NEW HAMPSHIRE’S STATE BUDGET AND FUNDING FOR PUBLIC SERVICES

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KENT STREET COALITION

AUGUST 18, 2022
BASICS OF THE STATE BUDGET

• Two-year, or biennial, operating budget
  o Funds *most* State operations for two State Fiscal Years (SFYs)
  o Current State Budget provides funding for SFYs 2022-2023 (July 1, 2021 to June 30, 2023), more than $13 billion in appropriations

• Comprised of two separate pieces of legislation
  o Operating Budget Bill, typically House Bill 1 or “HB 1,” holds the line-item appropriations, amount of money in each component of State programs
  o Trailer Bill, typically House Bill 2 or “HB 2,” is the companion omnibus bill with policy changes and appropriations separate from HB 1

• Not all State expenditures, spending plans are in State Budget
  o Capital Budget, covers six years with changes every two years
  o Ten Year Transportation Improvement Plan, altered every two years
  o Separately authorized expenditures, such as bills that appropriate funds, authorized spending through Joint Legislative Fiscal Committee, or separate off-budget funds; expanded Medicaid under the Patient Protection and Affordable Care Act authorized outside of the State Budget
STATE BUDGET APPROPRIATIONS BY CATEGORY OF SERVICE AREA

STATE BUDGET LEGISLATION APPROPRIATIONS
State Fiscal Years 2022-23 and Trailer Bill SFY 2021 Appropriations

Health and Social Services, $5,883 Million, 44%
Education, $3,103M, 23%
Transportation, $1,367M, 10%
Justice and Public Protection, $1,603M, 12%
Resource Protection and Development, $728M, 6%
General Government*, $678M, 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
CURRENT STATE BUDGET LARGER IN SIZE, MOVED MORE FUNDS OFF BUDGET

APPROPRIATIONS FROM PRIOR AND CURRENT NEW HAMPSHIRE STATE BUDGET BILLS

- **Total: $13.2 Billion**
  - Trailer Bill - Appropriations of Surplus Before Biennium, $0.06 Billion
  - Trailer Bill - Appropriations During Biennium (House Bill 4), $0.23 Billion
  - Operating Budget Bill (House Bill 3), $12.93 Billion

- **Total: $13.6 Billion**
  - Federal Funds Likely to be Accepted Later, $0.03 Billion
  - Trailer Bill - Appropriations of Surplus Before Biennium, $0.17 Billion
  - Trailer Bill - Appropriations During Biennium (House Bill 2), $0.13 Billion
  - Operating Budget Bill (House Bill 1), $13.08 Billion

**State Budget**

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 New Hampshire Office of Legislative Budget Assistant and changes to other funds identified in Office of Legislative Budget Assistant compare reports and legislative language.

CHANGES IN APPROPRIATIONS NOT EVEN ACROSS BUDGET CATEGORIES

DIFFERENCE BETWEEN THE PRIOR STATE BUDGET’S APPROPRIATIONS AS ENACTED AND THE NEW STATE BUDGET’S APPROPRIATIONS BY CATEGORY

Change in Appropriations, Millions of Dollars

- General Government*
- Education
- Transportation
- Resource Protection and Development
- Justice and Public Protection
- Health and Social Services

Moved Off Budget

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; HB 1 and HB 2 as Adopted, 2021 Session; Chapters 345 and 346, Laws of 2019
NEW HAMPSHIRE’S STATE BUDGET FUNDS

Funds act like accounts
Interact with one another
General Fund holds the most flexible dollars
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.
STATE TAX AND OTHER REVENUES

- Federal transfers still significant outside of pandemic-related aid, all included in this figure’s calculations.
- 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.

STATE REVENUE SOURCES, GOVERNMENTAL AND ENTERPRISE FUNDS, STATE FISCAL YEAR 2021
LARGEST STATE 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

GENERAL AND EDUCATION TRUST FUNDS SHARE 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%
INFLATION-ADJUSTED REVENUE TO KEY FUNDS SHOWS RECENT GROWTH

GENERAL AND EDUCATION TRUST FUND REVENUE, ADJUSTED FOR INFLATION

*Note: 2022 data are preliminary accrual data, not final audited figures.
Sources: New Hampshire Comprehensive Annual Financial Reports, SFYs 2014-2022

NEW HAMPSHIRE FISCAL POLICY INSTITUTE
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

Business Enterprise Tax
- 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
  - 2001-2015: 0.750%, 2016-17: 0.720%, 2018: 0.675%, 2019-21: 0.600%, 2022: 0.550%

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: 2022 data are preliminary accrual data, not final audited figures. Final sorting between these two taxes not reported fully in the Annual Comprehensive Financial Reports.
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: U.S. 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, 2021 Annual Report

- $225.9 Million 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
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

- Corporations, $94.9M, 18%
- Partnerships, $89.2M, 17%
- Proprietors, $18.4M, 4%
- Fiduciaries, $2.7M, 1%
- Water’s Edge (Multi-National Combined Entity), $309.9 Million, 60%
## INTEREST AND DIVIDENDS TAX TO BE ELIMINATED BY 2027 UNDER CURRENT LAW

### NEW HAMPSHIRE INTEREST AND DIVIDENDS TAX FILERS BY INCOME AND TAX PAID, TAX YEAR 2019

<table>
<thead>
<tr>
<th>Taxable Interest and Dividend Income of at Least:</th>
<th>Percentage of Filers</th>
<th>Percentage of Total Tax Revenue Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,000,000</td>
<td>0.03%</td>
<td>9.51%</td>
</tr>
<tr>
<td>$2,000,000</td>
<td>0.12%</td>
<td>16.97%</td>
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<tr>
<td>$1,000,000</td>
<td>0.32%</td>
<td>25.18%</td>
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<tr>
<td>$200,000</td>
<td>2.61%</td>
<td>50.96%</td>
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<td>$20,000</td>
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<td>89.54%</td>
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<td>$20</td>
<td>79.08%</td>
<td>100.00%</td>
</tr>
<tr>
<td>$0</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Total Filers/Revenue</strong></td>
<td><strong>71,785</strong></td>
<td><strong>$119,533,123</strong></td>
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</tbody>
</table>

Source: New Hampshire Department of Revenue Administration, 2021 Annual Report
HIGH-INCOME FILERS KEY PART OF INTEREST AND DIVIDENDS TAX BASE

AVG. 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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<tr>
<td>Second 20%</td>
<td>$42,000</td>
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<tr>
<td>Middle 20%</td>
<td>$65,000</td>
</tr>
<tr>
<td>Fourth 20%</td>
<td>$105,000</td>
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<tr>
<td>Next 15%</td>
<td>$190,000</td>
</tr>
<tr>
<td>Next 4%</td>
<td>$387,000</td>
</tr>
<tr>
<td>Top 1%</td>
<td>$1,803,000</td>
</tr>
</tbody>
</table>

Source: Institute on Taxation and Economic Policy, May 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

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 and Local Government Finances, 2019 ("Other Local Taxes")
STATE AID TO MUNICIPALITIES DECLINED AFTER THE GREAT RECESSION

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

EDUCATION AID PRIMARILY TIED TO STUDENT ENROLLMENT

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

FEDERAL PANDEMIC-RELATED AID TOTALS OVER $16 BILLION TO NEW HAMPSHIRE

FEDERAL ASSISTANCE RELATED TO COVID-19 IN NEW HAMPSHIRE
Total of Nearly $16.9 billion Through July 7, 2022

- Paycheck Protection Program and Other Business Aid, $5.01 Billion
- Other Grants and Aid to Governments and Other Organizations, $3.17B
- Economic Impact Payments to Individuals, $2.28B
- Flexible Grants to the State Government, $2.24B
- Enhanced Unemployment Compensation, $1.55B
- Grants to Health Care Providers, $0.69B
- K-12 Public Education Aid, $0.55B
- Emergency Rental Assistance, $0.35B
- Higher Education Aid, $0.30B
- Food Assistance and Related Program Aid, $0.13B
- Flexible Capital Fund Grant to States, $0.12B
- flexible Grants to Cities, Towns, and Counties, $0.46B

Note: Sums may include small amounts of double-counting due to summation mismatches. Totals presented are derivations. Small amounts of aid to individuals are also included in the “Other Grants and Aid” section, including aid for funeral expenses.
MAJORITY OF STATE’S FLEXIBLE FEDERAL FUNDS APPROPRIATED

AMERICAN RESCUE PLAN ACT
CORONAVIRUS STATE FISCAL RECOVERY FUNDS IN NEW HAMPSHIRE
As of August 12, 2022

Source: NHFPI analysis of Joint Legislative Fiscal Committee and Executive Council approvals, May 2021-August 2022
STATE APPROPRIATIONS FOR WIDE VARIETY OF PURPOSES

NEW HAMPSHIRE'S CORONAVIRUS STATE FISCAL RECOVERY FUND ALLOCATIONS, AS OF AUGUST 12, 2022

- Water Infrastructure, $240.0 Million
- Building Upgrades, $108.5M
- Housing, $103.1M
- Mental Health or Substance Use Disorder Services, $54.2M
- Information Technology Upgrades, $48.7M
- Health Care, $45.5M
- Public Safety, Enforcement, and Justice, $43.1M
- Parks and Recreation Upgrades, $27.8M
- Veterans Services, $23.0M
- Workforce Incentives and Support, $17.9M
- Administration and Operations, $12.7M
- Economic Development, $8.6M
- Benefits Access, $5.2M
- Broadband, $0.7M
- Education, $2.9M
- Clean Energy and Air Quality, $1.9M

Source: NHFPI analysis of Joint Legislative Fiscal Committee and Executive Council approvals, May 2021 - August 2022
KEY TAKEAWAYS

• New Hampshire has a biennial State Budget that funds most operations, but not all spending and not capital projects
• Current State Budget bills appropriated more funding than the prior State Budget bills, with uneven increases in services
• Taxes on corporate profits, income from assets being lowered
• Property taxes more than half of all State and local taxes collected in New Hampshire, and most are local taxes
• Inflation-adjusted state aid to local governments lower than prior to the State Budget following the 2007-2009 recession
• Federal funding key to supporting State operations, and much more has been sent to New Hampshire since the pandemic began, providing a substantial opportunity for building an equitable and inclusive economy
ADDITIONAL RESOURCES

• **Issue Brief**: The State Budget for Fiscal Years 2022 and 2023 – August 17, 2021

• **Publication**: Building the Budget: New Hampshire’s State Budget Process and Recent Funding Trends – February 9, 2017

• **Publication**: Revenue in Review: An Overview of New Hampshire’s Tax System and Major Revenue Sources – May 24, 2017

• **Resource Pages**: Budget, Revenue & Tax
  [https://nhfpi.org/topic/budget/](https://nhfpi.org/topic/budget/) and
  [https://nhfpi.org/topic/revenue-tax/](https://nhfpi.org/topic/revenue-tax/)