



THE NEW HAMPSHIRE STATE BUDGET PROCESS AND CHALLENGES FACING THE NEXT BUDGET

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VOICES OF FAITH

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THE NEW HAMPSHIRE STATE BUDGET: THE BASICS AND THE PROCESS

THE BASICS OF THE STATE BUDGET

Two-year, or Biennial, Operating Budget

- Funds *most*, but not all, State operations for two State Fiscal Years (SFYs), typically beginning shortly after the budget is approved
- Current State Budget provides funding for SFYs 2024-2025, which spans July 1, 2023 to June 30, 2025, from SFY 2023 surplus carried forward and two years of revenue projected when budget passed
- State Budget, currently being implemented, appropriated approximately \$15.17 billion for SFYs 2024-2025 combined

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, standardized class lines for expenditures
- Trailer Bill, typically House Bill 2 or “HB 2,” is the companion omnibus bill with policy changes and appropriations separate from HB 1

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)

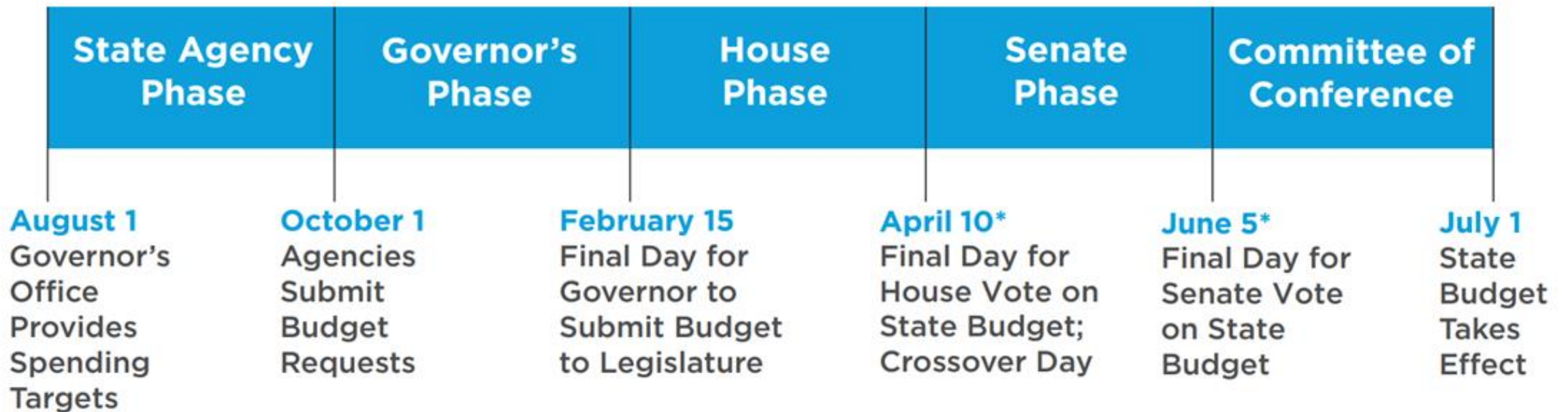
Omnibus Bill Text

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

BUDGET CREATED IN A YEARLONG PROCESS, TYPICALLY WITH FIVE PHASES

State Budget Process Timeline

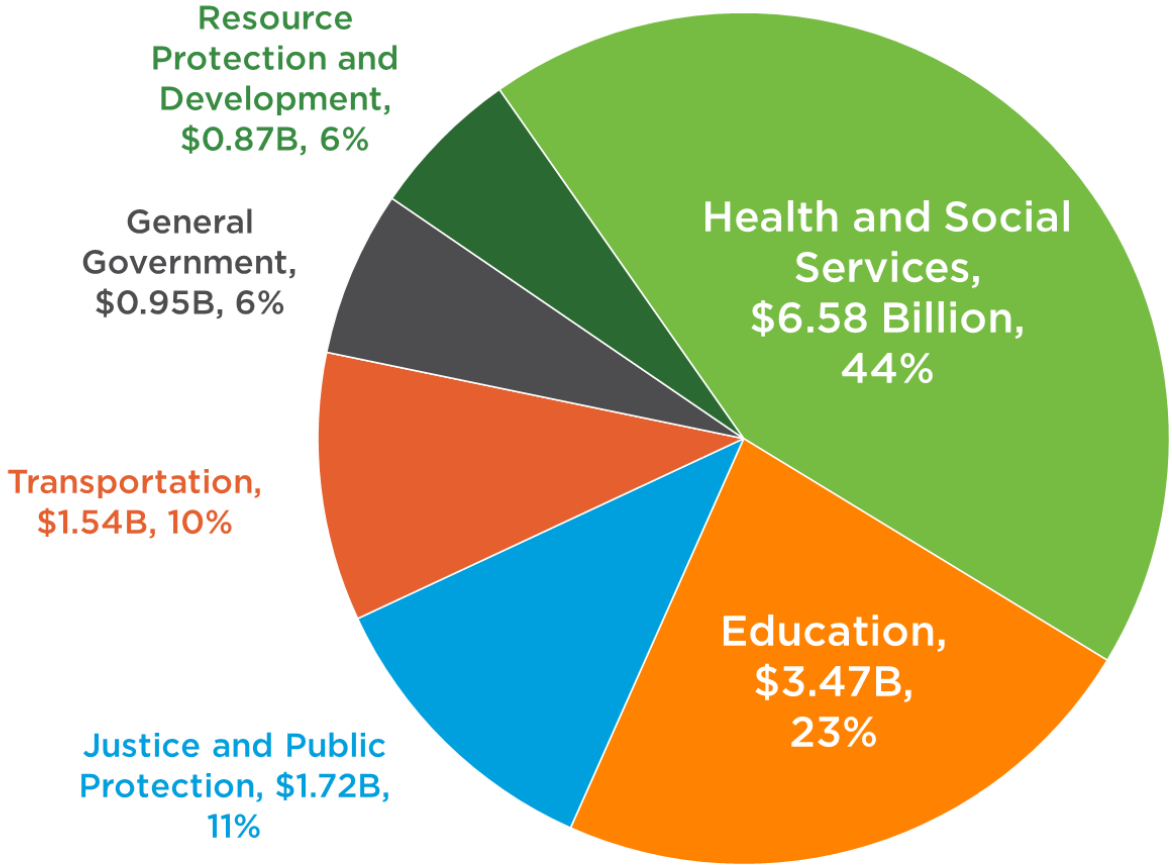


*Dates set by legislative leadership each session; all other dates specified in statute.

BUDGET APPROPRIATIONS IN SIX CATEGORIES

STATE BUDGET APPROPRIATIONS BY CATEGORY

*State Fiscal Years 2024-25 and Surplus Appropriations,
Includes Trailer Bill Appropriations*



Note: General Government includes HB 2 appropriations for the Affordable Housing Fund, InvestNH, and all State employee pay raises defined by and funded through appropriations made in House Bill 2, as amended by the House.

Sources: New Hampshire Office of Legislative Budget Assistant, Compare House Finance to Governor, March 28, 2023, Surplus Statements, April 6 and 7, 2023, Briefing on Senate Finance Changes to House Passed Budget, June 6, 2023; 2023-2092s; 2023-2171s; 2023-2139s

NOT THE ONLY SPENDING AUTHORITY: EXPENDITURES OUTSIDE THE STATE BUDGET

Capital Budget

- Typically called HB 25, covers six years with opportunity for changes every two years
- Can borrow money to balance and fund expenditures, unlike operating budget
- Allocates General Funds to support projects and debt service

Ten Year Transportation Improvement Plan

- Identified upcoming planned projects, construction dates, and costs
- Altered every two years by Legislature, typically legislation in even-numbered years

Other Expenditures

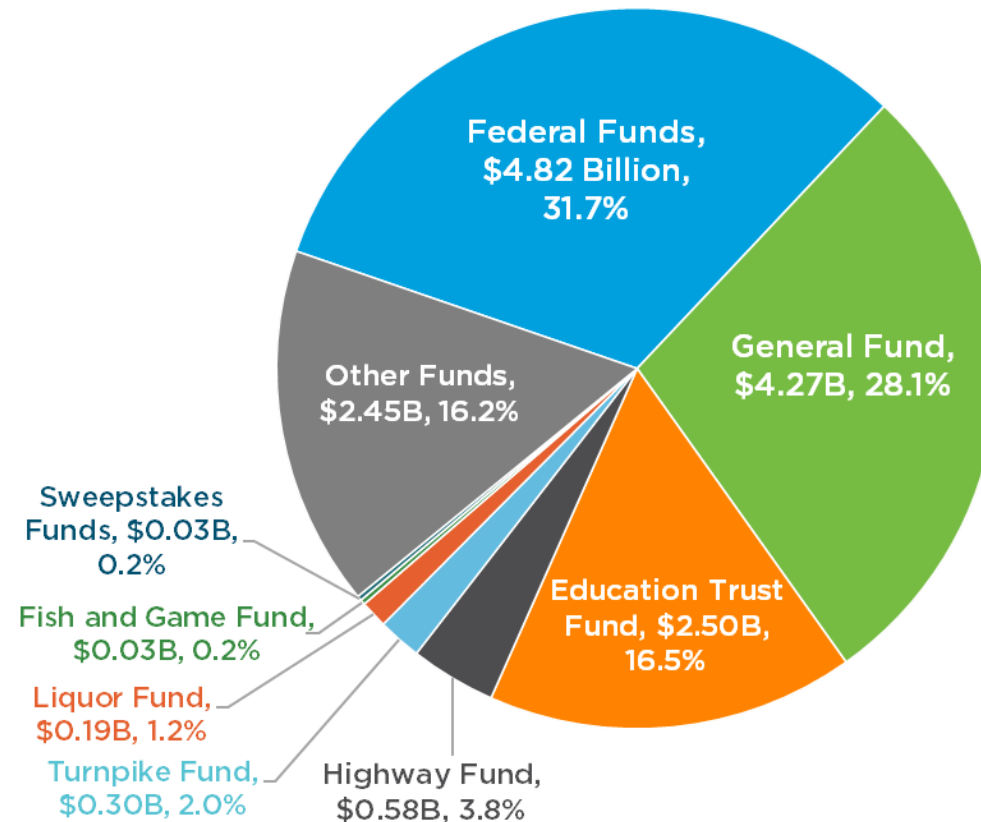
- Bills, including those not accounted for in the State Budget, can also appropriate funds
- State agency spending requests can be granted by the Joint Legislative Fiscal Committee
- Some operations are supported by separate, off-budget funds established by the Legislature
- Example: Funding for Medicaid Expansion/Granite Advantage Program under the Patient Protection and Affordable Care Act is not enumerated in the State Budget, although the current State Budget included language reauthorizing the program

KEY CHALLENGES FACING THE NEXT STATE BUDGET

FEDERAL FUNDS, GENERAL FUND, AND EDUCATION TRUST FUND ARE LARGEST PARTS

THE STATE BUDGET FOR FISCAL YEARS 2024 AND 2025, BY FUND

Includes Operating Budget and Trailer Bill Appropriations

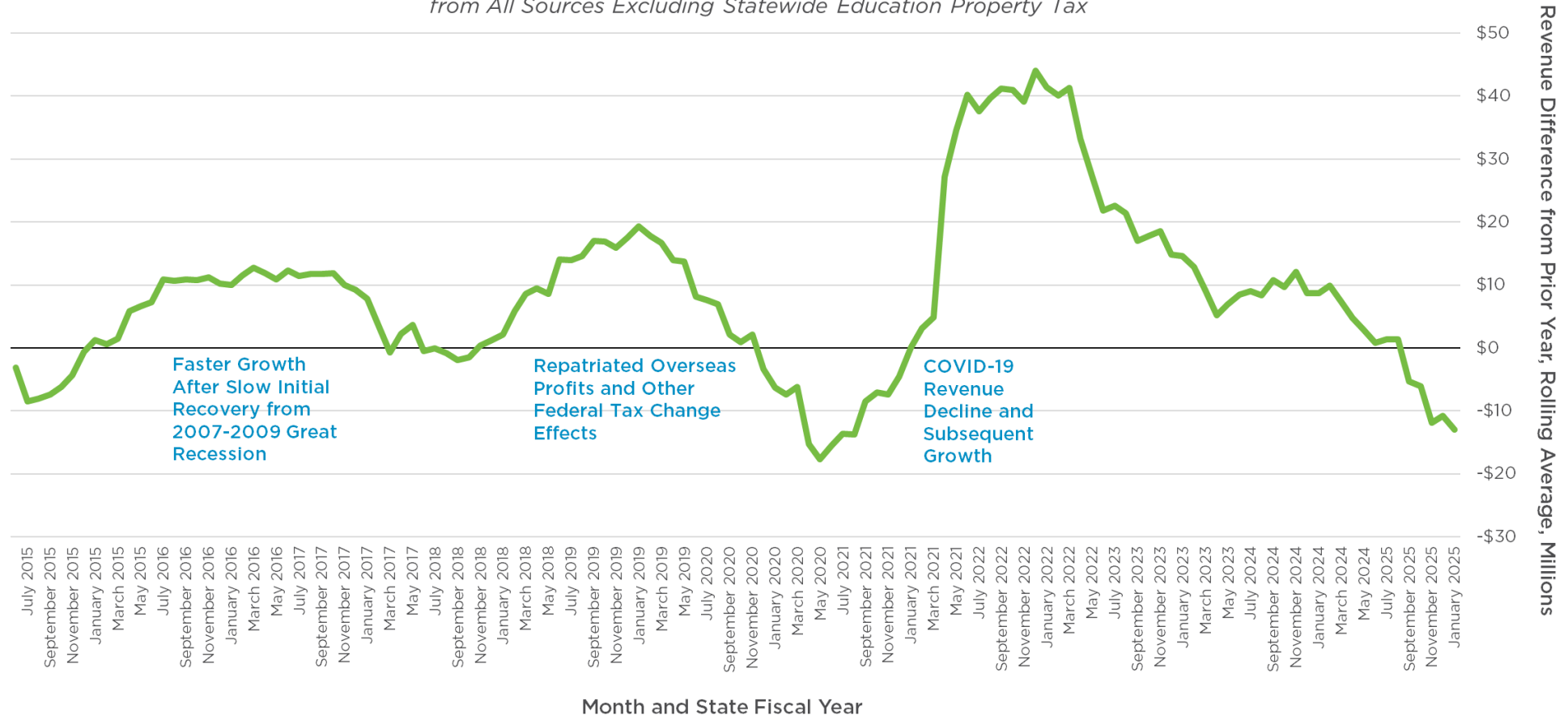


Sources: New Hampshire Office of Legislative Budget Assistant, Senate Finance Committee Surplus Statements, June 2023; 2023-2054s; 2023-2092s; 2023-2171s; 2023-2139s

REVENUES, INCLUDING BUSINESS TAX RECEIPTS, DECLINING AFTER POST-PANDEMIC BOOST

DIFFERENCES OVER TIME IN NEW HAMPSHIRE COMBINED GENERAL AND EDUCATION TRUST FUNDS MONTHLY CASH RECEIPTS

Twelve-Month Rolling Averages of Monthly Cash Receipts to the General and Education Trust Funds Relative to Prior Year from All Sources Excluding Statewide Education Property Tax



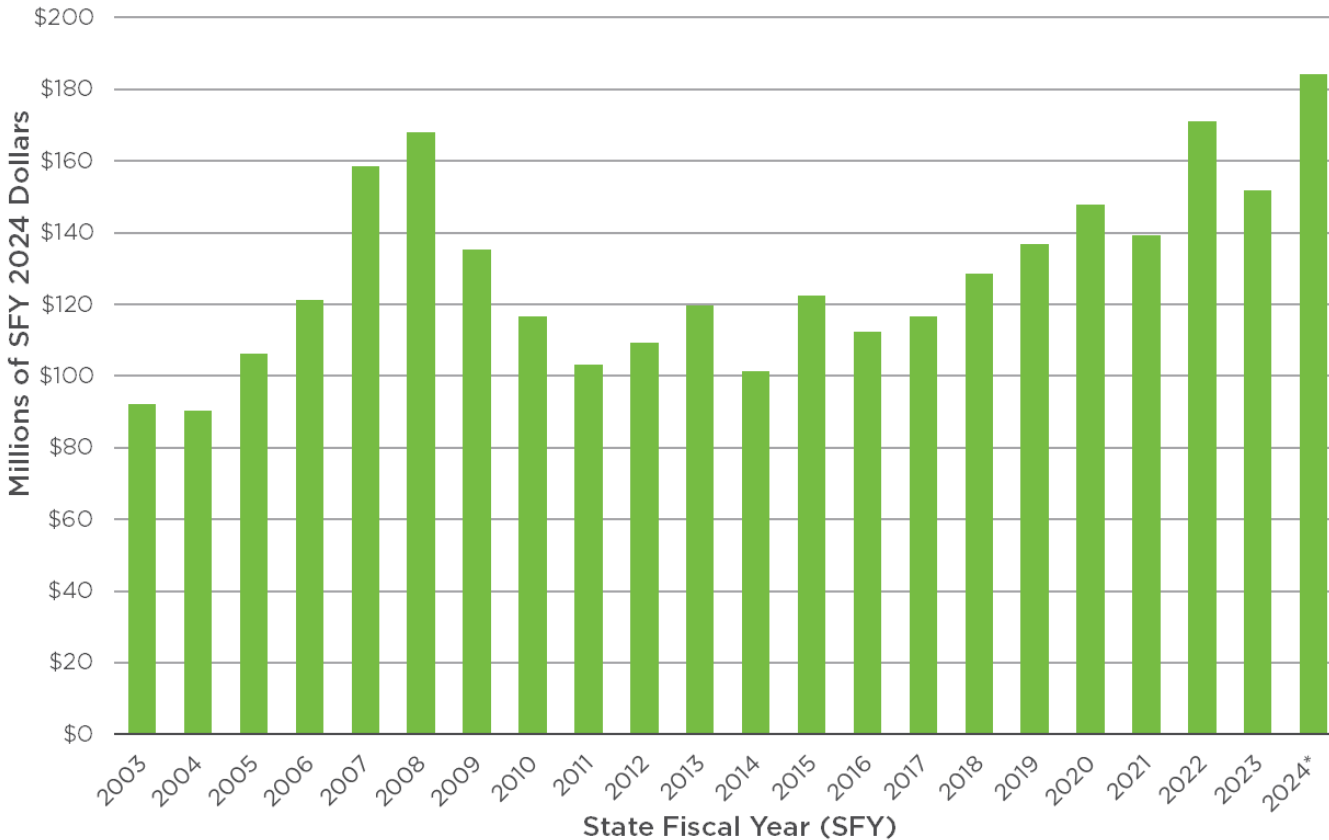
Note: Medicaid Enhancement Tax excluded from historical data. Statewide Education Property Tax excluded due to tax targeting a certain amount collected.
Sources: New Hampshire Department of Administrative Services, Monthly Revenue Focus Reports

FISCAL CONSTRAINTS AND LOOMING QUESTIONS

- Interest and Dividends Tax (\$184 million to General Fund, or 8.8 percent of General Fund revenues, last fiscal year) repealed effective January 2025
- State will earn less interest on cash holdings due to smaller cash reserves
- Youth Development Center settlements: paid \$127 million in 242 settled claims as of December 2024, \$792 million pending in 606 filed claims, claims period open until June 2025; \$160 million to settle claims appropriated previously, outlays capped at \$75 million per year
- Court cases associated with the Youth Development Center and children in the care of the State could generate substantial liabilities
- Decisions related to education funding from the State Supreme Court; second-largest State expenditure, small changes can lead to large funding commitments
- Construction of a new State prison for men, potentially \$500-\$600 million, annual bond payments may be substantial
- Changes to federal funding to the State for operations, with about one in three dollars to fund State services coming from the federal government

THE INTEREST AND DIVIDENDS TAX

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



*Note: Preliminary data based on unaudited cash receipts.

Sources: New Hampshire Annual Comprehensive Financial Reports; Department of Administrative Services Monthly Revenue Focus, June SFY 2024; U.S. Bureau of Labor Statistics, CPI-U, Northeast

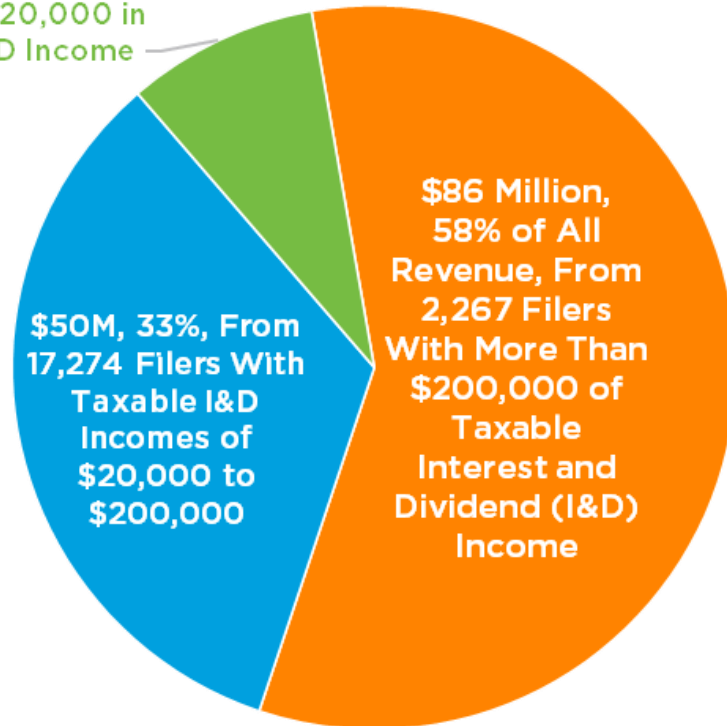
- Formerly taxed interest, dividend, and distribution income from assets
- Effectively a tax on income generated from wealth, including stock or business ownership, not including the sale of assets (capital gains)
- Repealed as of January 2025; rate was 5 percent from 1977 to 2022, phased down to 3 percent before repeal
- Individuals, joint filers, and 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

WHO PAID THE INTEREST AND DIVIDENDS TAX?

NEW HAMPSHIRE INTEREST AND DIVIDENDS TAX REVENUE BY THE TAXABLE INTEREST AND DIVIDEND INCOME OF FILERS

*Tax Year 2022, Only Taxable Interest, Dividend, and
Distribution Income Included*

\$13M, 9%, From
53,800 Filers With
Less Than \$20,000 in
Taxable I&D Income



Source: New Hampshire Department of Revenue Administration,
2024 Annual Report

Taxable Income Does Not Include:

- Salaries
- Wages
- Capital gains
- Individual Retirement Accounts
- Employee Benefit Plans under the Employee Retirement Income Security Act of 1974 (Section 3)
- Keogh Plans (for retirement)
- Tax deferred investment plans
- Stock dividends paid in new stock
- Certain interest and dividends from College Tuition Savings Plans

Learn more from the New Hampshire Department of Revenue Administration's "I&D Checklist"

KEY FEDERAL PROGRAMS SUPPORT NEW HAMPSHIRE SERVICES

Medicaid

- Approximately \$2.464 billion expenditure in SFY 2024 from all sources, with \$1.393 billion (56.5 percent) of that total coming from the federal government, including federal “waiver” programs
- About \$427.45 million (30.7 percent) of those federal funds supported Granite Advantage (“Medicaid expansion”), which has a 90 percent federal match, required by State law for the program to continue
- About 187,000 Granite Staters accessed health care through the program at the end of January 2025

Other Program Areas (Not a Comprehensive List)

- Federal transportation aid, through a wide variety of programs
- Education aid – portion of special education aid, school meals, professional development
- Water pollution and infrastructure funds, clean and drinking water programs
- Supplemental Nutrition Assistance Program (SNAP)
- Women, Infants, and Children Nutrition Program (WIC)
- Temporary Assistance for Needy Families (TANF)
- Low Income Home Energy Assistance Program (State Fuel Assistance Program)
- Veterans’ care aid

PROPOSED FEDERAL MEDICAID CHANGES COULD HAVE SIGNIFICANT IMPACTS

- Total if both policies fully phased in relative to this fiscal year’s projected costs: \$493 million
- Other proposed policies (work requirements, per capita cap, block granting components) too vague at present to calculate fiscal impacts on New Hampshire
- Major structural funding changes would have to be approved by Congress
- Medicaid waiver programs under more control of the executive branch

COST TO STATE OF NEW HAMPSHIRE FROM POTENTIAL MEDICAID FEDERAL FUNDING MATCH REDUCTIONS

MEDICAID STATE MATCH FLOOR REMOVAL

Current Federal Law Provides a Minimum 50 Percent Match for State Medicaid Programs, Otherwise Adjusted by Formula Based on State Per Capita Income

| | |
|---|---|
| Removal of Minimum Federal Match Floor (Currently 50%) | Estimated Additional State Share Cost of Projected Calendar Year 2025 Costs for Medicaid Program Except for Granite Advantage if Match Had Been Lower |
| Estimated New Match Rate for New Hampshire (2025): 42% | \$194 Million |

MEDICAID EXPANSION MATCH CHANGES

Current Federal Law Provides a 90 Percent Match for Cost of Providing Granite Advantage Program Health Coverage

| Federal Medical Assistance Percentage (FMAP) – Federal Match Rate Reductions (90% in Current Law) | Estimated Additional State Share of Projected State Fiscal Year 2025 Costs for Granite Advantage Program if Match Had Been Lower |
|---|--|
| 80% | \$63 Million |
| 70% | \$125 Million |
| 60% | \$187 Million |
| 50% | \$249 Million |
| 42% | \$299 Million |

Sources: New Hampshire Department of Health and Human Services Point-In-Time Expenditure Estimates; Center on Budget and Policy Priorities, “Medicaid Threats in the Upcoming Congress,” December 13, 2024; NHFPI Calculations

FEDERAL FUNDS CAN STIMULATE ECONOMY

RETURNS ON INVESTMENT FROM CERTAIN POLICIES

Fiscal Stimulus Multipliers, 2021

| Estimates of Change in Size of the Economy (Gross Domestic Product) in the Fourth Quarter of 2021 for Each \$1.00 Change in Selected Federal Expenditure or Tax Changes in the First Quarter of 2021 | |
|--|----------------------------------|
| Policy Change Analyzed | Economic Growth Per \$1 Invested |
| Supplemental Nutrition Assistance Program Benefits | \$1.61 |
| Supplemental Unemployment Insurance | \$1.49 |
| Work-Share Unemployment Insurance | \$1.37 |
| Aid to State and Local Governments | \$1.34 |
| Low Income Home Energy Assistance Program (LIHEAP) | \$1.31 |
| Transportation Infrastructure Spending | \$1.29 |
| Earned Income Tax Credit | \$1.27 |
| Child Tax Credit | \$1.25 |
| Defense Spending | \$1.24 |
| Child Care (Universal Child Care Act) | \$1.19 |
| Universal Pre-Kindergarten | \$1.17 |
| Care for Older Adults | \$1.15 |
| Economic Impact Payments | \$1.09 |
| Payroll Tax Holiday for Employees | \$1.07 |
| Payroll Tax Holiday for Employers | \$0.95 |
| Nonrefundable Lump Sum Tax Rebate | \$0.93 |
| Personal Income Tax Rate | \$0.88 |
| Housing Tax Credit | \$0.80 |
| Student Loan Debt Forgiveness | \$0.65 |
| Dividend and Capital Gain Tax Rate Reduction | \$0.38 |
| Corporate Tax Rate Reduction | \$0.32 |
| Accelerated Depreciation for Business Taxes | \$0.27 |
| Business Net Operating Losses Tax Offset | \$0.24 |

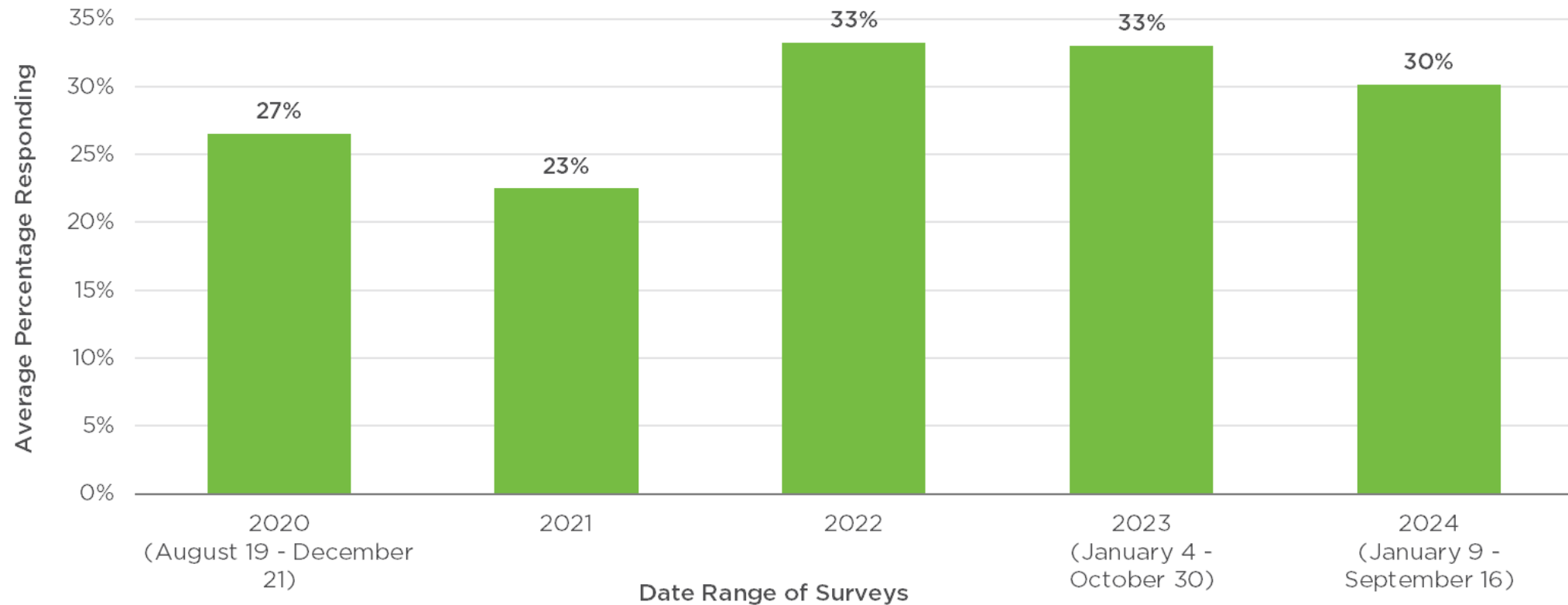
Note: Evaluated relative to the parameters of the federal 2021 American Rescue Plan Act as proposed in January 2021.

Source: Moody's Analytics, *The Biden Fiscal Rescue Package: Light on the Horizon*, January 15, 2021

NEARLY ONE IN THREE NH ADULTS REPORT DIFFICULTY AFFORDING USUAL EXPENSES

NEW HAMPSHIRE ADULTS REPORTING DIFFICULTY WITH USUAL EXPENSES

Percentage Living in Households in Which It Has Been Somewhat or Very Difficult to Pay for Usual Household Expenses During the Last Seven Days



Source: U.S. Census Bureau, Household Pulse Survey, accessed October 2024

KEY TAKEAWAYS

- State Budget is two pieces of legislation constructed over a nearly year-long process, funding most (but not all) State operations
- State revenues are declining due to both external factors, such as corporate profits and interest rates, and policy choices that have reduced State revenue
- Elimination of Interest and Dividends Tax has not been fully incorporated into current State revenue trends, and will have more impact on next two fiscal years
- Key potential expenses could impact State Budget decision-making and limit resources available for other services, including unknown costs associated with Youth Development Center settlements and court cases, and separate State Supreme Court decisions regarding education funding
- Federal funds key to supporting services within the State Budget with significant federal policy choices likely in 2025
- State and federal funding decisions can impact both individuals and families directly supported by services as well as the broader economy

ADDITIONAL NHFPI RESOURCES

- Blog: January Revenues Reach Target, But Continue to Send Warning Signs – February 6, 2025: <https://nhfpi.org/blog/january-revenues-reach-target-but-continue-to-send-warning-signs/>
- Blog: Sliding Revenues, Spending Needs, and Federal Questions: Seven Facts About the New Hampshire State Budget – February 3, 2025: <https://nhfpi.org/blog/sliding-revenues-spending-needs-and-federal-questions-seven-facts-about-the-new-hampshire-state-budget/>
- Column: Federal Policy Choices in 2025 Could Impact State and Local Finances – October 21, 2024: <https://nhfpi.org/columns/federal-policy-choices-in-2025-could-impact-state-and-local-finances-new-hampshire-bulletin/>
- State Budget Webinar Series: Register here: <https://nhfpi.org/events/examining-the-state-budget-2025-webinar-series/>
- Publication: New Hampshire Policy Points, Second Edition – December 6, 2024: <https://nhfpi.org/nhpp/>
- Weekly Newsletter: <https://nhfpi.org/subscribe>
- Resource Page: Budget: <https://nhfpi.org/topic/budget/>

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