



NEW HAMPSHIRE
**FISCAL
POLICY
INSTITUTE**

EXAMINING THE STATE BUDGET: UNPACKING THE GOVERNOR'S PROPOSAL

PRESENTED BY PHIL SLETTEN, RESEARCH DIRECTOR

FEBRUARY 24, 2023

WHAT IS THE STATE BUDGET AND HOW IS IT CREATED?

BASICS OF THE STATE BUDGET

Two-year, or biennial, operating budget

- Funds *most*, but not all, State operations for two State Fiscal Years (SFYs)
- Next State Budget will provide funding for SFYs 2024-2025, which will span July 1, 2023 to June 30, 2025, from this year's surplus and two years of revenue

Comprised of two separate pieces of legislation

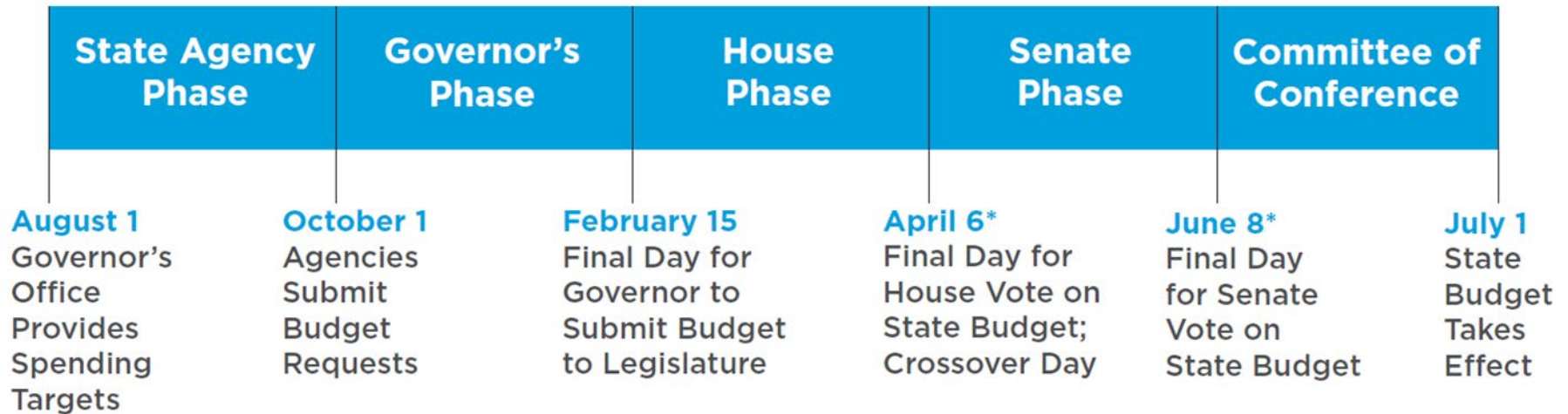
- Operating Budget Bill, typically House Bill 1 or "HB 1," holds the line-item appropriations with the amount of money in each component of State programs
- Trailer Bill, typically House Bill 2 or "HB 2," is the companion omnibus bill with policy changes and appropriations separate from HB 1

Not all State expenditures are in State Budget

- Capital Budget (HB 25), covers six years with changes every two years
- Ten Year Transportation Improvement Plan, altered every two years
- Separately authorized expenditures, such as bills that appropriate funds, spending requests granted by the Joint Legislative Fiscal Committee, or separate off-budget funds; for example: Medicaid Expansion under the Patient Protection and Affordable Care Act enacted outside of the State Budget

BUDGET CREATED IN A YEARLONG PROCESS WITH FIVE PHASES

STATE BUDGET PROCESS TIMELINE



*Dates set by legislative leadership for the 2023 session; all other dates specified in statute.

A BUDGET IN TWO BILLS

STATE BUDGET

Operating Budget Bill (Typically House Bill 1)

Operating Budget Line Items

(House Bill 1, Sections 1.00 to 1.07)

Line Item 1	\$X,XXX
Line Item 2	\$XX
Line Item 3	\$XXX
Organization, Class, and Agency Notes	
Line Items Total	\$XX,XXX

Text Following Line Items

- Sections 1.08 Through Final Section
- Back of Budget Funding Adjustments
- Revenue Estimates
- Budget Footnotes



Trailer Bill (Typically House Bill 2)

Omnibus Bill Text

Policy Language in Sentences,
Which Can Include:

- Policy Changes Paired With Line Item Changes
- Additional Appropriations
- Allocations of Surplus Revenue from the Prior Biennium
- Policy on Other Topics

MORE EXAMINATION WILL BE REQUIRED

Operating Budget Bill shows most funding changes

- Operating Budget Bill proposes \$14.88 billion over two years
- Governor also provided policy outlines for key areas in his Executive Summary, a presentation to the House Finance Committee, and companion documents

Trailer Bill has policy details, not yet publicly available

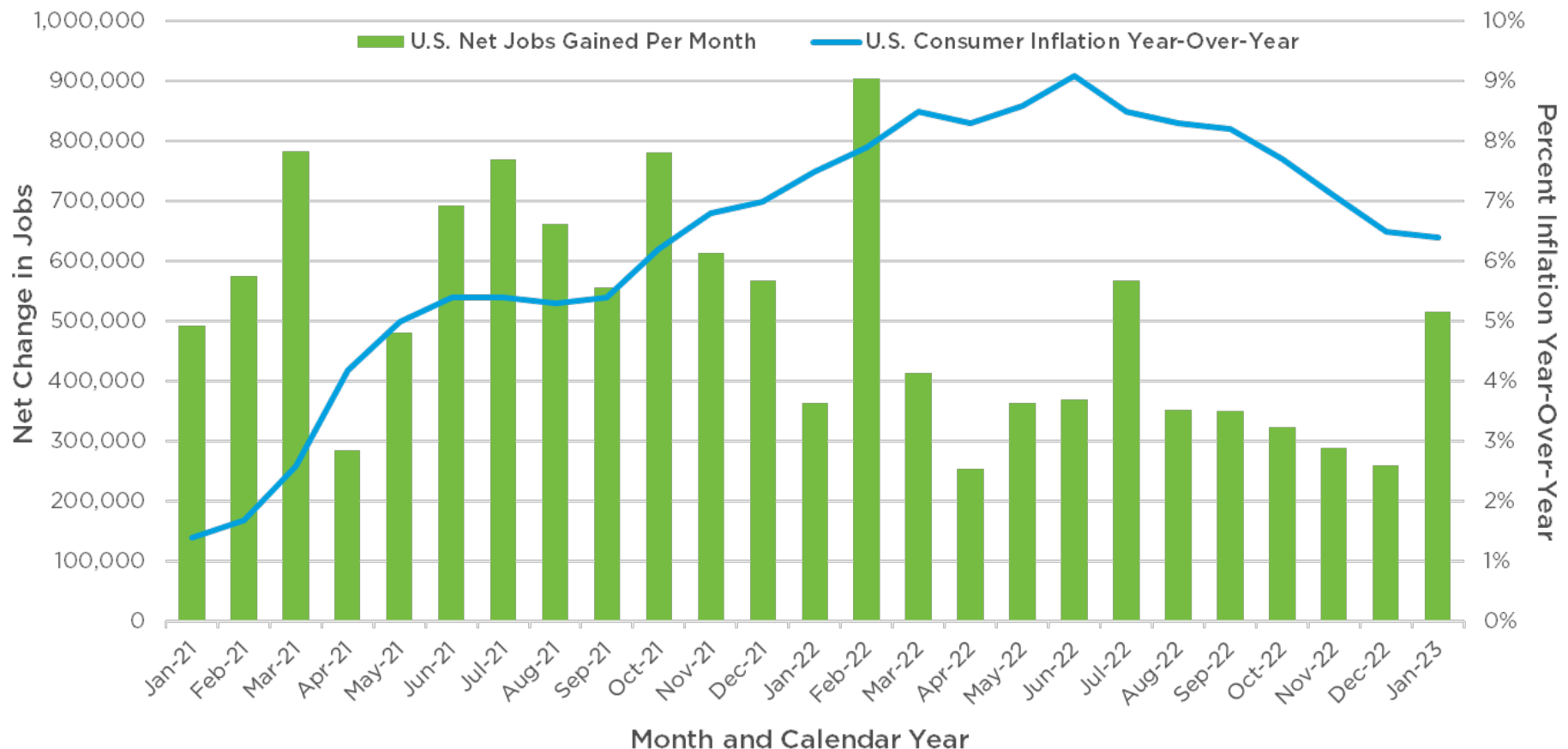
- Many policy details not fully known
- Trailer Bill appears to have at least \$581 million in appropriations, including:
 - Appropriations of projected State revenue surpluses for one-time initiatives, including school building and housing aid
 - State employee pay increases
 - Medicaid reimbursement rate increases

WHAT IS THE CONTEXT FOR THIS STATE BUDGET PROPOSAL?

THE CONTEXT: AN UNCERTAIN ECONOMY

INFLATION AND JOB GROWTH IN THE UNITED STATES

Monthly Nonfarm Payroll Employment and the Consumer Price Index-Urban

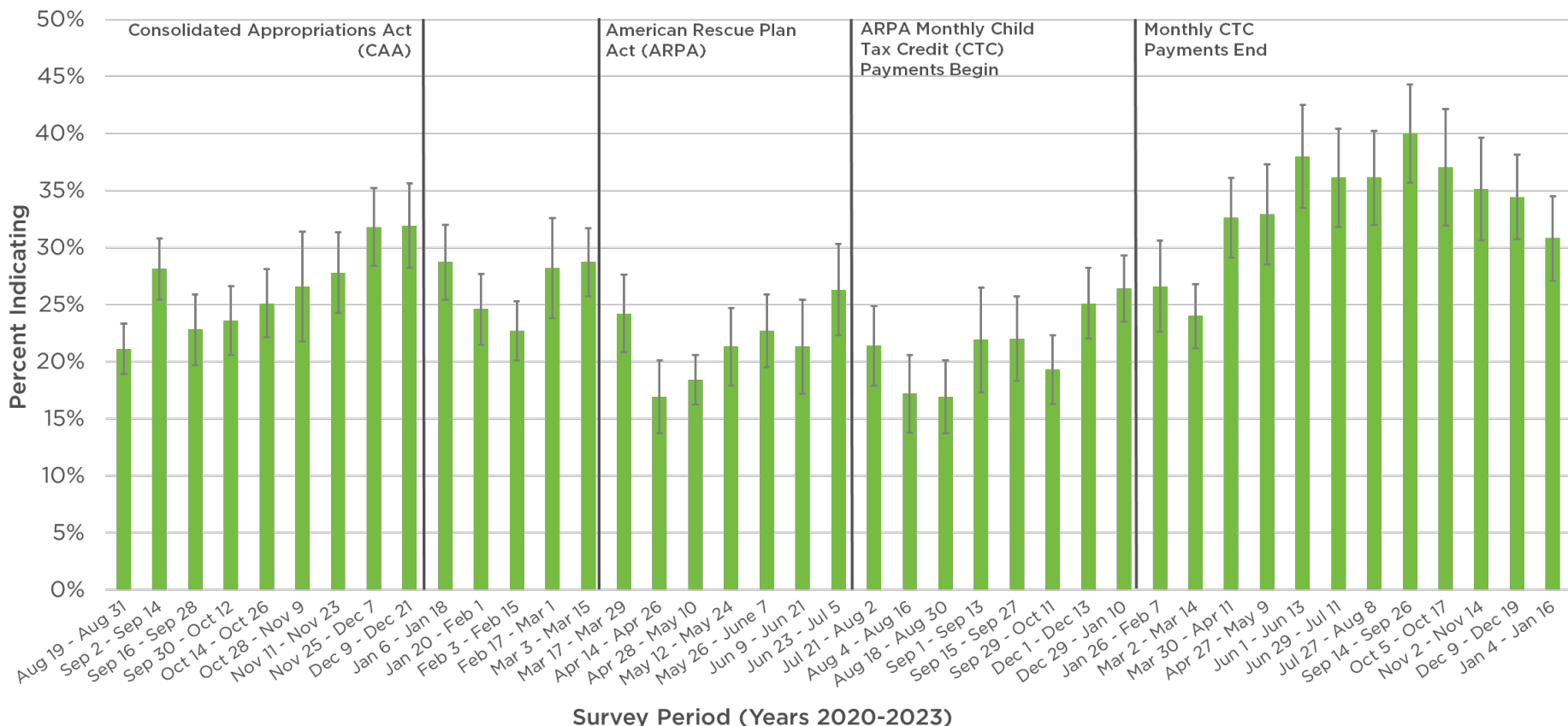


Sources: U.S. Bureau of Labor Statistics, Consumer Price Index-Urban, Current Employment Statistics, retrieved February 20, 2023

GRANITE STATERS FACE DIFFICULTY IN AFFORDING USUAL HOUSEHOLD EXPENSES

NEW HAMPSHIRE ADULTS REPORTING DIFFICULTY WITH USUAL EXPENSES

Percentage Living in Households Where it Has Been Somewhat or Very Difficult to Pay for Usual Household Expenses During The Last Seven Days



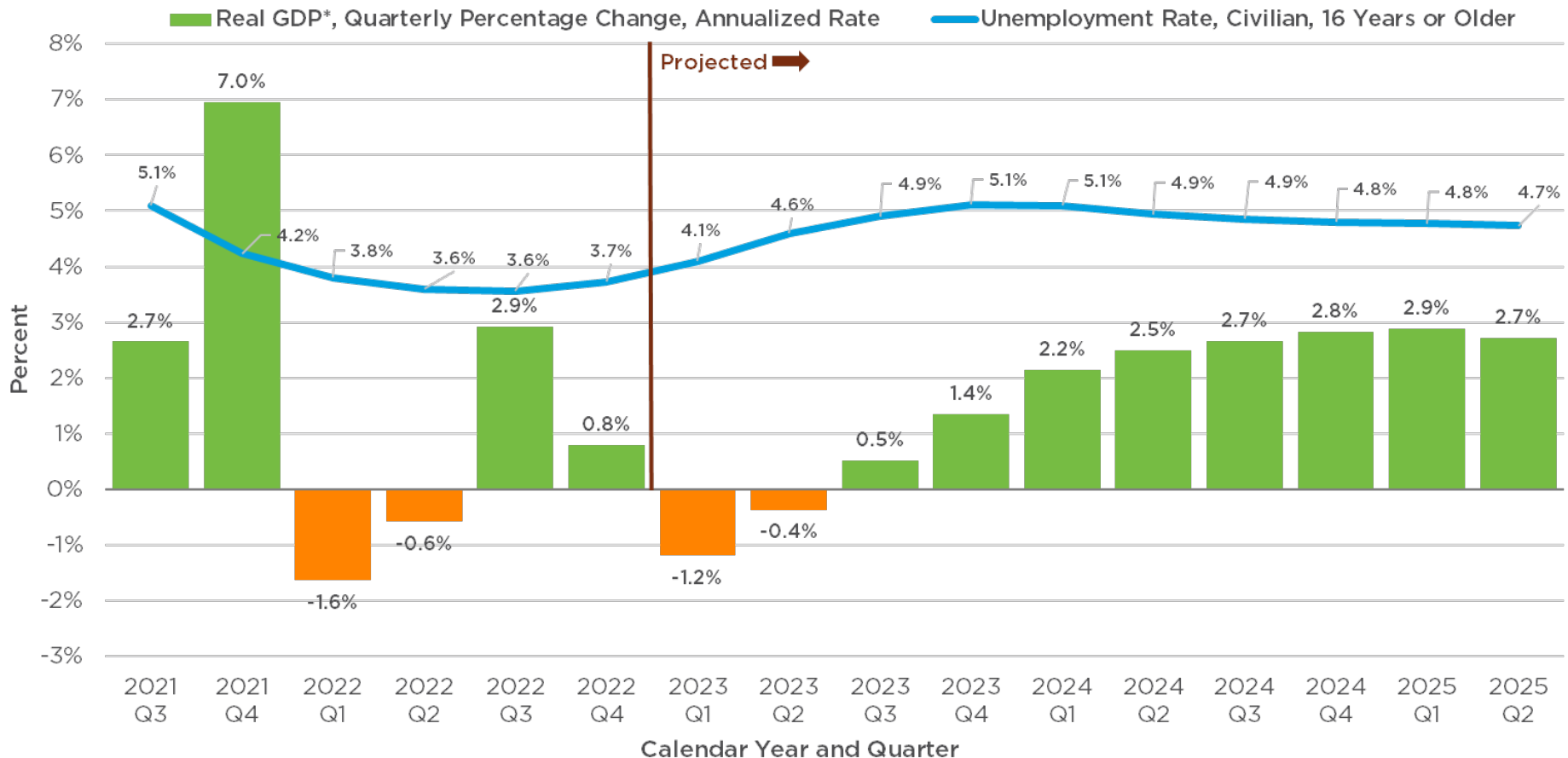
Survey Period (Years 2020-2023)

Note: Margin of error bars represent 90 percent confidence intervals

Source: U.S. Census Bureau, 2020-2023 Household Pulse Survey, accessed February 20, 2023

U.S. FORECASTS SUGGEST NEAR-TERM ECONOMIC DECLINE, MORE UNEMPLOYMENT

KEY U.S. ECONOMIC PROJECTIONS FROM THE CONGRESSIONAL BUDGET OFFICE

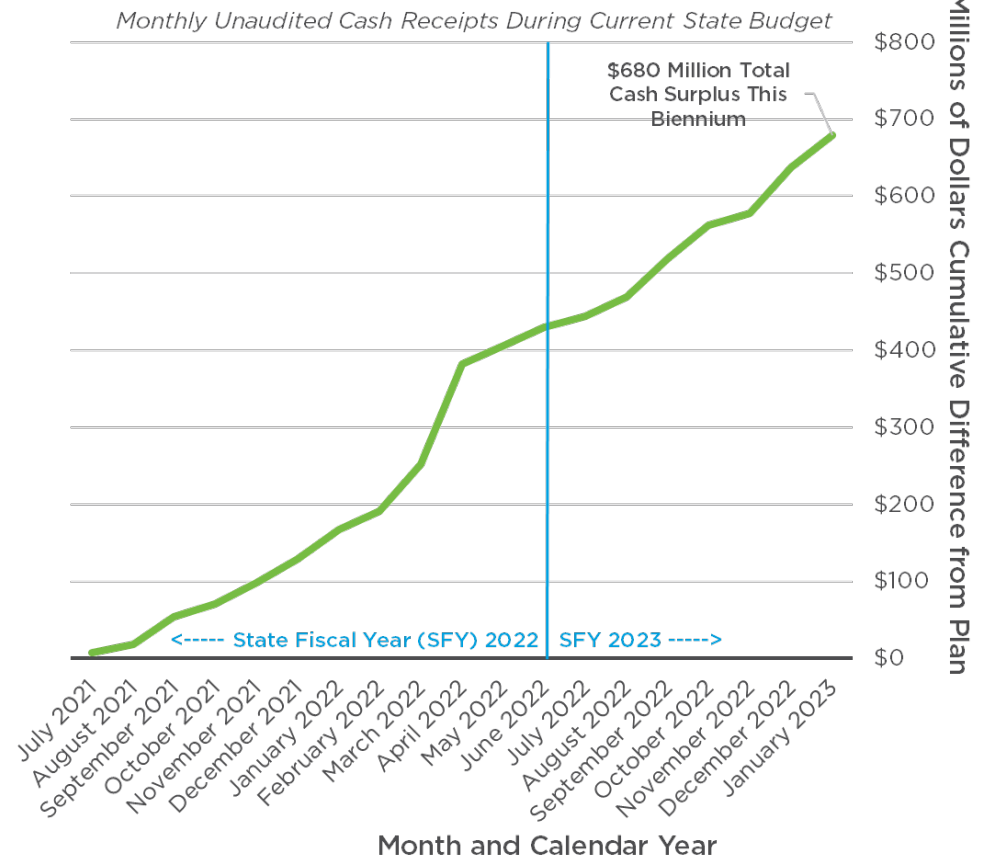


*Note: Represents inflation-adjusted Gross Domestic Product, a measure of the size of the economy.
Source: U.S. Congressional Budget Office, The Budget and Economic Outlook: 2023 to 2033, February 15, 2023

CURRENTLY A SUBSTANTIAL REVENUE SURPLUS, OTHER FLEXIBLE FUNDS

- Revenue surplus over budget's planned amounts from last year, plus this year's revenue surplus, minus other enacted expenditures: \$325.2 million in the General and Education Trust Funds combined
- Rainy Day Fund: \$159.9 million as of July 1, 2022
- Remaining unbudgeted American Rescue Plan Act flexible funds: \$71.0 million

NEW HAMPSHIRE GENERAL AND EDUCATION TRUST FUNDS SURPLUS

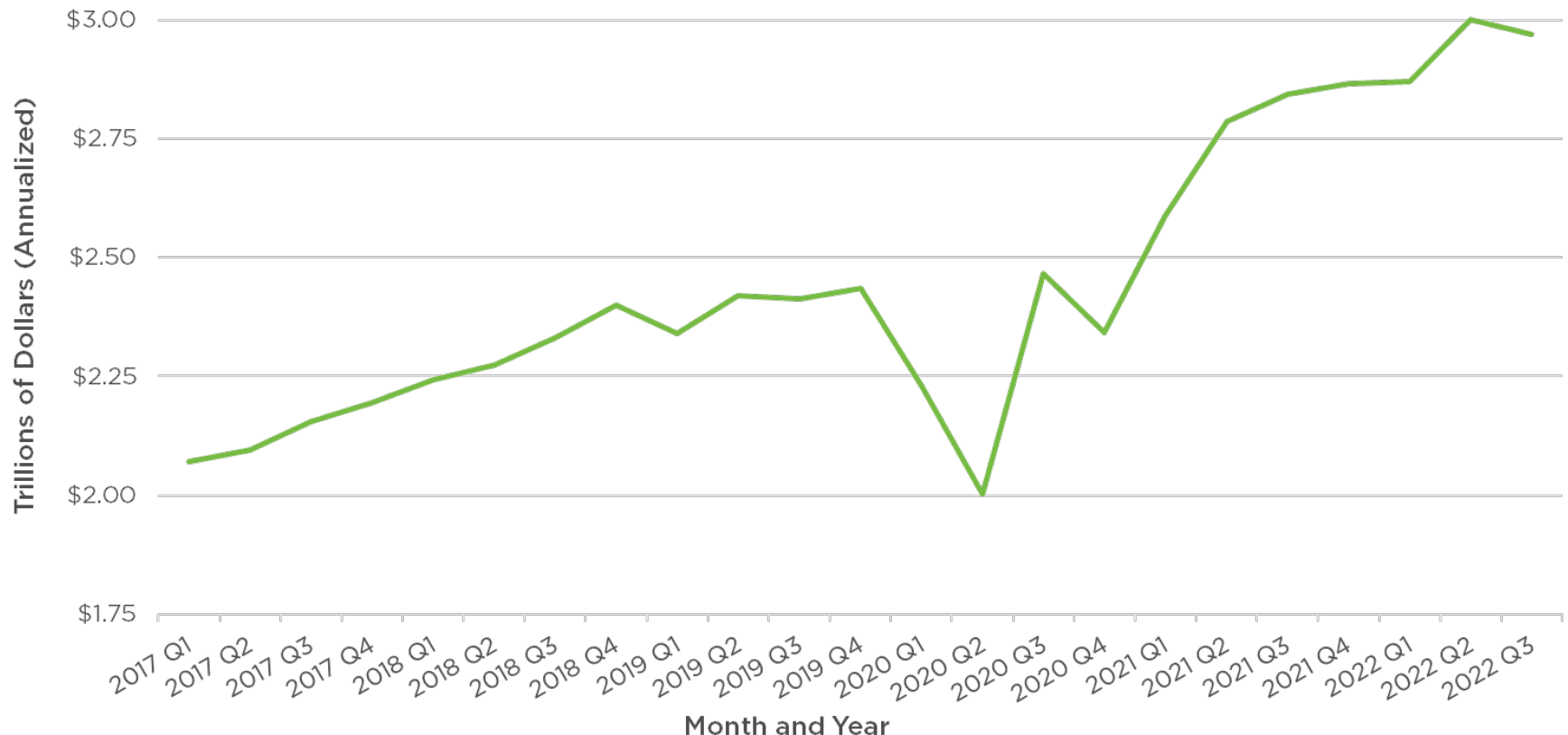


Sources: Office of Legislative Budget Assistant, LBA Snapshot, January 9, 2023; New Hampshire Department of Administrative Services, Monthly Revenue Focus, January FY 2023; NHFPI analysis of Joint Legislative Fiscal Committee and Executive Council approvals, May 2021 – February 2023

LARGEST STATE TAX, BUSINESS PROFITS TAX, LIKELY BOOSTED BY HIGH PROFITS

U.S. CORPORATE PROFITS BY QUARTER

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

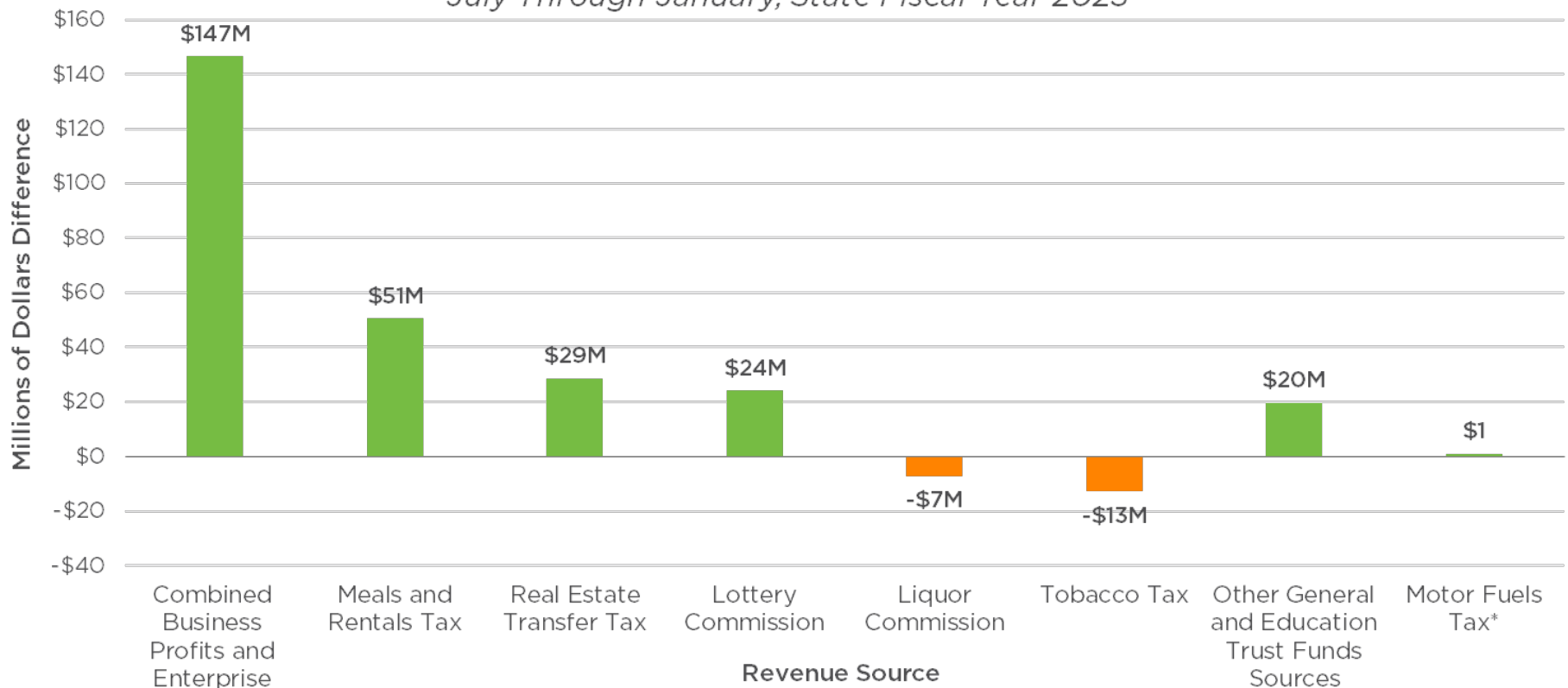


Source: U.S. Federal Reserve Bank of St. Louis, accessed December 21, 2022

OTHER KEY STATE REVENUE SOURCES PROVIDING MORE REVENUE THAN PLANNED

DIFFERENCES FROM STATE REVENUE PLAN BY SOURCE

*General and Education Trust Funds Revenues,
July Through January, State Fiscal Year 2023*

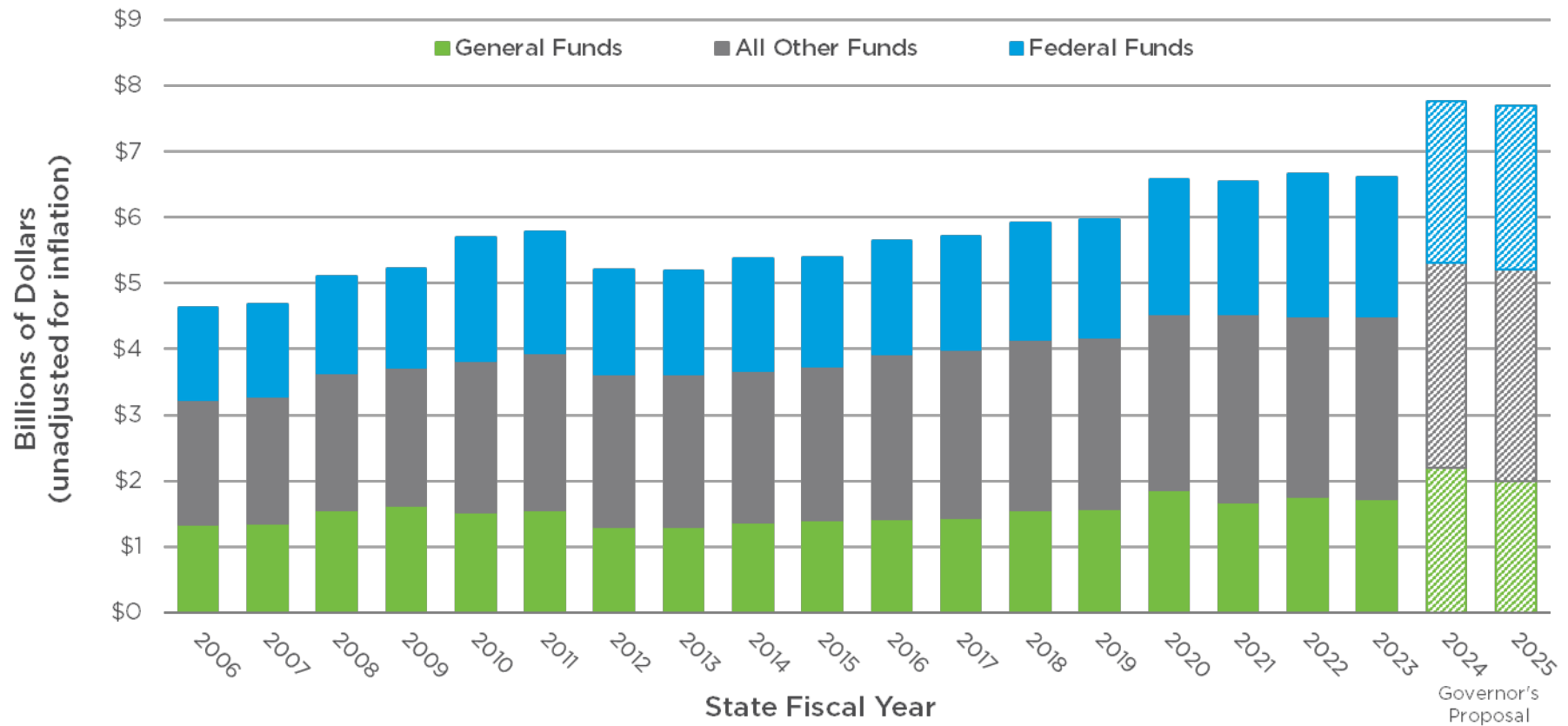


*Note: Motor Fuels Tax is not a General or Education Trust Funds revenue source.
Sources: New Hampshire Department of Administrative Services, Monthly Revenue Focus, January FY 2023

TOPLINE FIGURES FROM THE GOVERNOR'S BUDGET PROPOSAL

GOVERNOR'S PROPOSAL WOULD BOOST BUDGET \$2.195 BILLION (16.5%) OVERALL

HISTORICAL STATE BUDGET APPROPRIATIONS AS ENACTED AND THE GOVERNOR'S BUDGET 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. Appropriations of surplus from prior budget biennium included in the first year of each new State Budget, not including Rainy Day Fund appropriations.

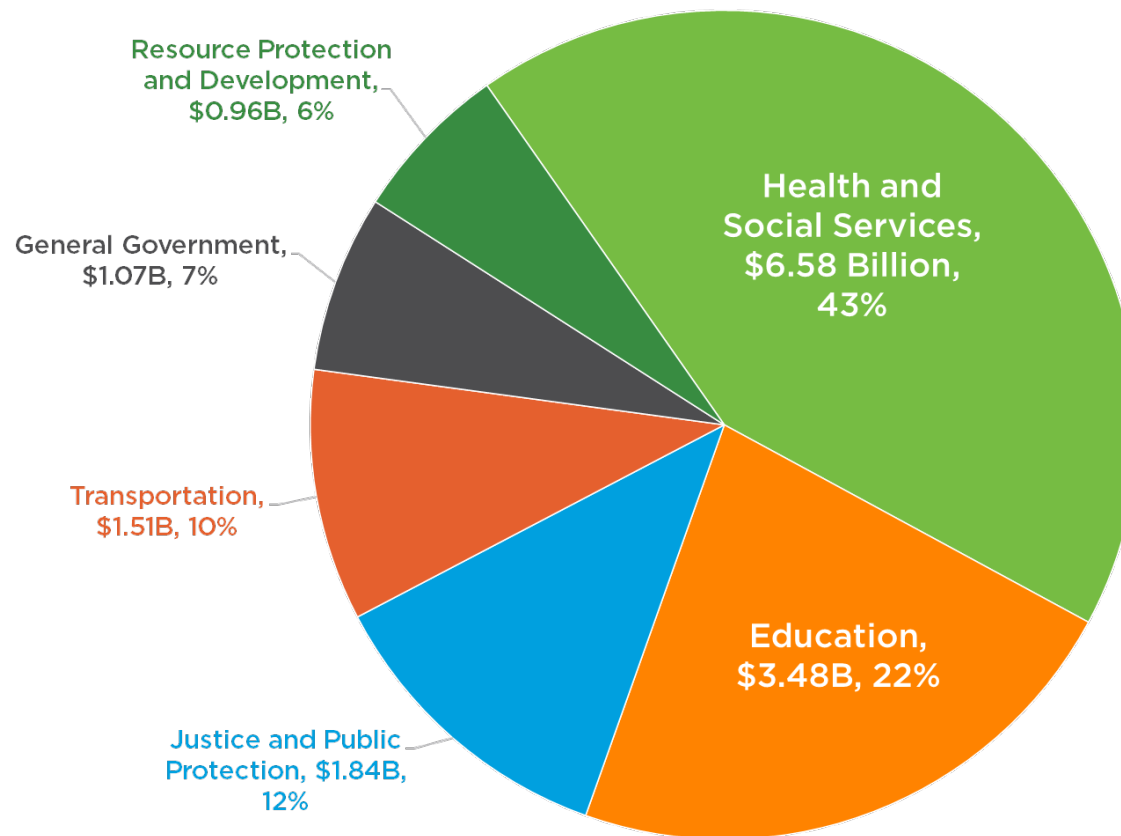
Sources: New Hampshire Office of Legislative Budget Assistant, Surplus Statements;

HB 1, Section 1.07 as Approved, Sessions 2005 to 2015, 2021; HJR 9, Session 2015; HB 144, Session 2017; HB 3 as Approved, Session 2019; Governor's Budget Bill, 2023 Session

TWO-THIRDS OF PROPOSAL FOR HEALTH, SOCIAL SERVICES, AND EDUCATION

GOVERNOR'S PROPOSED STATE BUDGET APPROPRIATIONS

SFYs 2024-25, Includes Trailer Bill General and Education Trust Funds Appropriations



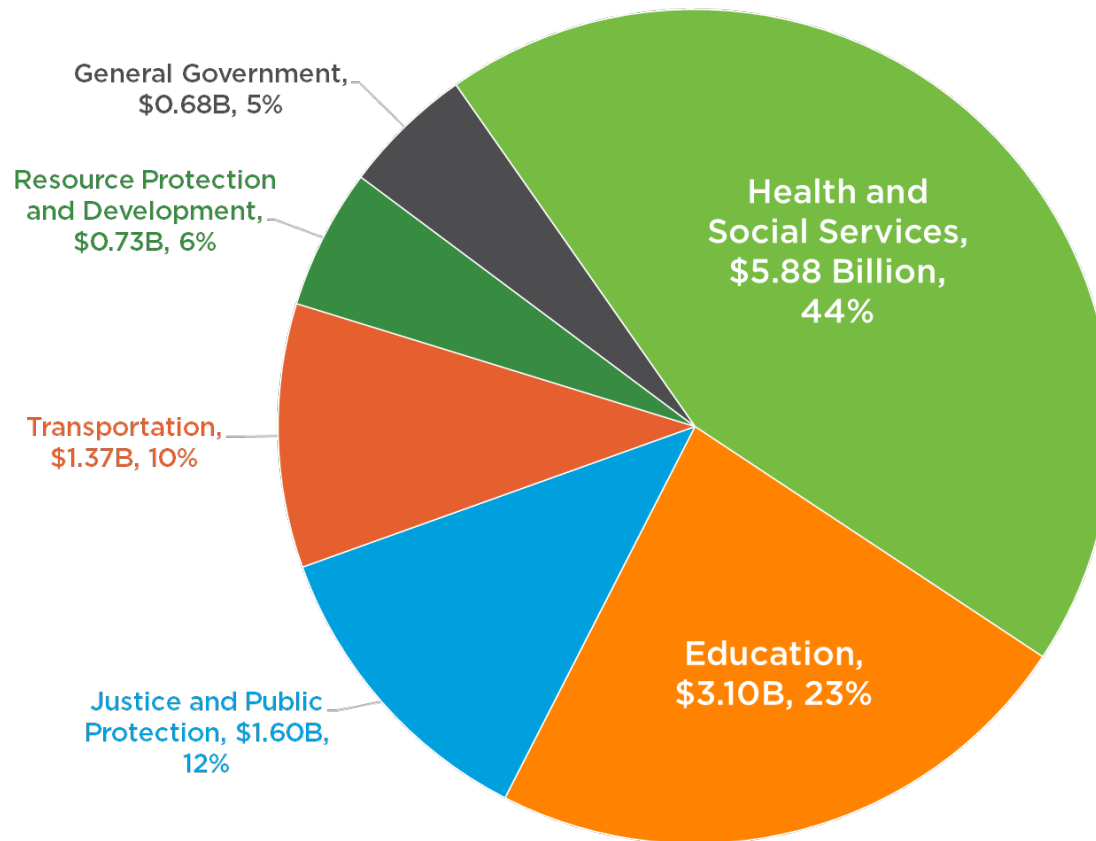
Note: State employee pay increases and housing-related appropriations included in the "General Government" category.

Source: Governor's Operating Budget, New Hampshire Department of Administrative Services

SUBSTANTIALLY SIMILAR TO PATTERN IN THE CURRENT STATE BUDGET

STATE BUDGET LEGISLATION APPROPRIATIONS

State Fiscal Years (SFY) 2022-23 and Trailer Bill SFY 2021 Funding



Note: General Government includes HB 2 appropriations for the Affordable Housing Fund, FRM Victim's Fund, and State employee pay raises. Appropriations above do not include expenditures moved off-budget relative to the prior State Budget.

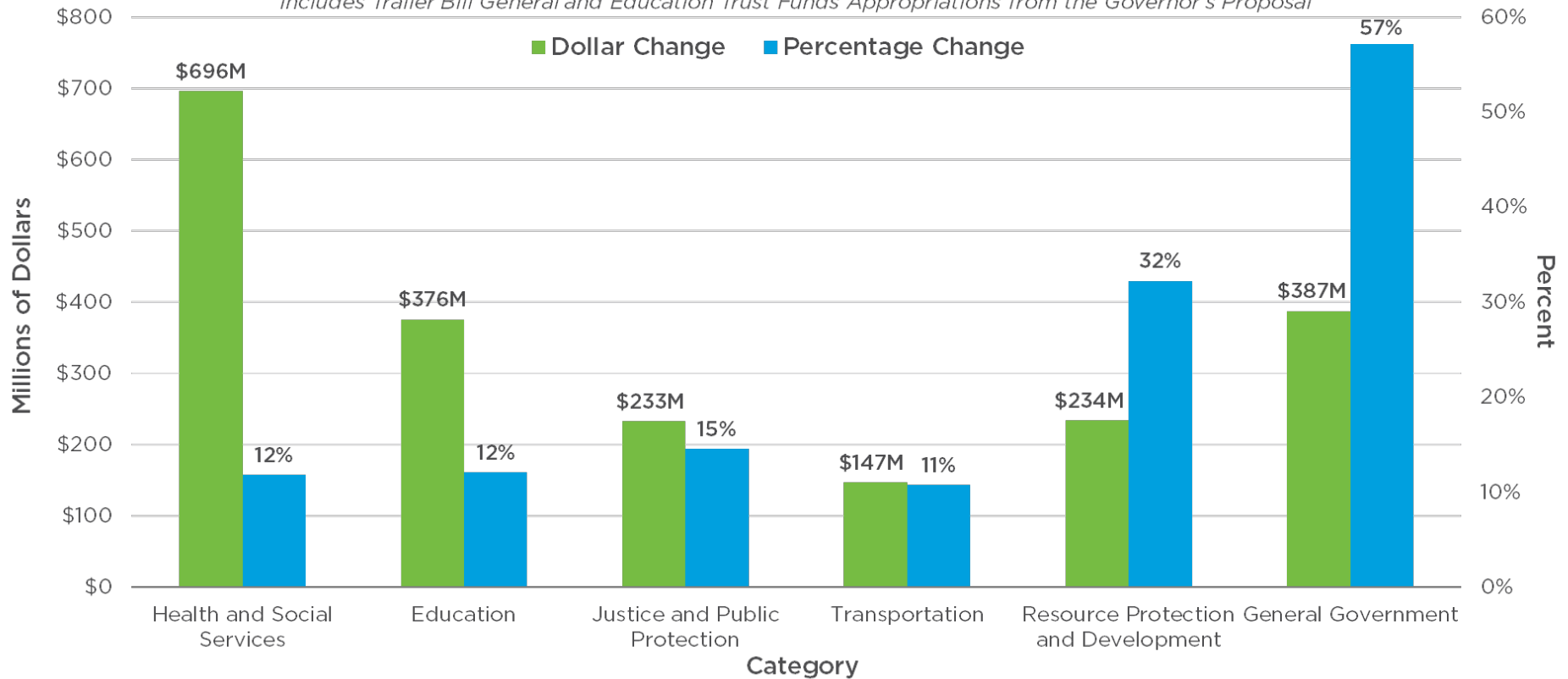
Source: HB 1 and HB 2 as Approved, 2021 Session; New Hampshire Office of Legislative Budget Assistant, Surplus Statements, June 2021

ALLOCATIONS GROW IN ALL CATEGORIES

CHANGE IN FUNDING IN THE GOVERNOR'S PROPOSAL RELATIVE TO THE PRIOR BUDGET BIENNIUM FOR EACH CATEGORY

Enacted SFYs 2022-23 Compared to SFYs 2024-25,

Includes Trailer Bill General and Education Trust Funds Appropriations from the Governor's Proposal

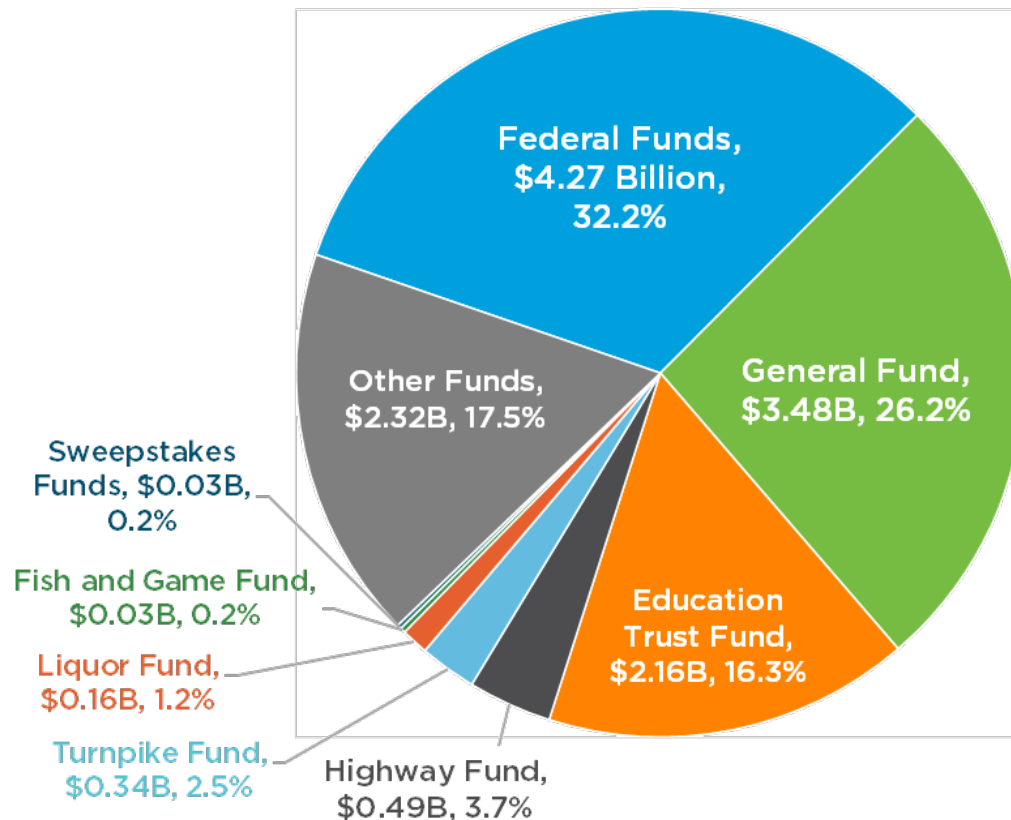


Note: State employee pay increases and housing-related appropriations included in the "General Government" category.
Sources: Chapters 90 and 91, Laws of 2021; Office of Legislative Budget Assistant, June 2021 Surplus Statements and Governor's Recommended Budget Trailer Bill Appropriations, February 21, 2023; New Hampshire Department of Administrative Services, Governor's Operating Budget, Fiscal Years 2024-2025

POLICYMAKERS ORGANIZE BUDGET EXPENDITURES BY FUND

NEW HAMPSHIRE STATE BUDGET, STATE FISCAL YEARS 2022-2023

Includes Operating Budget and Trailer Bill Appropriations



- 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

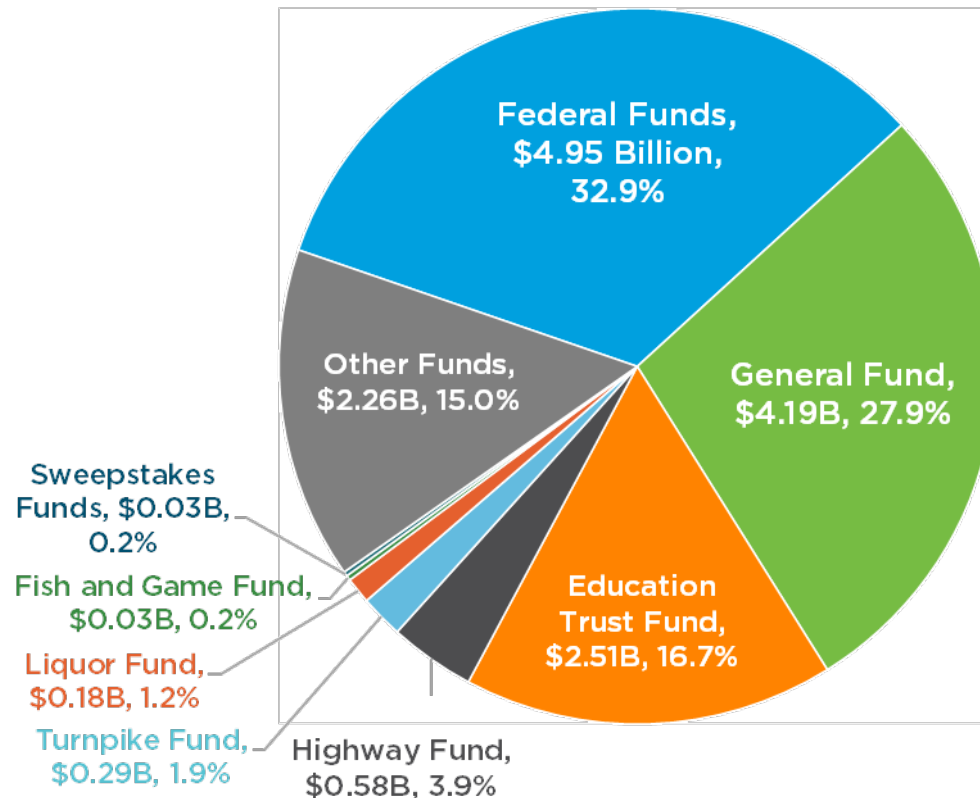
Sources: New Hampshire State Constitution, Part 2, Articles 6-a and 6-b; NHFPI, *Building the Budget*, February 2017.

Sources: Chapters 90 and 91, Laws of 2021; Office of Legislative Budget Assistant Surplus Statements, June 2021

GOVERNOR'S BUDGET RETAINS STRUCTURE, GROWS KEY FUNDS

GOVERNOR'S PROPOSAL FOR THE SFYs 2024-2025 STATE BUDGET

Includes Operating Budget and Known Trailer Bill Appropriations

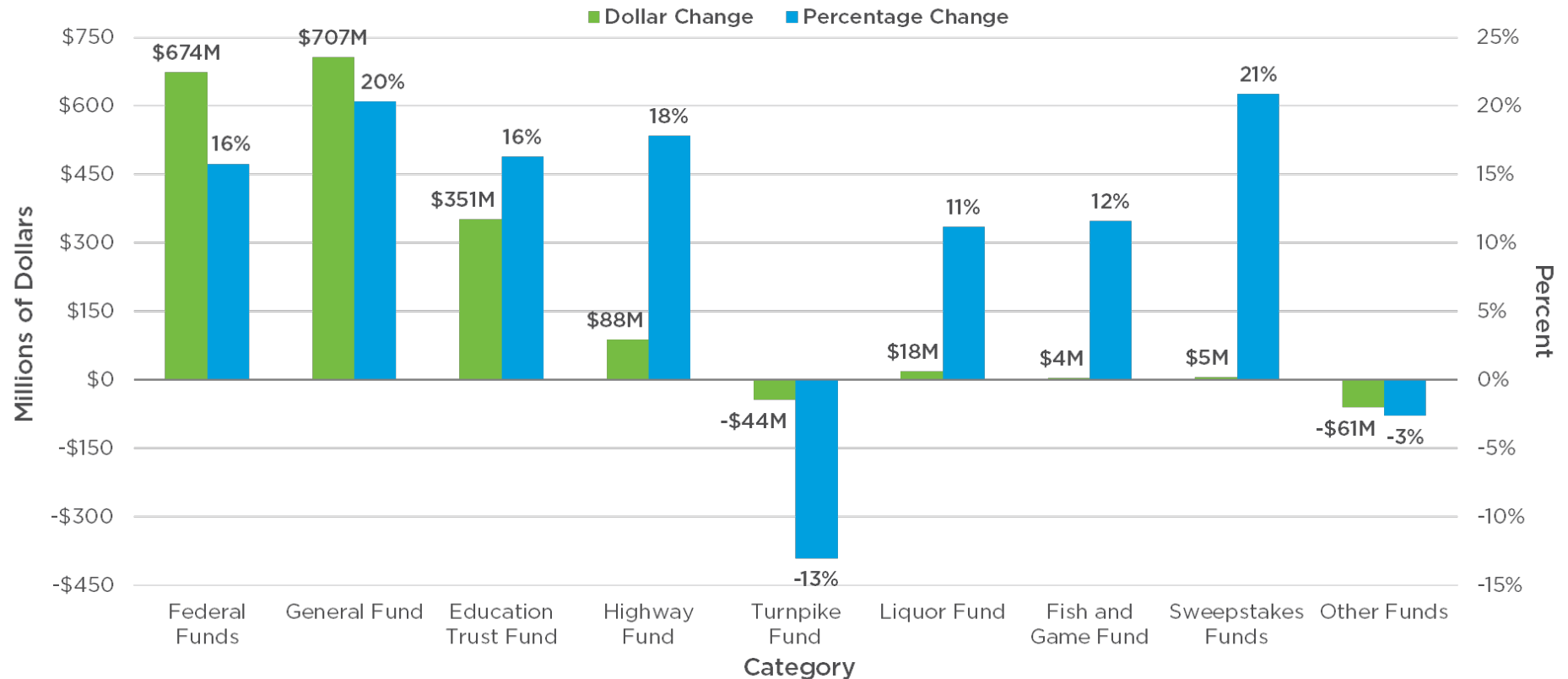


Source: New Hampshire Department of Administrative Services, Governor's Operating Budget for SFYs 2024-2025

FEDERAL AND GENERAL FUND INCREASES ARE THE LARGEST AMONG THE FUNDS

CHANGE IN APPROPRIATIONS FROM EACH FUND IN THE GOVERNOR'S PROPOSAL RELATIVE TO THE PRIOR BUDGET BIENNIUM

Enacted SFYs 2022-23 Compared to SFYs 2024-25, Includes Known Trailer Bill Appropriations in Governor's Proposal



Sources: Chapters 90 and 91, Laws of 2021; Office of Legislative Budget Assistant, June 2021 Surplus Statements; New Hampshire Department of Administrative Services, Governor's Operating Budget for SFYs 2024-2025

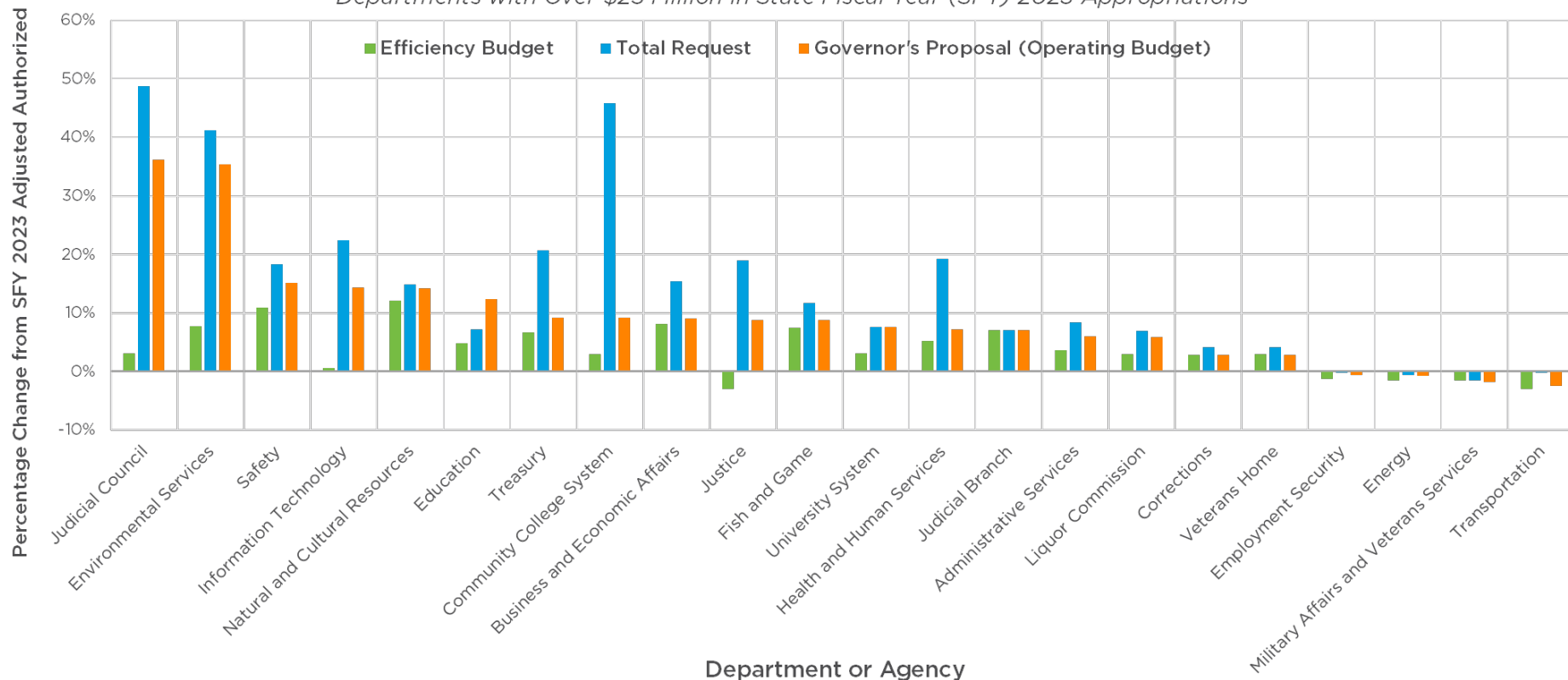
PROPOSED CHANGES BY STATE AGENCY

AGENCY-LEVEL COMPARISONS

- Three measures used for year-over-year comparisons
- Compared to currently-authorized agency budgets for this year, SFY 2023, including adjustments made since June 2021
- State agency budget requests provide insight into the amount of money agency personnel identified as needed to provide services, as of the October 1, 2022 submission
- Two tiers of State agency budget requests:
 - Efficiency Budget, based on revenue targets set by the Governor
 - Total Request, includes Efficiency Budget and the Additional Prioritized Needs beyond the Governor's revenue targets identified and requested by State agencies
- Agency requests and Governor's proposals may also include proposed reorganizations, shifting of responsibilities, new federal funds available, and other changes

MOST AGENCIES WOULD SEE BOOST IN TOTAL FUNDING, BUT NOT ALL

PERCENTAGE CHANGES IN FUNDING LEVELS FROM AGENCY REQUESTS AND GOVERNOR'S BUDGET PROPOSAL RELATIVE TO CURRENT FUNDING BY DEPARTMENT
Departments with Over \$25 Million in State Fiscal Year (SFY) 2023 Appropriations

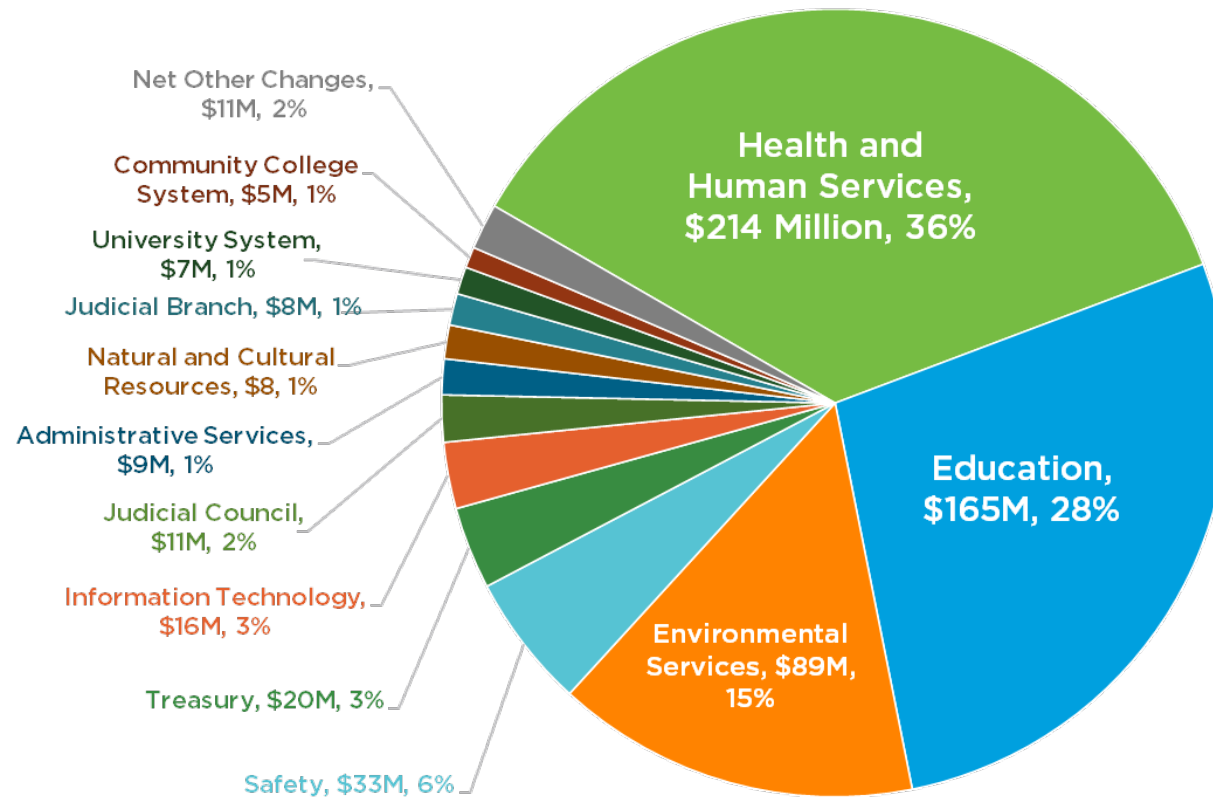


Sources: Chapters 90 and 91, Laws of 2021; New Hampshire Department of Administrative Services, Agency Budget Requests and Governor's Operating Budget for SFYs 2024-2025

EDUCATION, HEALTH AND HUMAN SERVICES WOULD HAVE LARGEST DOLLAR INCREASES

INCREASE IN FUNDING BY DEPARTMENT AS PERCENTAGE OF TOTAL PROPOSED NET INCREASE

SFY 2023 Adjusted Authorized to SFY 2024 as Proposed by the Governor



Source: New Hampshire Department of Administrative Services, Governor's Operating Budget for SFYs 2024-2025

MOST AGENCIES FUNDED AT EFFICIENCY LEVELS, BELOW TOTAL REQUESTS

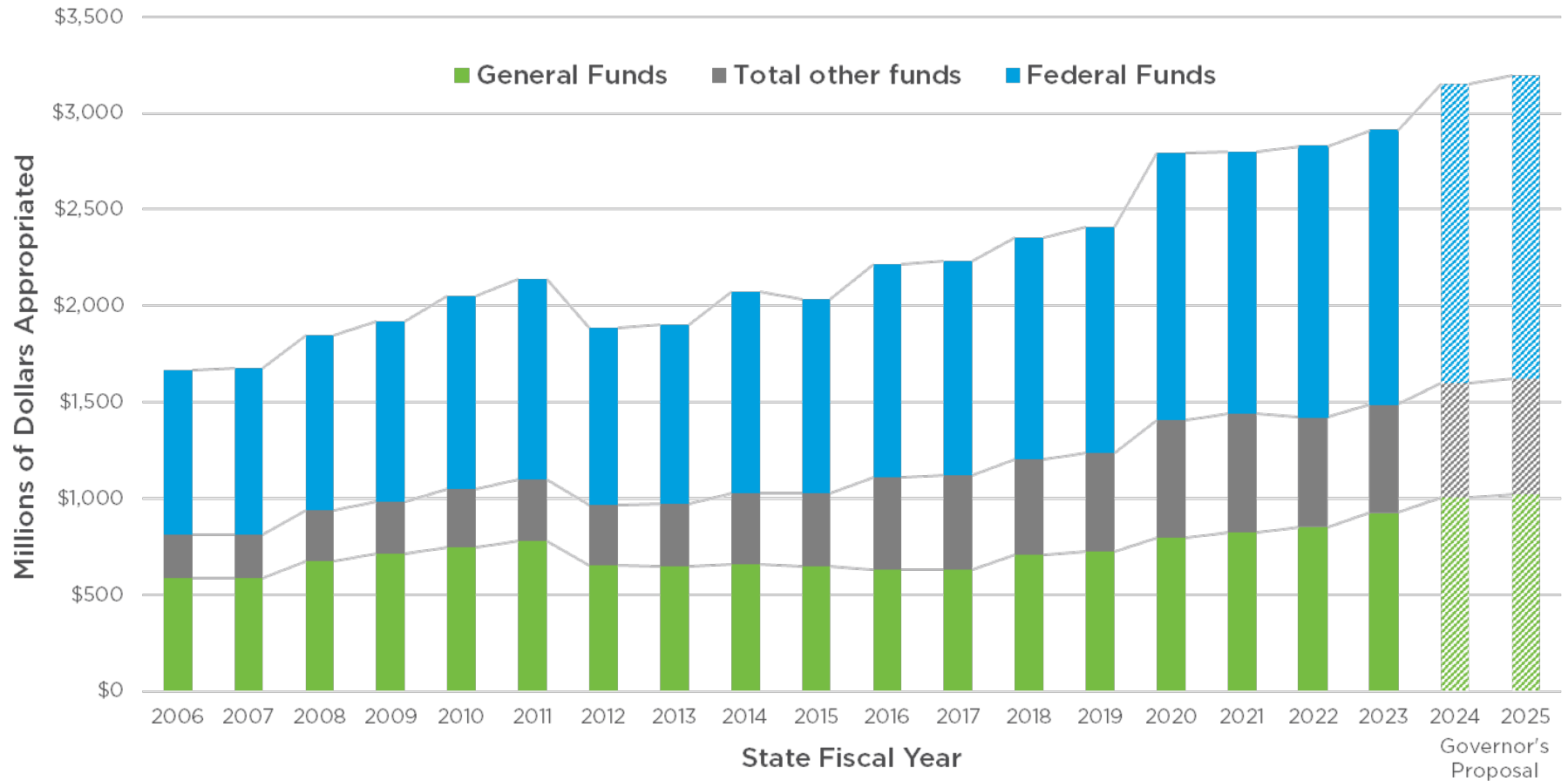
- Considering the entire two-year budget biennium, only four agencies (10.3 percent of agencies) had less funding than the Efficiency Budget requests in the Governor's proposal
- Largest decrease relative to Efficiency Budget was at the Veterans Home (\$229,660 below), and the largest increase was for the Department of Education (\$209.0 million above)
- Only six agencies (15.4 percent) had funding levels in the Governor's budget proposal higher than the Total Requests
- Largest increase relative to Total Requests was for the Department of Education (\$144.8 million), and the largest decrease was the Department of Health and Human Services
- Governor's proposal is above DHHS Efficiency Budget request by \$154.3 million over biennium, below DHHS Total Request (with the Additional Prioritized Needs) by \$791.6 million

FUNDING FOR HEALTH AND SOCIAL SERVICES

OVERALL NH DHHS BUDGET WOULD RISE

NH DEPARTMENT OF HEALTH AND HUMAN SERVICES OPERATING BUDGET

Unadjusted for Inflation, Operating Budget Totals, Not Including Off-Budget Changes



Note: Appropriations do not include trailer bill appropriations, back of the budget changes, information technology-related transfers, or other changes to appropriations outside of the Section 1 of the Operating Budget (House Bill 1).

Source: New Hampshire State Budgets, as Passed; New Hampshire Department of Administrative Services

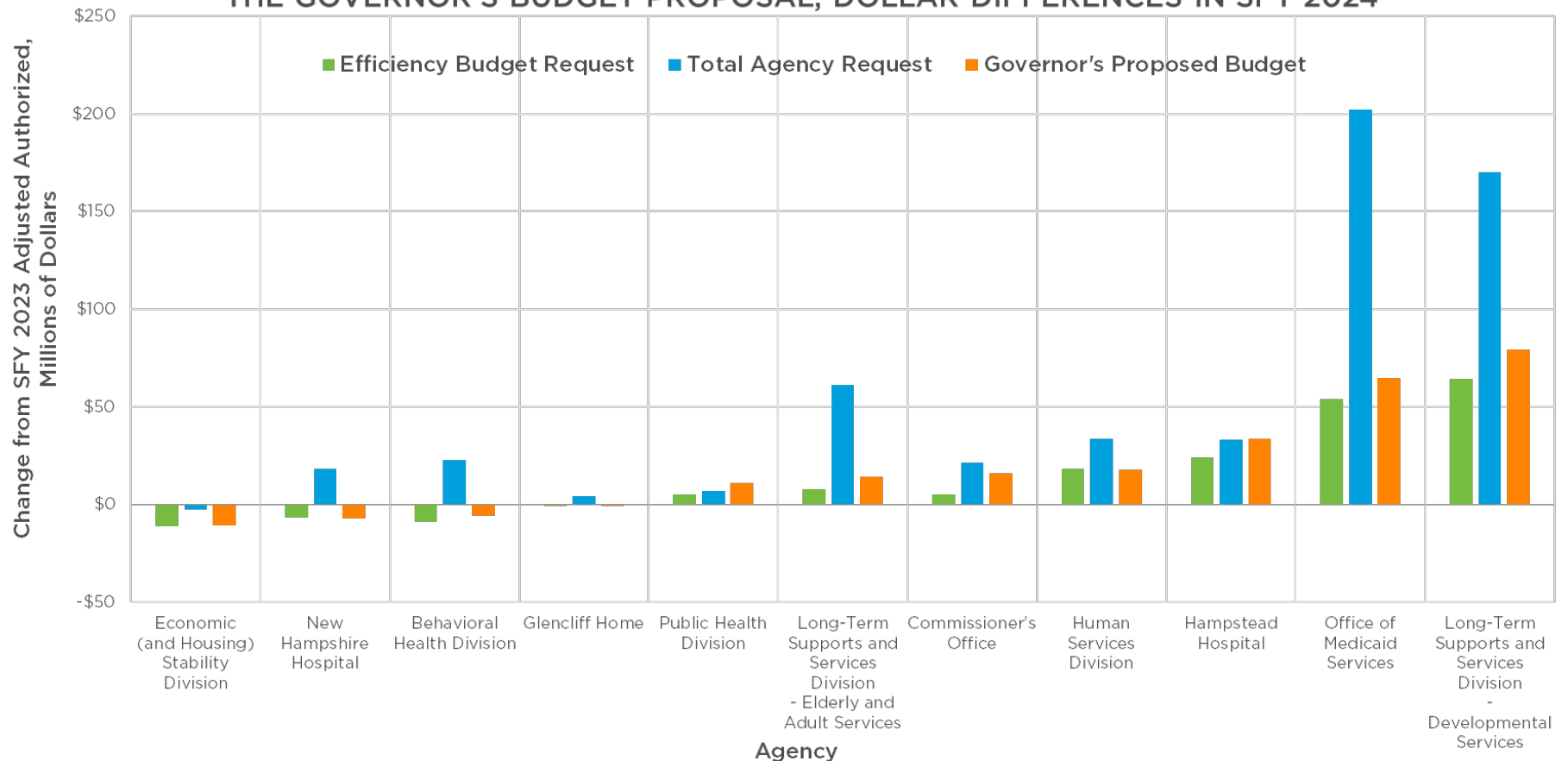
NEW HAMPSHIRE DEPARTMENT OF HEALTH AND HUMAN SERVICES

- Largest State agency, 43 percent of total SFY 2024 proposal
- Not all areas of the DHHS budget saw increases
- Governor proposed a rate increase for Medicaid service provider reimbursement rates, appears to be primarily funded through a Trailer Bill appropriation, also targeted rate increases
- Divisions and budget units proposed to be changed in the Governor's proposal; this analysis is based on the organization used for the agency budget requests for comparison
- Developmental Services funding substantially increased, and includes planned service system redesign placeholder funds
- Appear to be funding reductions at New Hampshire Hospital and the Glencliff Home, as well as the Division of Behavioral Health and the Division of Economic (and Housing) Stability*

*Note: The Governor's proposal appears to rename and reorganize the Division of Economic and Housing Stability to be the Division of Economic Stability.

HAMPSTEAD HOSPITAL, PUBLIC HEALTH FUNDED AT TOTAL REQUEST LEVELS

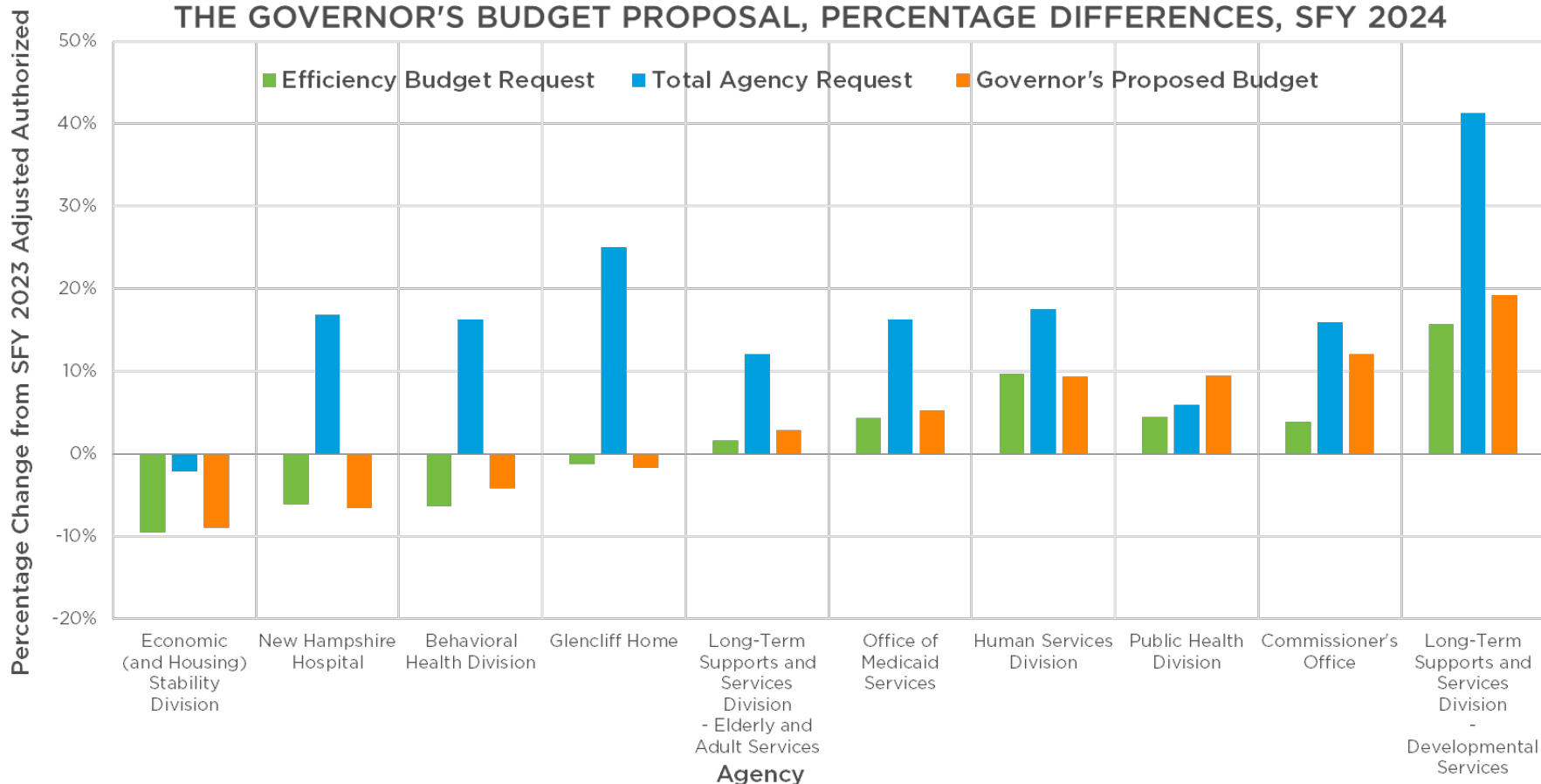
DEPARTMENT OF HEALTH AND HUMAN SERVICES BUDGET REQUESTS AND THE GOVERNOR'S BUDGET PROPOSAL, DOLLAR DIFFERENCES IN SFY 2024



Source: New Hampshire Department of Administrative Services, Agency Budget Requests and Governor's Operating Budget for SFYs 2024-2025

DEVELOPMENTAL SERVICES HAS LARGEST DOLLAR AND PERCENTAGE BOOST

DEPARTMENT OF HEALTH AND HUMAN SERVICES BUDGET REQUESTS AND THE GOVERNOR'S BUDGET PROPOSAL, PERCENTAGE DIFFERENCES, SFY 2024



Note: Hampstead Hospital excluded because no prior funding level was authorized in the current State Budget, which was enacted before the State owned Hampstead Hospital.

Source: New Hampshire Department of Administrative Services, Agency Budget Requests and Governor's Operating Budget for SFYs 2024-2025

FUNDING FOR EDUCATION

THE EDUCATION FUNDING FORMULA

- Based on per pupil grants to public schools for the “cost of providing the opportunity for an adequate education” (RSA 198:40-a)
- Differentiated Aid per pupil based on student characteristics:
 - Free and reduced-price school meal eligibility (near or below poverty-level incomes at home, certain other qualifying situations)
 - Receipt of special education services
 - English language learners
 - If not qualifying for any other form of Differentiated Aid, additional resources for students scoring low on third grade reading scores
- Additional aid based on community characteristics:
 - Relief Aid based on percentage of students eligible for free and reduced-price school meals in a community
 - Extraordinary Needs Grant based on the local value of taxable property for each free and reduced-price meal eligible student
 - Stabilization Aid based on holding communities harmless that would have lost resources with a change in the funding formula in 2011

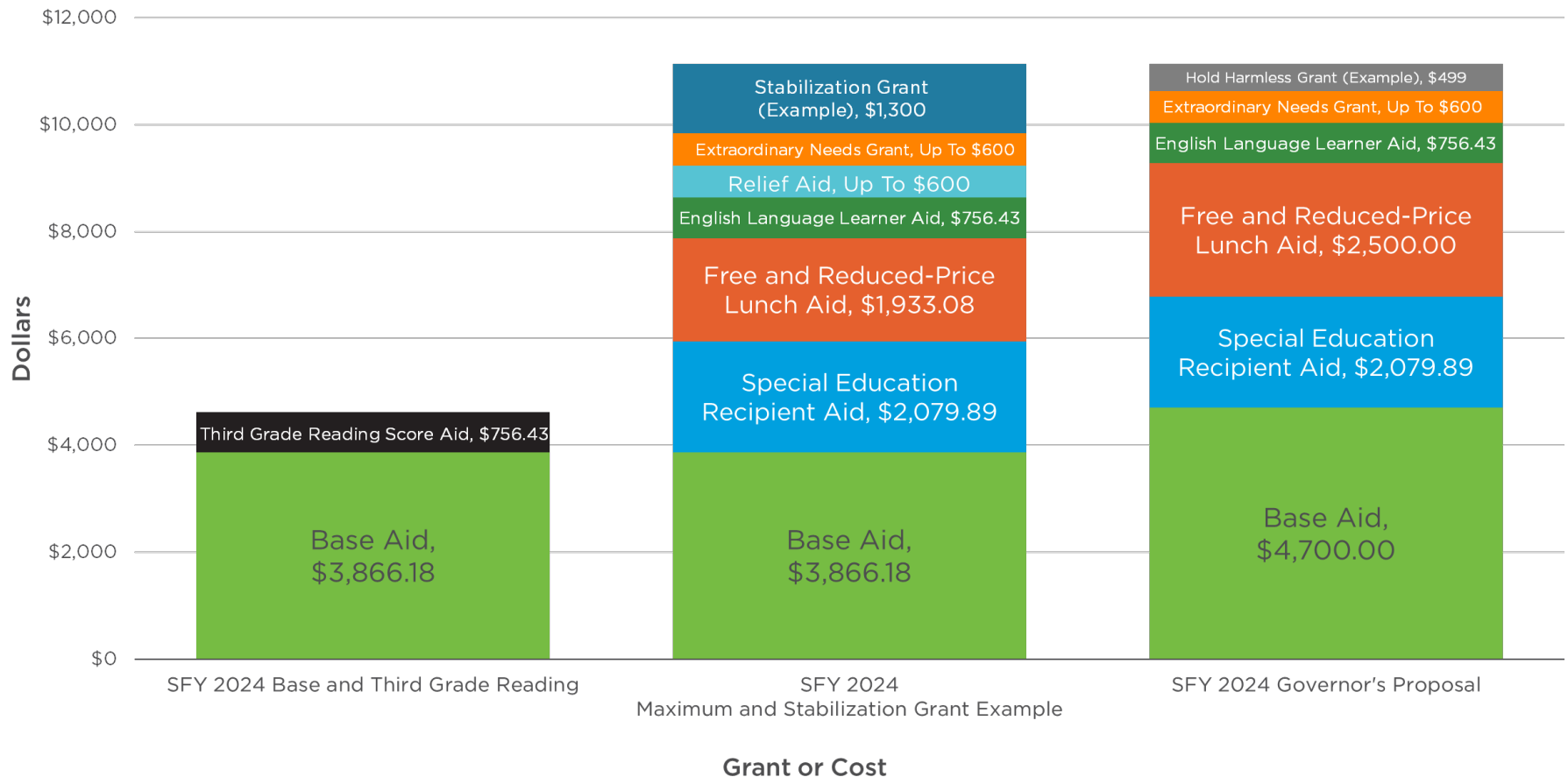
Sources: New Hampshire RSA 198; New Hampshire Department of Education

GOVERNOR PROPOSES SIGNIFICANT CHANGES TO THE FUNDING FORMULA

- Base per pupil grant boosted from \$3,866.18 to \$4,700
- Free and reduced-price meal eligibility pupil grant increased from \$1,933.08 to \$2,500
- Eliminates additional third-grade reading test score aid
- Eliminates Stabilization Grants and Relief Aid
- Establishes Hold Harmless grants, which phase out over ten years, to ensure no communities lose funding immediately
- Extraordinary Needs Grants would be expanded over time to become the only community-based grant by SFY 2034
- Adequate Education Grant amounts would be adjusted for inflation annually, rather than biennially
- Also boosts Charter Schools, Education Freedom Accounts

GOVERNOR'S PROPOSAL WOULD SIMPLIFY GRANTS OVER TIME

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

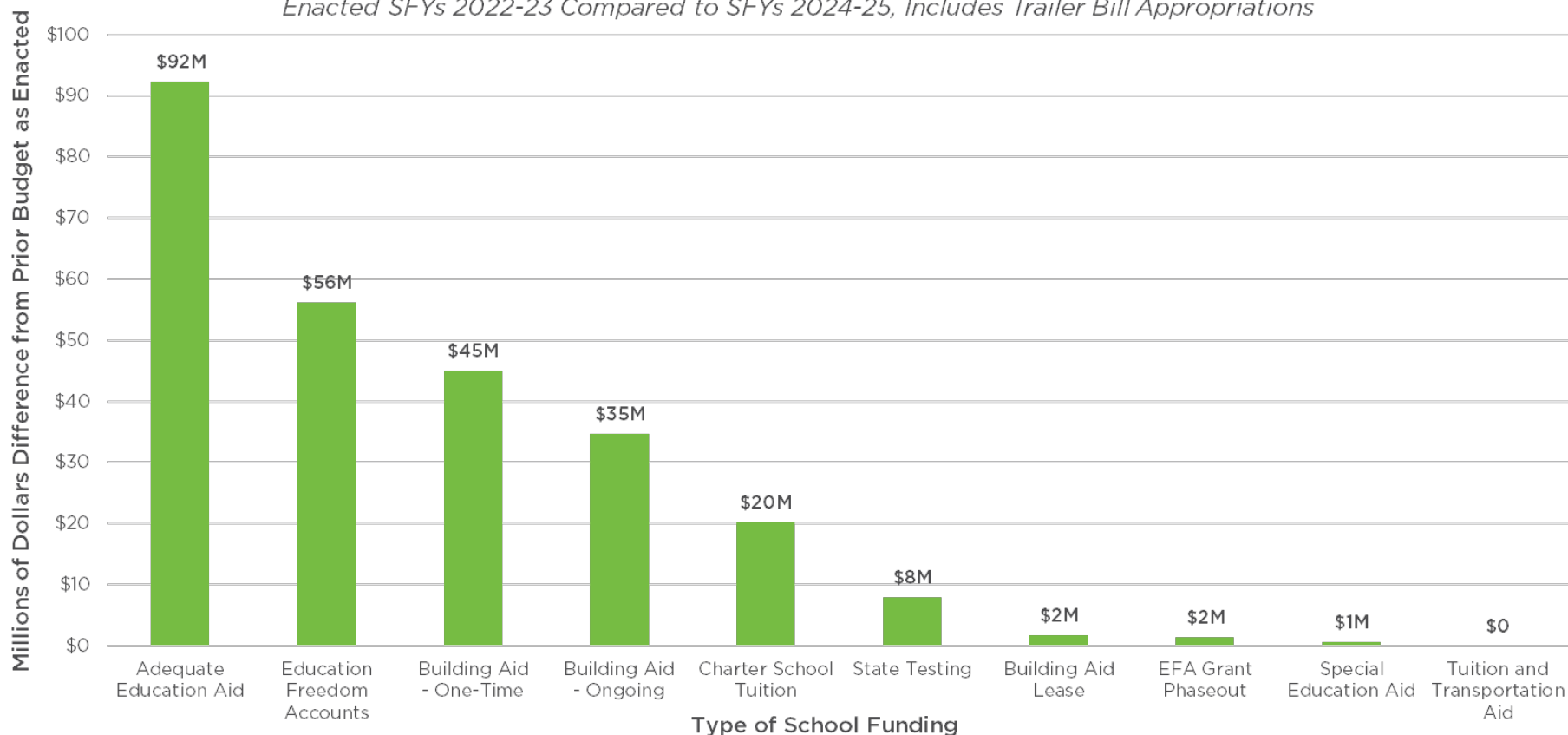


Sources: New Hampshire Office of Legislative Budget Assistant, Fiscal Issue Brief, Calculating Education Grants, January 2019, and updated version January 2021; Chapter 91, Laws of 2021; New Hampshire Department of Education, FY 2024 Adequate Education Aid, November 15, 2022

TOTAL INCREASE OF ABOUT \$260M (11.7%) OVER PRIOR BUDGET AS ENACTED

CHANGES IN BUDGETED EDUCATION FUNDING FROM THE CURRENT STATE BUDGET BIENNIUM TO THE GOVERNOR'S PROPOSAL

Enacted SFYs 2022-23 Compared to SFYs 2024-25, Includes Trailer Bill Appropriations

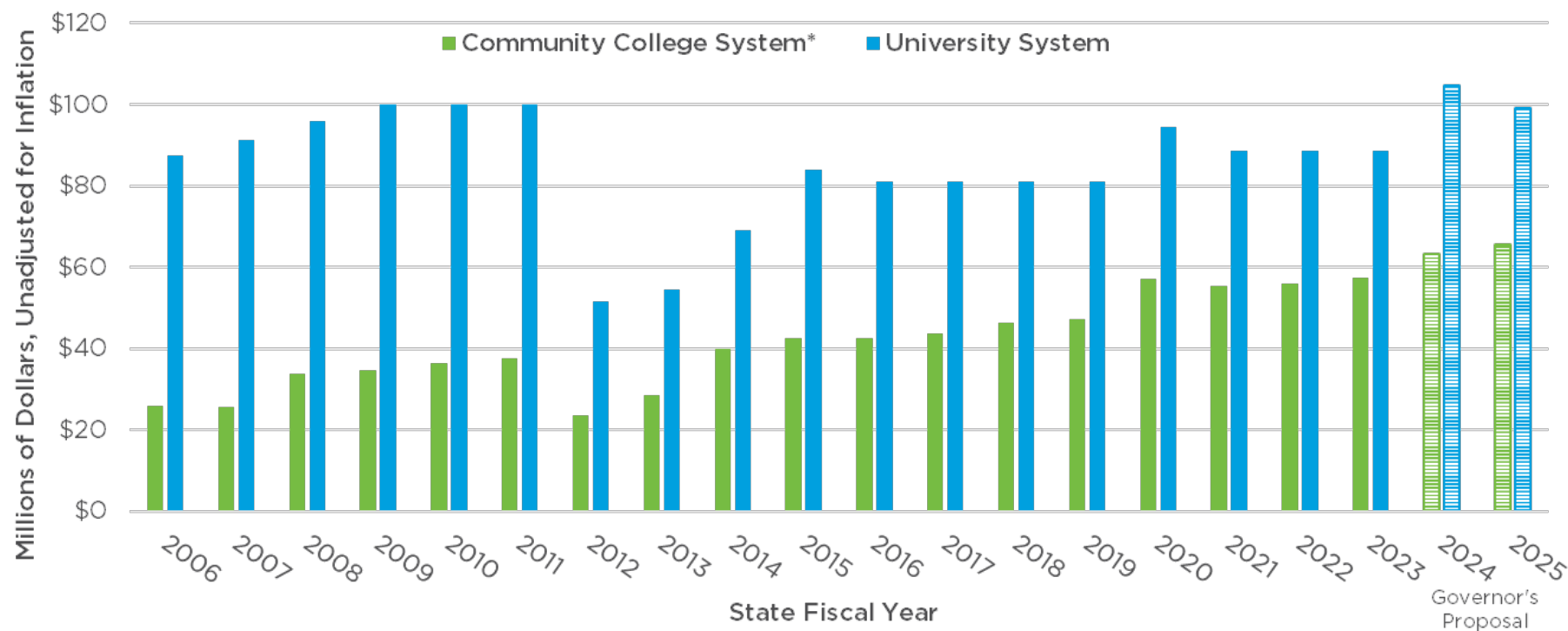


Sources: Chapters 90 and 91, Laws of 2021; Office of Legislative Budget Assistant, General and Education Trust Funds Surplus Statement, June 17, 2021; New Hampshire Department of Administrative Services, Governor's Operating Budget for SFYs 2024-2025

PROPOSED INCREASE IN OPERATING FUNDS TO PUBLIC HIGHER EDUCATION

NEW HAMPSHIRE PUBLIC HIGHER EDUCATION FUNDING IN THE STATE BUDGET

Includes Certain One-Time Appropriations for Certain Projects or Initiatives



*Note: Prior to SFY 2012, the Community College System was organized differently, and its entire structure was included in the State Budget. In this graph, only General Fund line item and one-time Trailer Bill appropriations are included in the historical data.

Sources: New Hampshire State Operating Budgets and Trailer Bills as Enacted; New Hampshire Department of Administrative Services, Governor's Operating Budget, SFYs 2024-2025; Office of Legislative Budget Assistant, Governor's Recommended Budget Trailer Bill Appropriations, February 21, 2023

OTHER INITIATIVES

REFORMS TO LICENSING AND OTHER POLICY CHANGES

- Many policy details not known without Trailer Bill text
- Governor proposed removing 34 licenses currently required by the State, as well as eliminating 14 regulatory boards
- Establishing a new regulatory review process
- Pay increase for all State employees
- One-time appropriations of \$30 million to InvestNH for housing, \$25 million to the Affordable Housing Fund
- Initial funds for building new men's prison, long-term project
- Funding for building a new legislative parking garage, as well as securing a new location for the Department of Justice
- \$10 million for Sununu Youth Services Center replacement
- \$27.9 million in water pollution control grants to municipalities
- Adds a projected \$181.4 million to the Rainy Day Fund

PROJECTED REVENUES AND TAX POLICY CHANGES

REVENUE PROJECTIONS AND TAX CHANGES

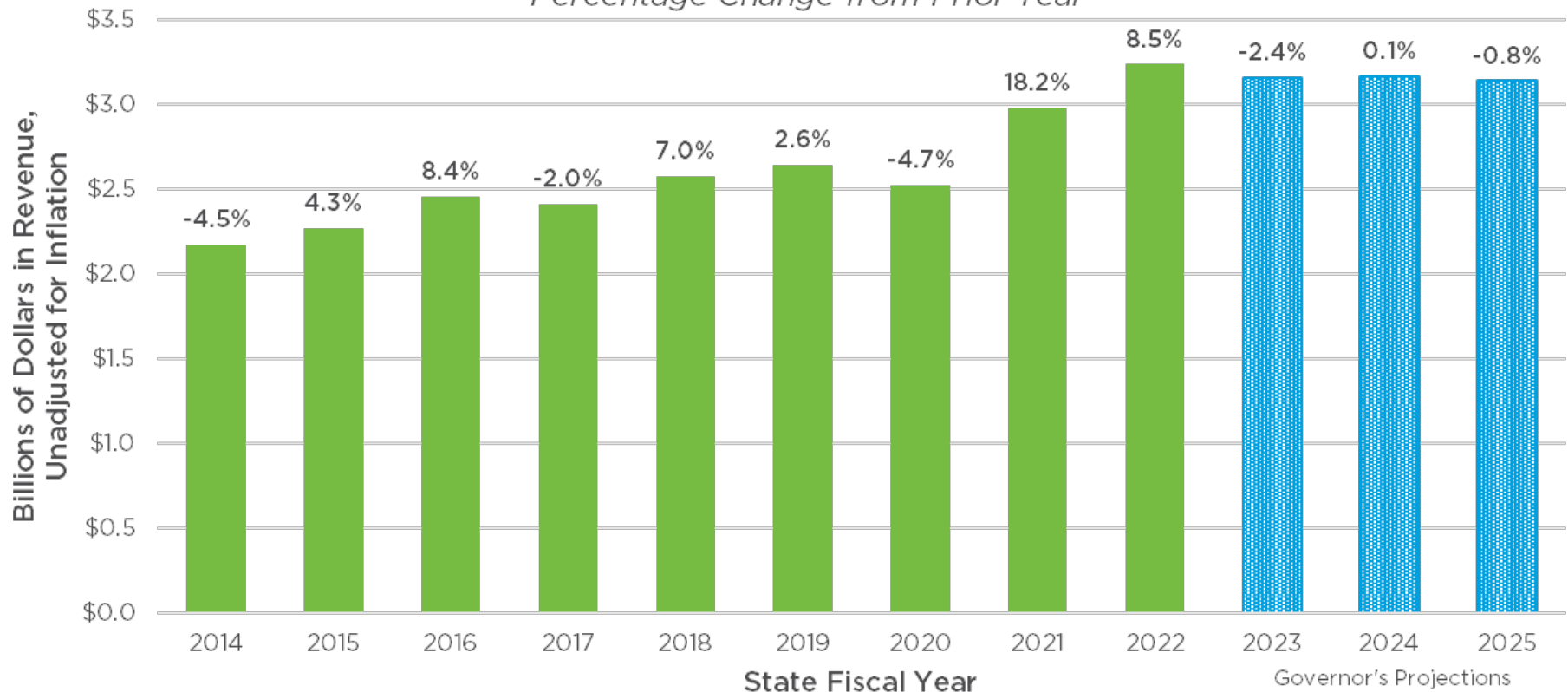
- Governor's projections show no growth in General and Education Trust Funds revenue, suggesting very limited economic growth or a potential recession with inflation
- Proposed new tax reduction leads to lower revenue
- Governor proposed eliminating Communications Services Tax on July 1, 2023, reducing General Fund revenues by about \$58.5 million during the biennium
- Continuing loss of Interest and Dividends Tax revenue due to tax phaseout enacted in the last State Budget; tax rate is reduced one percent per year, reducing General Fund revenues an estimated \$67.8 million during the biennium
- Modeling of Interest and Dividends Tax elimination suggests about 92 percent of the tax benefits would flow to the top 20 percent of households by income in New Hampshire

Sources: New Hampshire Department of Revenue Administration, Revenue Estimates, February 16, 2023; Institute on Taxation and Economic Policy

GOVERNOR'S PROJECTIONS SUGGEST NO GROWTH, SHOW LOSS FROM TAX CHANGES

COMBINED GENERAL AND EDUCATION TRUST FUNDS REVENUE, ACTUAL AND GOVERNOR'S PROJECTIONS

Percentage Change from Prior Year

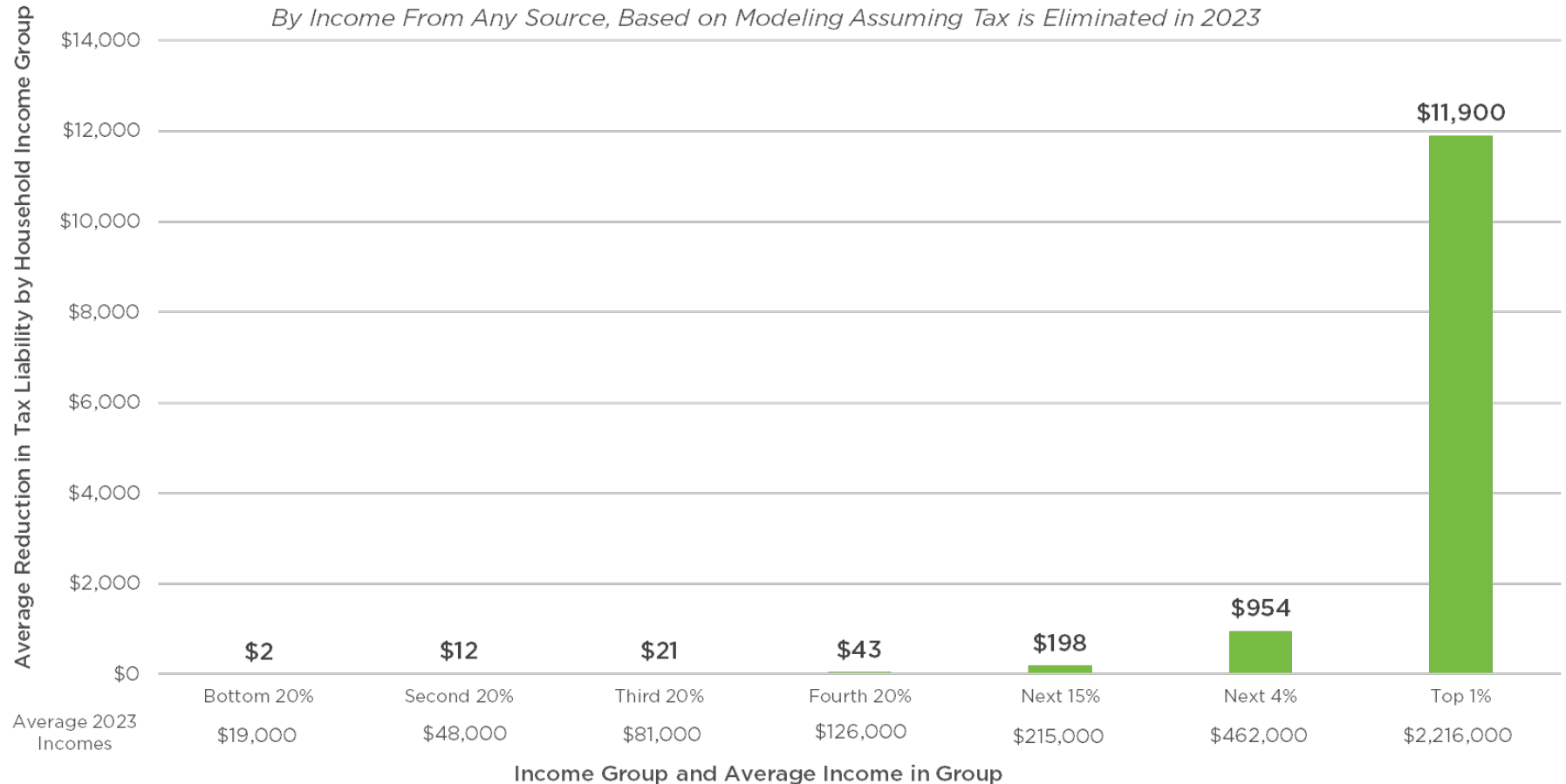


Sources: New Hampshire Annual Comprehensive Financial Reports; Governor's Executive Budget
Summary for SFYs 2024-2025

HIGH-INCOME HOUSEHOLDS A KEY PART OF INTEREST AND DIVIDENDS TAX BASE

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

By Income From Any Source, Based on Modeling Assuming Tax is Eliminated in 2023

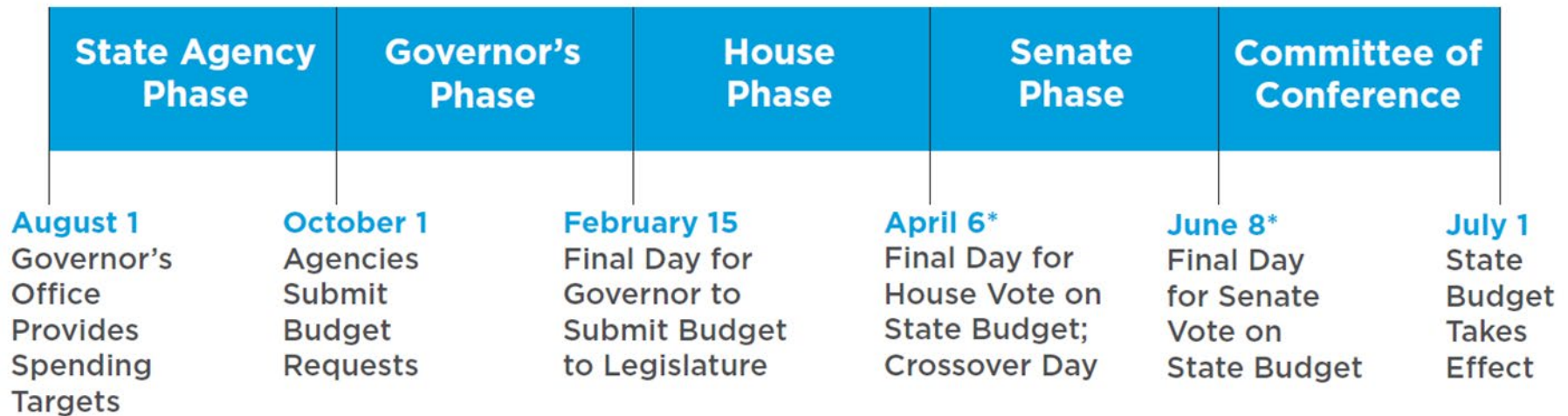


Source: Institute on Taxation and Economic Policy, February 9, 2023

WHAT HAPPENS NEXT?

HOUSE FINANCE COMMITTEE HAS BEGUN REVIEWING THE GOVERNOR'S PROPOSAL

STATE BUDGET PROCESS TIMELINE



*Dates set by legislative leadership for the 2023 session; all other dates specified in statute.

KEY CONSIDERATIONS FOR THE NEXT STATE BUDGET

- What will happen with the economy over the next two years?
- How are State revenues impacted by changes in the economy and in the tax base?
- How do service needs change with the economy?
- How might the end of significant federal stimulus and support programs impact the economy, State and local services, and the well-being of Granite Staters?
- Ongoing considerations, including key workforce supports:
 - Housing
 - Care for older adults and individuals with disabilities
 - Early education (including child care)
 - Funding for local public and higher education

ADDITIONAL RESOURCES

- Blog: Ten Facts About the New Hampshire State Budget – February 1, 2023
<https://nhfpi.org/blog/ten-facts-about-the-new-hampshire-state-budget/>
- 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: Building the Budget: New Hampshire's State Budget Process and Recent Funding Trends – February 9, 2017
<https://nhfpi.org/resource/building-the-budget-new-hampshires-state-budget-process-and-recent-funding-trends/>
- Resource Pages: Budget, Revenue & Tax
<https://nhfpi.org/topic/budget/>
<https://nhfpi.org/topic/revenue-tax/>

QUESTIONS AND ANSWERS



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