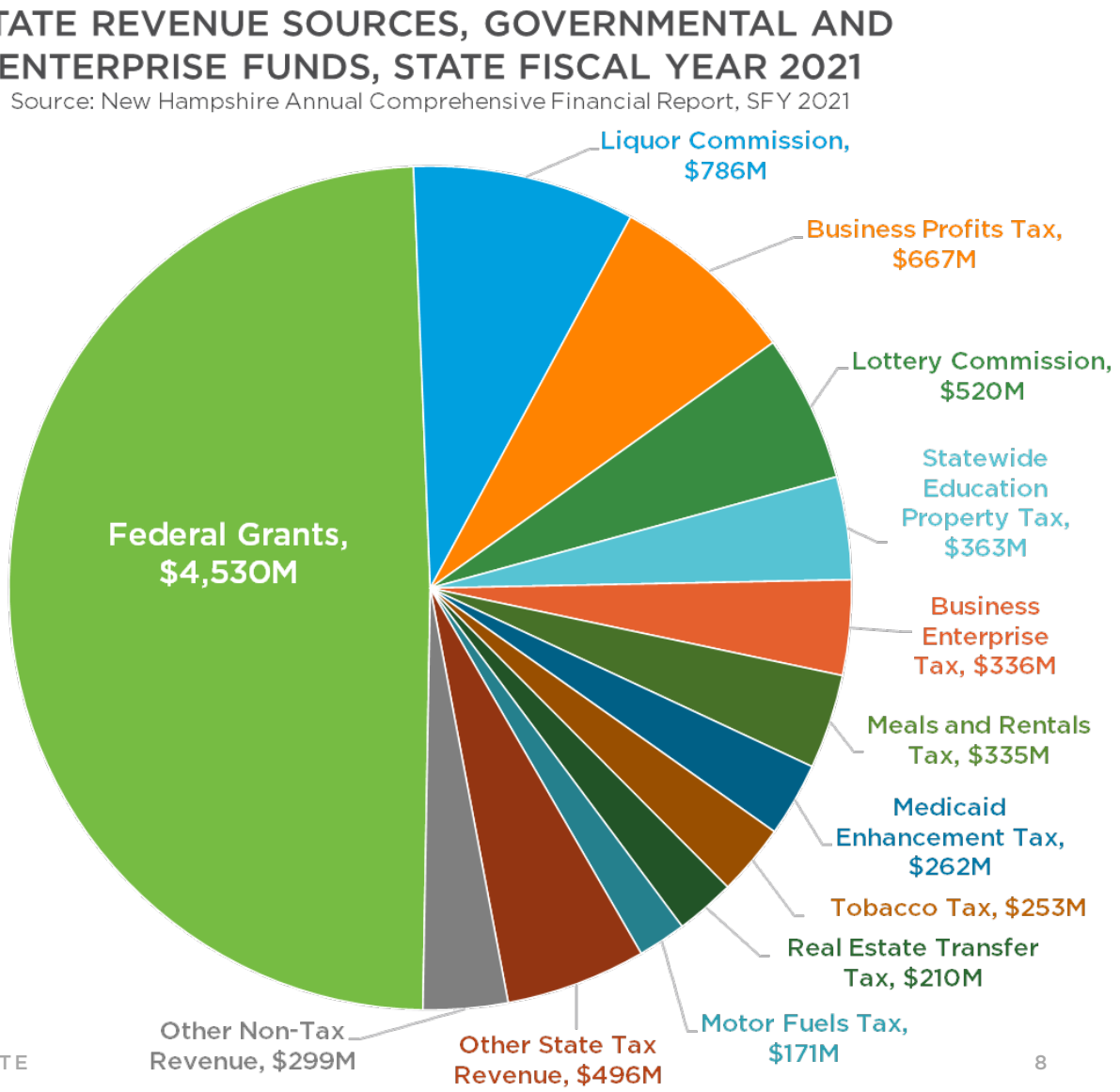
Other Program Areas

- Federal transportation aid
- Education aid – special education, school meals, professional development
- Water pollution and infrastructure funds, clean and drinking water programs
- Food Stamps/Supplemental Nutrition Assistance Program (SNAP)
- Women, Infants, and Children Nutrition Program (WIC)
- Temporary Assistance for Needy Families (TANF)
- Veterans' care aid
- Low Income Home Energy Assistance Program (State Fuel Assistance Program)
- Many other areas

Sources: New Hampshire State Treasury; Chapter 90, Laws of 2021; New Hampshire Department of Health and Human Services.

STATE TAX AND OTHER REVENUES

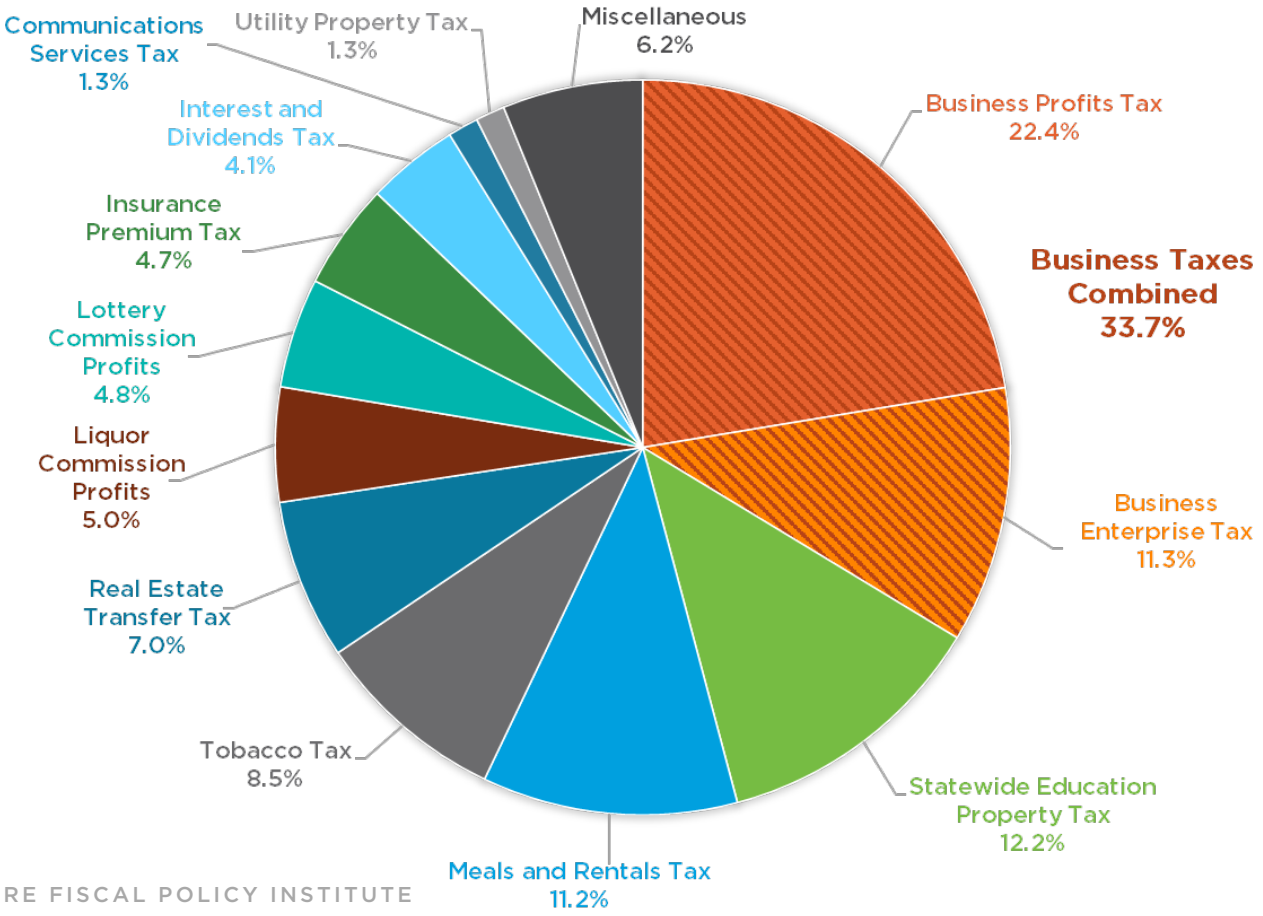
- Federal transfers still significant outside of pandemic-related aid, all included in calculations here
- Not all federal aid, or all State spending, flows through the State Budget
- Gross revenues from the Liquor Commission and the Lottery Commission are among largest State revenue sources, but many funds go to support internal operations
- Business Profits Tax is the largest State tax revenue source



GENERAL AND EDUCATION TRUST FUNDS SHARE MANY REVENUE SOURCES

GENERAL AND EDUCATION TRUST FUNDS COMBINED REVENUE IN STATE FISCAL YEAR 2021

Source: New Hampshire Annual Comprehensive Financial Report, State Fiscal Year 2021



LARGEST TAX REVENUE SOURCES

To All Funds (State Fiscal Year 2021)

- Business Profits Tax - $667.2 million (estimate)
- Statewide Education Property Tax - $363.1 million
- Business Enterprise Tax - $336.0 million (estimate)
- Meals and Rentals Tax - $334.7 million
- Medicaid Enhancement Tax - $262.3 million
- Tobacco Tax - $252.6 million
- Real Estate Transfer Tax - $209.8 million
- Motor Fuels Tax - $171.0 million
- Insurance Premium Tax - $147.5 million
- Interest and Dividends Tax - $120.7 million

Sources: New Hampshire Annual Comprehensive Financial Report for the Fiscal Year Ending June 30, 2021; New Hampshire Department of Revenue Administration; New Hampshire Treasury Department.

THE TWO PRIMARY BUSINESS TAXES

Business Profits Tax

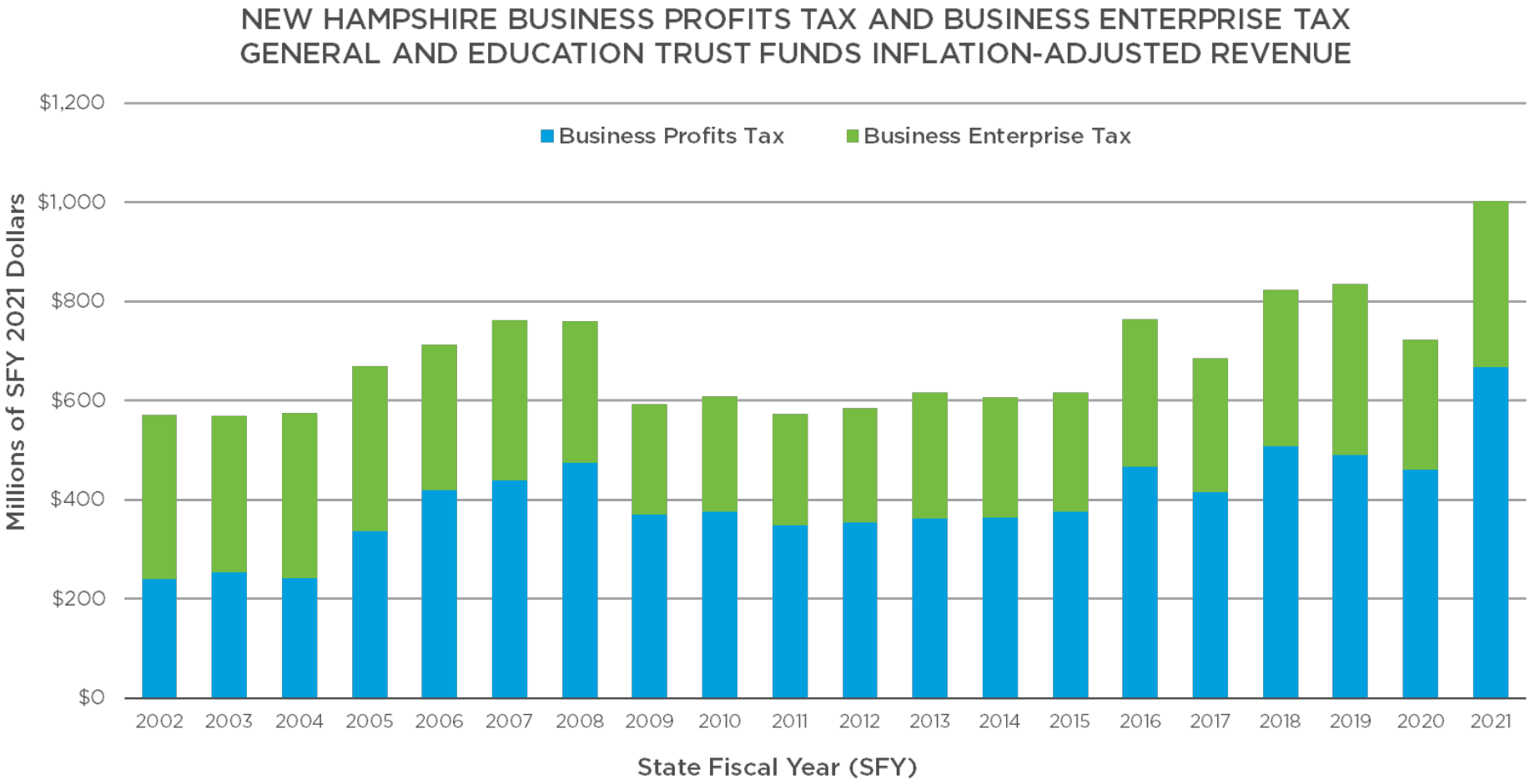
- Tax based on gross business profits, adjustments (BET), and apportionment
- Tax base likely about $6.7 billion in Tax Year 2019
- Supports the General Fund and the Education Trust Fund
- Recent rate reductions
    - 8.5% in 2001-2015, 8.2% in 2016-2017, 7.9% in 2018, 7.7% in 2019-2021, 7.6% in 2022

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 $34.4 billion in Tax Year 2019
- Supports the General Fund and the Education Trust Fund
- Recent rate reductions
    - 0.75% in 2001-15, 0.72% in 2016-17, 0.675% in 2018, 0.60% in 2019-21, 0.55% in 2022

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

INFLATION-ADJUSTED REVENUE FROM TWO PRIMARY BUSINESS TAXES



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

HIGH NATIONAL CORPORATE PROFITS LIKELY BOOSTING STATE REVENUES

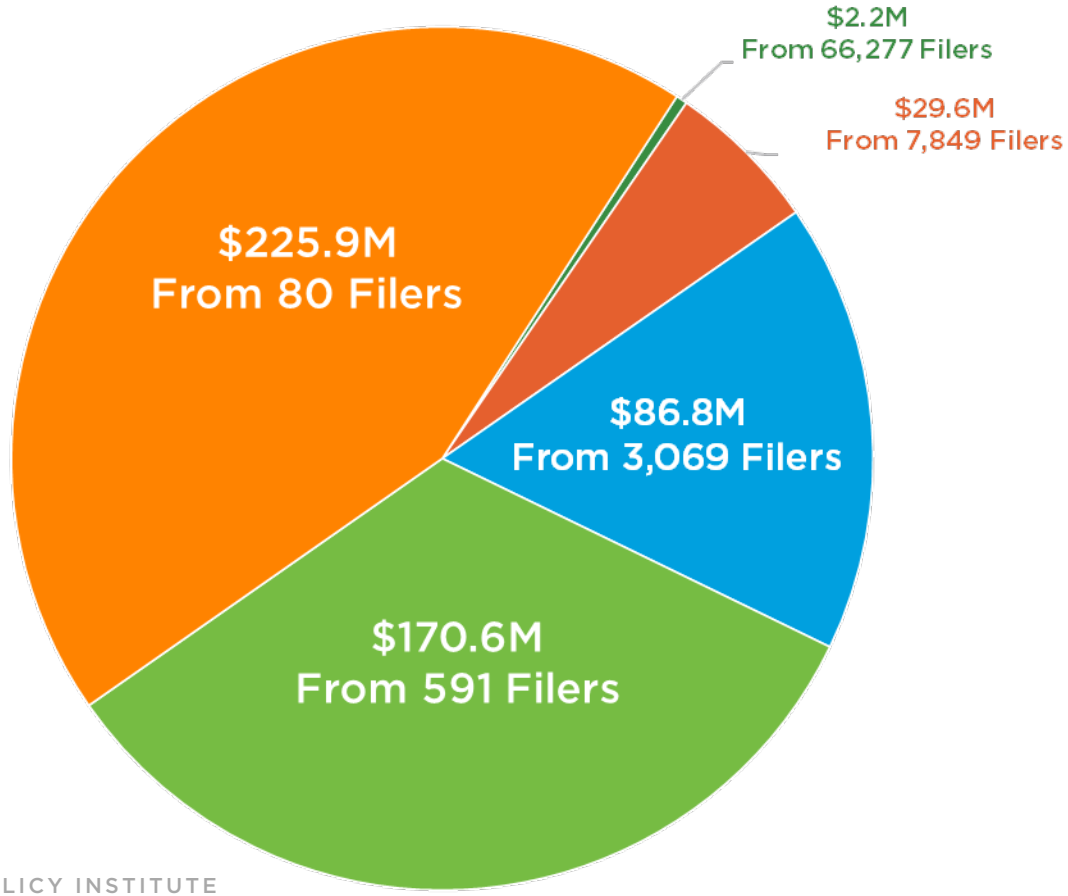
Source: Federal Reserve Bank of St. Louis

LARGE ENTITIES KEY TO BPT BASE

NEW HAMPSHIRE BUSINESS PROFITS TAX PAID AND NUMBER OF FILERS

Tax Year 2019

Source: New Hampshire Department of Revenue Administration

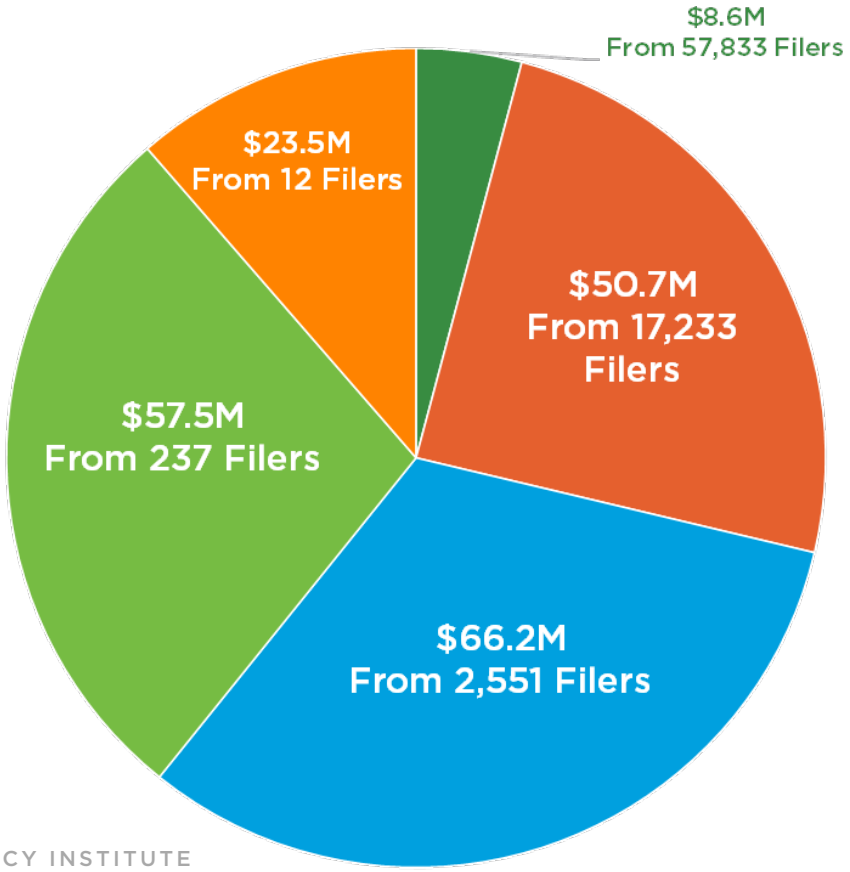


BROADER TAX BASE FOR BET, NOT DEPENDENT ON LARGE PROFITS

NEW HAMPSHIRE BUSINESS ENTERPRISE TAX PAID AND NUMBER OF FILERS

Tax Year 2019

Source: New Hampshire Department of Revenue Administration

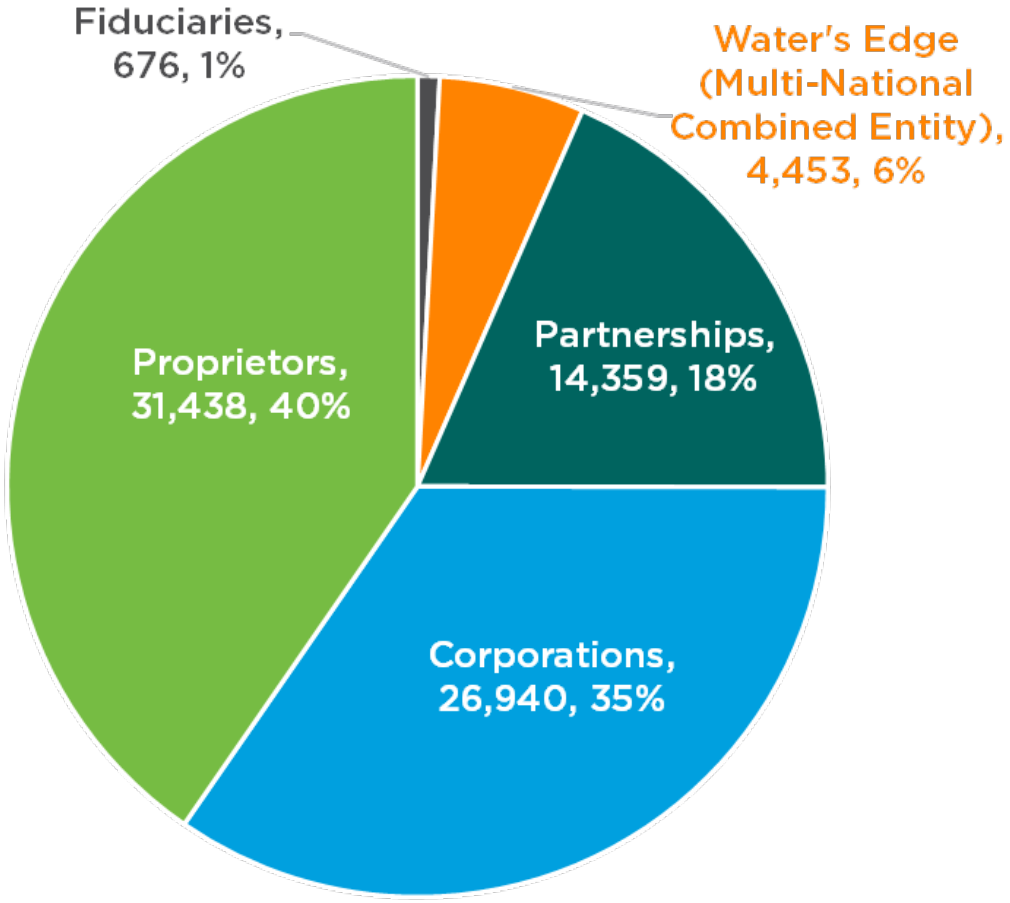


BUSINESS TYPES IN THE BPT BASE

BUSINESS PROFITS TAX FILERS BY TYPE

Tax Year 2019

Source: New Hampshire Department of Revenue Administration, 2021 Annual Report

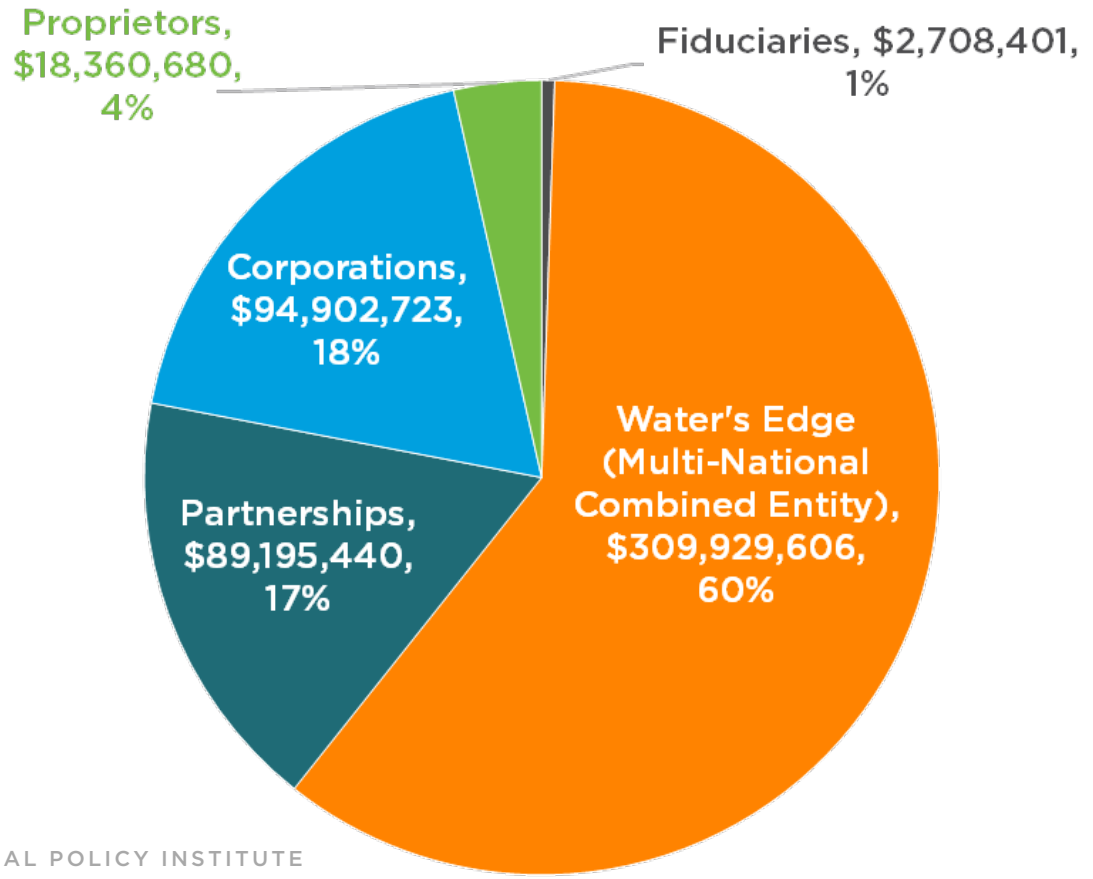


MAJORITY OF TAX REVENUE FROM FILERS WITH SIGNIFICANT OVERSEAS COMPONENT

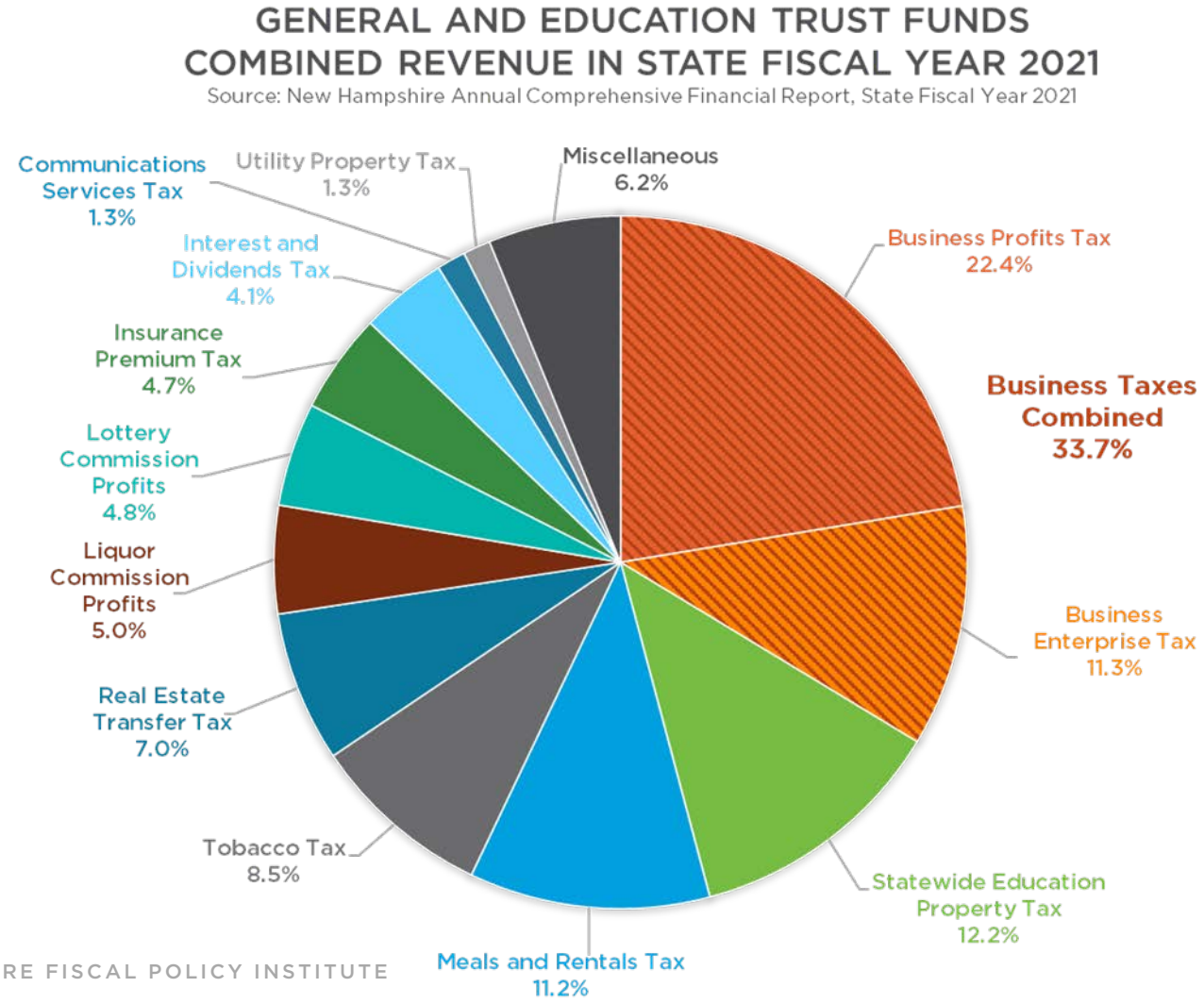
BUSINESS PROFITS TAX FILERS BY LIABILITY

Tax Year 2019

Source: New Hampshire Department of Revenue Administration, 2021 Annual Report

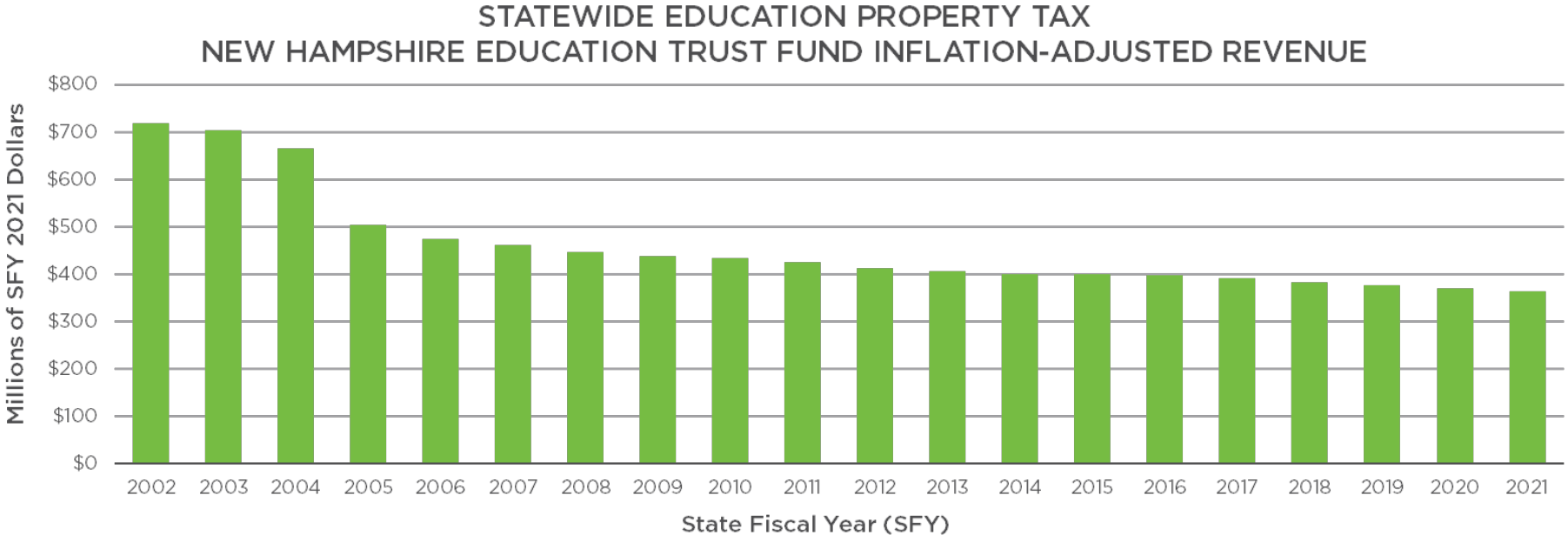


REVIEW: GENERAL AND EDUCATION TRUST FUNDS REVENUE SOURCES



STATEWIDE EDUCATION PROPERTY TAX

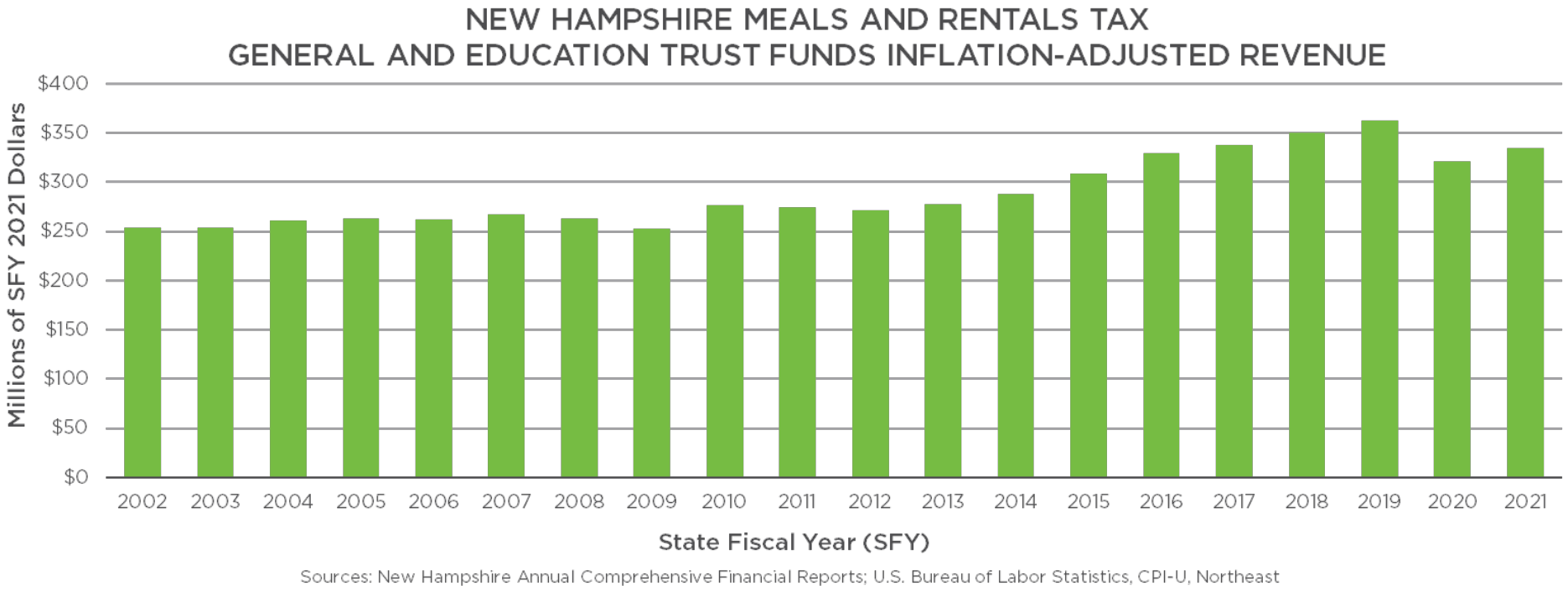
- Established in 1999 to support newly created Education Trust Fund for Adequate Education Grants funding education on a per pupil basis
- Set to raise $363 million in 2005, does not adjust for inflation
- State requires local governments to raise this revenue
- Retained locally; revenue went to state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



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

MEALS AND RENTALS TAX

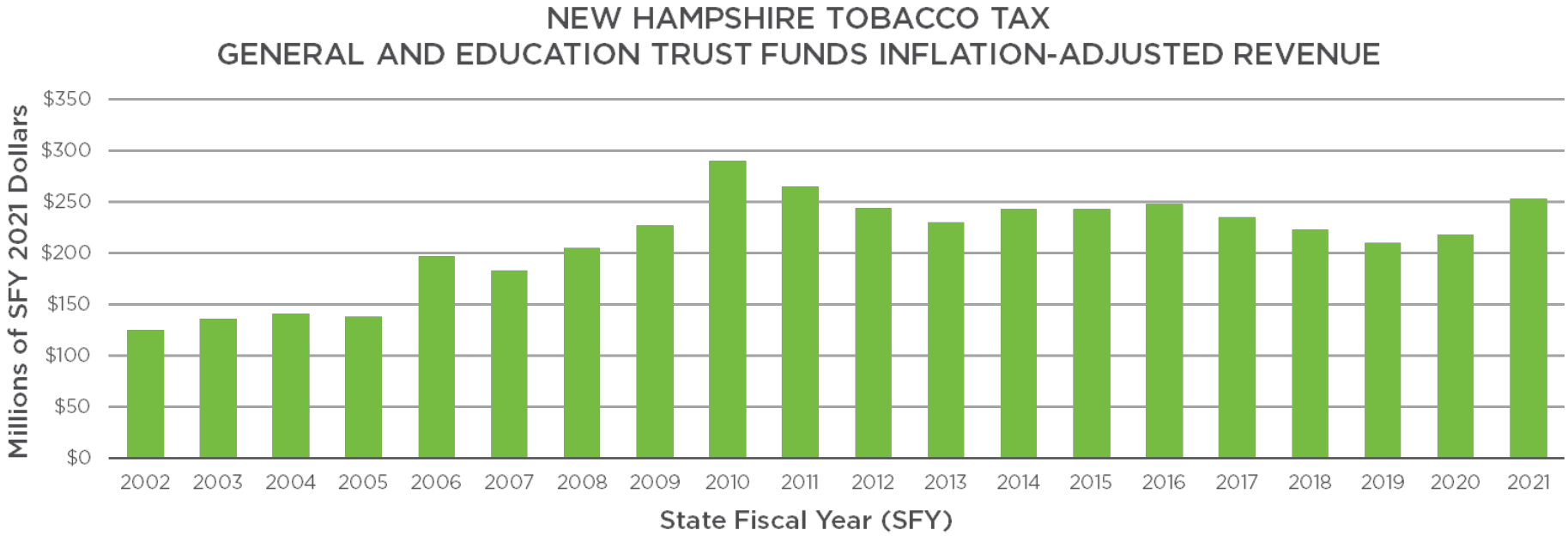
- Tax of 8.5 percent levied on most purchases of food or beverages from restaurants, also on hotel rooms and car rentals; 9 percent before Oct. 2021
- Funds the General Fund, Education Trust Fund (car rentals portion), certain school building aid, State's travel and tourism development agency, municipalities (30 percent directed to a special fund outside State Budget)



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

TOBACCO TAX

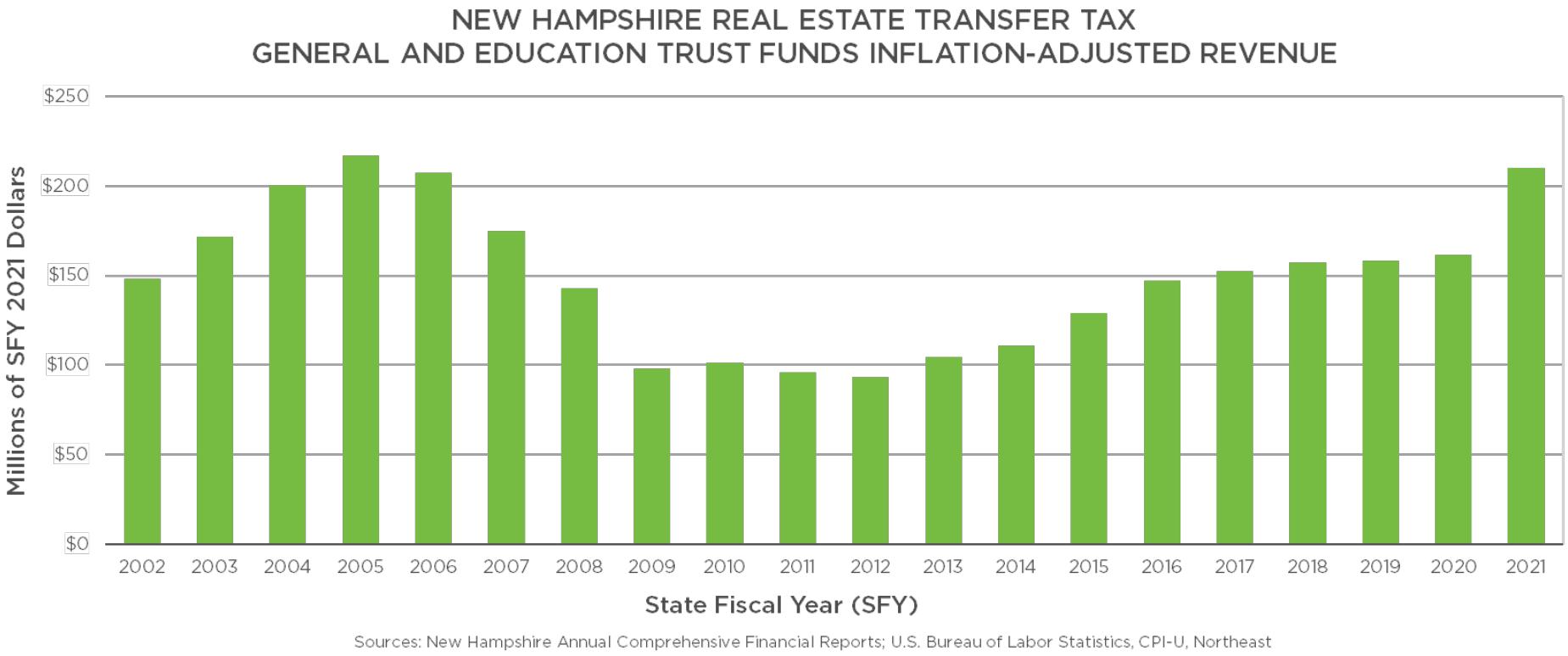
- $1.78 per 20-cigarette pack, adjusted-proportionally for pack size
- 65.03 percent on wholesale price of other tobacco products
- Also includes e-cigarettes, certain nicotine products (8 percent tax)
- Several rate changes in last 25 years (boosted up to $0.37/pack in 1997)
- Supports General ($1.00/pack)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



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

REAL ESTATE TRANSFER TAX

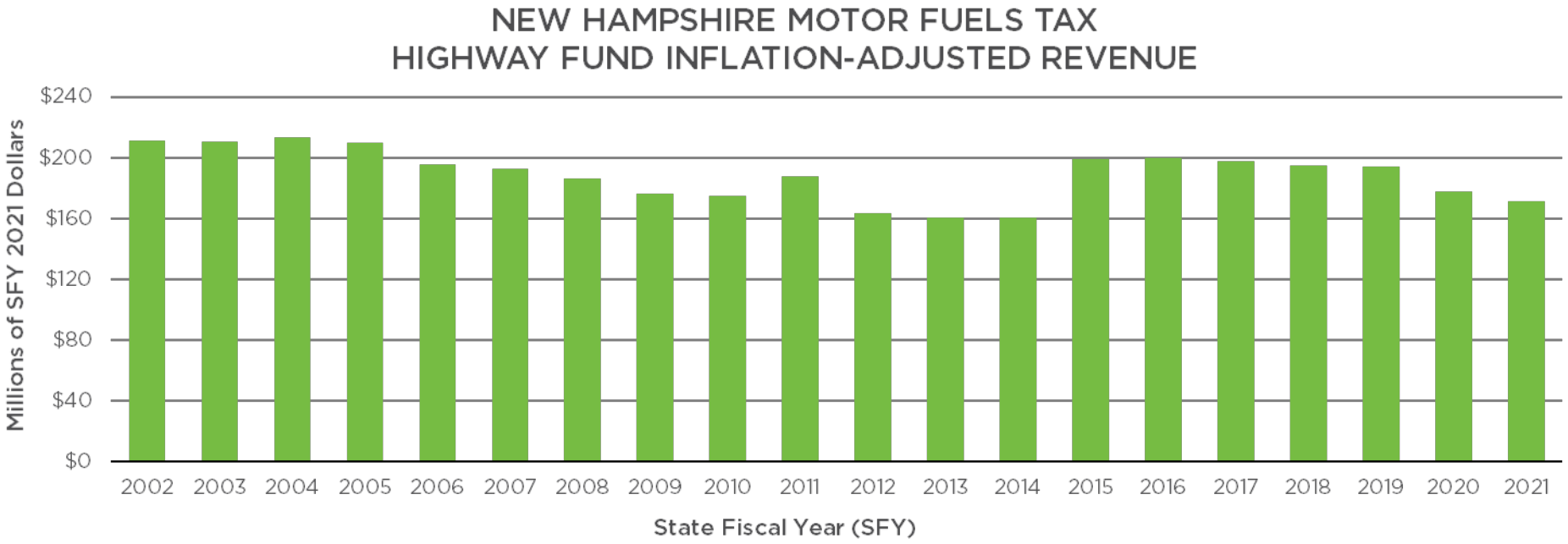
- $0.75 per $100 of sale of real estate or interest in real estate
- Levied against buyer and seller, for total revenue of $1.50 per $100
- $0.25 of the $0.75 to the Education Trust Fund, rest to General Fund



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

MOTOR FUELS TAX

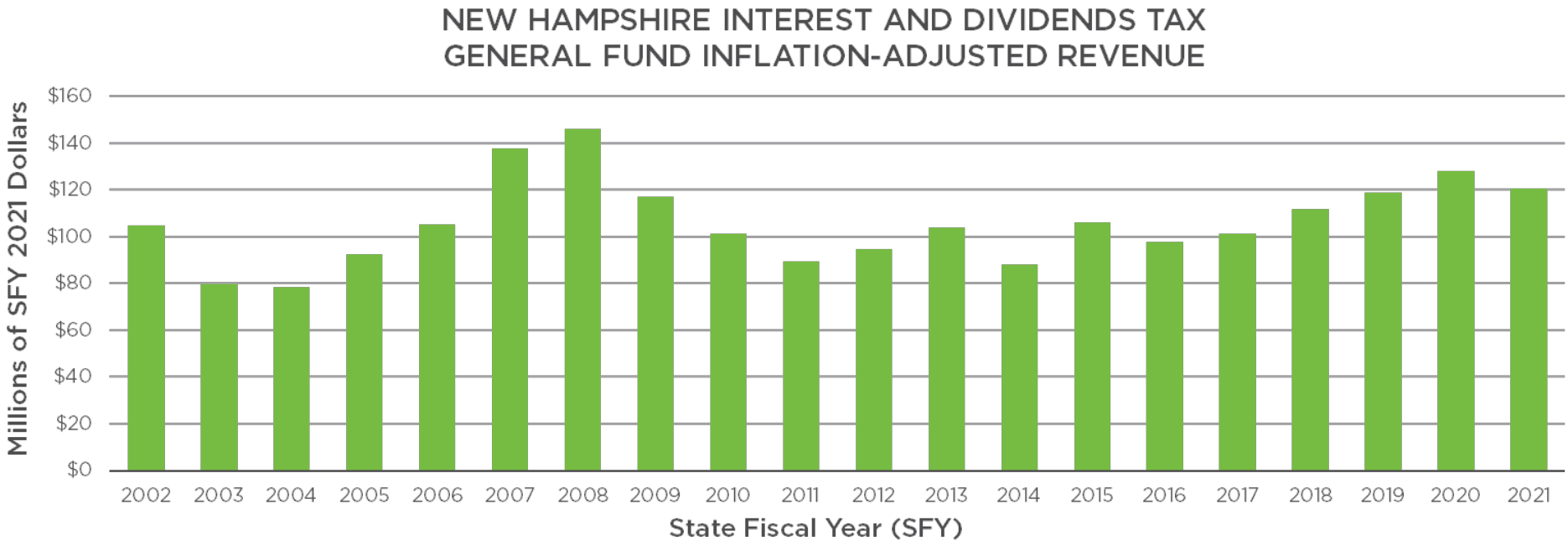
- $0.222 per gallon on motor fuels, aviation fuel taxed at different rate
- Can only be used for highway-related purposes under the State Constitution, other more specific restrictions on parts of revenue
- Revenues go to the Highway Fund, used for interest on highway bonds and notes as well as for highway-related operations



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

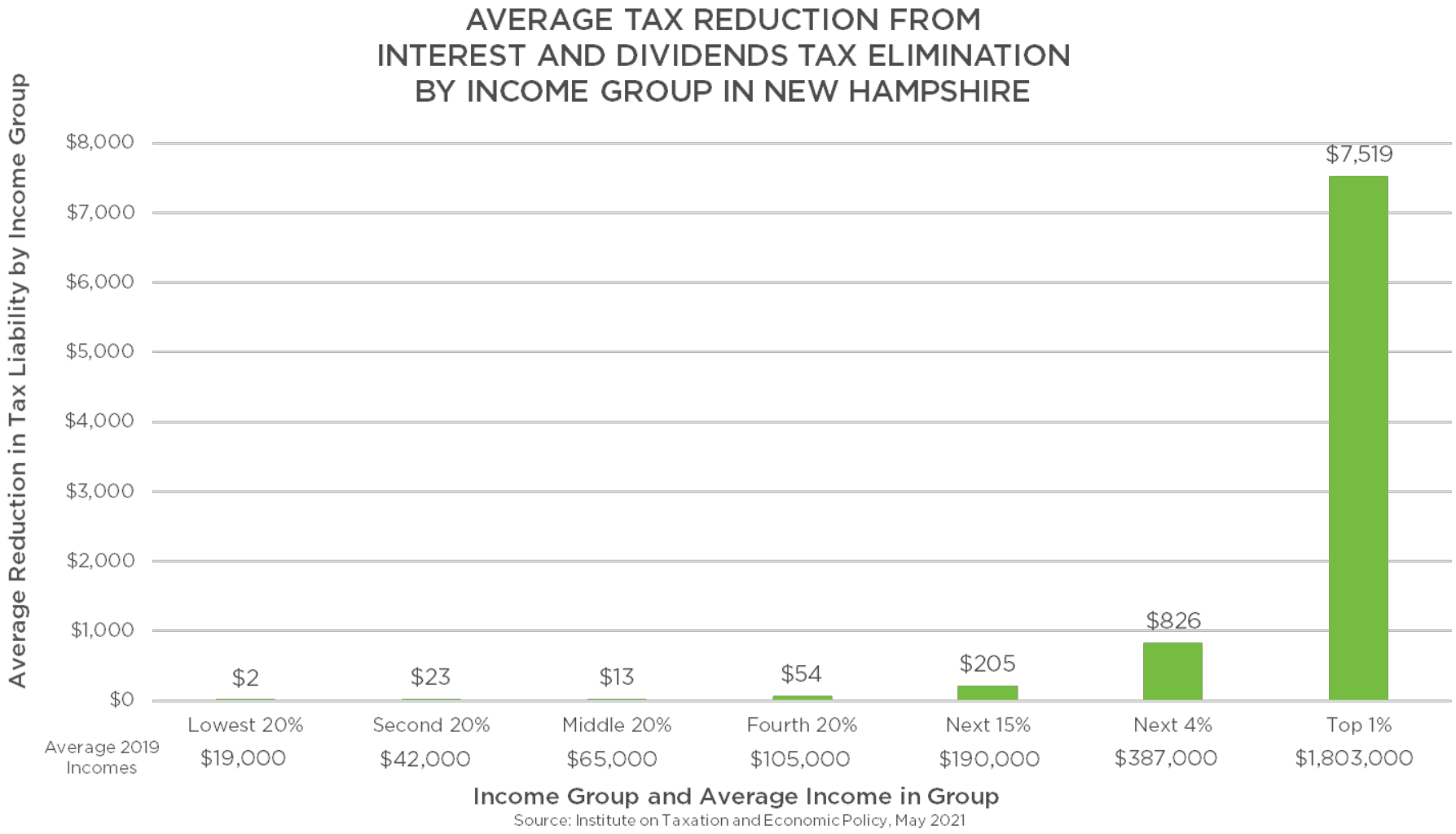
INTEREST AND DIVIDENDS TAX

- 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
- To be phased out entirely under current law, starting in 2023



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

HIGH-INCOME FILERS KEY PART OF INTEREST AND DIVIDENDS TAX BASE



Source: Institute on Taxation and Economic Policy, May 2021

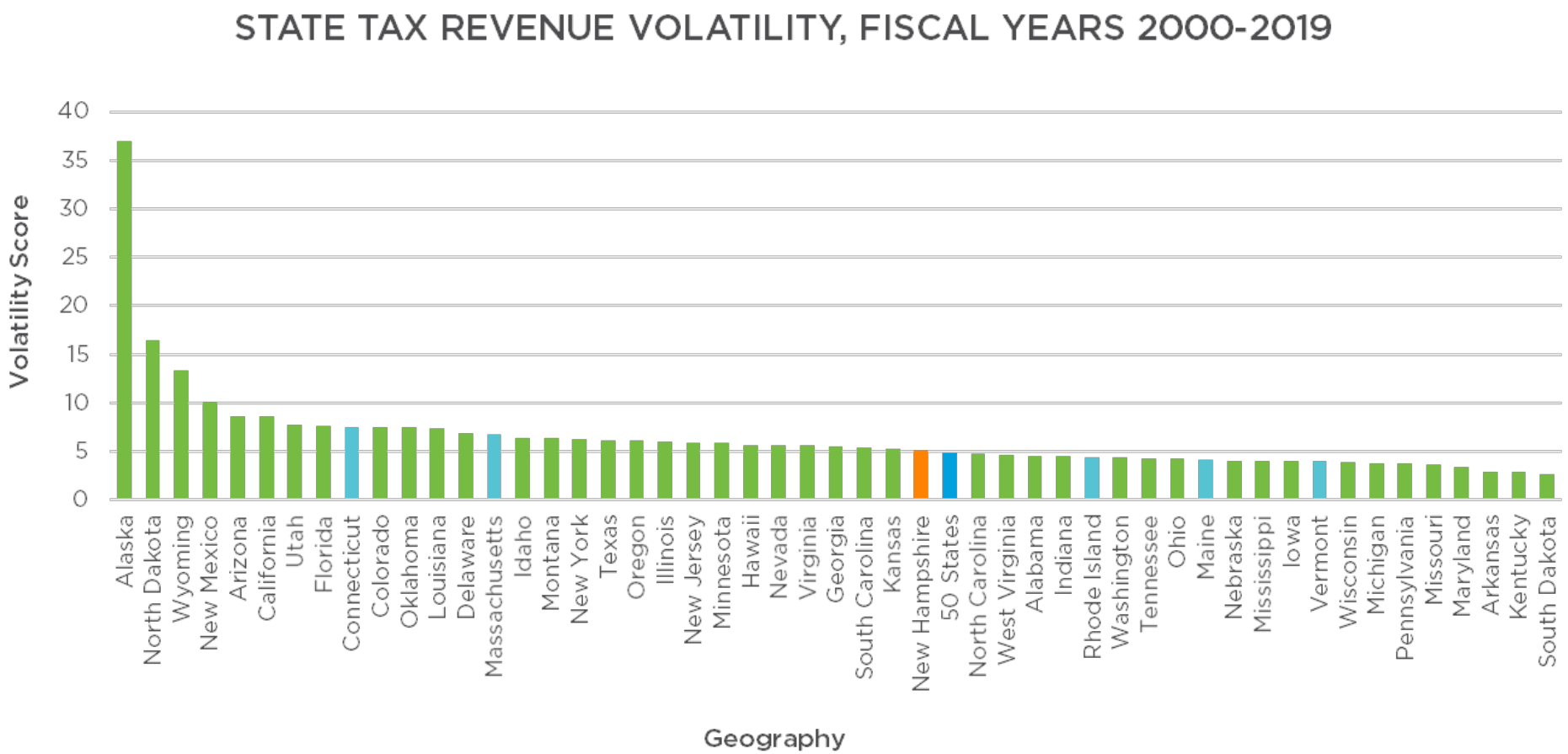
LARGEST NON-TAX REVENUE SOURCES

To All Funds (State Fiscal Year 2021)

- Federal Grants - $4,529.8 million
  (includes pandemic-related aid transferred to State in SFY 2021 and all other federal transfers to Governmental and Enterprise Funds)
- Liquor Commission Sales - $786.4 million
  ($182.5 million in operating profits for other State use)
- Lottery Commission Sales - $519.0 million
  ($144.2 million in profits for Education Trust Fund)
- Turnpike Tolling - $122.1 million

Sources: New Hampshire Annual Comprehensive Financial Report for the Fiscal Year Ending June 30, 2021; New Hampshire Liquor Commission 2021 Annual Comprehensive Financial Report; New Hampshire Lottery Commission Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2021.

NEW HAMPSHIRE TAX REVENUES NEAR AVERAGE VOLATILITY



Source: The Pew Charitable Trusts, Tax Revenue Swings Complicate State Budgeting, April 27, 2021

STATE REVENUE SYSTEM: STRENGTHS AND WEAKNESSES

- Reliance on many revenue streams, most with narrow bases
- High importance of non-tax revenue sources, such as profits from liquor and lottery sales
- Fortunes do not rise or fall with changes in a single revenue source, adds stability to the revenue system relative to some other states
- Policymaker flexibility might be more limited because of narrower bases, large or many adjustments may be needed to react to changes
- Narrow bases more likely to disappear with changing economy
- Certain revenue sources likely to be declining over time
- Changing demographics may complicate sustainability
- Reliance on federal sources results in limited options if funding from the federal government is reduced

LOCAL GOVERNMENT REVENUE IN NEW HAMPSHIRE

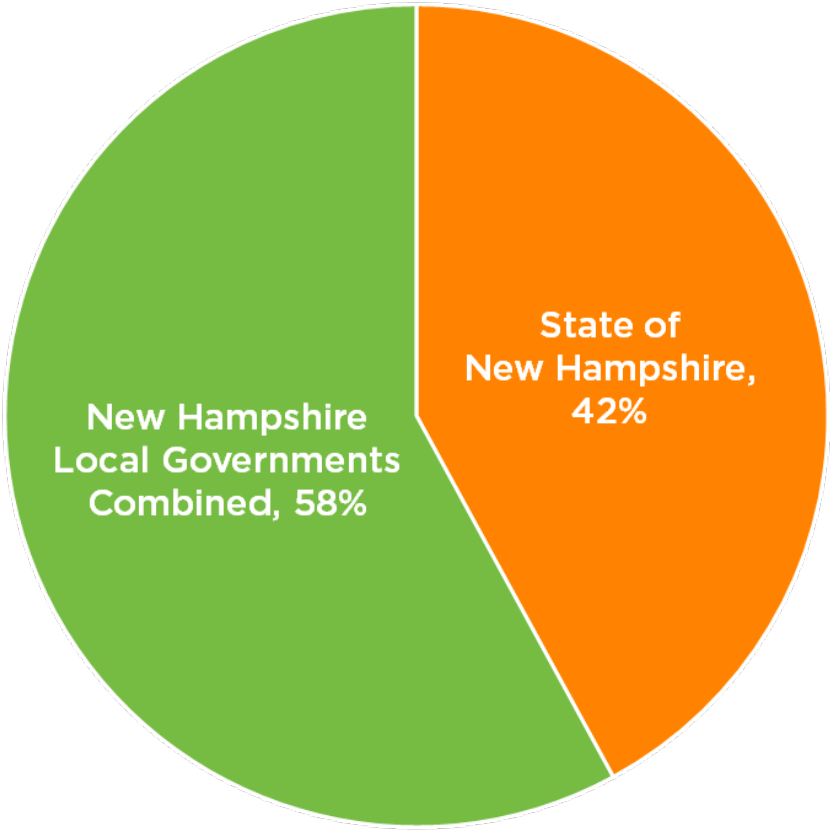
LOCAL GOVERNMENTS AND TAX REVENUE

NEW HAMPSHIRE TAX REVENUE BY GOVERNMENT LEVEL, FISCAL YEAR 2019

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

Local Governments includes:

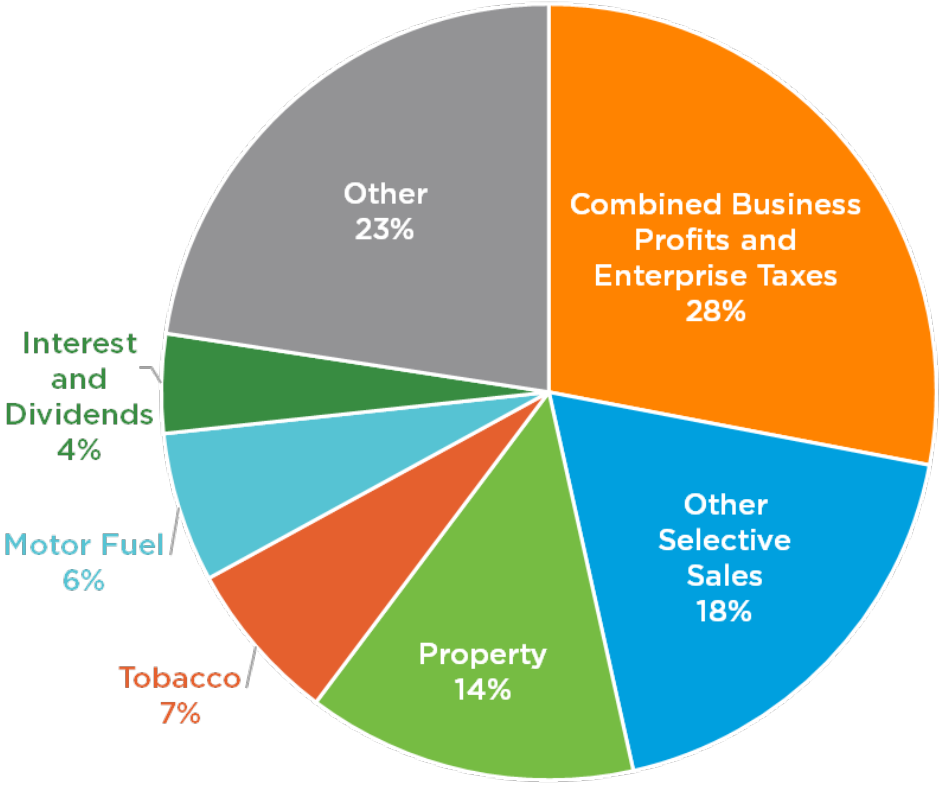
- Municipal governments (town and city)
- School districts
- County governments



FEWER LOCAL TAX REVENUE SOURCES

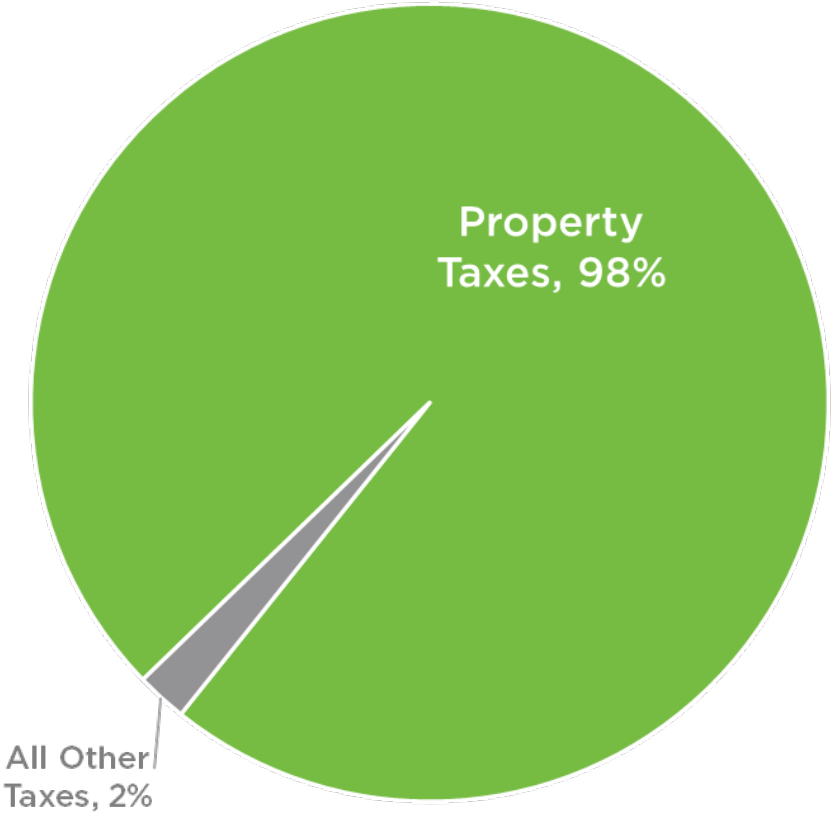
ALL STATE TAX REVENUE IN NEW HAMPSHIRE FISCAL YEAR 2019

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



ALL LOCAL TAX REVENUE IN NEW HAMPSHIRE FISCAL YEAR 2019

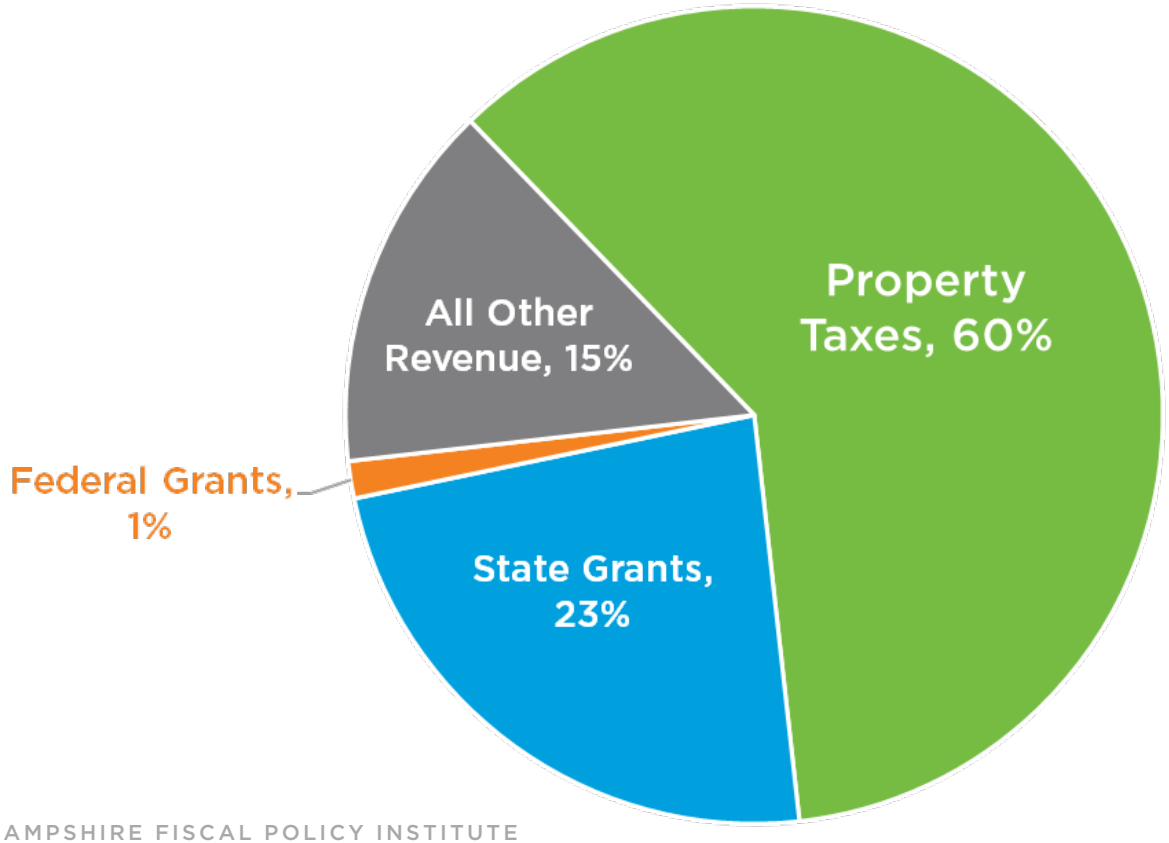
Source: U.S. Census Bureau, Survey of State and Local Government Finances



PROPERTY TAX RECEIPTS A MAJORITY OF LOCAL REVENUE IN NEW HAMPSHIRE

LOCAL GOVERNMENT REVENUE SOURCES NEW HAMPSHIRE, FISCAL YEAR 2019

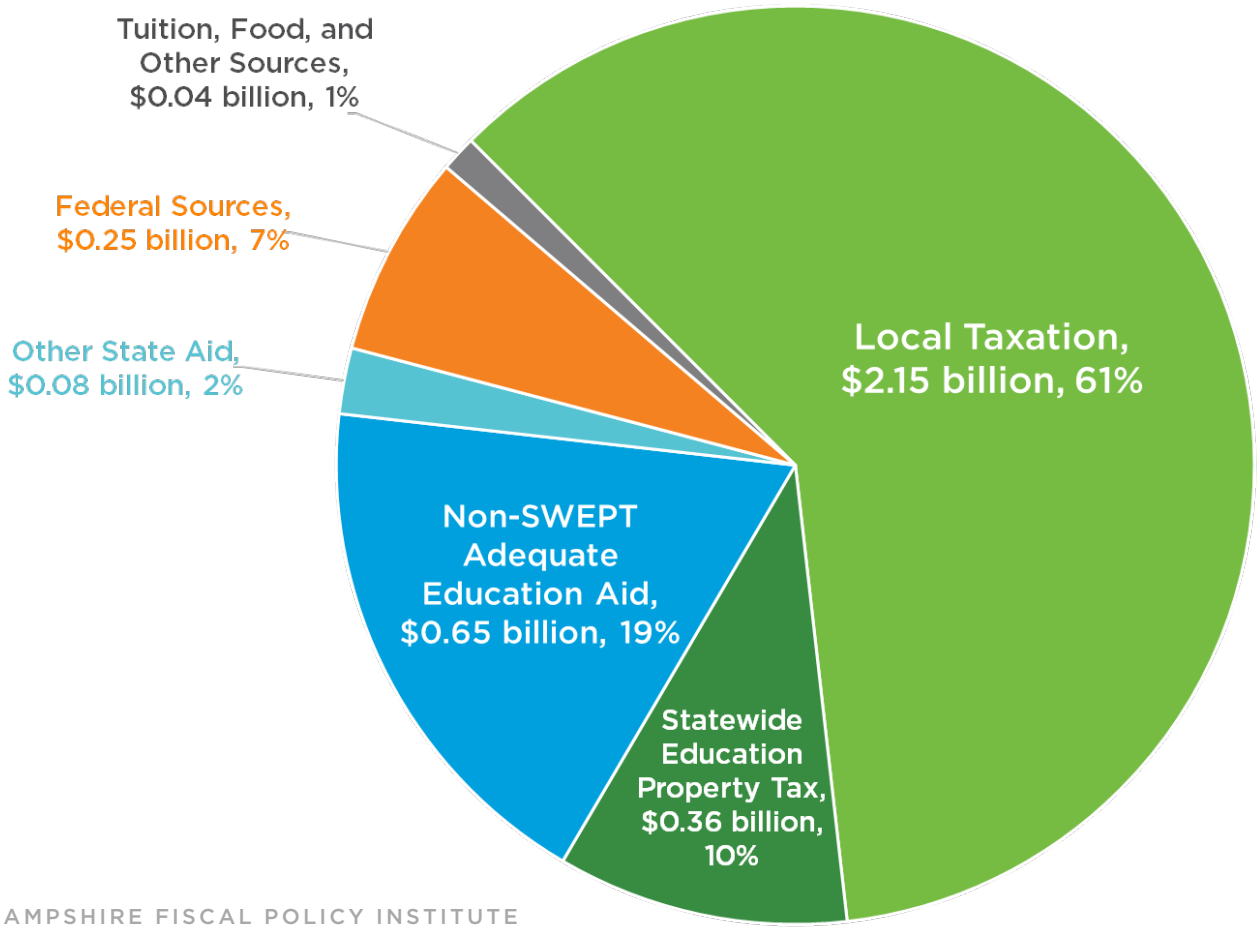
Source: U.S. Census Bureau, Survey of State and Local Government Finances



MOST LOCAL PUBLIC SCHOOL DISTRICT REVENUE PRODUCED BY PROPERTY TAXES

AGGREGATE SCHOOL DISTRICT REVENUE 2020-2021

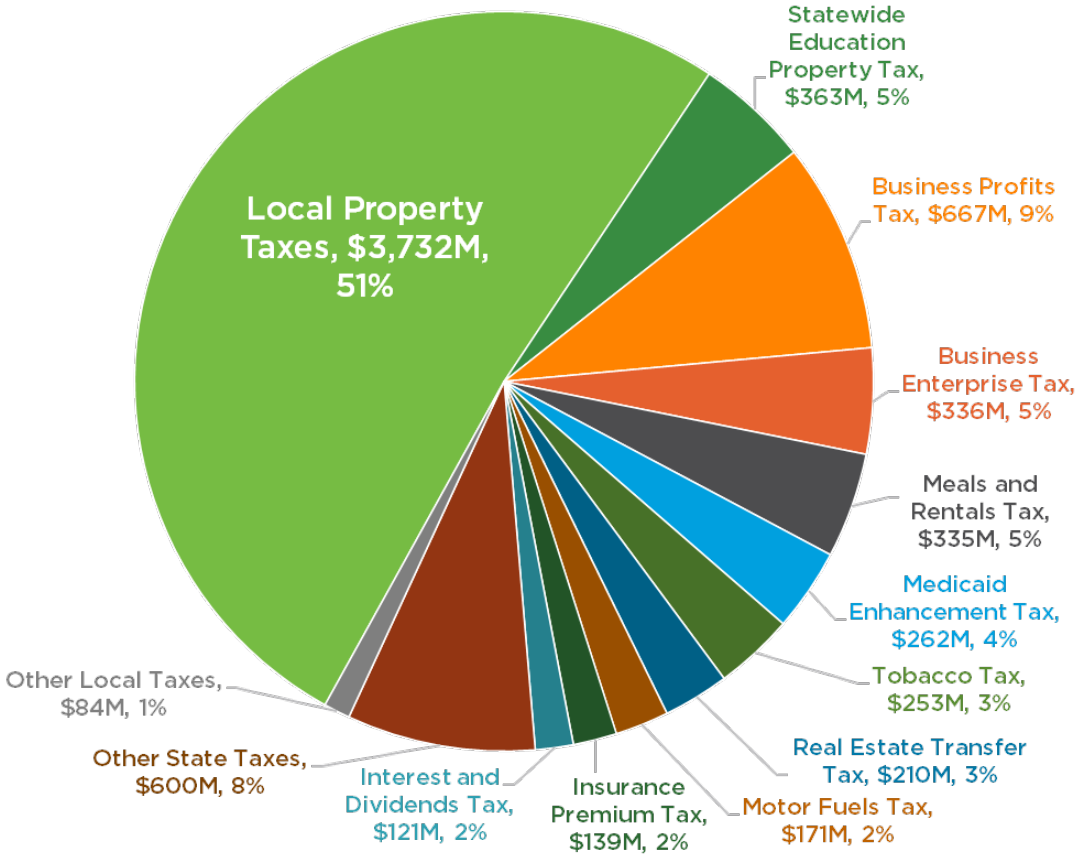
Source: New Hampshire Department of Education, December 27, 2021



PROPERTY TAXES MORE THAN HALF OF STATE AND LOCAL TAX REVENUES

STATE AND LOCAL TAXES IN NEW HAMPSHIRE

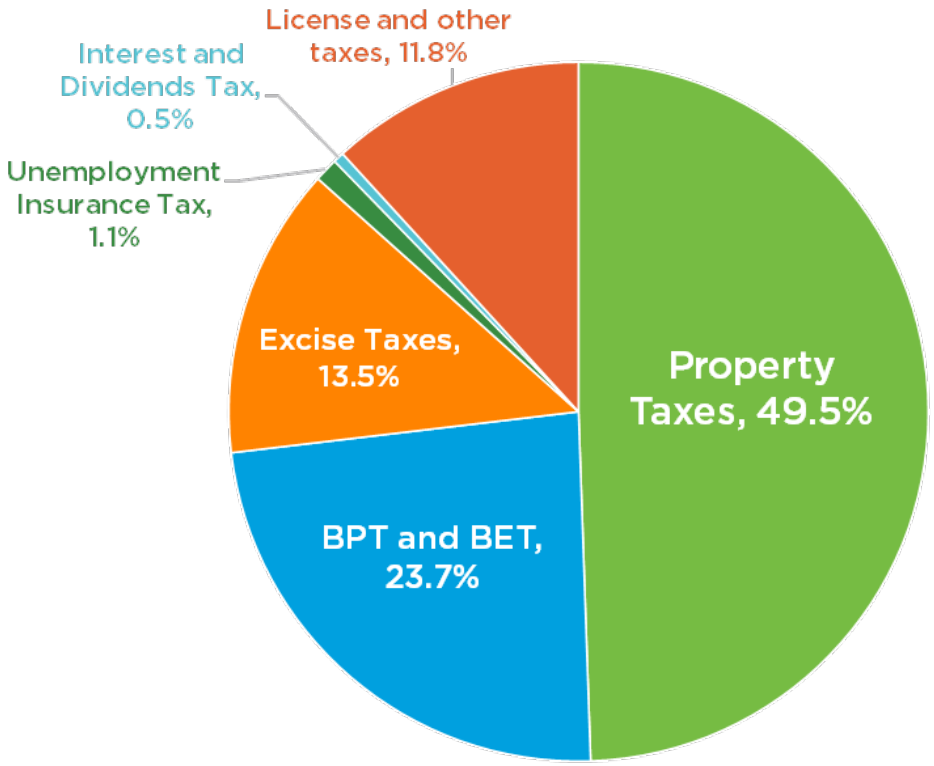
State Fiscal Year or Tax Year 2021



Sources: New Hampshire Annual Comprehensive Financial Report, State Fiscal Year 2021; New Hampshire Department of Revenue Administration, Completed Public Tax Rates 2021; U.S. Census Bureau, Survey of State

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

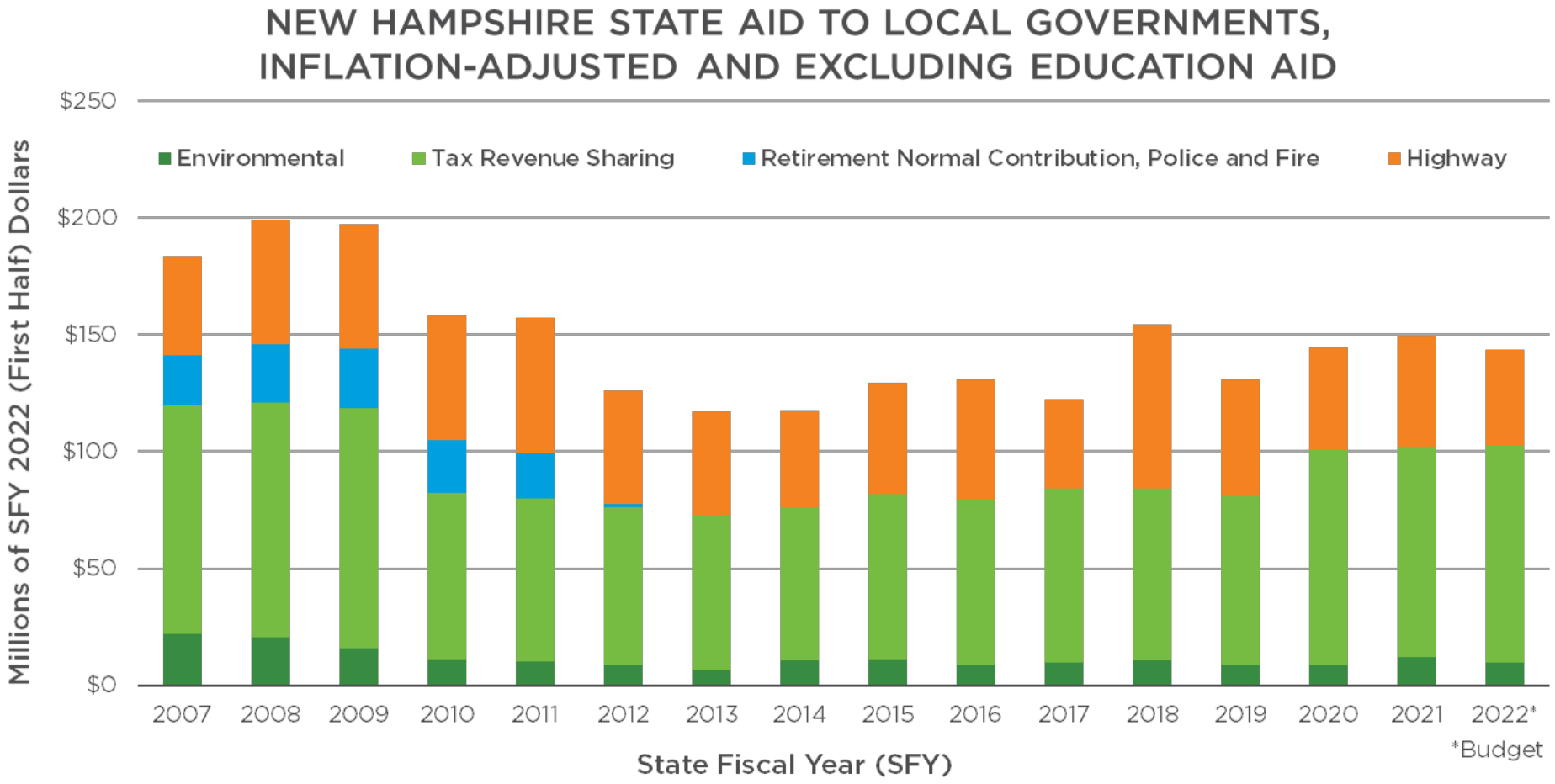
TAXES PAID BY BUSINESSES, NEW HAMPSHIRE STATE AND LOCAL TAXES, FISCAL YEAR 2020



Note: Totals do no sum to 100 percent due to rounding.
Source: Council on State Taxation, *Total State and Local Business Taxes*, Oct. 2021

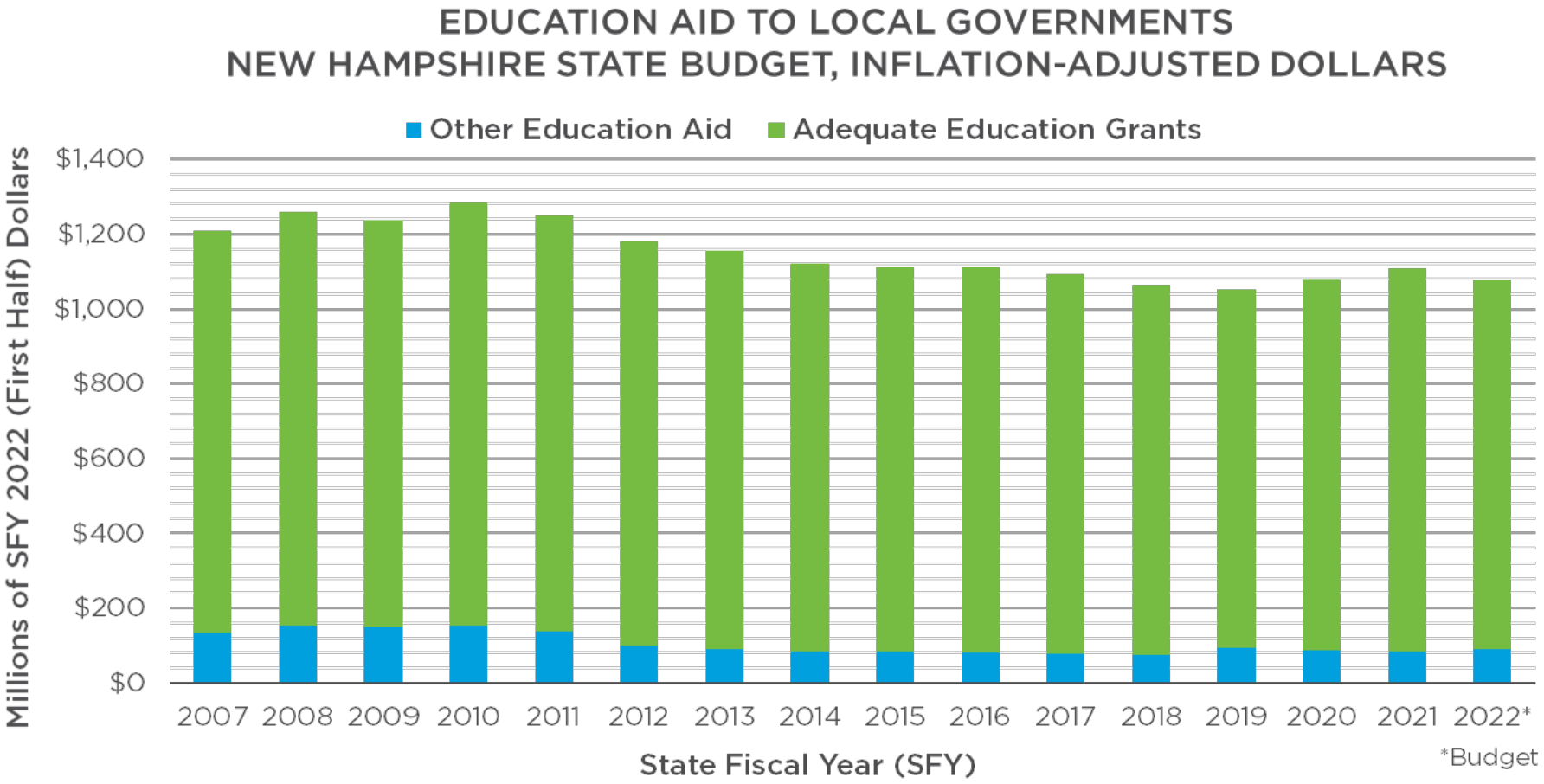
STATE AID TO LOCAL GOVERNMENTS

STATE AID TO MUNICIPALITIES DECLINED AFTER THE GREAT RECESSION



Sources: New Hampshire Office of Legislative Budget Assistant, *State Aid to Cities, Towns, and School Districts*, October 1, 2021; U.S. Bureau of Labor Statistics, Consumer Price Index-Northeast, State Fiscal Year Adjustment from NHFPI Calculations

EDUCATION AID PRIMARILY TIED TO STUDENT ENROLLMENT



Sources: New Hampshire Office of Legislative Budget Assistant, *State Aid to Cities, Towns, and School Districts*, October 1, 2021; U.S. Bureau of Labor Statistics, Consumer Price Index-Northeast, State Fiscal Year Adjustment from NHFPI Calculations

FEDERAL PANDEMIC AID TO THE STATE, COUNTIES, AND MUNICIPALITIES

SIGNIFICANT PANDEMIC-RELATED AID

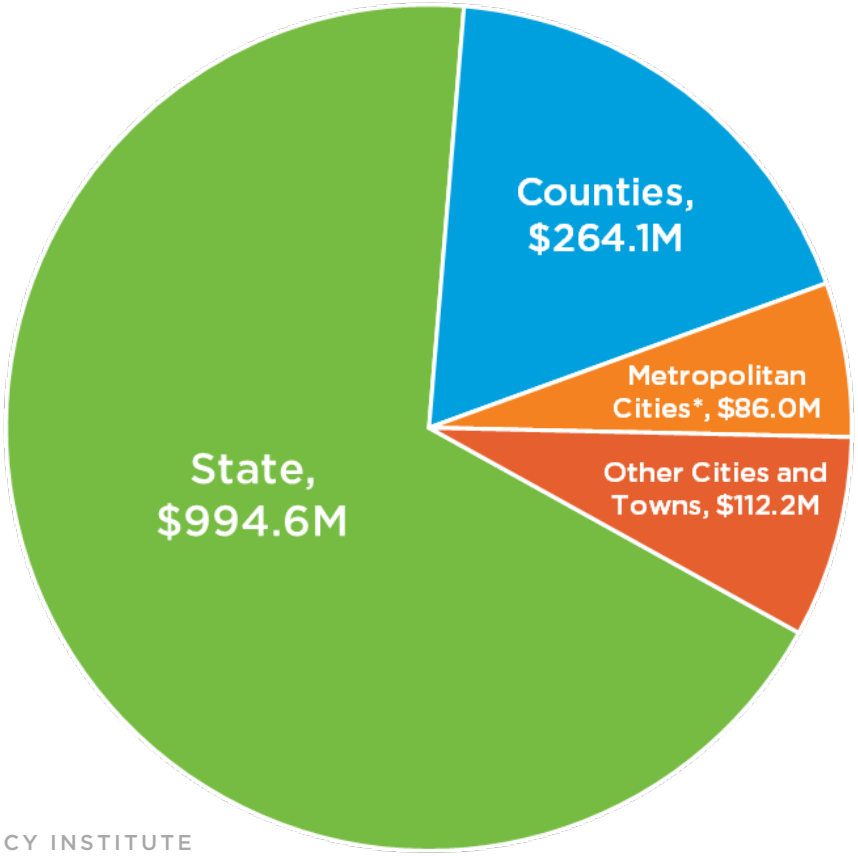
- Billions of federal dollars have come to the state for a variety of purposes, including directed and flexible funds
- Flexible aid from the American Rescue Plan Act, "Coronavirus State and Local Fiscal Recovery Funds," to be used to:
  - Respond to public health and economic impacts of the pandemic
  - Provide premium pay and support for essential workers
  - Replace lost public sector revenue due to the pandemic to support government services
  - Make necessary investment in water, sewer, and broadband infrastructure
- Federal government encouraged recipients "to consider funding uses that foster a strong, inclusive, and equitable recovery, especially uses with long-term benefits for health and economic outcomes."
- School districts also received aid, but a separate appropriation for different purposes

For more information, see NHFPI's resource page: The American Rescue Plan Act and New Hampshire: Recent and Updated Resources.

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 16, 2021



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

KEY TAKEAWAYS

- New Hampshire State government has wide array of diverse revenue sources, including federal, enterprise, and tax
- Property taxes are key for local governments, majority of revenue and nearly all tax revenue, less flexibility and diversity in revenue sources than the State
- Aggregate reduction in inflation-adjusted State aid to local governments following Great Recession
- Federal policy decisions impact State finances, and State policy decisions impact local finances
- Temporary flexible federal funds for the State and for local governments presents a substantial opportunity for building an equitable, sustainable, and inclusive economic recovery

ADDITIONAL RESOURCES

- Blog: Significant Revenue Surplus Largely Generated by Business Taxes in Federally-Boosted Economy – May 10, 2022
  https://nhfpi.org/blog/significant-revenue-surplus-largely-generated-by-business-taxes-in-federally-boosted-economy/
- Issue Brief: The State Budget for Fiscal Years 2022 and 2023 – August 17, 2021
  https://nhfpi.org/resource/the-state-budget-for-fiscal-years-2022-and-2023/
- 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/
- Resource Page: The American Rescue Plan Act and New Hampshire: Recent and Updated Resources
  https://nhfpi.org/resource/the-american-rescue-plan-act-and-new-hampshire-recent-and-updated-resources/

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