



THE NEW HAMPSHIRE STATE BUDGET: WHAT IS IT, HOW IS IT FUNDED, AND WHERE IS IT NOW?

PHIL SLETTEN, RESEARCH DIRECTOR, NHFPI

STATE BUDGET TOWN HALL

APRIL 22, 2025

ABOUT THE NH FISCAL POLICY INSTITUTE

- About: NHFPI is a nonprofit, independent, nonpartisan policy research organization that examines the State Budget, State fiscal policies, the New Hampshire economy, and the financial security of Granite Staters, centering on issues relevant to people and families with low and moderate incomes
- Mission: to promote opportunity and economic well-being for all New Hampshire residents by producing and disseminating independent research and analysis to inform public policy.
- Goal: provide clear, independent, and accurate research and data analysis to policymakers, community leaders, journalists, and the public
- NHFPI does not lobby for or against legislation
- NHFPI receives no funding from government entities
- Funds are raised from individuals, foundations, and organizations that provide donations, grants, and general operating support

THE NEW HAMPSHIRE STATE BUDGET: WHAT IS IT?

THE BASICS OF THE STATE BUDGET

Two-year, or Biennial, Operating Budget

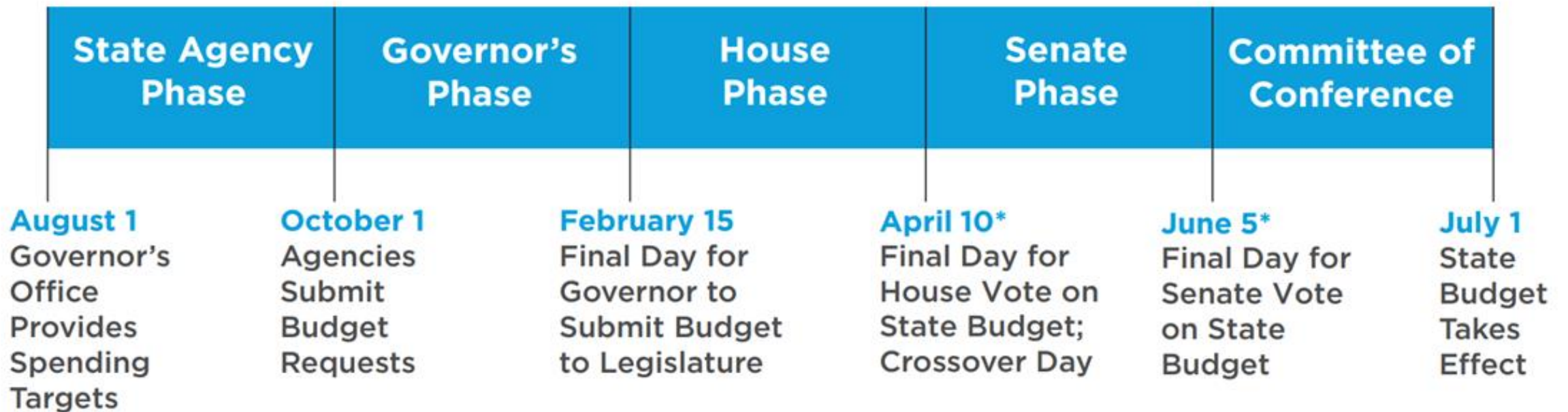
- Funds *most*, but not all, State operations for two State Fiscal Years (SFYs), typically beginning shortly after the budget is approved
- Current State Budget provides funding for SFYs 2024-2025, which spans July 1, 2023 to June 30, 2025, from SFY 2023 surplus carried forward and two years of revenue 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

BUDGET CREATED IN A YEARLONG PROCESS, TYPICALLY WITH FIVE PHASES

State Budget Process Timeline

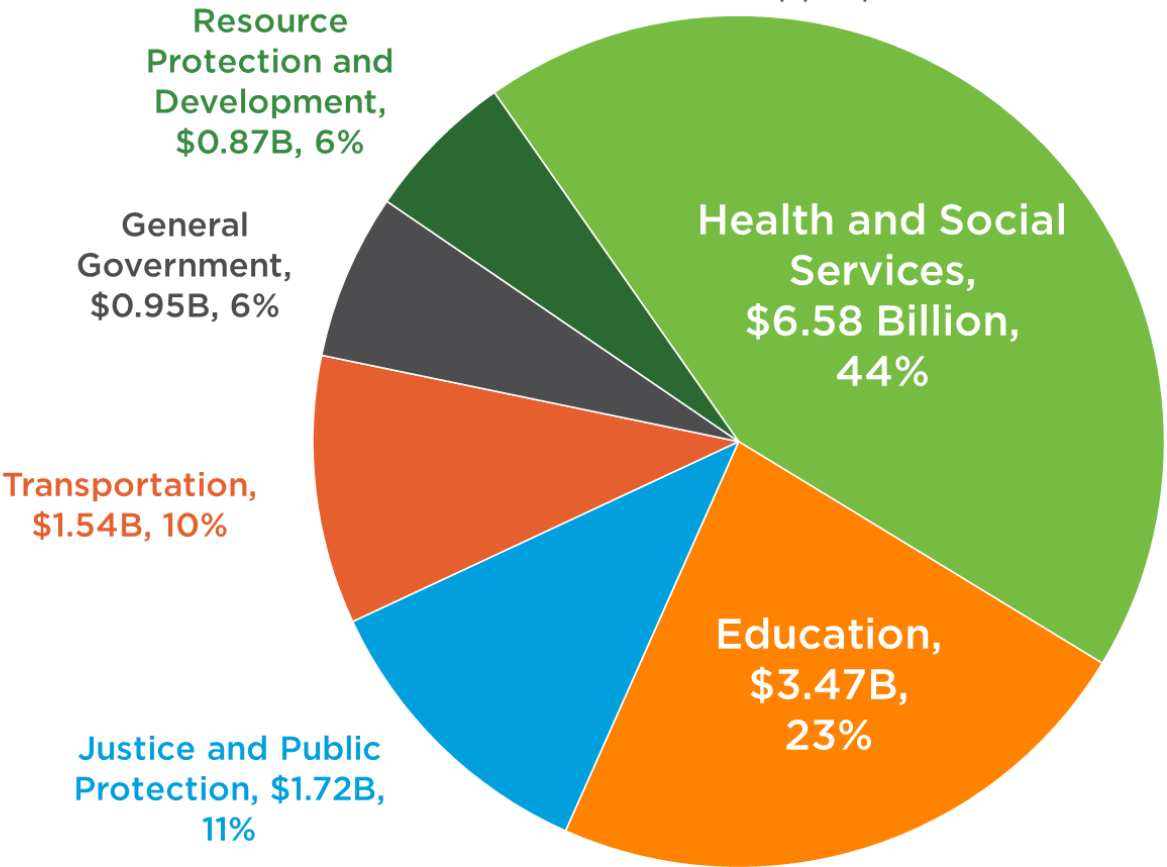


*Dates set by legislative leadership each session; all other dates specified in statute.

BUDGET APPROPRIATIONS IN SIX CATEGORIES

STATE BUDGET APPROPRIATIONS BY CATEGORY

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



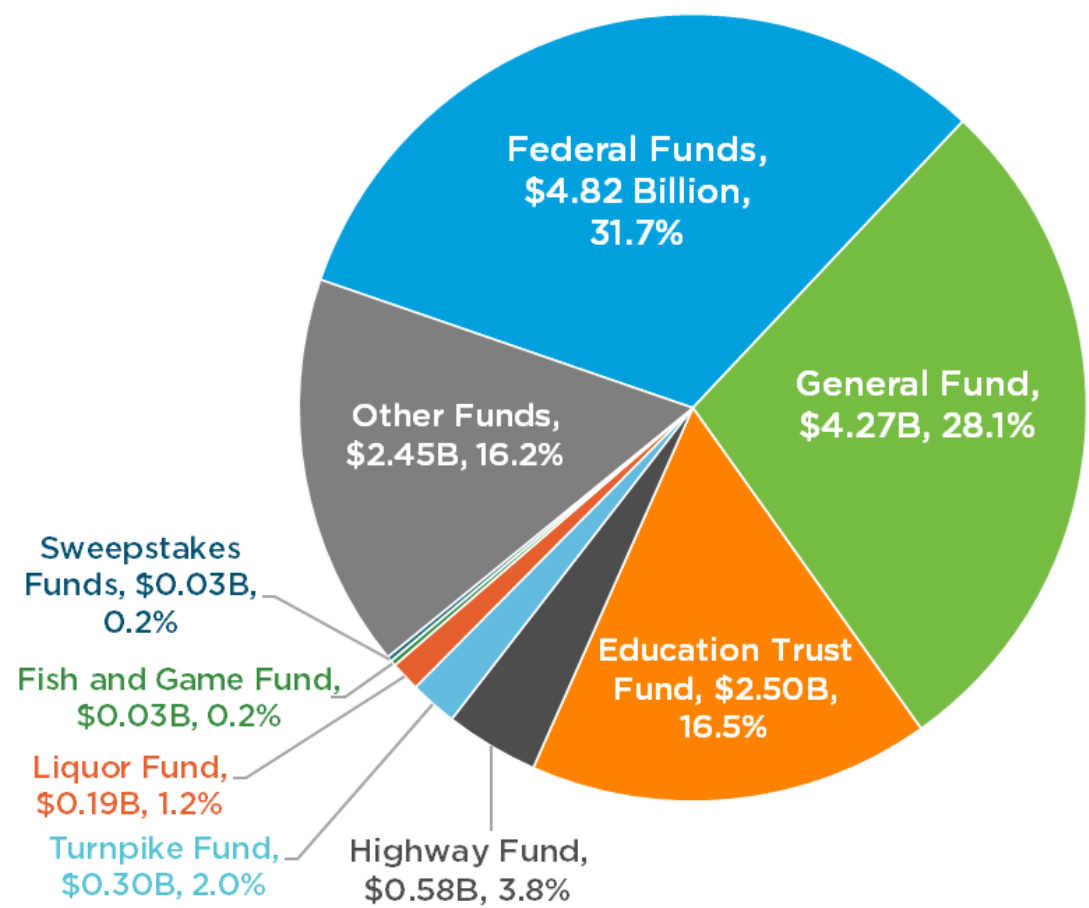
Note: General Government includes HB 2 appropriations for the Affordable Housing Fund, InvestNH, and all State employee pay raises defined by and funded through appropriations made in House Bill 2, as amended by the House.

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

BUDGET REVENUE LINES ORGANIZED BY FUND

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

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

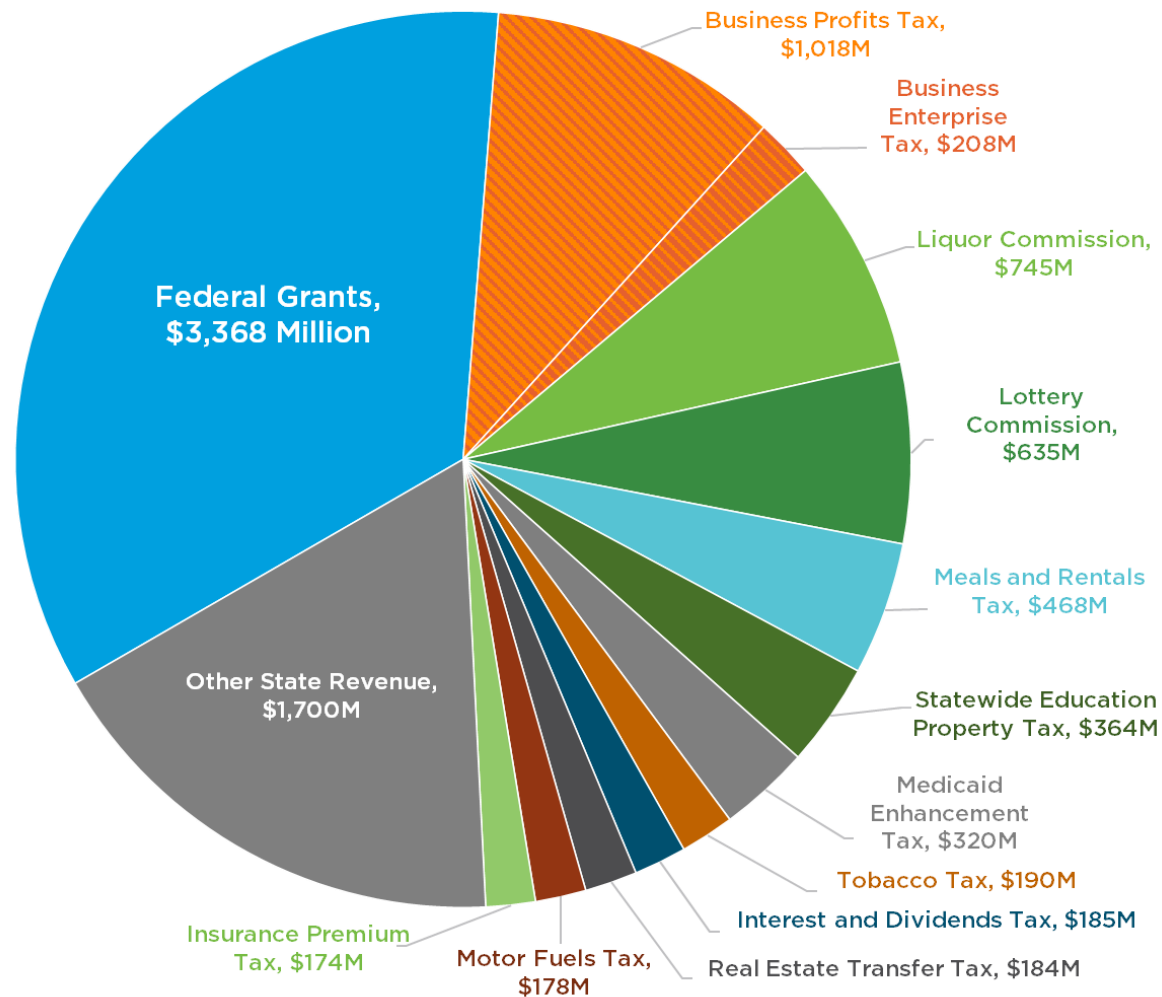
- Bills that are not accounted for the State Budget can also appropriate funds
- State agency spending requests can be granted by the Joint Legislative Fiscal Committee
- Some operations are supported by separate, off-budget funds established by the Legislature
- Example: Funding for Medicaid Expansion/Granite 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

QUESTIONS ABOUT THE STATE BUDGET'S STRUCTURE OR CREATION PROCESS?

THE NEW HAMPSHIRE STATE BUDGET: HOW IS IT FUNDED?

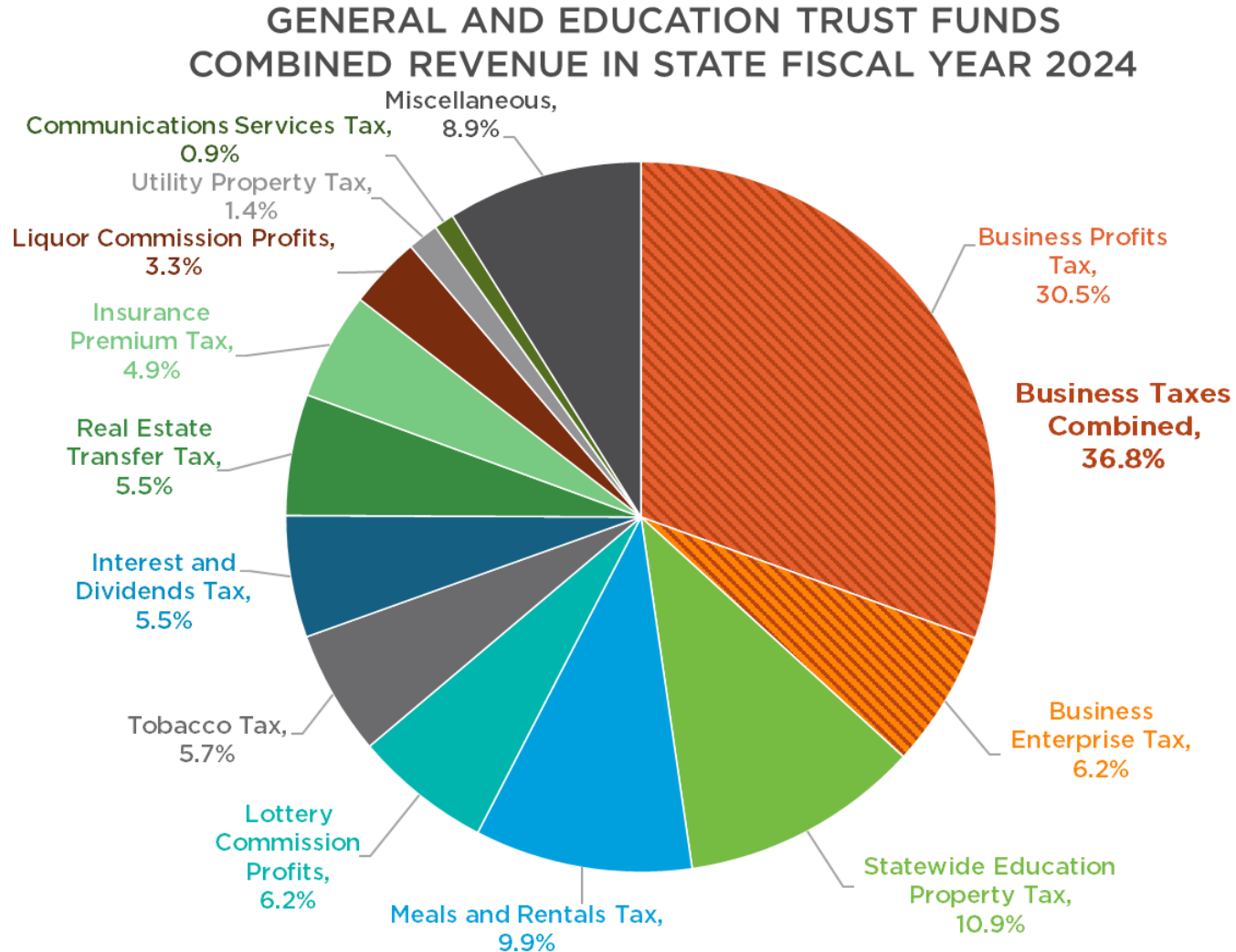
NEW HAMPSHIRE STATE REVENUES

STATE REVENUE SOURCES, GOVERNMENTAL AND
ENTERPRISE FUNDS, STATE FISCAL YEAR 2024



- Federal transfers significant, typical among U.S. states as fraction of total revenue
- 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 most revenues generated used to support internal operations
- Business Profits Tax is the largest State tax revenue source, and revenues are commonly combined with Business Enterprise Tax revenues prior to final audits

GENERAL AND EDUCATION TRUST FUNDS SHARE KEY LARGE REVENUE SOURCES



Source: New Hampshire Annual Comprehensive Financial Report, State Fiscal Year 2024

THE TWO PRIMARY BUSINESS TAXES

Business Profits Tax (BPT)

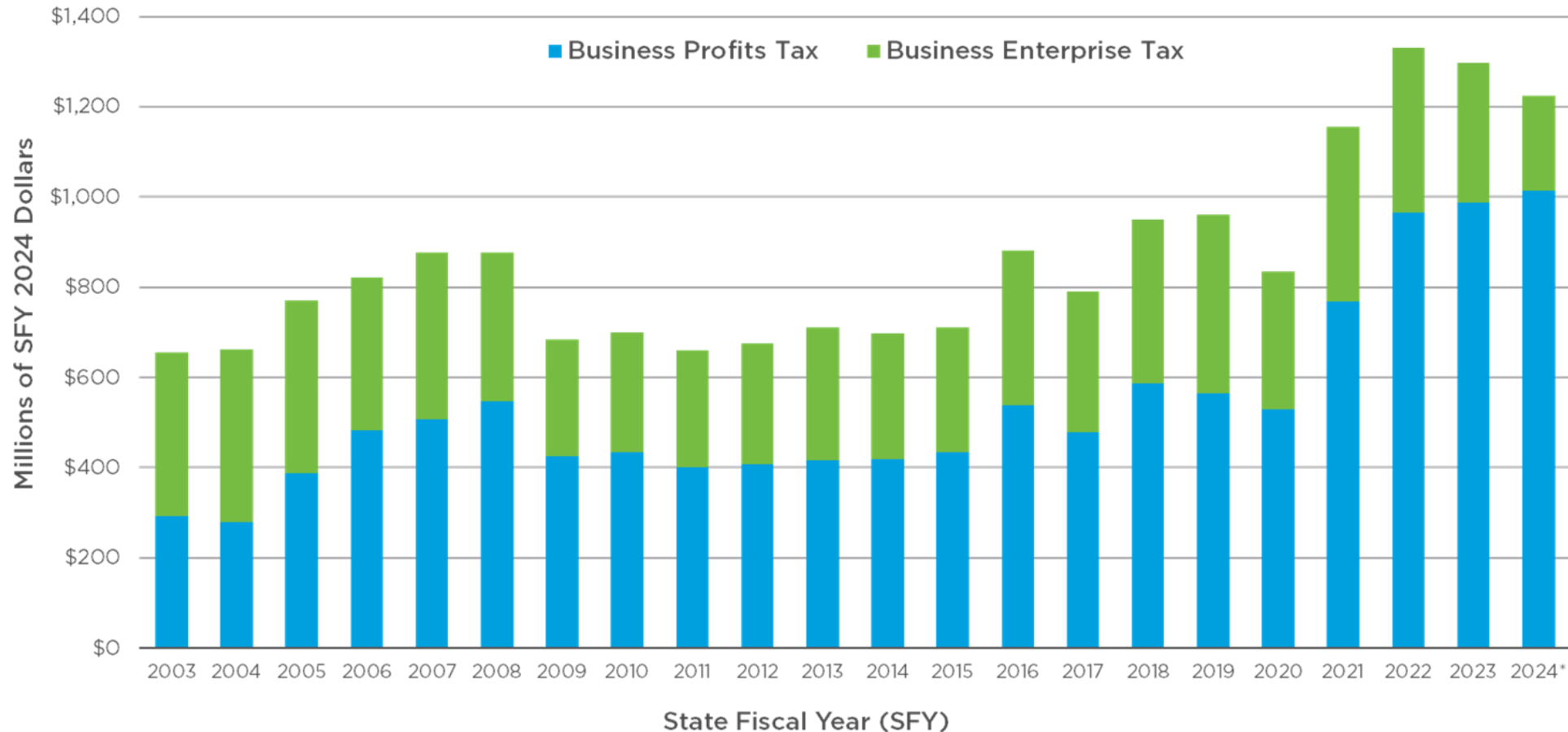
- Traditional state corporate income tax
- Tax based on net business profits after adjustments (BET) and apportionment
- Tax base likely about \$10.7 billion in Tax Year 2022
- Recent rate reductions:
2001-2015: 8.5%, 2016-17: 8.2%,
2018: 7.9%, 2019-21: 7.7%, 2022: 7.6%,
2023: 7.5%
- Supports the General Fund (59%) and the Education Trust Fund (41%)

Business Enterprise Tax (BET)

- Unique among state business taxes, based on compensation and interest paid or accrued and dividends paid, adjustments, and apportionment
- Broader tax base, likely about \$43.3 billion in Tax Year 2022
- Recent rate reductions
2001-2015: 0.750%, 2016-17: 0.720%,
2018: 0.675%, 2019-21: 0.600%,
2022: 0.550%
- Supports the General Fund (59%) and the Education Trust Fund (41%)

SUBSTANTIAL GROWTH FROM BUSINESS TAXES DURING LAST DECADE, EVEN AFTER INFLATION

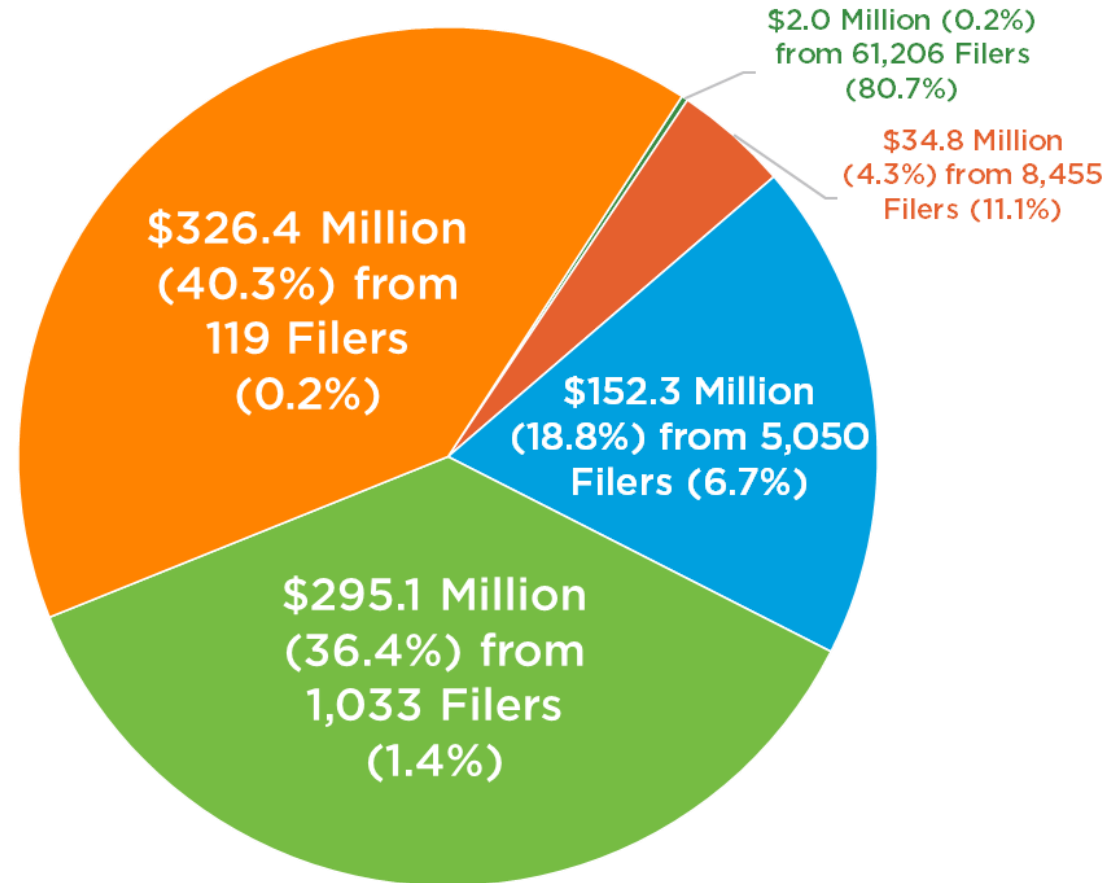
NEW HAMPSHIRE BUSINESS PROFITS TAX AND BUSINESS ENTERPRISE TAX
GENERAL AND EDUCATION TRUST FUNDS INFLATION-ADJUSTED REVENUE



- BPT appears to be primary driver of revenue growth
- BPT versus BET assumptions in cash revenue splits have changed over time as BPT revenues have increased

LARGE FILERS KEY TO BPT REVENUES

NEW HAMPSHIRE BUSINESS PROFITS TAX PAID AND NUMBER OF FILERS, TAX YEAR 2022

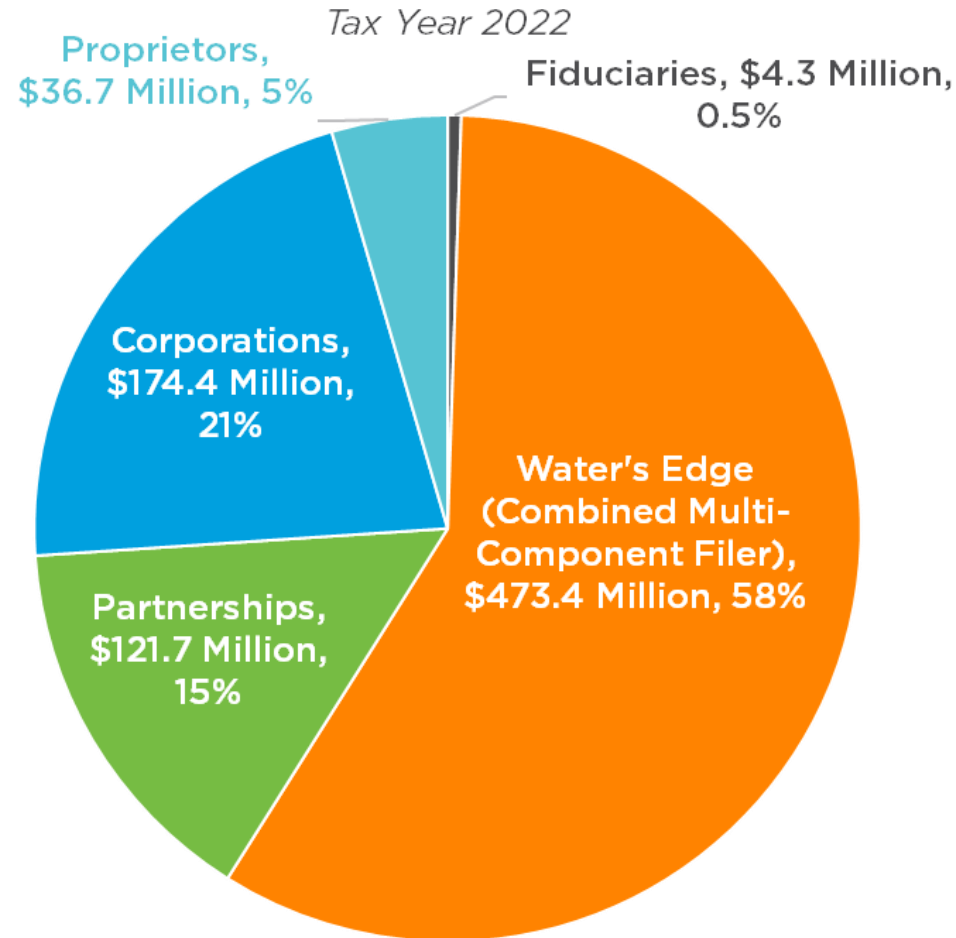


Note: Draft data as of August 12, 2024.

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

MORE THAN HALF OF BPT REVENUES FROM COMPLEX, COMBINED-REPORTING FILERS

BUSINESS PROFITS TAX FILERS BY LIABILITY

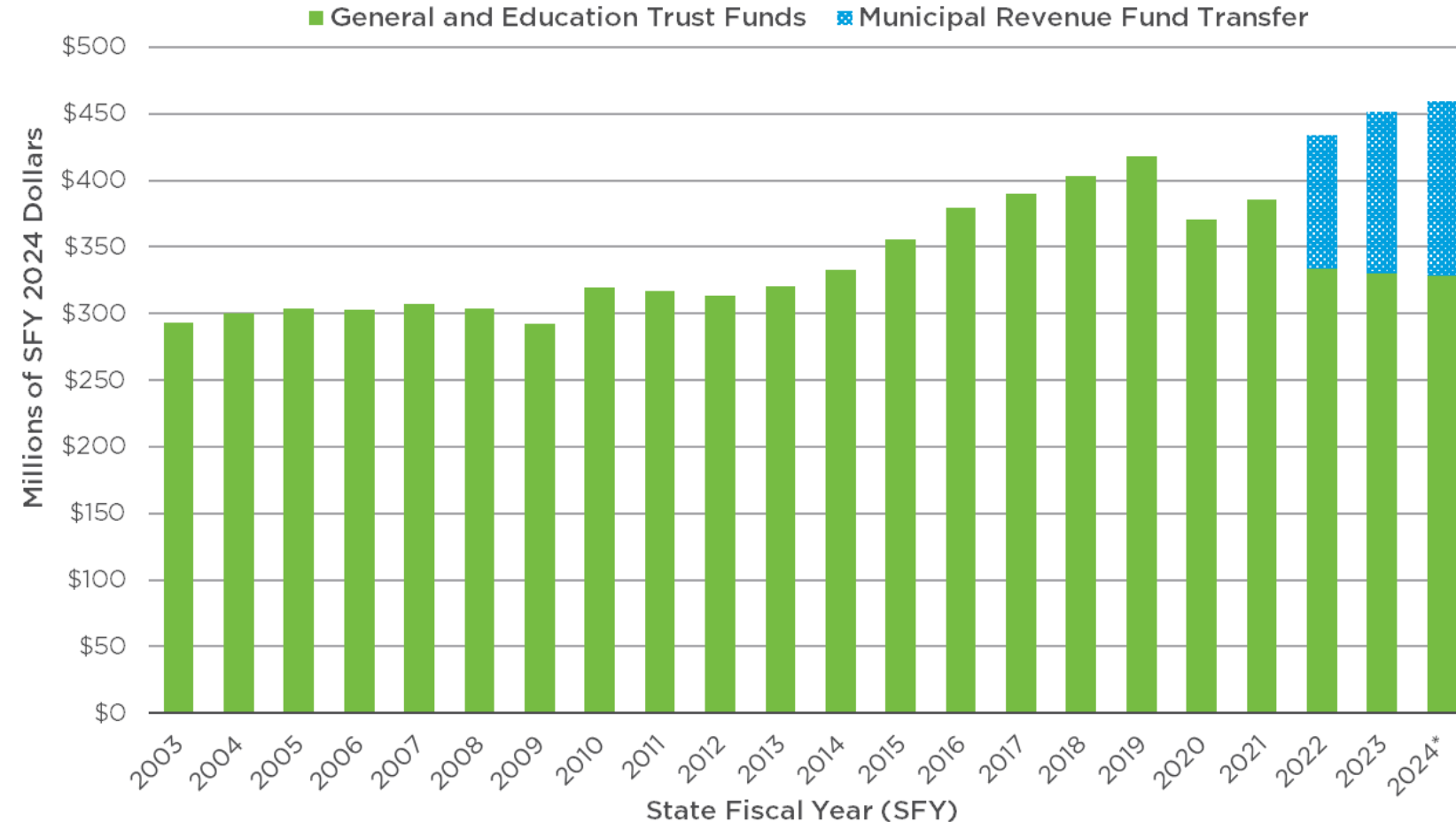


Note: Draft data as of August 12, 2024.

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

THE MEALS AND RENTALS TAX

NEW HAMPSHIRE MEALS AND RENTALS TAX INFLATION-ADJUSTED REVENUE



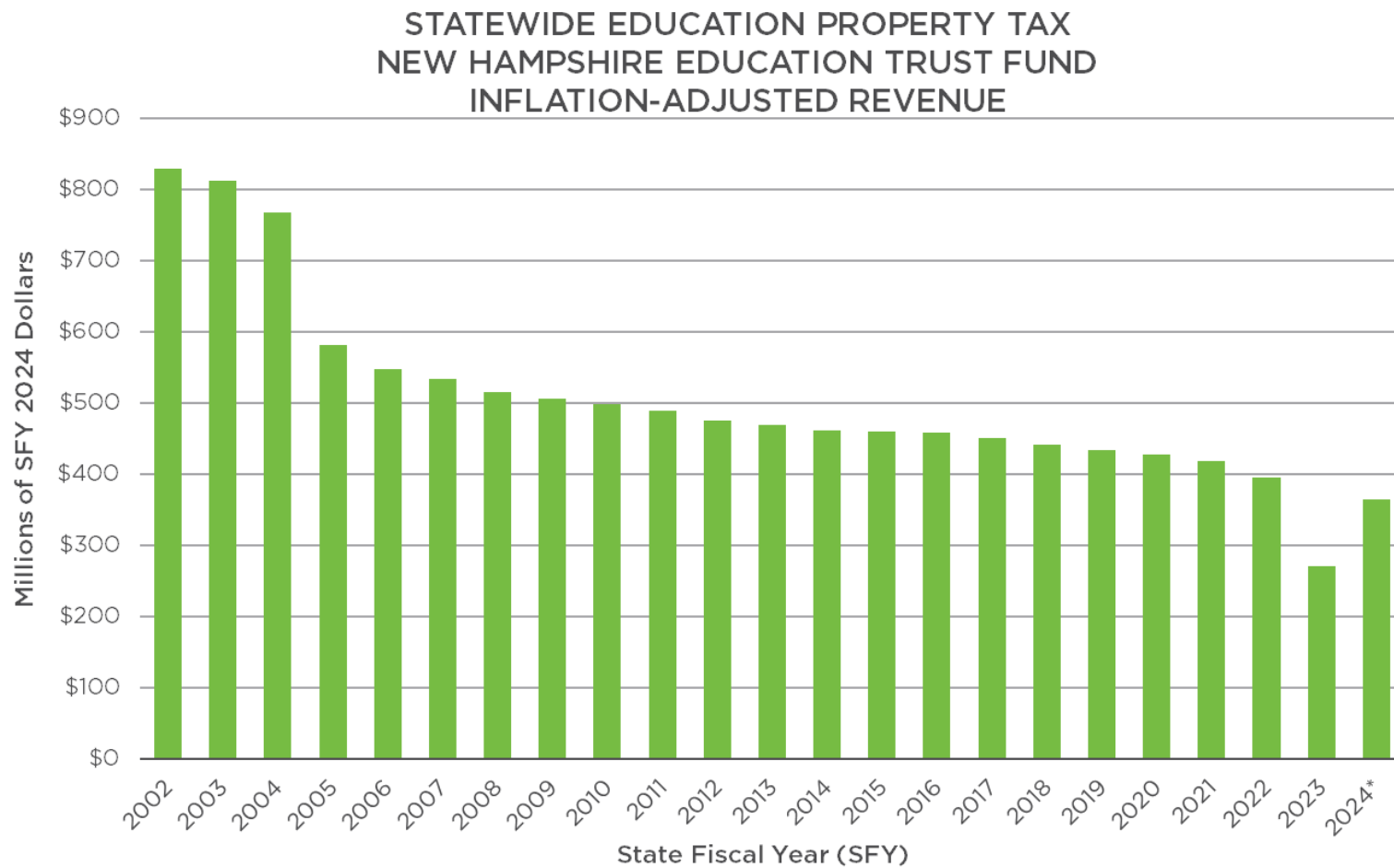
*Note: Data based on unaudited preliminary accrual receipts.

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

- Tax of 8.5 percent levied on most purchases of food or beverages from restaurants, also on hotel rooms and car rentals
- Rate was 9 percent from mid-2010 to late 2021
- Funds the General Fund, Education Trust Fund (car rentals portion), certain school building aid costs, State's travel and tourism development agency, municipalities (30 percent directed to a special fund)

THE 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; one-time reduction to \$263 million for SFY 2023
- State requires local governments to raise this revenue
- Retained locally; revenue went to State previously, but not after 2011



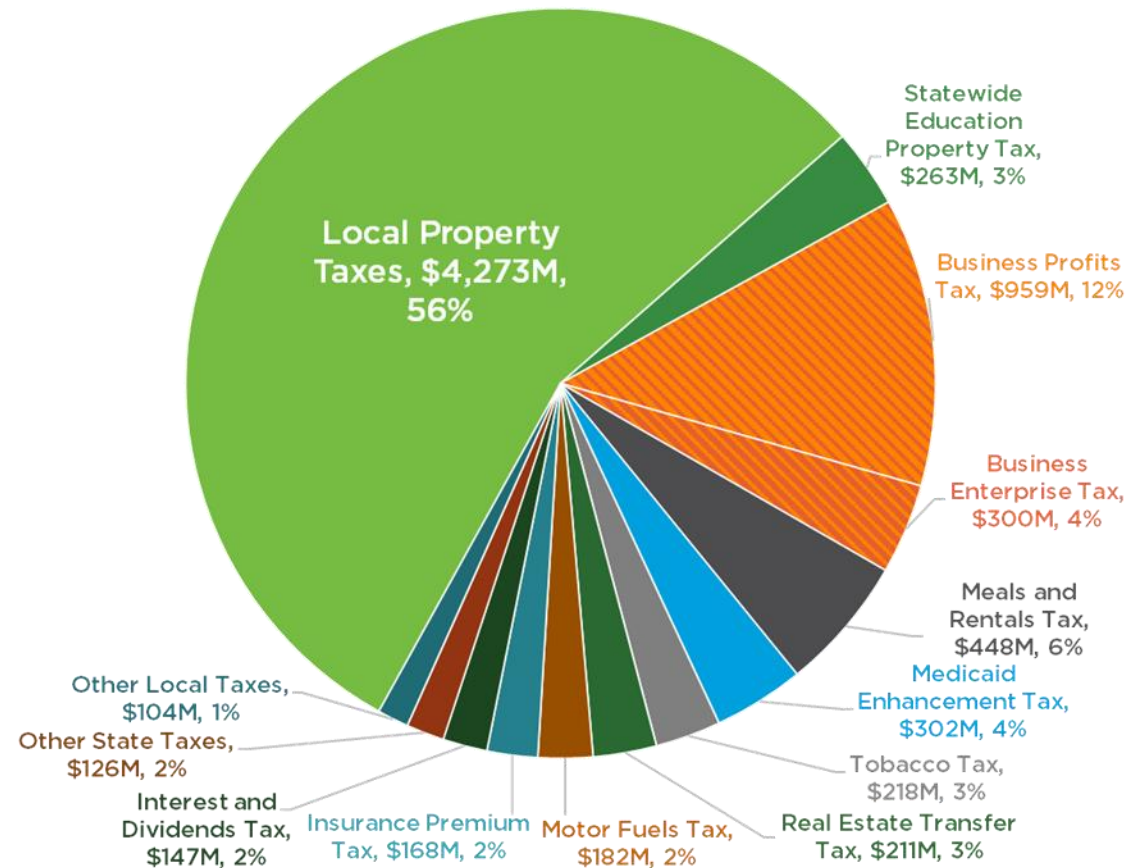
*Note: Preliminary data based on unaudited cash receipts.

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

PROPERTY TAXES MORE THAN HALF OF STATE AND LOCAL TAX REVENUES

STATE AND LOCAL TAXES IN NEW HAMPSHIRE

State Fiscal Year or Tax Year 2023



Sources: New Hampshire Annual Comprehensive Financial Report, State Fiscal Year 2023; New Hampshire Department of Revenue Administration, 2023 Annual Report and Completed Public Tax Rates 2023; U.S. Census Bureau, Survey of State and Local Government Finances, 2021; Joint Legislative Fiscal Committee, FIS 23-311

QUESTIONS ABOUT STATE REVENUE SOURCES?

THE NEW HAMPSHIRE STATE BUDGET: WHERE IS IT NOW?

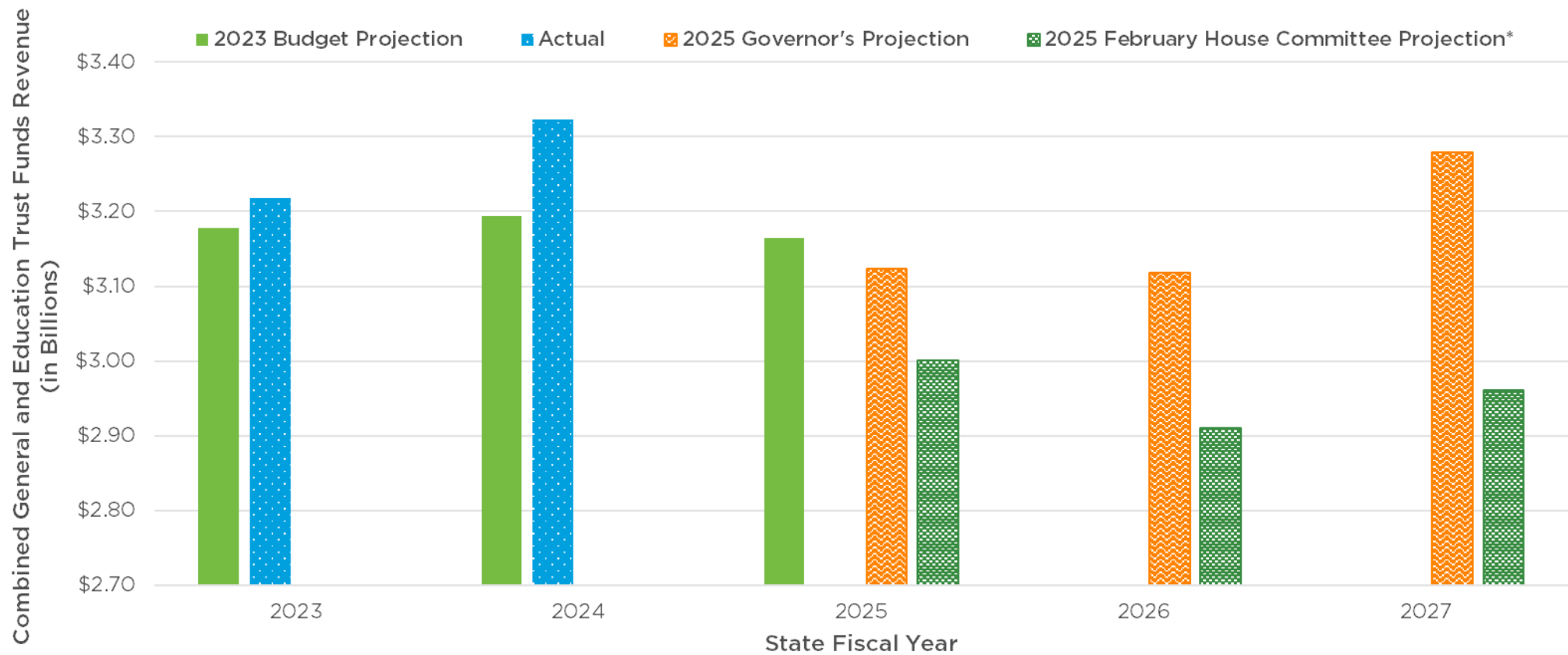
CHALLENGES IN CURRENT BUDGET CYCLE

- Interest and Dividends Tax (\$184.6 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

\$513.5 MILLION DIFFERENCE FROM GOVERNOR'S TO HOUSE'S REVENUE PROJECTIONS

STATE REVENUE PROJECTIONS AND ACTUAL REVENUES

New Hampshire Combined General and Education Trust Funds



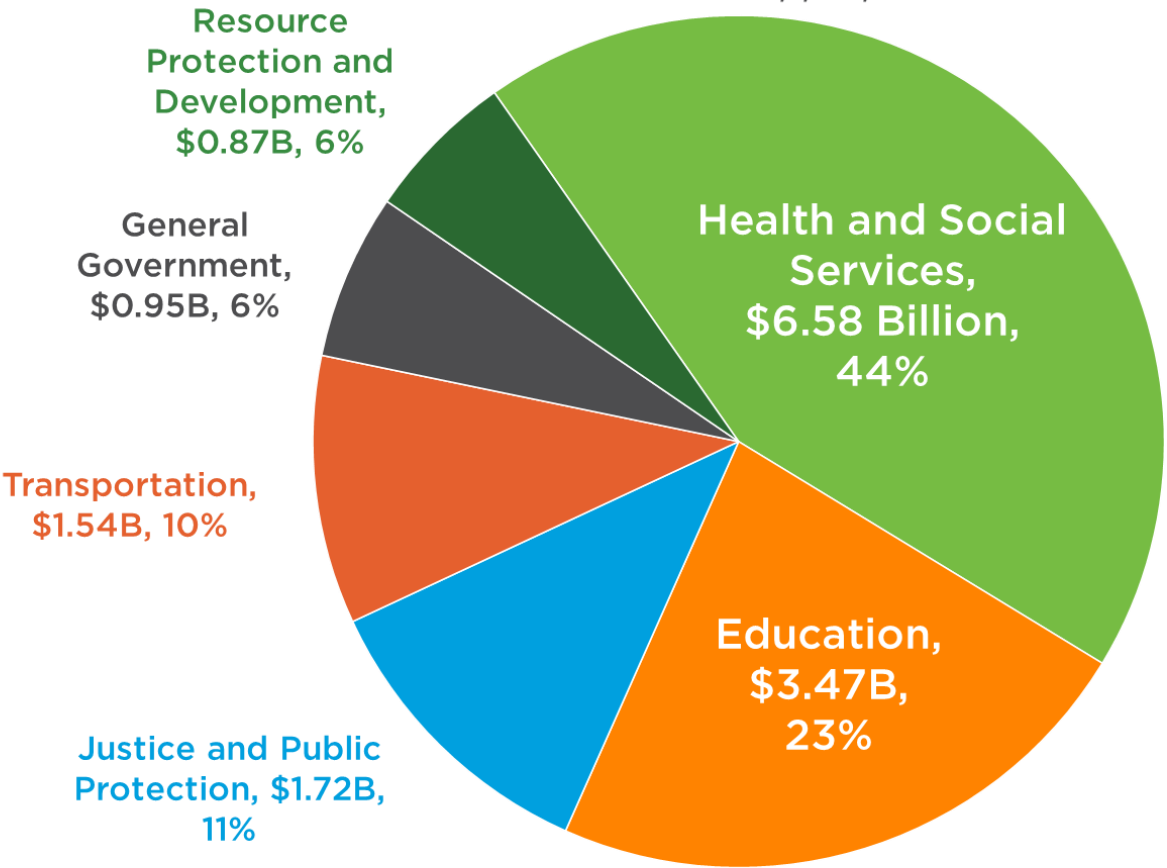
*Projection from the New Hampshire House Ways and Means Committee on February 12, 2025.

Sources: New Hampshire Department of Administrative Services, Annual Comprehensive Financial Report, SFY 2023 and June SFY 2024 Preliminary Accrual; Governor's Budget Executive Summary, February 2025; New Hampshire Office of Legislative Budget Assistant, House Ways & Means Revenue Estimate Worksheets, February 12, 2025

SHIFTS AMONG CATEGORIES PROVIDE INSIGHTS

STATE BUDGET APPROPRIATIONS BY CATEGORY

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



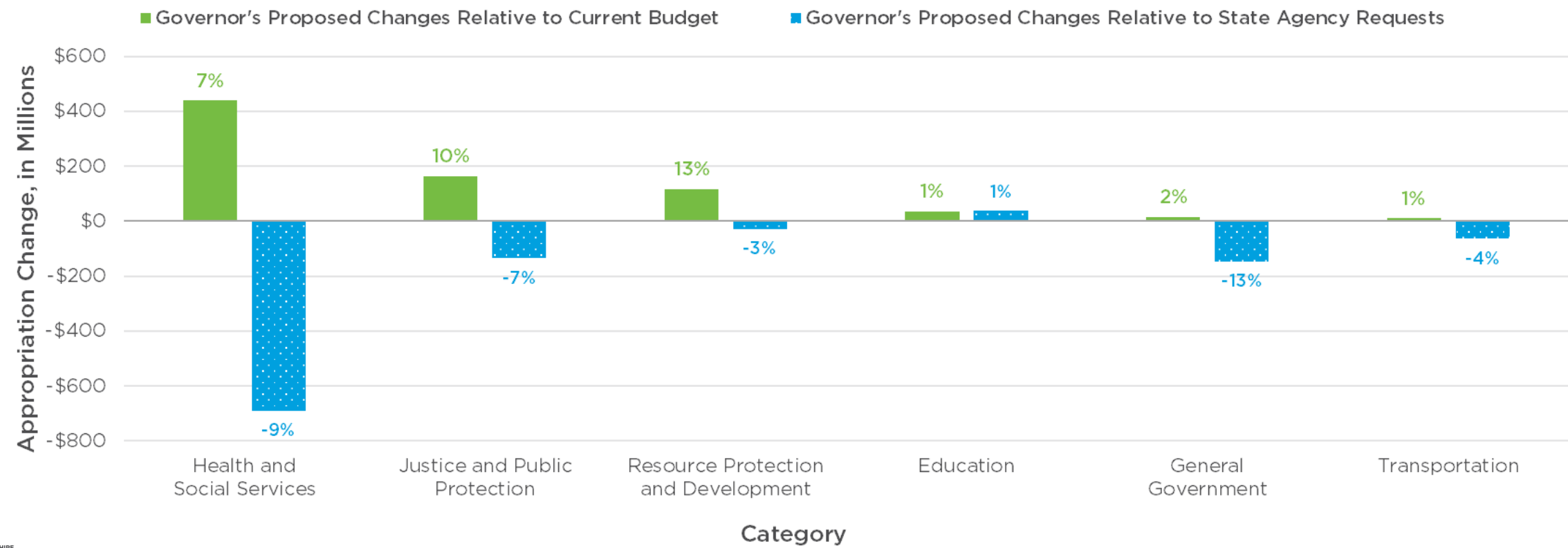
Note: General Government includes HB 2 appropriations for the Affordable Housing Fund, InvestNH, and all State employee pay raises defined by and funded through appropriations made in House Bill 2, as amended by the House.

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

GOVERNOR'S BUDGET BOOSTS ALL CATEGORIES, FALLS SHORT OF MOST AGENCY REQUESTS

CHANGES IN GOVERNOR'S PROPOSED TOTAL STATE BUDGET BY CATEGORY FOR FISCAL YEARS 2026 AND 2027

Appropriation Change Relative to Actual Final Budget Appropriations for SFYs 2024-2025 and Agency Budget Requests for SFYs 2026-2027, for New Hampshire



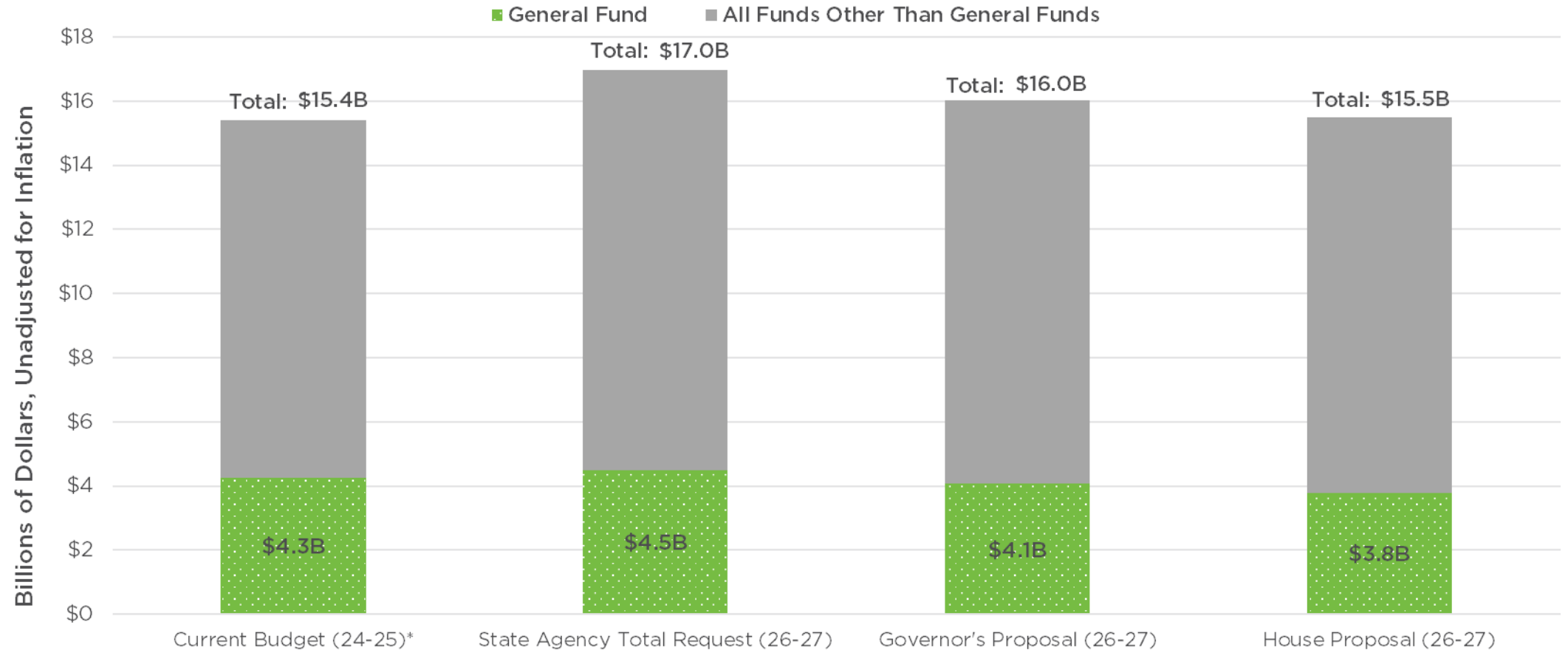
LARGEST CHANGES GOVERNOR PROPOSED

- NH Retirement System: increase benefits for certain police and firefighting employees with benefits altered after modifications to benefit policies in 2011, \$32.9 million added
- Increasing access to Education Freedom Accounts by eliminating the income eligibility cap for students transferring from public schools, \$73.5 million total appropriation for biennium, 47.6 percent more than amount spent this biennium
- Expanding available Special Education Aid for school districts, allocating an additional \$32.0 million (47.2 percent) toward Special Education Aid relative to the current State Budget's appropriations for a total of \$99.8 million over the biennium
- Increasing funding for nursing facilities and drawing on dedicated funding for developmental services carried forward from unspent funds in prior years
- Requiring Medicaid premiums for Granite Advantage enrollees (100-138% federal poverty guidelines) and Children's Health Insurance Program (255-323%) of 5% of income, and increased copayments for prescription drugs to \$4
- Increasing funding for housing shelter services, targeting substance use disorders
- Decreasing budgeted funding for the University System of New Hampshire, the Choices for Independence Medicaid waiver program for older adults and adults with physical disabilities, and payments to hospitals for uncompensated care

TOPLINE FUNDING CHANGES BY BUDGET

NEW HAMPSHIRE STATE BUDGET APPROPRIATIONS BY ITERATION

Adjusted for Accounting Differences Relative to Current Budget



Budget Iteration and State Fiscal Years

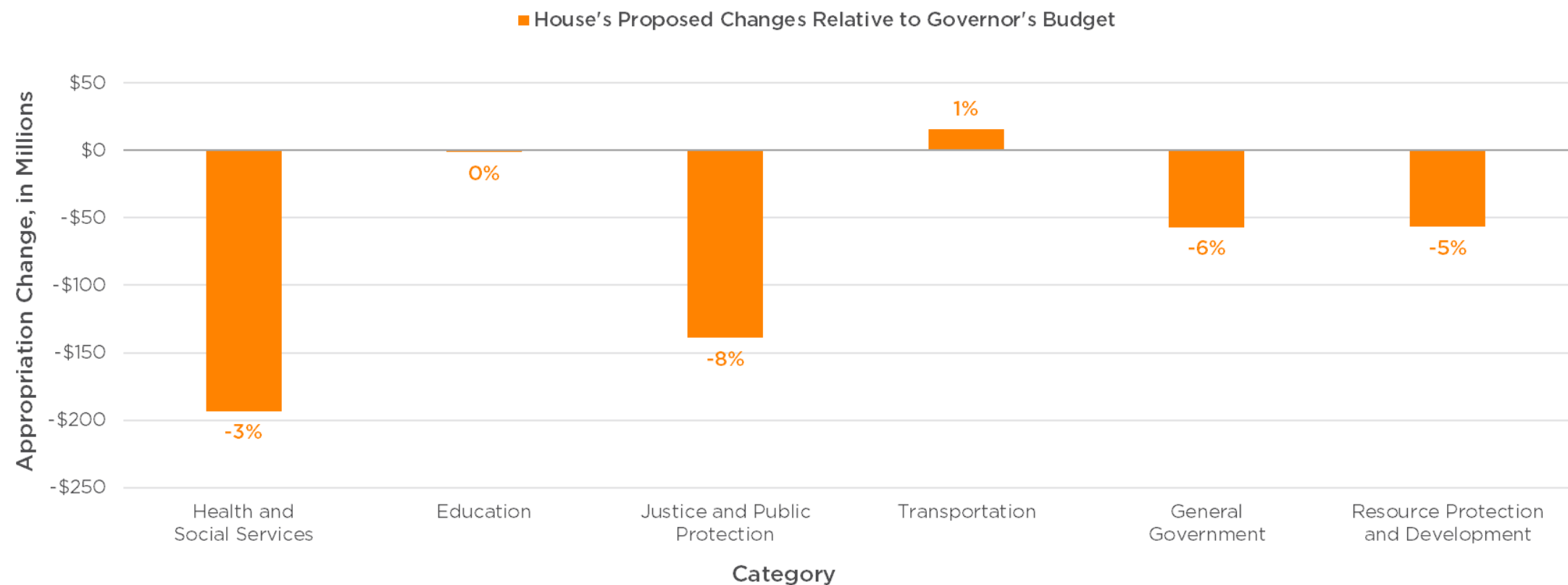
Notes: *Adjusted to include Municipal Revenue Sharing through the Meals and Rentals Tax, which is accounted for in other proposals here, for appropriate comparison.
House proposal total figures assume a loss of federal Medicaid matching funds during the biennium due to lower reimbursement rates and shifted managed care organization payment timing.

Sources: Chapters 79 and 106, Laws of 2023; New Hampshire Department of Administrative Services; Governor's Operating Budget Proposal and HB 2 as Introduced, 2025 Session; 2025-1474h, 2025-1488h; Office of Legislative Budget Assistant, Surplus Statements and Compare Reports, April 11, 2025

HOUSE BUDGET PROPOSAL REDUCES HEALTH, SOCIAL SERVICES, JUSTICE, PUBLIC PROTECTION

CHANGES IN HOUSE OF REPRESENTATIVES' PROPOSED TOTAL STATE BUDGET BY CATEGORY FOR FISCAL YEARS 2026 AND 2027

Appropriation Change Relative to Governor's Proposed Budget for SFYs 2026-2027

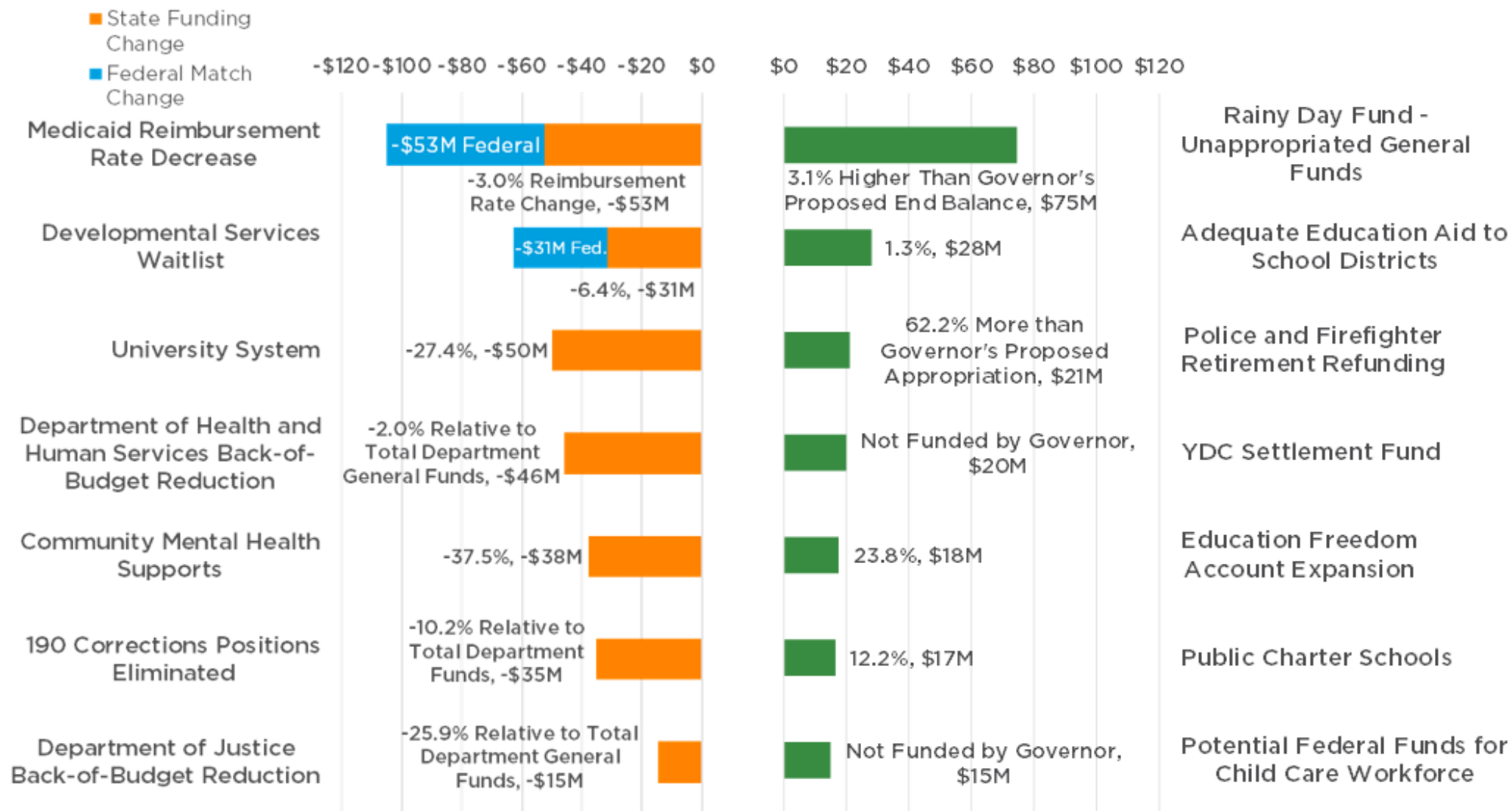


Note: These changes account for inter-agency transfers.

Sources: Governor's Operating Budget for SFYs 2026-2027, House's Operating Budget for SFYs 2025-2026

LARGEST HOUSE FUNDING CHANGES RELATIVE TO GOVERNOR'S BUDGET PROPOSAL

New Hampshire State Budget Proposals, State Fiscal Years 2026-2027



Note: Delayed payments to Managed Care Organizations not included in funding reductions.

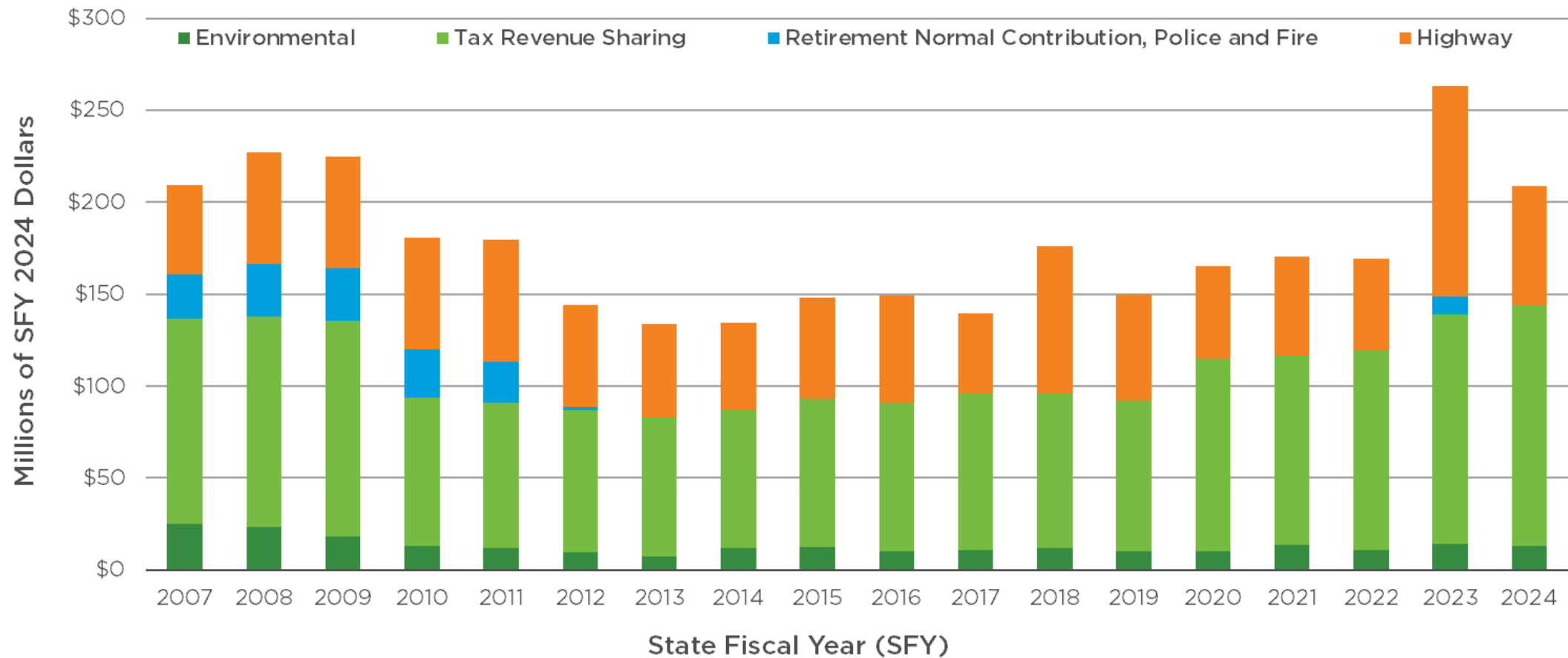
Sources: Office of Legislative Budget Assistant, House vs. Governor Compare Report and Surplus Statements, April 11, 2025

HOUSE ELIMINATED AGENCIES, ADDED POLICIES

- \$95.5 million in “back-of-budget” reductions, unknown where savings within each agency with these required reductions will come from
- House Budget would defund and repeal the Office of the Child Advocate, the Human Rights Commission, the Housing Appeals Board, State Commission on Aging, Division of the Arts within the Department of Natural and Cultural Resources, family planning services (defunds only), Tobacco Prevention and Cessation Program (defunds only), and advertising and certain administrative costs for the Granite State Family Leave Plan
- Expands gaming to generate estimated \$199.1 million for education, increases 90 fees, including motor vehicle registration fees
- Freezes Meals and Rentals Tax revenue sharing with cities and towns at current levels
- Attached 35 policy bills, including:
 - Requiring open enrollment for school districts, and districts to make counts of available spots public
 - Certain prohibitions on diversity, equity, and inclusion funding for State, local governments, and school districts, with State school district funding potentially stopped
 - Permitting evictions at the end of a rental lease without other cause
 - Removing State motor vehicle inspections
 - Altering laws related to vaccines, firearms sold only within the state, discrimination based on biological sex for bathroom use or sports team participation, and health facilities
 - Changes to State energy policy, including removing solar from Renewable Portfolio Standard

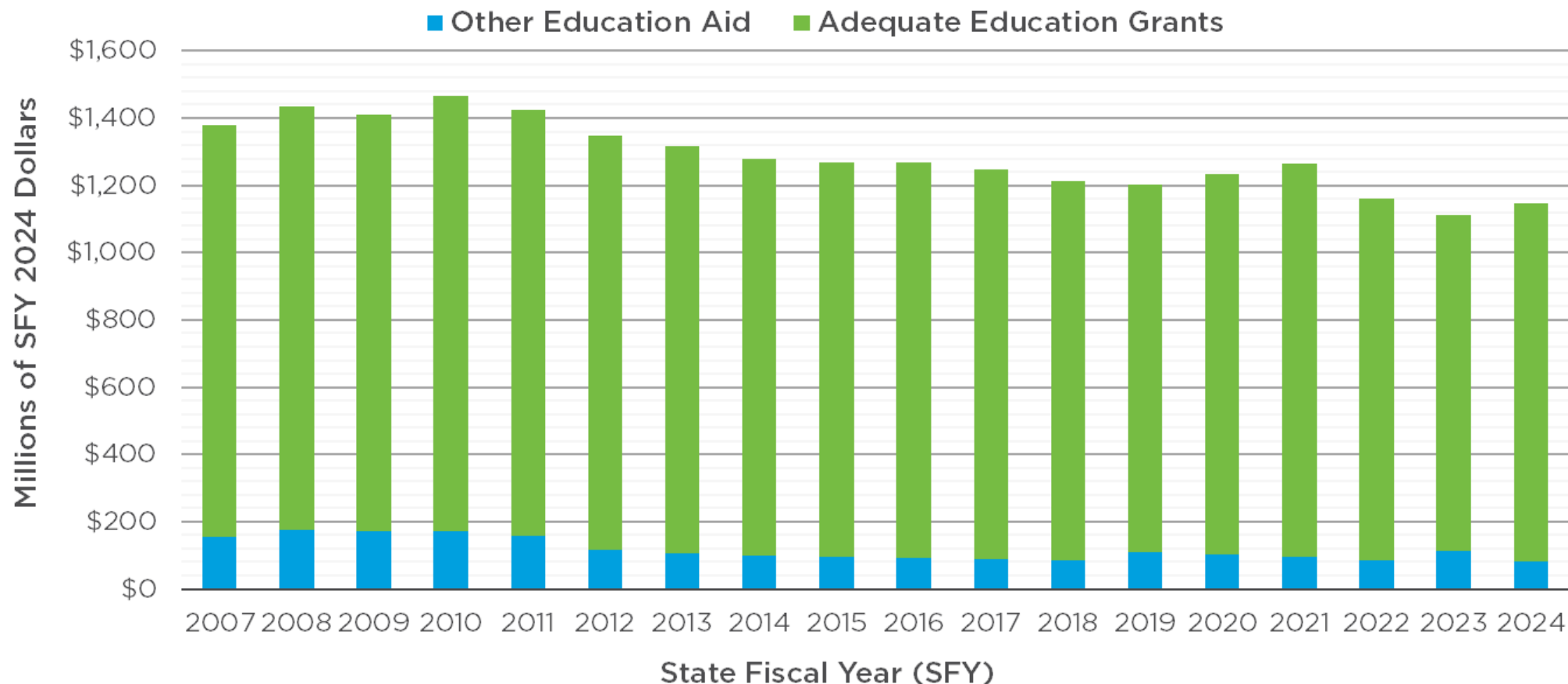
MEALS AND RENTALS TAX REVENUE SHARING WITH MUNICIPALITIES ONE PART OF AID

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



EDUCATION AID FOR LOCAL GOVERNMENTS CHANGES PRIMARILY WITH ENROLLMENT

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



Sources: New Hampshire Office of Legislative Budget Assistant, *State Aid to Cities, Towns, and School Districts*, October 1, 2024;
U.S. Bureau of Labor Statistics, Consumer Price Index-Northeast, State Fiscal Year Adjustment from NHFPI Calculations

KEY TAKEAWAYS

- The New Hampshire State Budget funds most operations for a two-year period, totaling over \$15 billion in appropriations, organized by categories and funds
- Process for building State Budget typically includes five phases, currently in Senate phase, which is second-to-last in usual process
- Federal funding supports about one-third of the State Budget
- The State's two primary business taxes have driven revenue growth during the last decade, but are currently underperforming relative to expectations
- Repeal of the Interest and Dividends Tax and key potential expenses, particularly related to YDC, have made this budget cycle more challenging
- Governor's budget would maintain most agency budgets, with relatively few significant changes in either direction and favorable revenue estimates
- House recommendations would substantially reduce services, particularly Medicaid and mental health budgets, eliminate certain agencies and operations, and enact more attached more non-financial policies

ADDITIONAL RESOURCES

- Newsletter: The latest New Hampshire economic research and fiscal analysis – delivered straight to your inbox each week: <http://nhfpi.org/subscribe/>
- Report: The Governor’s State Budget Proposal for Fiscal Years 2026 and 2027 – March 12, 2025: <https://nhfpi.org/resource/the-governors-state-budget-proposal-for-fiscal-years-2026-and-2027/>
- Report: The House of Representatives State Budget Proposal for Fiscal Years 2026 and 2027 – April 21, 2025: <https://nhfpi.org/resource/the-house-of-representatives-state-budget-proposal-for-fiscal-years-2026-and-2027/>
- Webinar: Examining the State Budget 2025 Webinar Series: <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/>
- Resource Pages: Budget <https://nhfpi.org/topic/budget/>



NEWSLETTER: www.nhfpi.org/subscribe

ADDRESS: 100 North Main Street, Suite 400, Concord, NH 03301

PHONE: 603.856.8337

WEBSITE: www.nhfpi.org

EMAIL: info@nhfpi.org

TWITTER: @NHFPI

FACEBOOK: NewHampshireFiscalPolicyInstitute

NHFPI NEWSLETTER SIGNUP





QUESTIONS AND ANSWERS