THE NEW HAMPSHIRE ECONOMY AND STATE REVENUES

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SENATE WAYS AND MEANS COMMITTEE

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POTENTIAL U.S. RECESSION CONTINUES TO BE DELAYED, RECENT DATA PROMISING

INFLATION AND JOB GROWTH IN THE UNITED STATES
Monthly Nonfarm Payroll Employment and the Consumer Price Index-Urban

NEW HAMPSHIRE WORKFORCE SMALLER, JOBS UP SLIGHTLY, ECONOMY LARGER

LABOR FORCE, EMPLOYMENT, JOBS AND THE SIZE OF THE ECONOMY IN NEW HAMPSHIRE

Source: New Hampshire Employment Security; U.S. Bureau of Economic Analysis
OLDER ADULTS LEAVING WORKFORCE, KEY CONSTRAINT ON FUTURE GROWTH

• 219,000 Granite Staters (15.8% of population) between ages 55 and 64 years in July 2021
• Labor force participation typically drops after age 65
• Many may have left labor force without pandemic, but others likely accelerated plans

Sources: U.S. Census Bureau, Population Estimates Program; New Hampshire Employment Security

ESTIMATED NUMBER OF NEW HAMPSHIRE RESIDENTS WHO DO NOT WANT A JOB NOW
By Age Group, Twelve-Month Averages

<table>
<thead>
<tr>
<th>Age Group</th>
<th>January 2019 to December 2019</th>
<th>March 2022 - February 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-24 Years</td>
<td>43,500</td>
<td>43,100</td>
</tr>
<tr>
<td>25-54 Years</td>
<td>57,900</td>
<td>67,600</td>
</tr>
<tr>
<td>55 Years and Over</td>
<td>226,200</td>
<td>263,500</td>
</tr>
</tbody>
</table>

HIGH CHILD CARE COSTS, LACK OF ACCESS LIKELY REDUCE LABOR FORCE SIZE

• About 60% of child care needs met with formal care before pandemic
• Prices are high
• Survey data suggests caring for children not in school or child care is key reason for not working

PRICES FOR CENTER-BASED CHILD CARE AS A PERCENT OF INCOME IN NEW HAMPSHIRE

<table>
<thead>
<tr>
<th>Household Composition</th>
<th>Percent of Estimated Annual Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Income Married Parents</td>
<td>10%</td>
</tr>
<tr>
<td>Married Couple Each Working Full-Time Earning 25th Percentile Wages</td>
<td>21%</td>
</tr>
<tr>
<td>Median Income Single Female-Headed Household</td>
<td>69%</td>
</tr>
</tbody>
</table>

Note: Full-time 25th percentile wage earner calculations based on estimated hourly wages for May 2021 and 2,080 hours worked per year. Calculation assumes the two 25th percentile wage jobs are the only sources of income for the household. Incomes for other households based on survey data collected from 2017-2021, adjusted for inflation to 2021 dollars. Child care prices for infants and toddlers added for calculations.

VERY LIMITED HOUSING SUPPLY IN NH

- Median home sale price up 82% from March 2017 to March 2023
- Condo median sale prices up 89%
- Cost of purchasing a home increases with interest rates
- Less housing available for purchase puts pressure on rental market, residents with low incomes

Sources: New Hampshire Association of Realtors, Federal Reserve Bank of St. Louis
SLOWER SALES BEGINNING TO IMPACT REAL ESTATE TRANSFER TAX REVENUES

NEW HAMPSHIRE HOME SALES AND REAL ESTATE TRANSFER TAX REVENUE
12-Month Rolling Averages

Sources: New Hampshire Association of Realtors, New Hampshire Department of Administrative Services
REAL ESTATE TRANSFER AND COMBINED BUSINESS TAXES LED RECENT GROWTH

DIFFERENCES IN REVENUE BY SOURCE
General and Education Trust Funds Revenues, State Fiscal Years 2015 and 2019 Relative to 2022

 Millions of Dollars Difference (Unadjusted for Inflation)

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Change SFYs 2015-2022</th>
<th>Change SFYs 2019-2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined Business Taxes</td>
<td>$662</td>
<td>$418</td>
</tr>
<tr>
<td>Real Estate Transfer Tax*</td>
<td>$120</td>
<td>$85</td>
</tr>
<tr>
<td>Meals and Rentals Tax**</td>
<td>$126</td>
<td>$57</td>
</tr>
<tr>
<td>Interest and Dividends Tax</td>
<td>$61</td>
<td>$43</td>
</tr>
<tr>
<td>Lottery Commission</td>
<td>$72</td>
<td>$41</td>
</tr>
<tr>
<td>Tobacco Tax</td>
<td>$11</td>
<td>$30</td>
</tr>
<tr>
<td>Insurance Premium Tax</td>
<td>$40</td>
<td>$20</td>
</tr>
<tr>
<td>Liquor Commission</td>
<td>$2</td>
<td>$7</td>
</tr>
<tr>
<td>All Other General and Education Trust Funds Revenue</td>
<td>$-21/-5</td>
<td>$-5/-9</td>
</tr>
<tr>
<td>Motor Fuels Tax***</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: *Includes $5M annual transfer to Affordable Housing Fund, starting SFY 2021. **Includes Municipal Revenue Fund transfer, starting SFY 2022. ***Not a General or Education Trust Funds revenue source.
HIGH CORPORATE PROFITS HAVE LIKELY DRIVEN BUSINESS TAX RECEIPTS

- High corporate profits have likely driven Business Profits Tax base higher
- Key measure of national corporate profits up 51.1% in seven years before 2022 Q4
- Up 21.6% between 2020 Q3 and 2022 Q3
- Total revenue from combined business taxes up 117.9% from SFYs 2015-2022, 51.9% from SFYs 2019-2022

Sources: New Hampshire Department of Revenue Administration, RSA 77-A, New Hampshire Department of Administrative Services, Federal Reserve Bank of St. Louis
LARGE ENTITIES KEY TO BPT REVENUE

NEW HAMPSHIRE BUSINESS PROFITS TAX PAID AND NUMBER OF FILERS

**Tax Year 2020**

Source: New Hampshire Department of Revenue Administration, 2022 Annual Report

- **$200.3 Million**
  - From 78 Filers

- **$103.9M**
  - From 3,629 Filers

- **$183.9M**
  - From 644 Filers

- **$2.2M**
  - From 65,368 Filers

- **$31.5M**
  - From 8,123 Filers

- Total combined corporate profits taxability adjusted across state lines using apportionment

- Entities with higher taxable profits may have a significant presence in NH, high overall profits, or a combination

- Lower-profit companies may have BPT liability offset by BET credit

Sources: New Hampshire Department of Revenue Administration, RSA 77-A
MAJORITY OF TAX REVENUE FROM FILERS WITH SIGNIFICANT OVERSEAS COMPONENT

Business Profits Tax Filers by Liability

Tax Year 2020

Source: New Hampshire Department of Revenue Administration, 2022 Annual Report

- Water’s Edge entities have at least one component of combined tax filing that is mostly outside U.S.
- Entities filing as any type could be “based” in any location, or operate in multiple states
- High reliance on Water’s Edge entities (only 6% of filers) suggest large, multinational entities key to BPT base

Sources: New Hampshire Department of Revenue Administration, RSA 77-A
BPT BECOMING SUBSTANTIALLY LARGER OF THE TWO TAXES IN RECENT YEARS

BUSINESS PROFITS TAX AND BUSINESS ENTERPRISE TAX
Revenue by Tax Year, Percentage of Revenue Total from These Two Taxes, Using Department of Revenue Administration Annual Reports for Revenue Split

Source: New Hampshire Department of Revenue Administration, Annual Reports
BET RATE REDUCTIONS HAVE LIMITED REVENUE GROWTH

CHANGES IN BUSINESS ENTERPRISE TAX REVENUE AND WAGES PAID IN NEW HAMPSHIRE BY YEAR

- New Hampshire Private Sector Wages Paid
- Business Enterprise Tax Revenue

ABOUT $17 BILLION IN FEDERAL FUNDS TO NEW HAMPSHIRE, ONE-TIME BOOST

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

- Response to COVID-19 brought more federal aid to economy
- Most federal aid one-time, not all has been spent yet
- Larger than two-year State Budget
- Relative to $87.3 billion statewide economy in 2019
- Includes significant aid to businesses, individuals, housing

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.
NEARLY ONE IN THREE NEW HAMPSHIRE ADULTS REPORT TROUBLE WITH COSTS

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
KEY TAKEAWAYS

• Key workforce constraints likely slowing New Hampshire’s economy, including lack of housing and child care access
• Demographics a key constraint on state’s labor force growth with or without COVID-19, compounded by housing shortage
• Business, Real Estate Transfer, and Meals and Rentals Taxes have driven recent growth in State revenues
• Recent federal stimulus spurred significant economic rebound
• Housing shortage, interest rate increases impact revenues
• Corporate profits key for tax revenue base going forward, may be more uncertain in unsettled economic environment
• Inflation may impact economy and overall revenue projections, as projections are in nominal, future dollars
ADDITIONAL RESOURCES

• Presentation: How Public Services are Funded in New Hampshire at the State And Local Levels - August 10, 2022

• Blog: A Snapshot of New Hampshire’s Workforce and the Impacts of the COVID-19 Pandemic After Three Years – March 23, 2023

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

• Resource Pages: Budget, Revenue & Tax, and Economy
  https://nhfpi.org/topic/budget/
  https://nhfpi.org/topic/revenue-tax/
  https://nhfpi.org/topic/economy/