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

- Health and Social Services, $5,883 million, 44%
- Education, $3,103 million, 23%
- Justice and Public Protection, $1,603 million, 12%
- Transportation, $1,367 million, 10%
- Resource Protection and Development, $728 million, 6%
- General Government*, $678 million, 5%

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
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

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 SHARED MANY REVENUE SOURCES

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


- Business Profits Tax: 22.4%
- Business Taxes Combined: 33.7%
- Business Enterprise Tax: 11.3%
- Statewide Education Property Tax: 12.2%
- Meals and Rentals Tax: 11.2%
- Tobacco Tax: 8.5%
- Real Estate Transfer Tax: 7.0%
- Liquor Commission Profits: 5.0%
- Lottery Commission Profits: 4.8%
- Insurance Premium Tax: 4.7%
- Interest and Dividends Tax: 4.1%
- Utility Property Tax: 1.3%
- Communications Services Tax: 1.3%
- Miscellaneous: 6.2%
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

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

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

NEW HAMPSHIRE FISCAL POLICY INSTITUTE
HIGH NATIONAL CORPORATE PROFITS LIKELY BOOSTING STATE REVENUES

U.S. CORPORATE PROFITS BY QUARTER

Corporate Profits Adjusted for Inventory Valuation and Capital Consumption, Annual Rate, Seasonally Adjusted

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

- $225.9M from 80 Filers
- $86.8M from 3,069 Filers
- $170.6M from 591 Filers
- $2.2M from 66,277 Filers
- $29.6M from 7,849 Filers
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

- $66.2M From 2,551 Filers
- $57.5M From 237 Filers
- $50.7M From 17,233 Filers
- $23.5M From 12 Filers
- $8.6M From 57,833 Filers
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

- Corporations, 26,940, 35%
- Partnerships, 14,359, 18%
- Water’s Edge (Multi-National Combined Entity), 4,453, 6%
- Fiduciaries, 676, 1%
- Proprietors, 31,438, 40%
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

- **Proprietors, $18,360,680, 4%**
- **Corporations, $94,902,723, 18%**
- **Partnerships, $89,195,440, 17%**
- **Fiduciaries, $2,708,401, 1%**
- **Water’s Edge (Multi-National Combined Entity), $309,929,606, 60%**
REVIEW: GENERAL AND EDUCATION TRUST FUNDS REVENUE SOURCES

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

- Business Profits Tax: 22.4%
- Statewide Education Property Tax: 12.2%
- Business Taxes Combined: 33.7%
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- Interest and Dividends Tax: 4.1%
- Utility Property Tax: 1.3%
- Communications Services Tax: 1.3%

NEW HAMPSHIRE FISCAL POLICY INSTITUTE
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

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)

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 to the Education Trust Fund, rest to General Fund

NEW HAMPSHIRE REAL ESTATE TRANSFER TAX
GENERAL AND EDUCATION TRUST FUNDS INFLATION-ADJUSTED REVENUE

Millions of SFY 2021 Dollars

State Fiscal Year (SFY)

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

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

NEW HAMPSHIRE INTEREST AND DIVIDENDS TAX
GENERAL FUND INFLATION-ADJUSTED REVENUE

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

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

Income Group and Average Income in Group

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Average Income</th>
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<tbody>
<tr>
<td>Lowest 20%</td>
<td>$19,000</td>
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<td>Second 20%</td>
<td>$42,000</td>
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<td>Middle 20%</td>
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<td>Fourth 20%</td>
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<td>Next 15%</td>
<td>$190,000</td>
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<tr>
<td>Next 4%</td>
<td>$387,000</td>
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<td>Top 1%</td>
<td>$1,803,000</td>
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Average 2019 Incomes

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

NEW HAMPSHIRE TAX REVENUES NEAR AVERAGE VOLATILITY

STATE TAX REVENUE VOLATILITY, FISCAL YEARS 2000-2019

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

State of New Hampshire, 42%

New Hampshire Local Governments Combined, 58%
FEWER LOCAL TAX REVENUE SOURCES

ALL STATE TAX REVENUE IN NEW HAMPSHIRE FISCAL YEAR 2019

- Combined Business Profits and Enterprise Taxes: 28%
- Other Selective Sales: 18%
- Property: 14%
- Tobacco: 7%
- Motor Fuel: 6%
- Interest and Dividends: 4%
- Other: 23%

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

ALL LOCAL TAX REVENUE IN NEW HAMPSHIRE FISCAL YEAR 2019

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

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

- Local Taxation, $2.15 billion, 61%
- Statewide Education Property Tax, $0.36 billion, 10%
- Non-SWEPT Adequate Education Aid, $0.65 billion, 19%
- Other State Aid, $0.08 billion, 2%
- Federal Sources, $0.25 billion, 7%
- Tuition, Food, and Other Sources, $0.04 billion, 1%
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

Local Property Taxes, $3,732M, 51%

Statewide Education Property Tax, $363M, 5%
Business Profits Tax, $667M, 9%
Business Enterprise Tax, $336M, 5%
Meals and Rentals Tax, $335M, 5%
Medicaid Enhancement Tax, $262M, 4%
Tobacco Tax, $253M, 3%
Real Estate Transfer Tax, $210M, 3%
Motor Fuels Tax, $171M, 2%

Other Local Taxes, $84M, 1%
Other State Taxes, $600M, 8%
Interest and Dividends Tax, $121M, 2%
Insurance Premium Tax, $139M, 2%

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

- Property Taxes, 49.5%
- Excise Taxes, 13.5%
- BPT and BET, 23.7%
- License and other taxes, 11.8%
- Unemployment Insurance Tax, 1.1%
- Interest and Dividends Tax, 0.5%

Note: Totals do not 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

NEW HAMPSHIRE STATE AID TO LOCAL GOVERNMENTS, INFLATION-ADJUSTED AND EXCLUDING EDUCATION AID

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<tr>
<th>State Fiscal Year (SFY)</th>
<th>Environmental</th>
<th>Tax Revenue Sharing</th>
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EDUCATION AID PRIMARILY TIED TO STUDENT ENROLLMENT

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

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

State, $994.6M

Counties, $264.1M

Metropolitan Cities*, $86.0M

Other Cities and Towns, $112.2M

*“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

• Issue Brief: The State Budget for Fiscal Years 2022 and 2023 – August 17, 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

• Resource Page: The American Rescue Plan Act and New Hampshire: Recent and Updated Resources