

# **BUILDING THE BUDGET**

New Hampshire's State Budget Process,  
Funding Trends, and Key Issues

Webinar  
March 20, 2017

# NHFPI Resource Publications

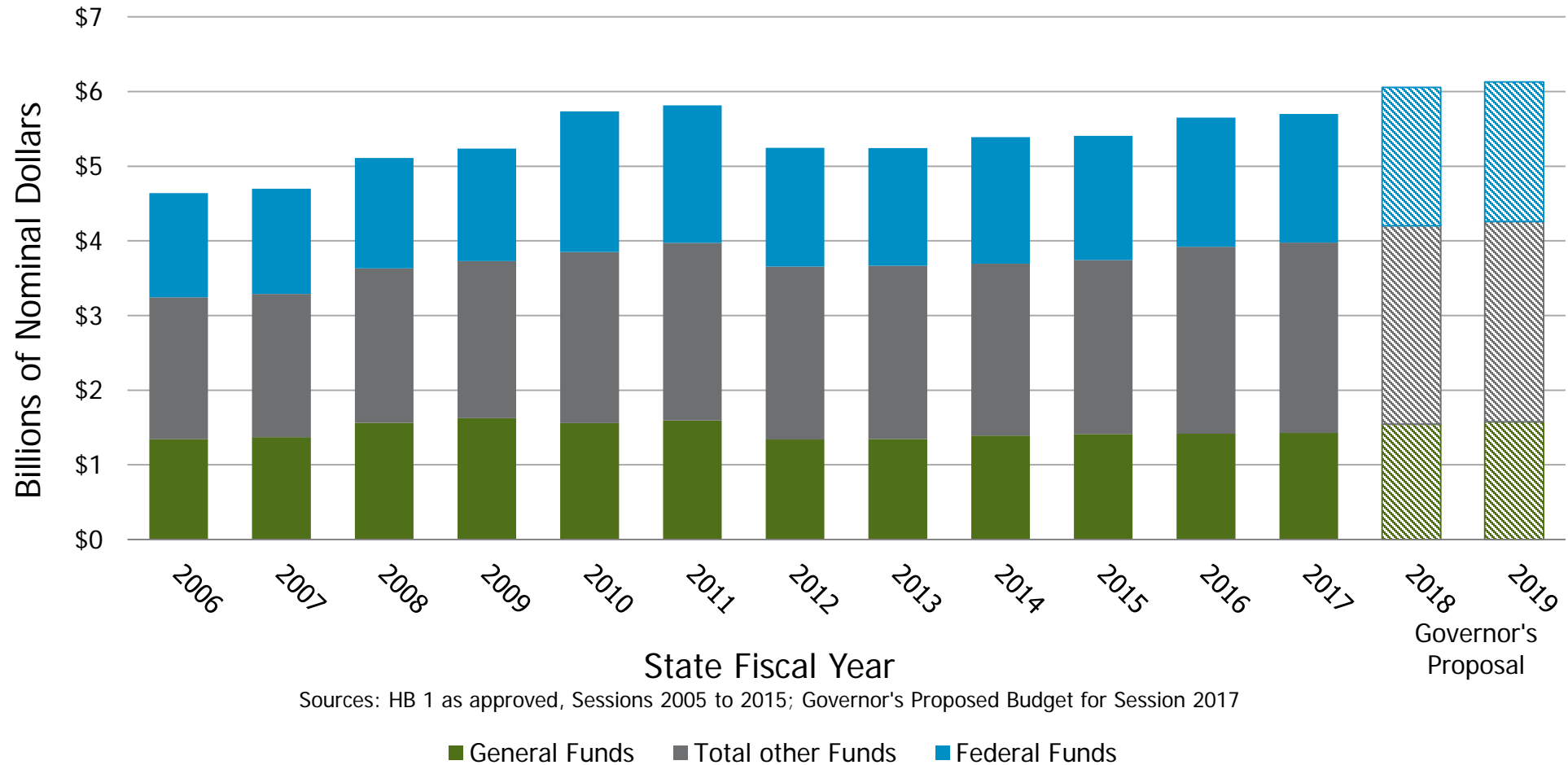
- Building the Budget: New Hampshire's State Budget Process and Recent Funding Trends (February 9, 2017)
- Issue Brief: Governor Sununu's Proposed Budget (February 28, 2017)
- Weblinks to both provided, alongside other resources, at the end of this presentation

# The Basics of the Budget

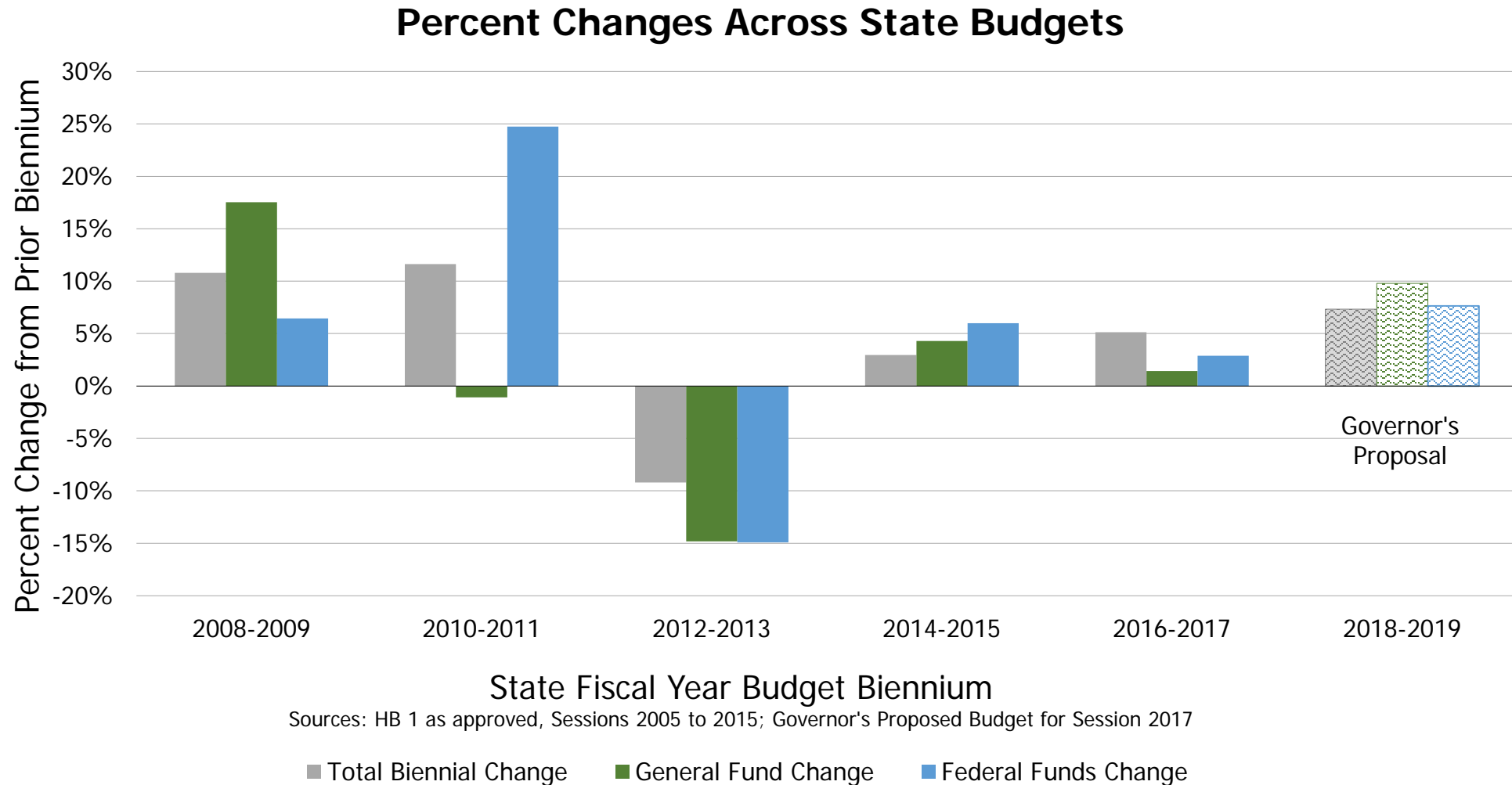
- Biennial operating budget
  - Pays for two State fiscal years of State operating expenses
  - State fiscal year 2017: July 1, 2016 to June 30, 2017
  - Includes most State spending
- Comprised of two separate pieces of legislation
  - House Bill 1 or “HB 1”: the line-item appropriations, amount of money in each component of state programs
  - House Bill 2 or “HB 2”: the companion or “trailer” bill with policy changes
- Constructed in five phases
- Current operating budget \$11.4 billion for two years

# Overall Budget: Annual Changes Over Time

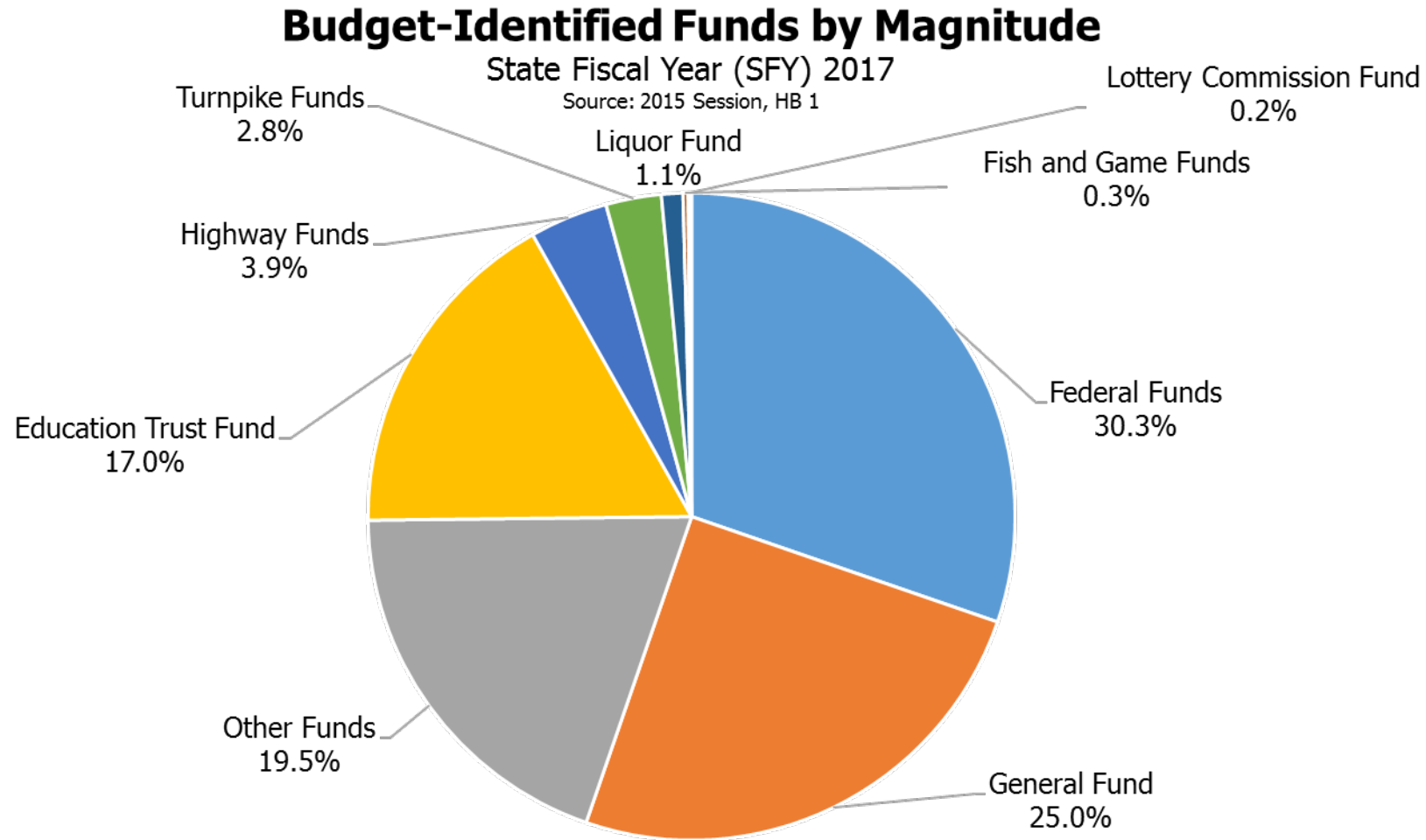
## State Budget Appropriations



# Overall Budget: Changes Across Biennia



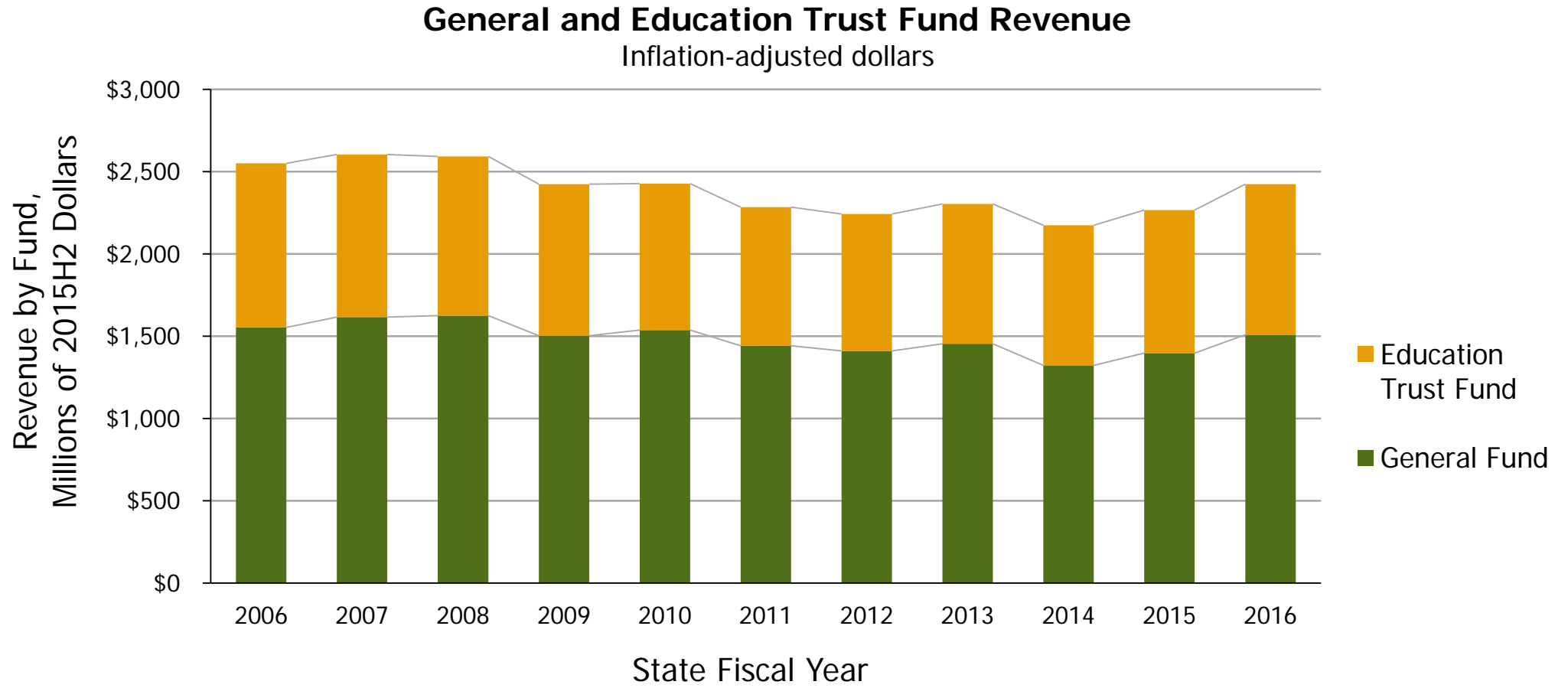
# Looking Inside the Budget: The Funds



# Looking Inside the Budget: Federal Funds Examples

- Medicaid
- Federal transportation aid
- Education aid
  - Special education
  - School lunch program
  - Professional development
- Temporary Assistance for Needy Families
- Supplemental Nutrition Assistance Program
- Veterans care aid
- Women, Infants, and Children supplemental nutrition
- Water pollution and infrastructure funds
- Many other programs and grants

# Looking Inside the Budget: General and Education Trust Funds



Sources: New Hampshire Comprehensive Annual Financial Reports, SFYs 2016, 2015, 2014;  
U.S. Bureau of Labor Statistics Consumer Price Index



# QUESTIONS?

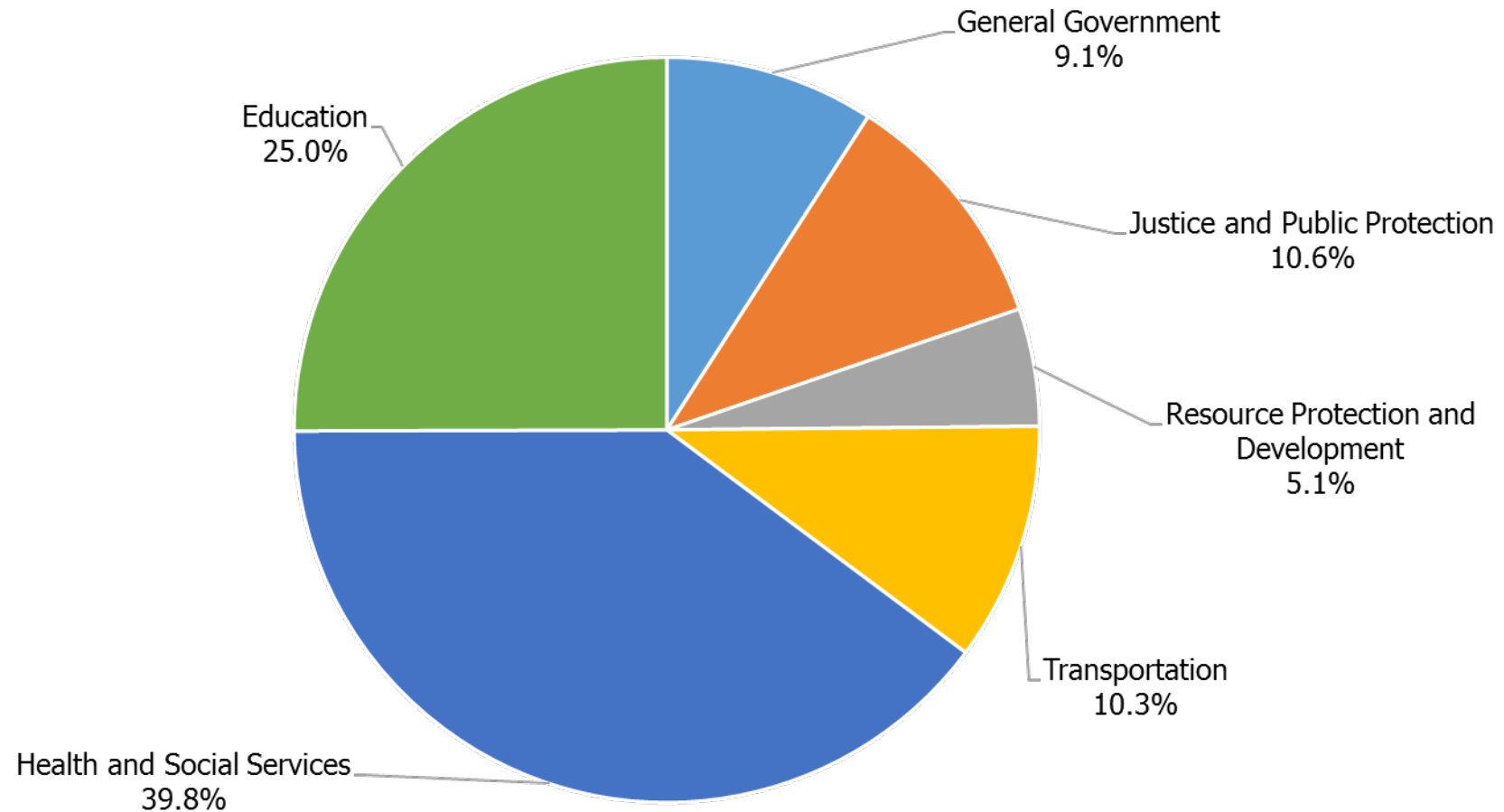
Please submit questions through the Q&A feature

# Looking Inside the Budget: The Categories

## Appropriations by Category

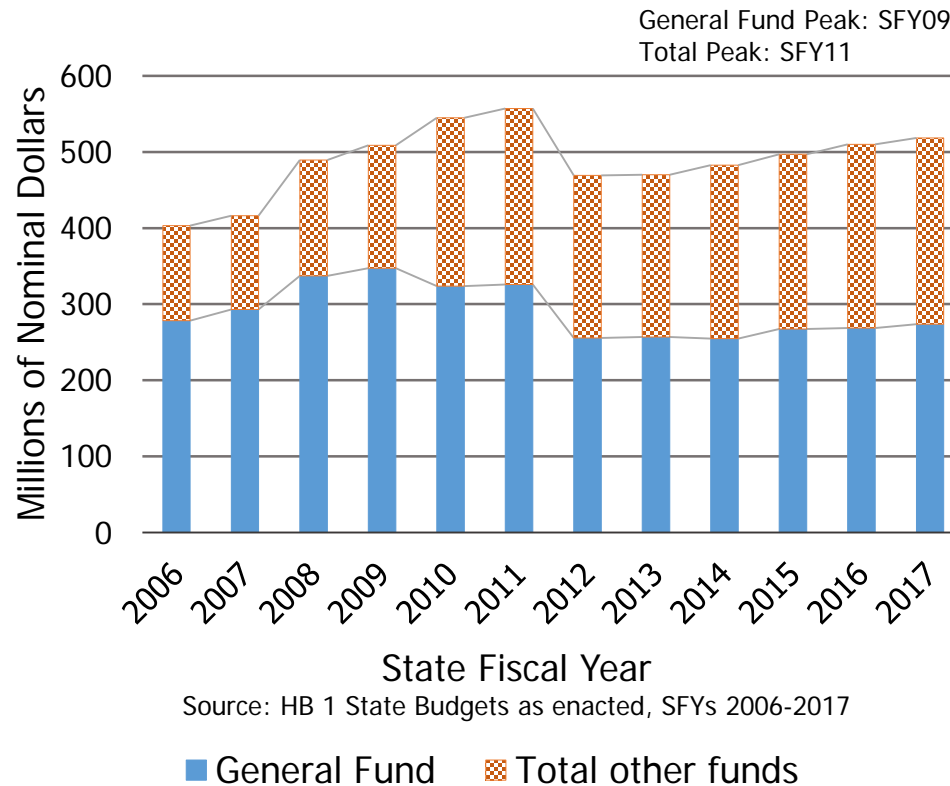
SFY 2017

Source: 2015 Session, HB 1

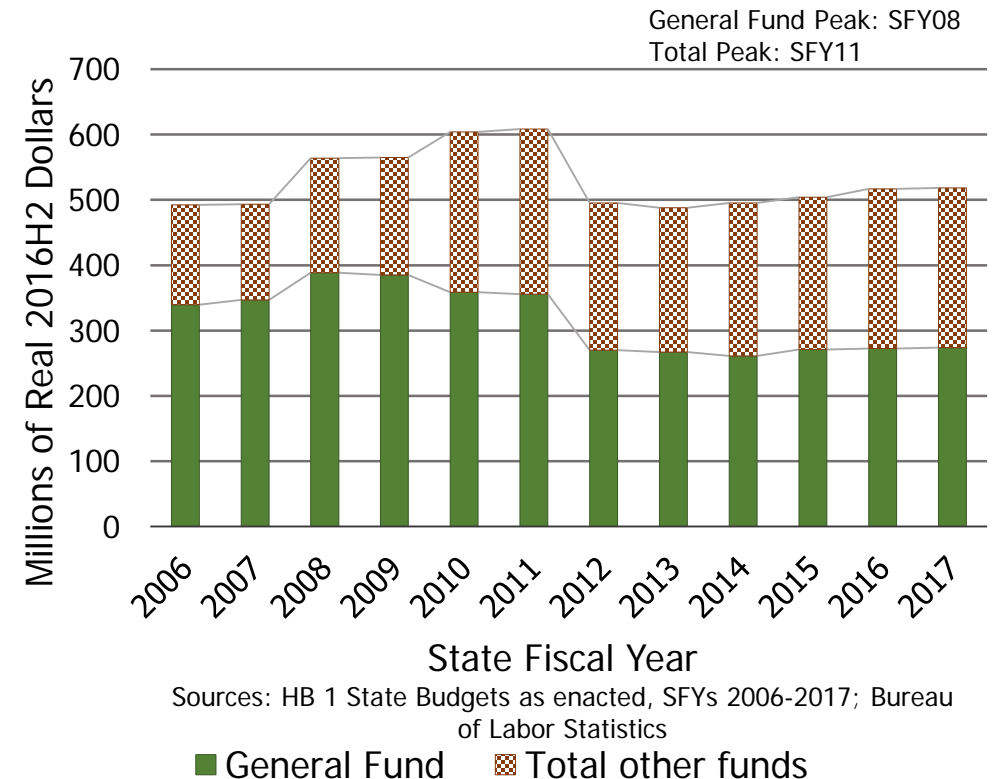


# Looking Inside the Budget: The Categories Over Time

**General Government**  
Nominal Funds



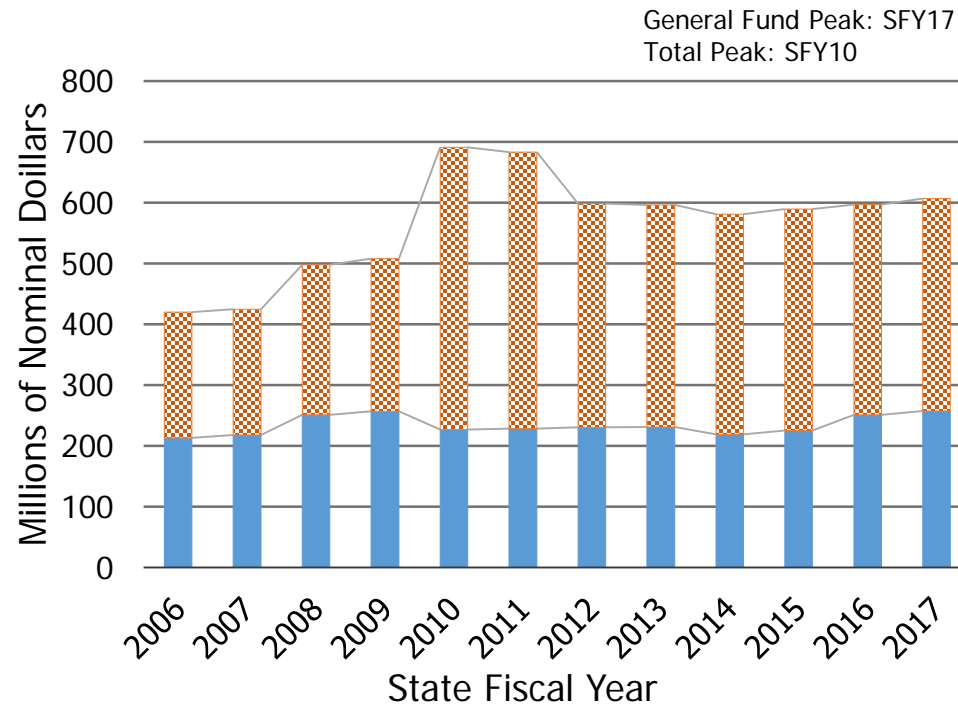
**General Government**  
Real Funds



# Looking Inside the Budget: The Categories Over Time

## Justice and Public Protection

Nominal Funds

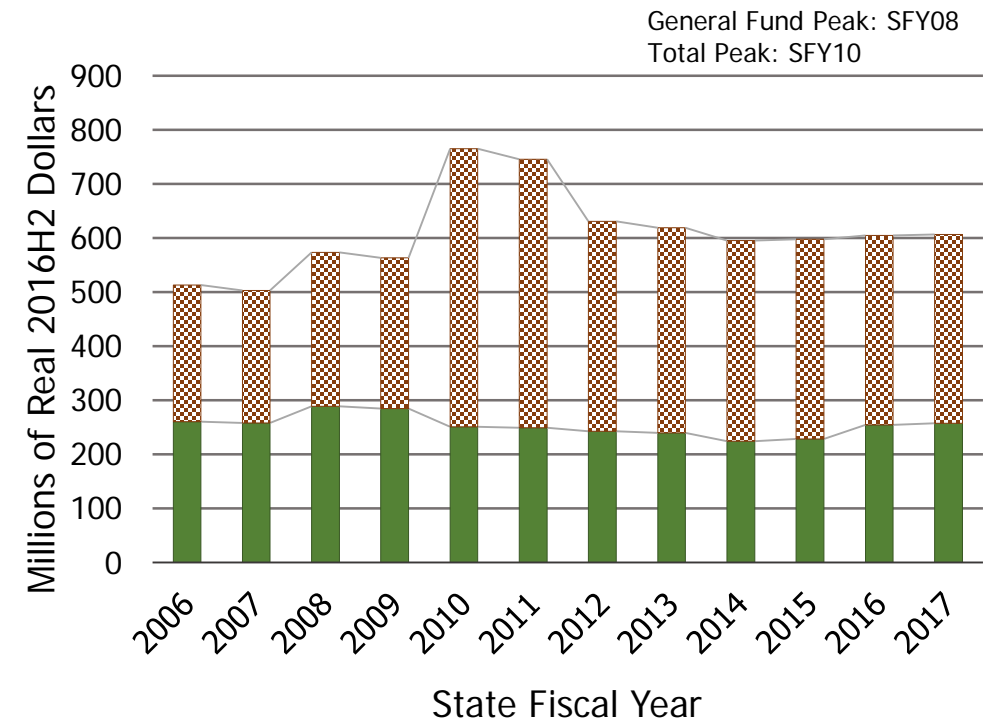


Source: HB 1 State Budgets as enacted, SFYs 2006-2017

■ General Fund ■ Total other funds

## Justice and Public Protection

Real Funds



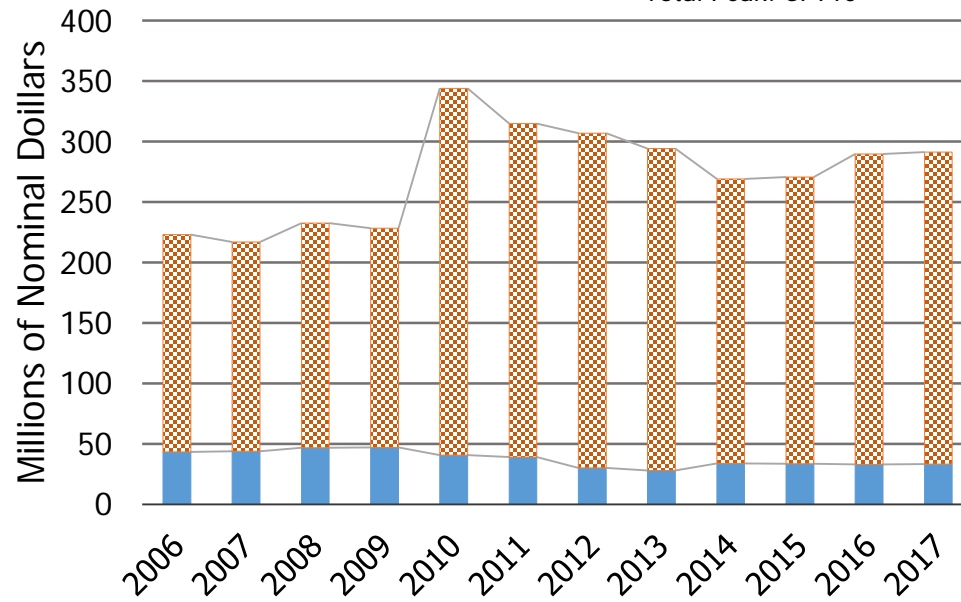
Sources: HB 1 State Budgets as enacted, SFYs 2006-2017; Bureau of Labor Statistics

■ General Fund ■ Total other funds

# Looking Inside the Budget: The Categories Over Time

## Resource Protection and Development

Nominal Funds      General Fund Peak: SFY09  
Total Peak: SFY10



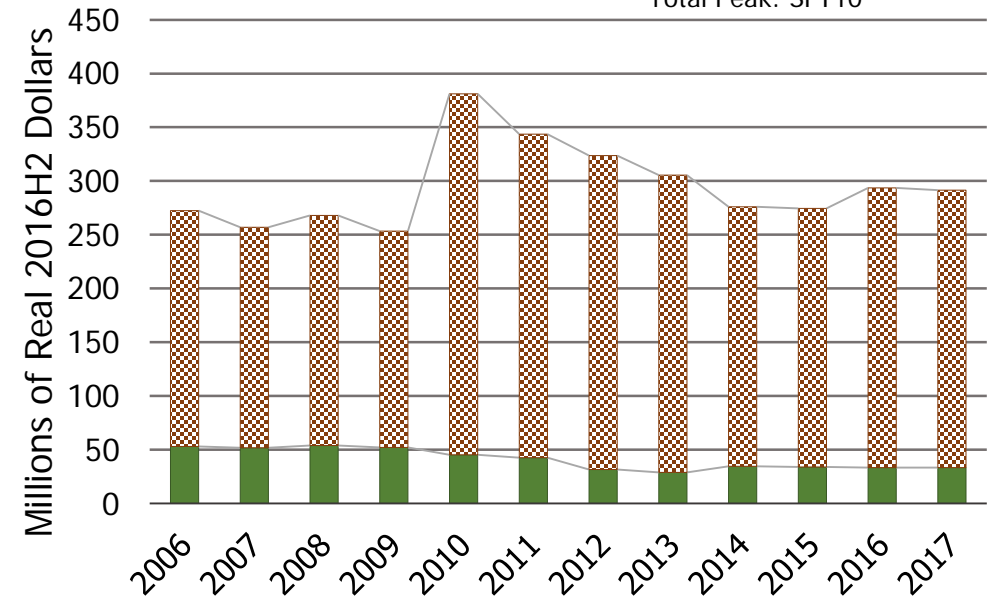
State Fiscal Year

Source: HB 1 State Budgets as enacted, SFYs 2006-2017

■ General Fund    ■ Total other funds

## Resource Protection and Development

Real Funds      General Fund Peak: SFY08  
Total Peak: SFY10



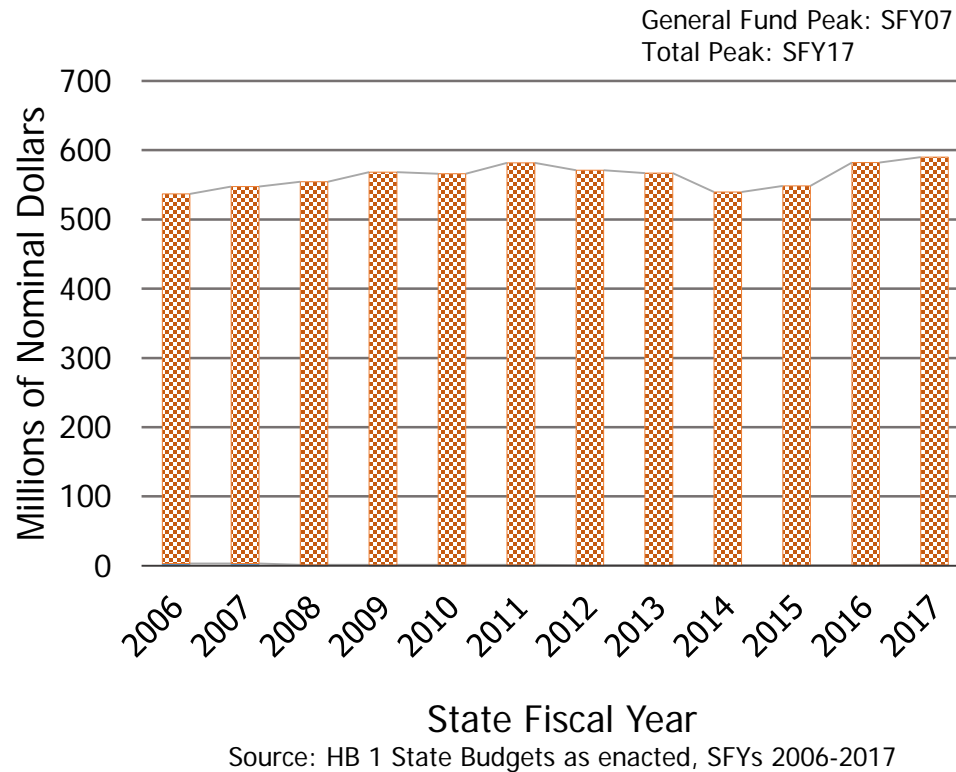
State Fiscal Year

Sources: HB 1 State Budgets as enacted, SFYs 2006-2017; Bureau of Labor Statistics

■ General Fund    ■ Total other funds

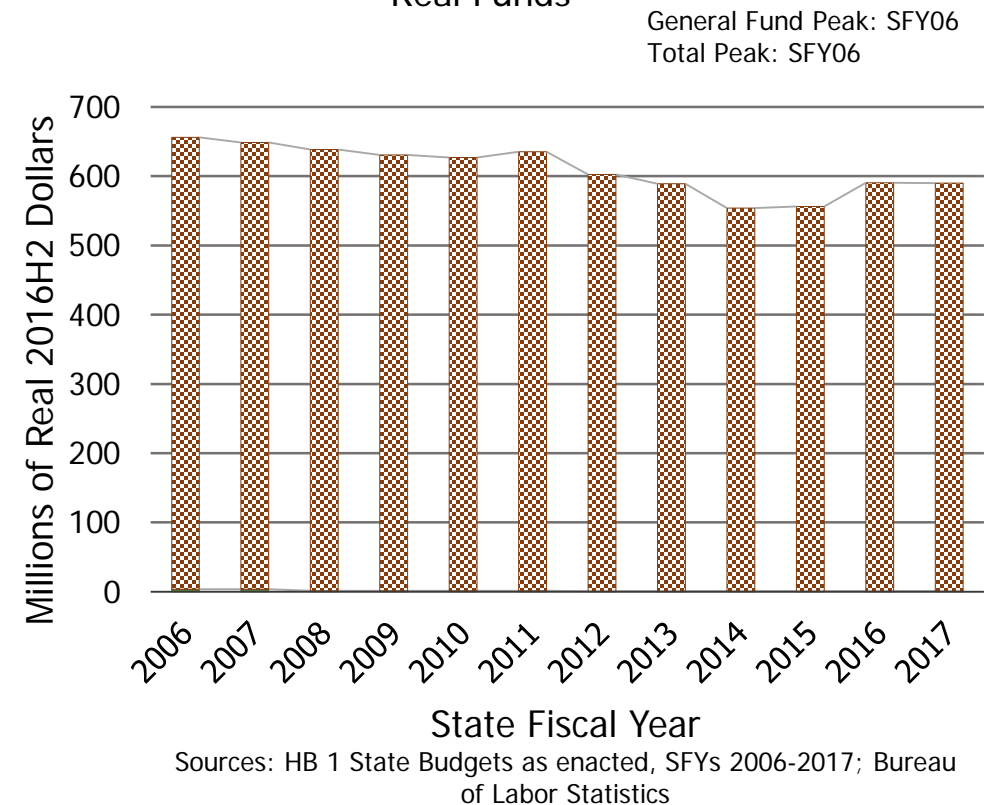
# Looking Inside the Budget: The Categories Over Time

**Transportation**  
Nominal Funds



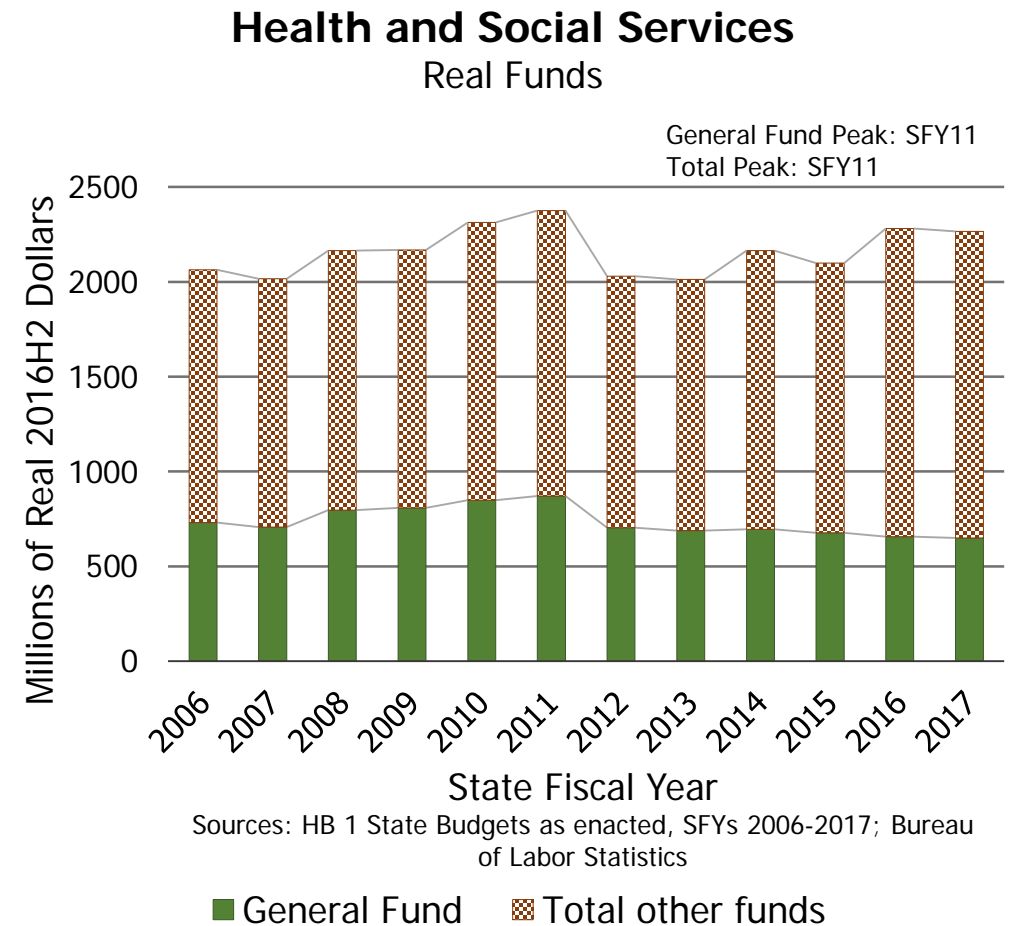
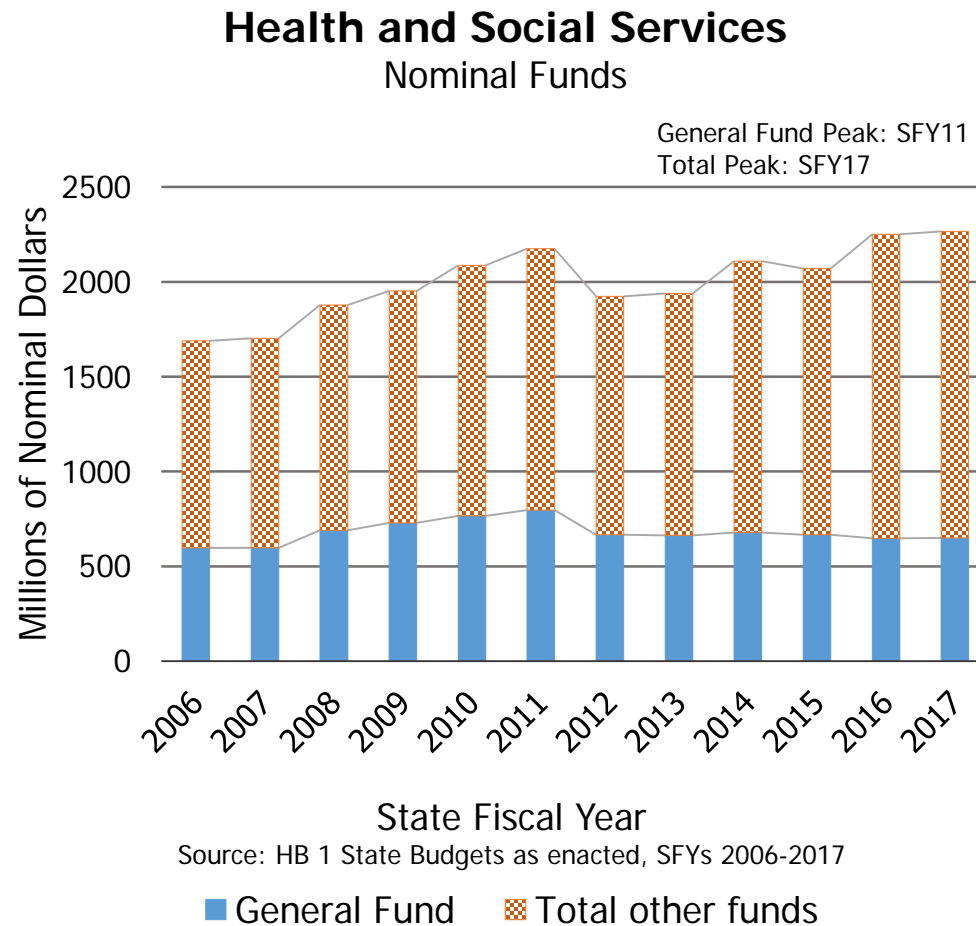
■ General Fund ■ Total other funds

**Transportation**  
Real Funds

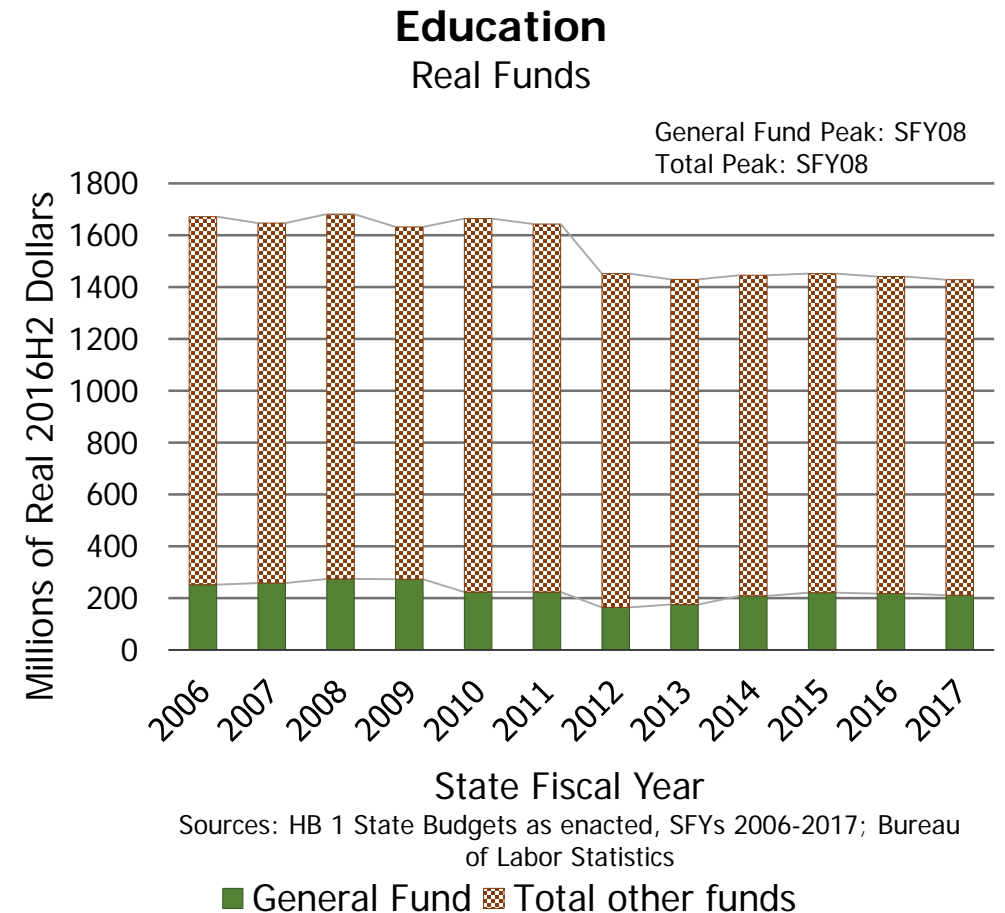
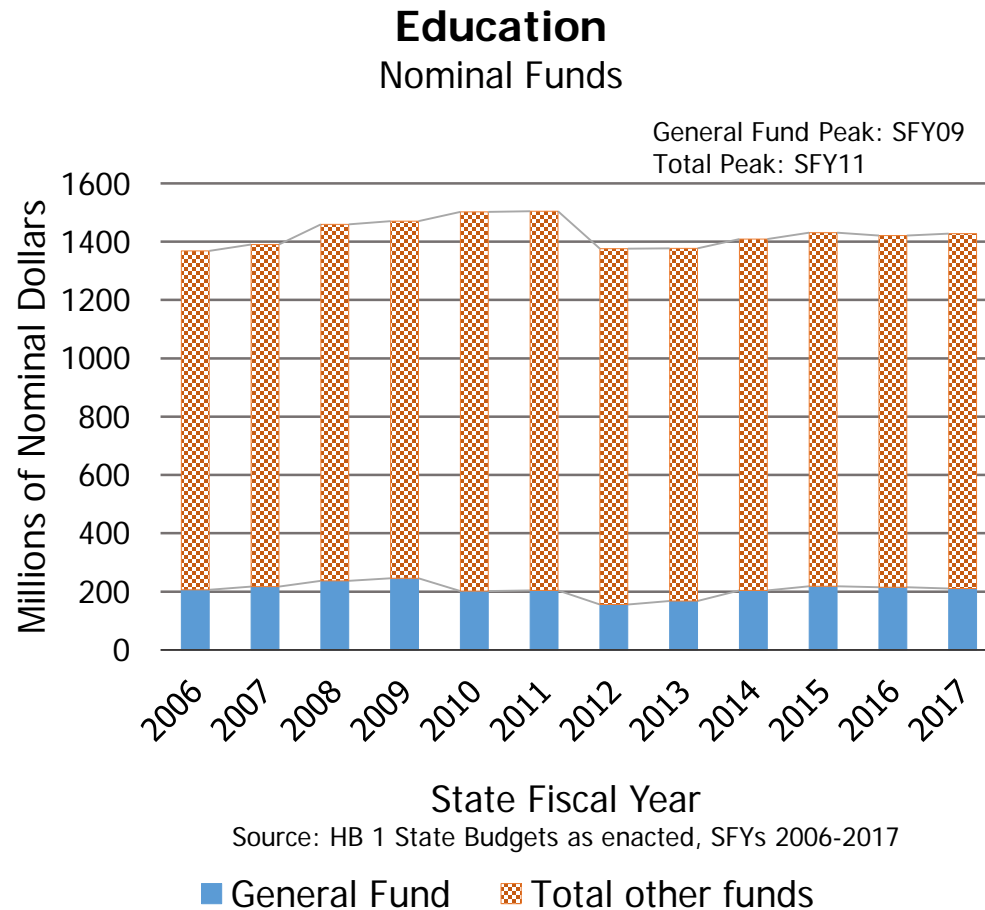


■ General Fund ■ Total other funds

# Looking Inside the Budget: The Categories Over Time



# Looking Inside the Budget: The Categories Over Time

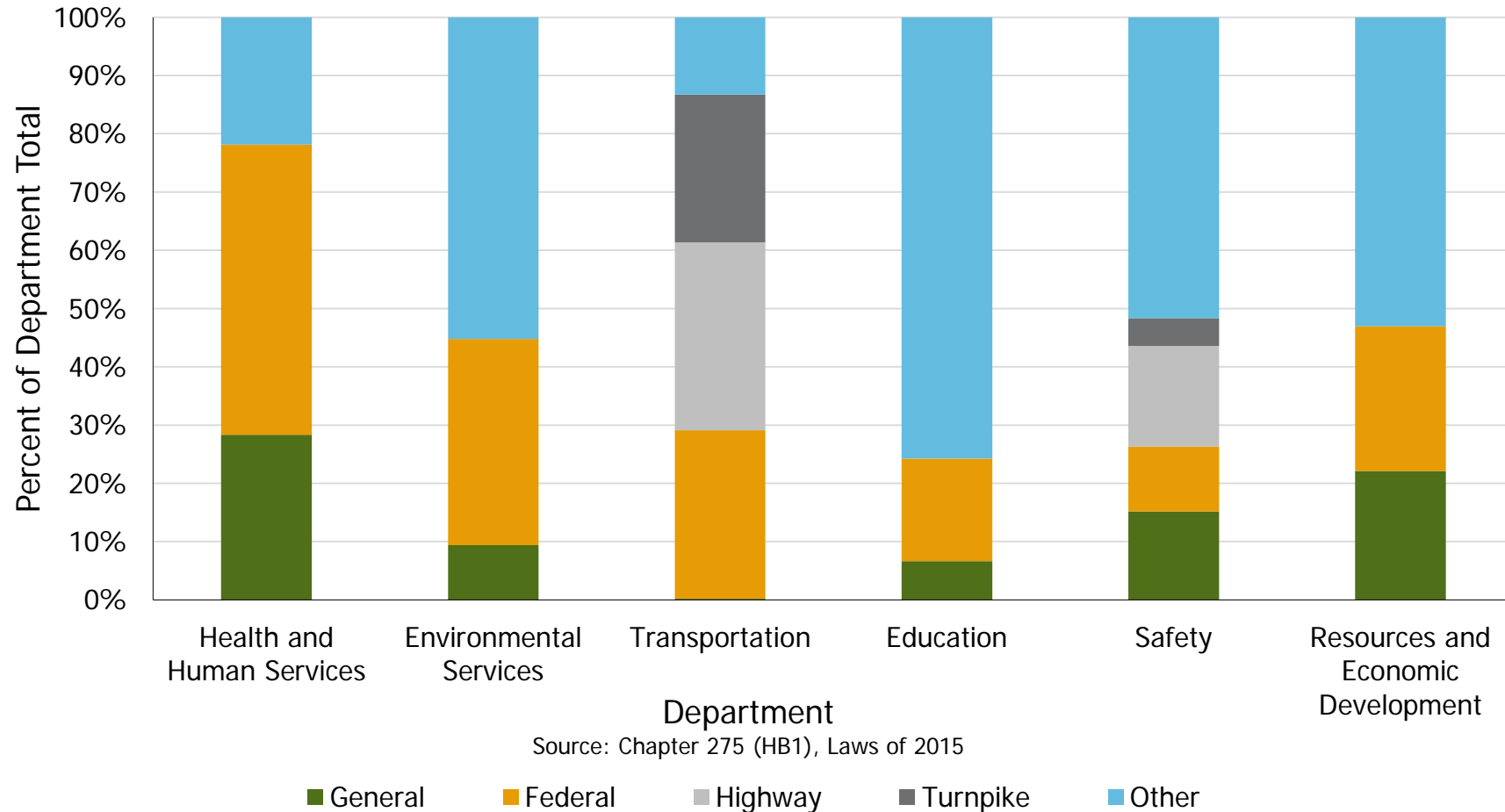




# QUESTIONS?

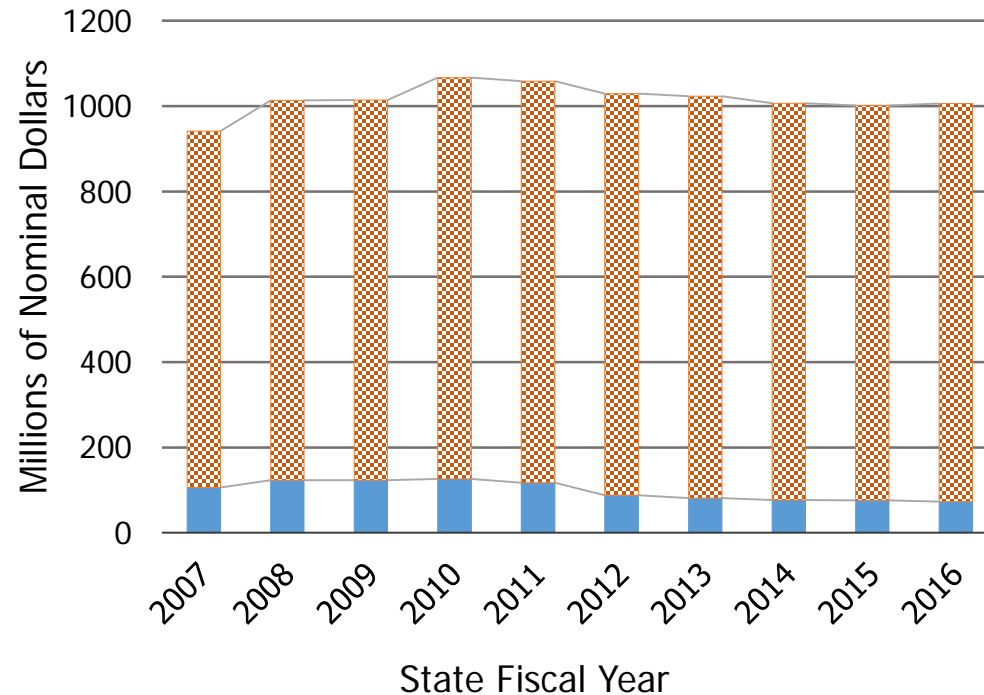
# Agency Funding Streams: Examples

Funding Streams for Selected Departments  
SFY 2017



# Aid to Local Governments: Education

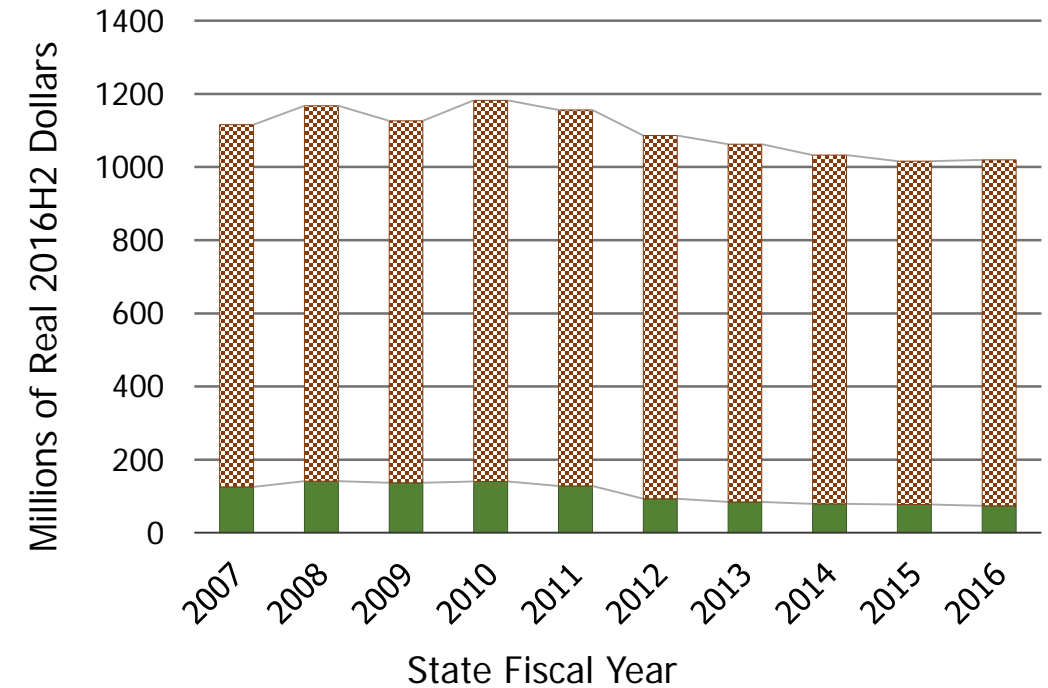
**Education Aid to Local Governments**  
Nominal Dollars



Source: LBA Budget Orientation, January 2017

■ Other Education Aid ■ Adequate Education Grants

**Education Aid to Local Governments**  
Real Dollars



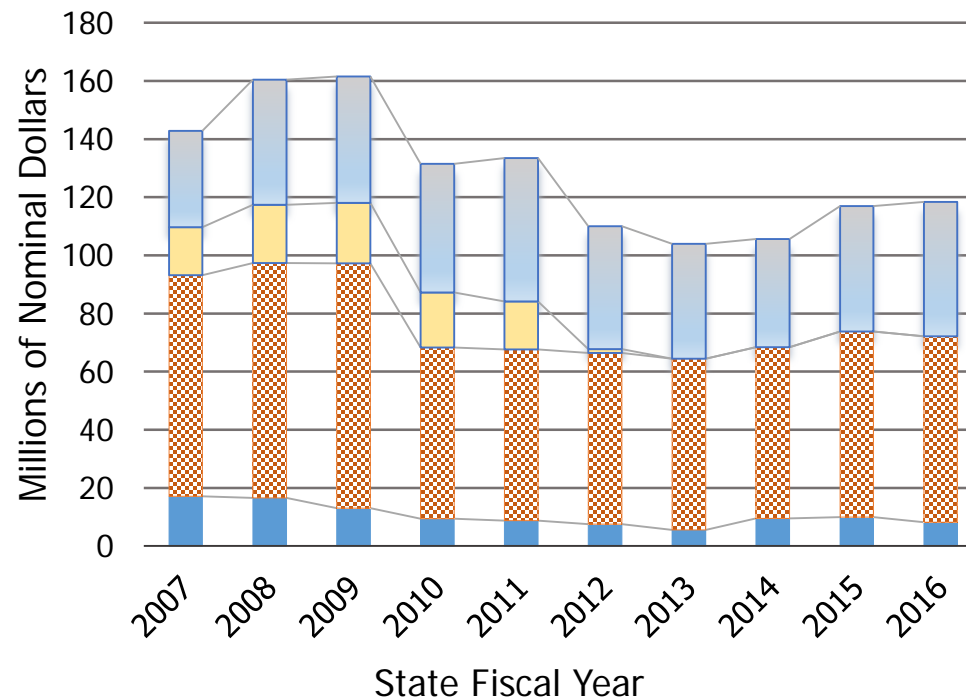
Source: LBA Budget Orientation, January 2017

■ Other Education Aid ■ Adequate Education Grants

# Aid to Local Governments: Non-Education

**Non-Education Aid  
to Local Governments**

Nominal Dollars

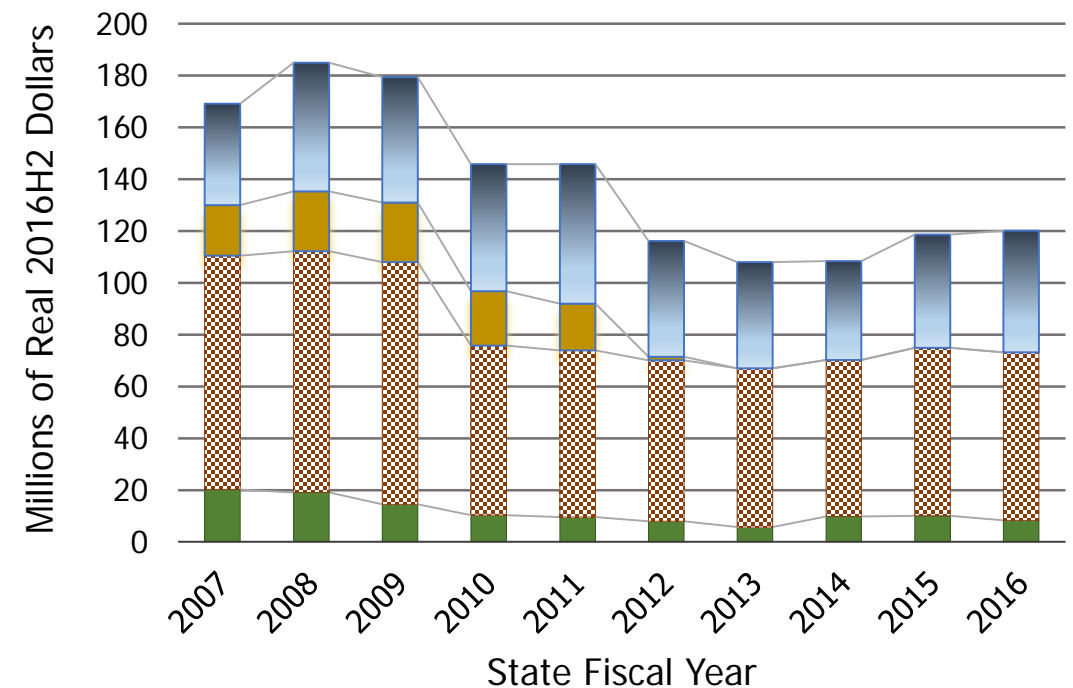


Source: LBA Budget Orientation, January 2017

- Highway
- Retirement Normal Contribution, Police And Fire
- Tax Revenue Sharing
- Environmental

**Non-Education Aid  
to Local Governments**

Real Dollars



Source: LBA Budget Orientation, January 2017

- Highway
- Retirement Normal Contribution, Police And Fire
- Tax Revenue Sharing
- Environmental

# Looking Outside the Budget

- The Capital Budget
- The Ten Year Transportation Improvement Plan
- New Hampshire Health Protection Program
  - Nearly \$406 million in federal dollars for SFY 2016
  - Funded by federal transfers (95 percent in calendar year 2017, reducing over time) and contributions from hospitals
- Joint Legislative Fiscal Committee
  - Approves revenues from outside transfers, such as payment from lawsuits
  - Considers spending decisions during budget duration, such as new federal programs
  - Approves additional revenue, usually about \$200 million per biennium
  - This biennium through November 2016, more than \$500 million approved
  - About \$5.6 million through January 2017 was new General Fund spending

# The Budget's Companion: House Bill 2

- Simply another bill, usually an omnibus bill
- Exists due to the New Hampshire Constitution, Part Second, Article 18-a:
  - “All sections of all budget bills before the general court shall contain only the operating and capital expenses for the executive, legislative and judicial branches of government...”
- Typically includes changes needed to execute new budget lines
- May include:
  - Changes to statute, such as new or altered programs
  - Extensions of program suspensions
  - Provisions temporary by design
  - Additional appropriations or reductions
- Not to be confused with the “back” of House Bill 1, which may include changes to agency funding levels not reflected in line items
- “Back of the budget” changes in appropriations may happen in the back of House Bill 1, House Bill 2, or be assumed lapses in the surplus statement

# QUESTIONS?

# Revenue: Where Does the Money Come From?

- Federal programs, grants, and aid
- Agency income: fees for services, reserve accounts
- State taxes
  - Most commonly considered State taxes fund the General Fund and the Education Trust Fund
  - State taxes are least restricted source of revenue
  - No federal requirements or dedicated funds unless the Legislature opts to create dedicated funds
- Revenue Stabilization Reserve Account, “Rainy Day Fund” within the General Fund

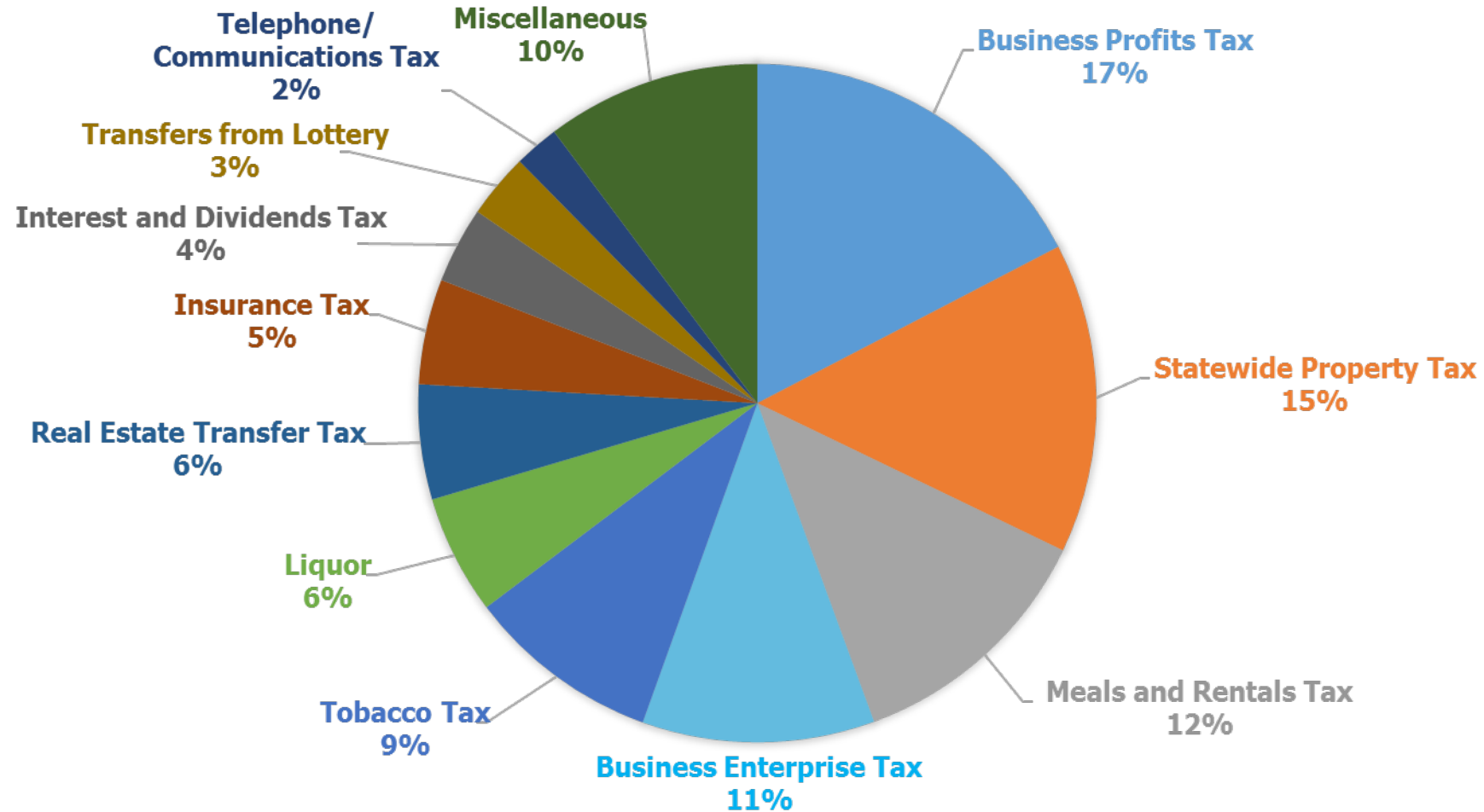


# Revenue: Where Does the Money Come From?

## State Collections: General and Education Trust Funds

SFY 2016 State Revenue Collected

Source: Comprehensive Annual Financial Report, SFY 2016



# Revenue: Key Sources and Destinations

	Principal Taxes	SFY 2016 (Millions)	Rate	Percent of SFY 2016 State Budget
General Fund	Business Profits Tax <sup>1</sup>	\$353	6.70%	6.2%
	Meals And Rentals Tax <sup>2</sup>	\$293	9.00%	5.1%
	Tobacco Tax	\$132	\$1.00/pack	2.3%
	Insurance Tax <sup>3</sup>	\$123	1.25%	2.2%
	Business Enterprise Tax <sup>1</sup>	\$91	0.22%	1.6%
	Real Estate Transfer Tax	\$90	\$0.50/\$100	1.6%
	Interest And Dividends Tax	\$89	5.00%	1.6%
Education Trust Fund	Statewide Property Tax	\$363	Varies – Fixed Target	6.4%
	Business Enterprise Tax	\$181	0.50%	3.2%
	Tobacco Tax	\$95	\$0.78/pack	1.7%
	Business Profits Tax	\$74	1.50%	1.3%
	Real Estate Transfer Tax	\$45	\$0.25/\$100	0.8%
	Meals And Rentals Tax <sup>2</sup>	\$9	9.00%	0.2%
Highway Fund	Road Toll (gasoline tax) <sup>4</sup>	\$183	\$0.222/gal.	3.4%
	Motor Vehicle Fees	\$108	Varies – By Vehicle Type	2.2%

<sup>1</sup> The General Fund rates for both the Business Profits Tax and the Business Enterprise Tax were reduced to 6.70 percent and 0.22 percent, respectively, for calendar year 2017.

<sup>2</sup> Tax receipts from vehicle rentals go to the Education Trust Fund while receipts from meals and rooms transactions go to the General Fund. Both are taxed at the same rate.

<sup>3</sup> The Insurance Tax rate for certain types of insurance, including health and life insurance, is 2.00 percent.

<sup>4</sup> Highway Fund revenues shown include both restricted and unrestricted revenues.

Sources: Comprehensive Annual Financial Report, SFY 2016; relevant RSAs; Department of Safety

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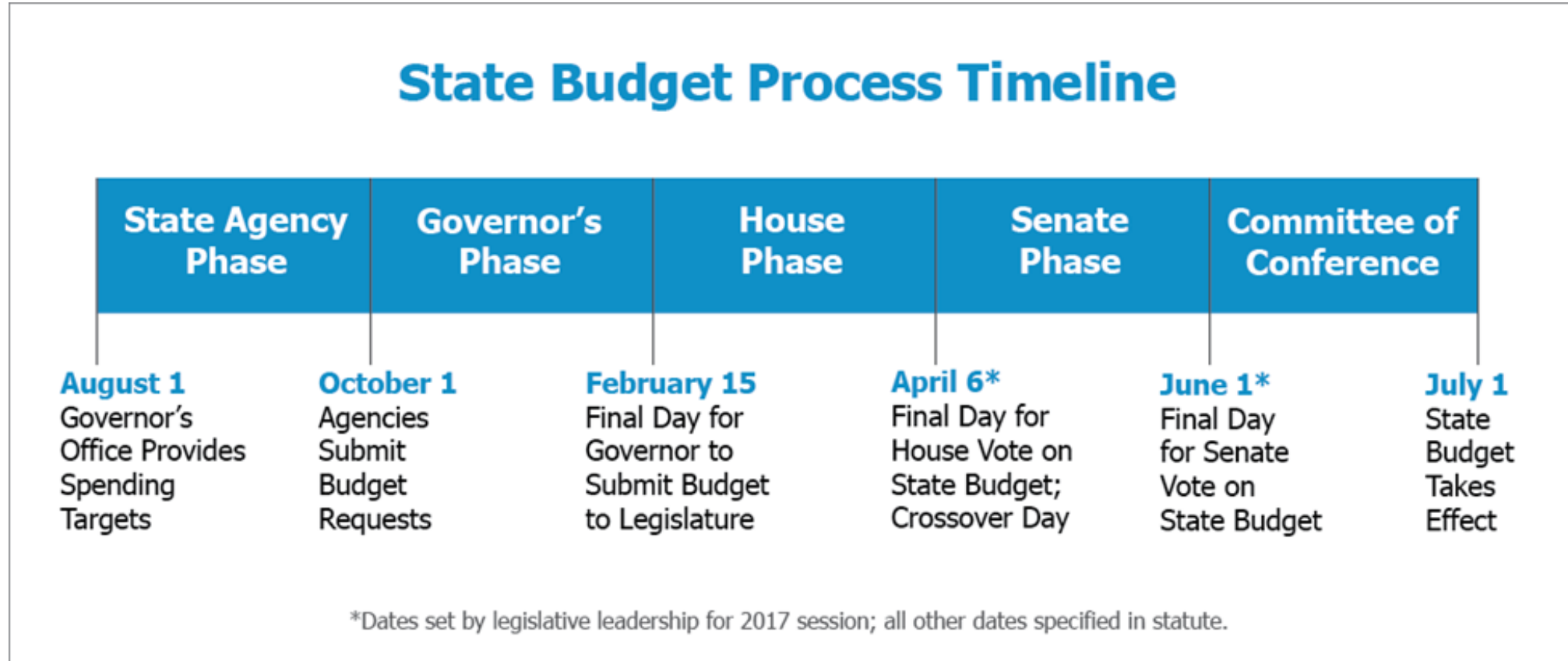
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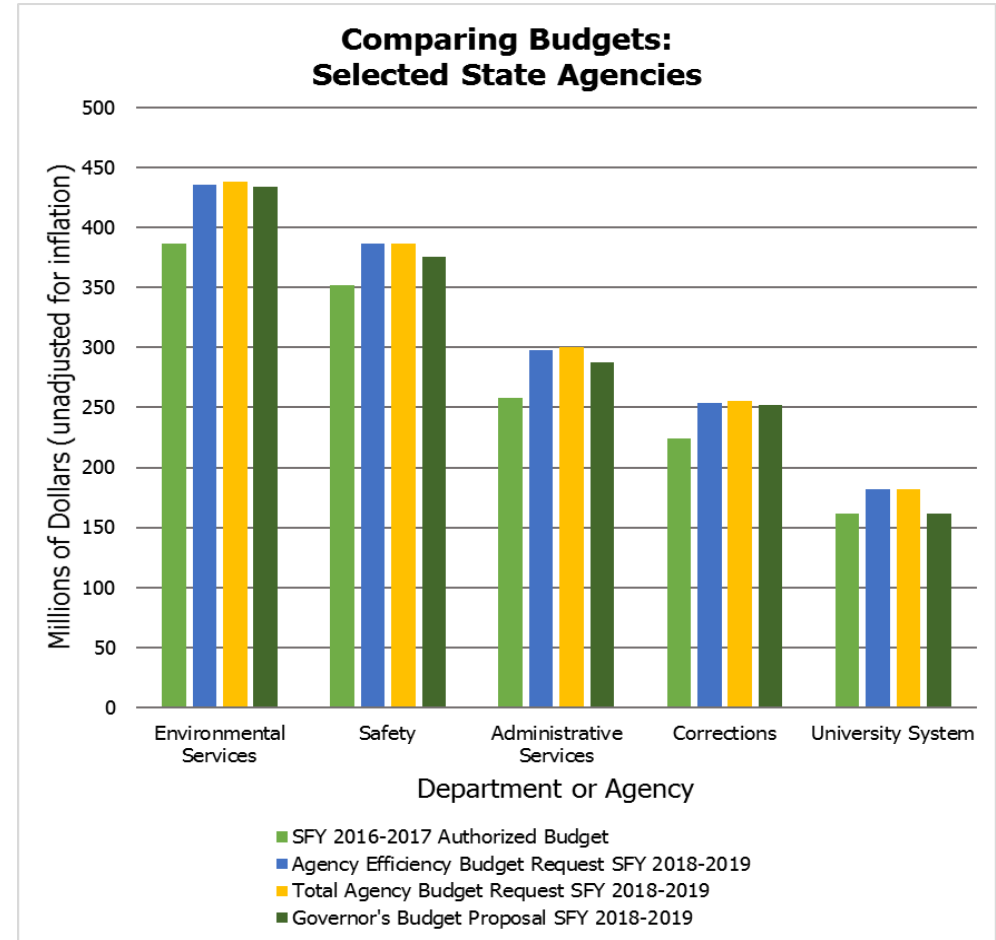
# The Process: Mechanics of Building the Budget



# The Process:

## Agency Budget Process Changes

- First budget cycle with new “Efficiency budget” process
- Prior budget requests were “Maintenance” and “Change”
- Governor would often ask for an additional version of the budget with reductions or level changes
- Efficiency budget designed to have agency requests match expected revenue
- Agency receives targets, efficiency budget matches target, anything else “Additional Prioritized Needs”



# The Process: The House and Senate

- House Finance Committee breaks into three Divisions, each handling a large, dedicated section of the budget
- Divisions vote on sections, bring budget together for full Finance vote (March 30)
- Goes to full House, can be amended there (April 6)
- Senate Finance then crafts its version, goes on to full Senate (June 1)
- Committee of Conference used to iron out disagreements (June 22)

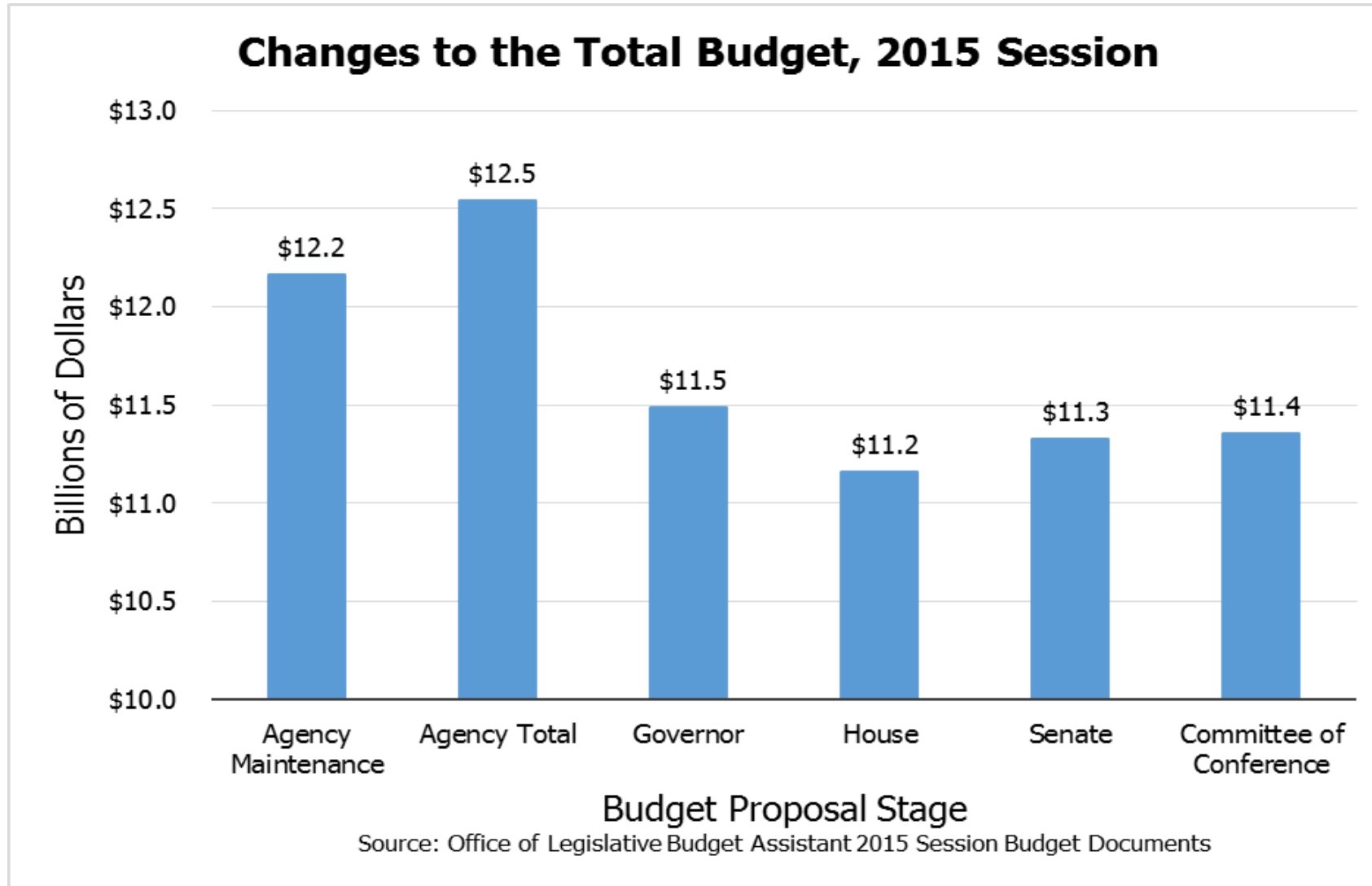
House Finance Divisions	
Division I	<ul style="list-style-type: none"><li>• General Government</li><li>• Justice and Public Protection</li><li>• Resource Protection and Development</li><li>• Does not include the Departments of Safety or Fish and Game</li></ul>
Division II	<ul style="list-style-type: none"><li>• Transportation</li><li>• Education</li><li>• Includes the Departments of Safety and Fish and Game</li></ul>
Division III	<ul style="list-style-type: none"><li>• Health and Social Services</li></ul>



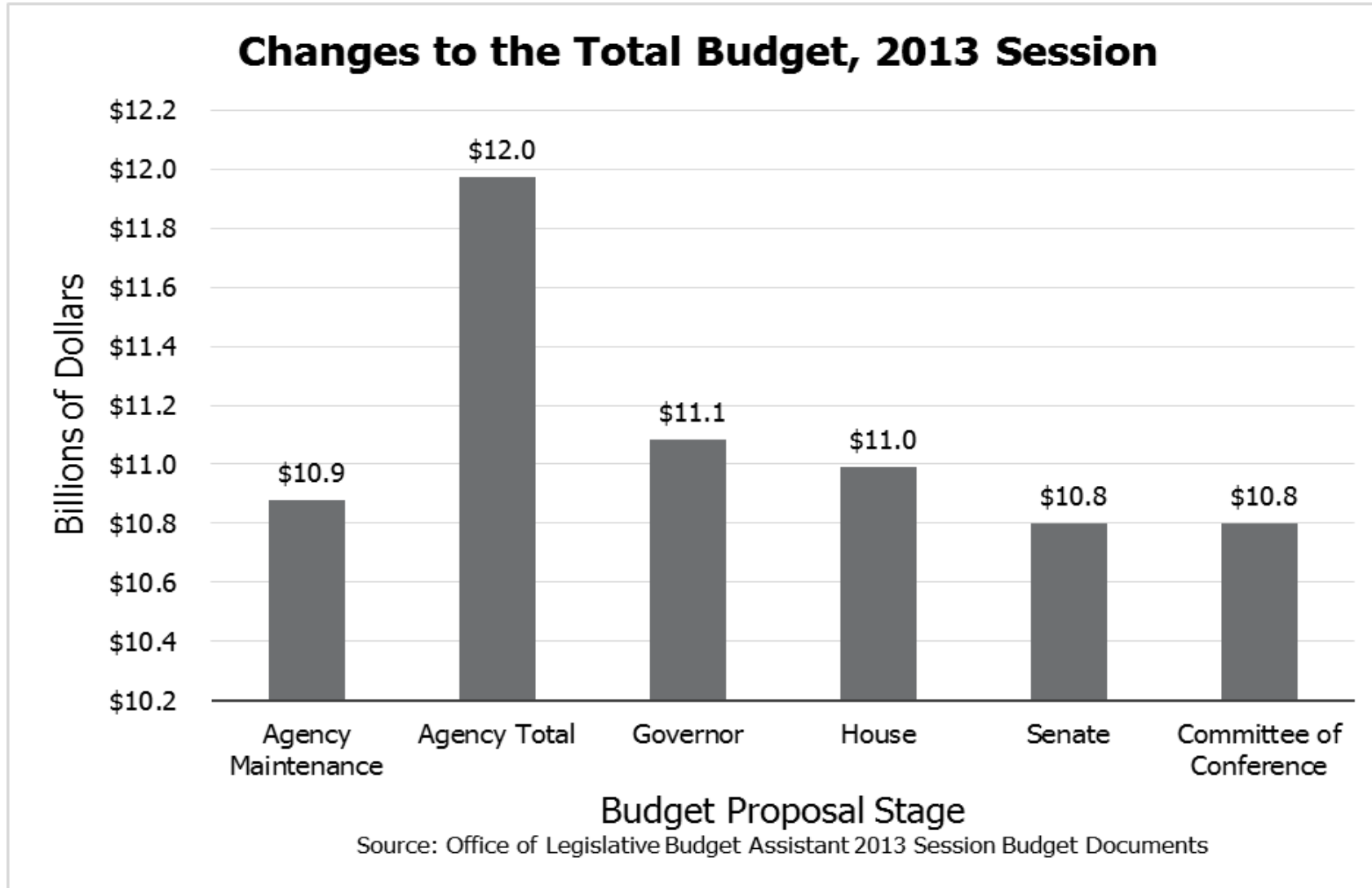
# Projecting Revenue: Five Different Sets of Projections

- Governor's Supplied Estimates to Agencies (August 1)
- Governor's Budget Proposal (February 15)
- House Ways and Means Projections for House Budget (March)
- Senate Ways and Means Projections for Senate Budget (May)
- Committee of Conference for Final Legislative Budget (June)

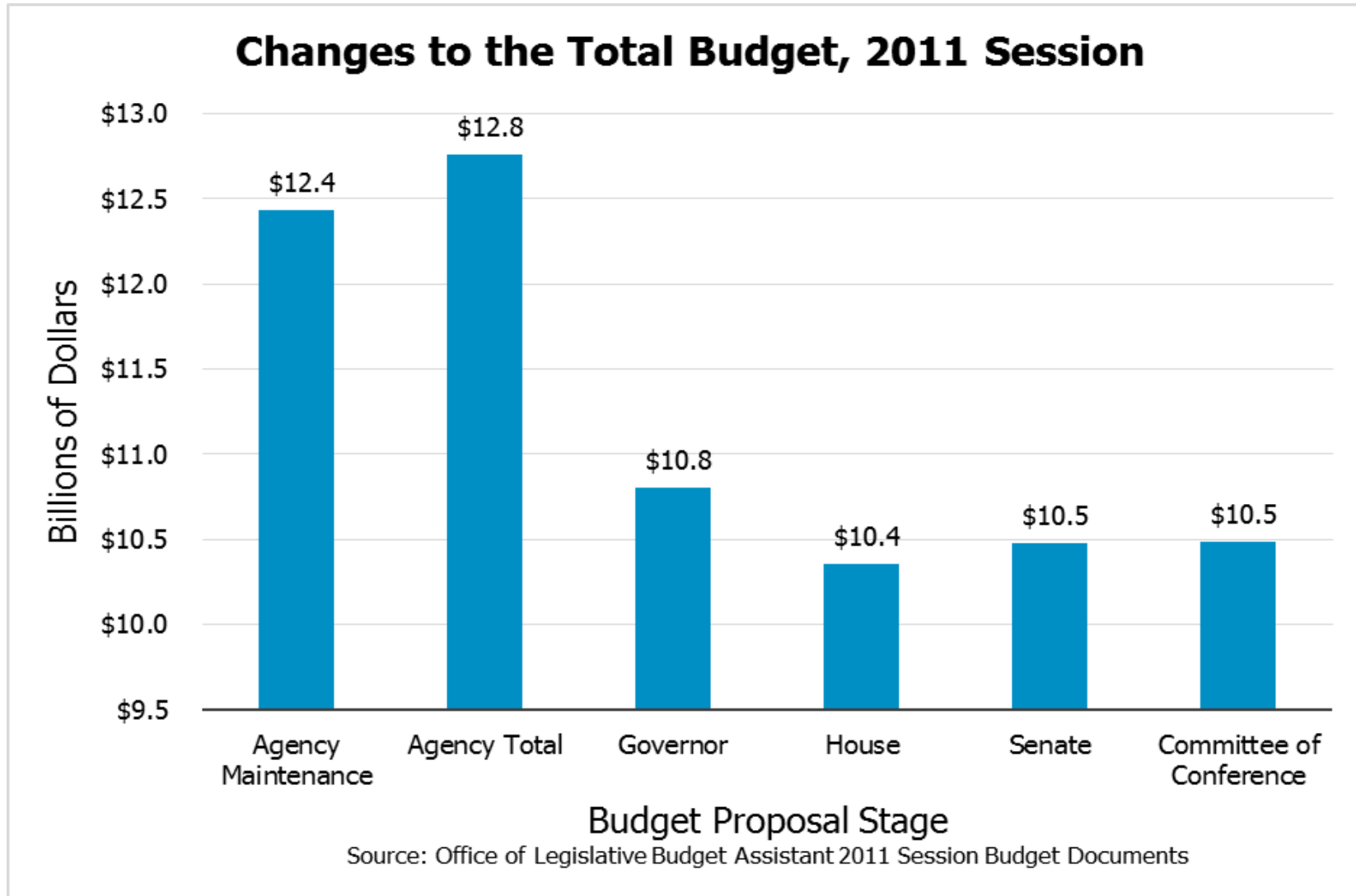
# Projecting Revenue and Budgeting Patterns



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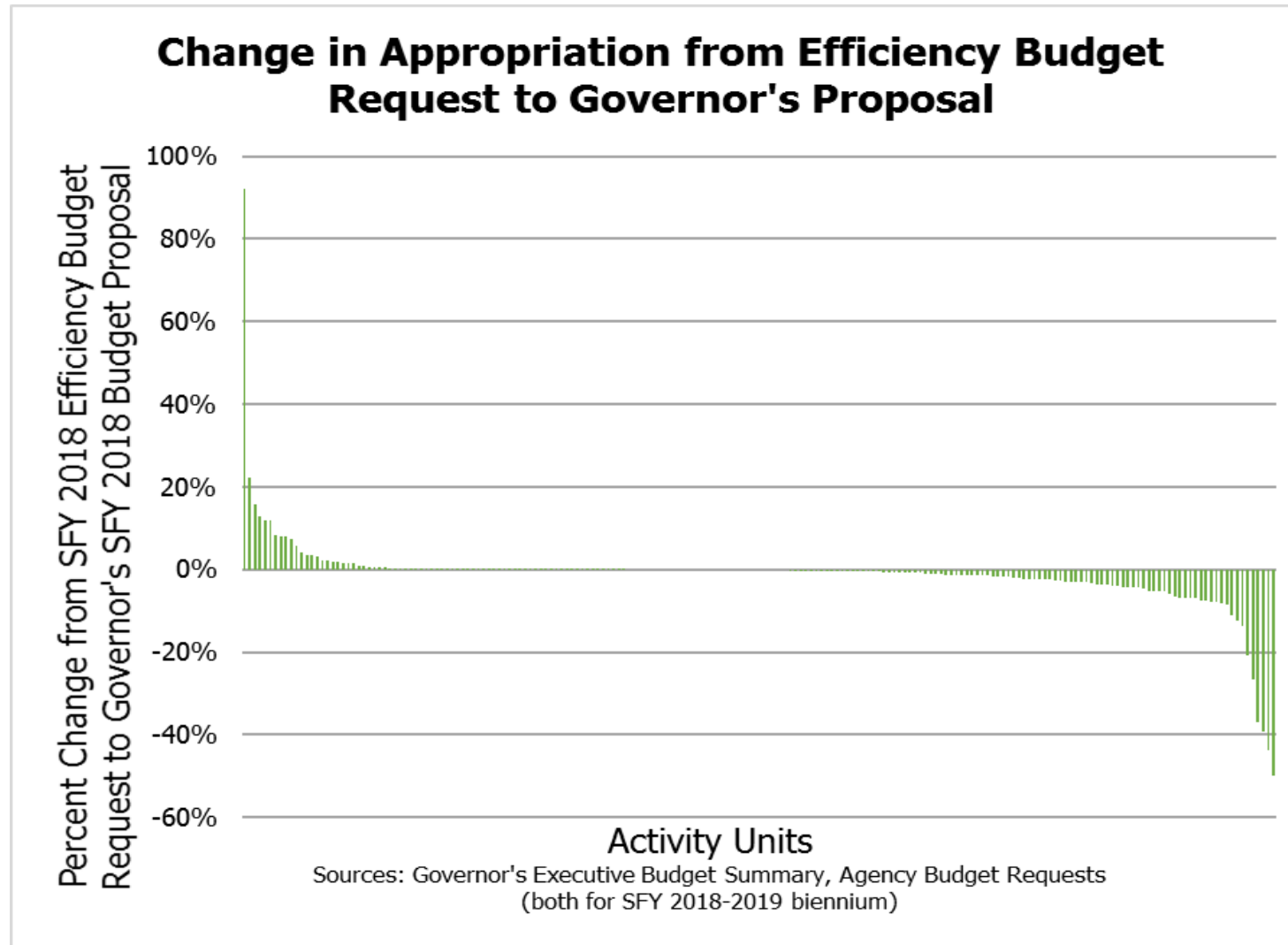


# Projecting Revenue and Budgeting Patterns

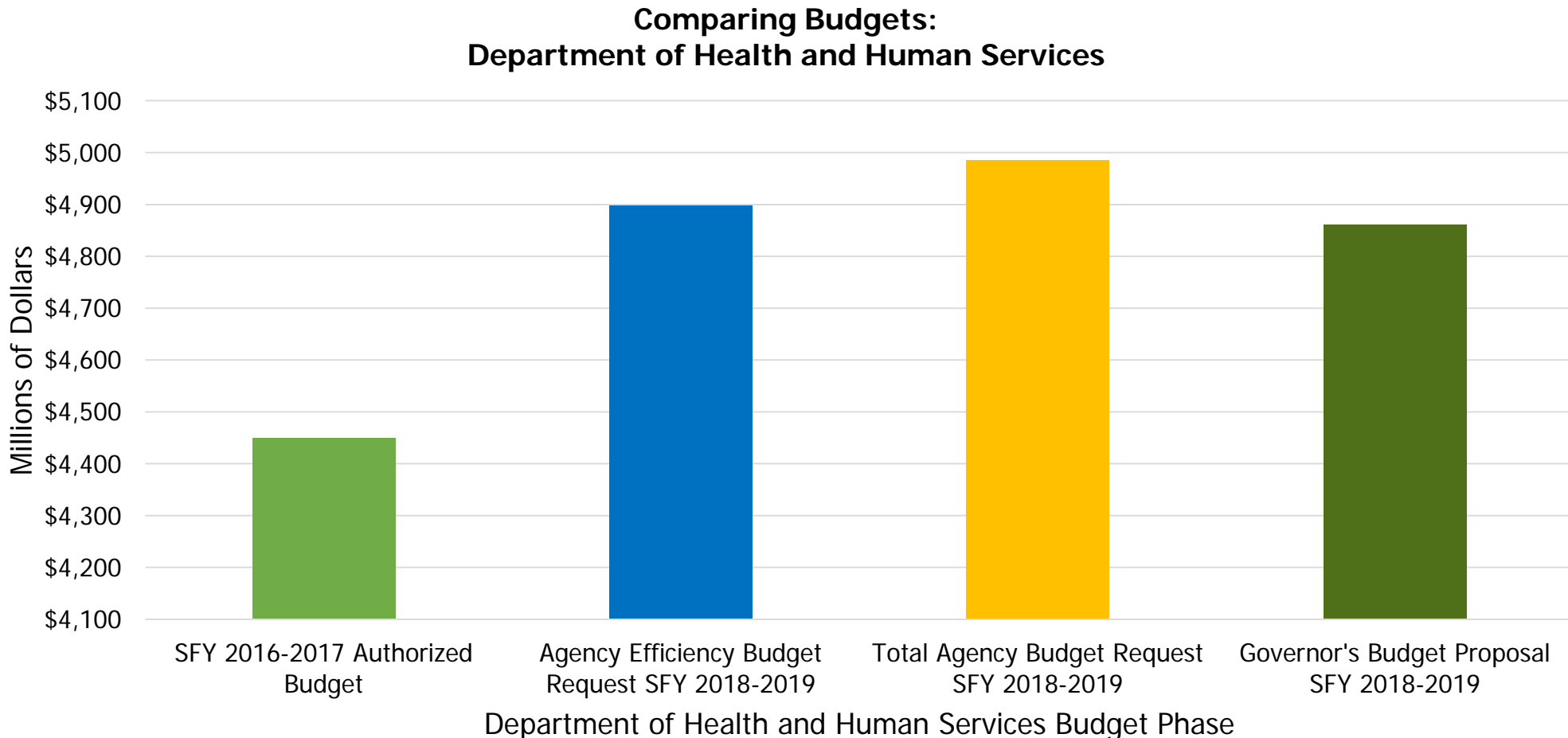


# QUESTIONS?

# The Governor's Budget Proposal

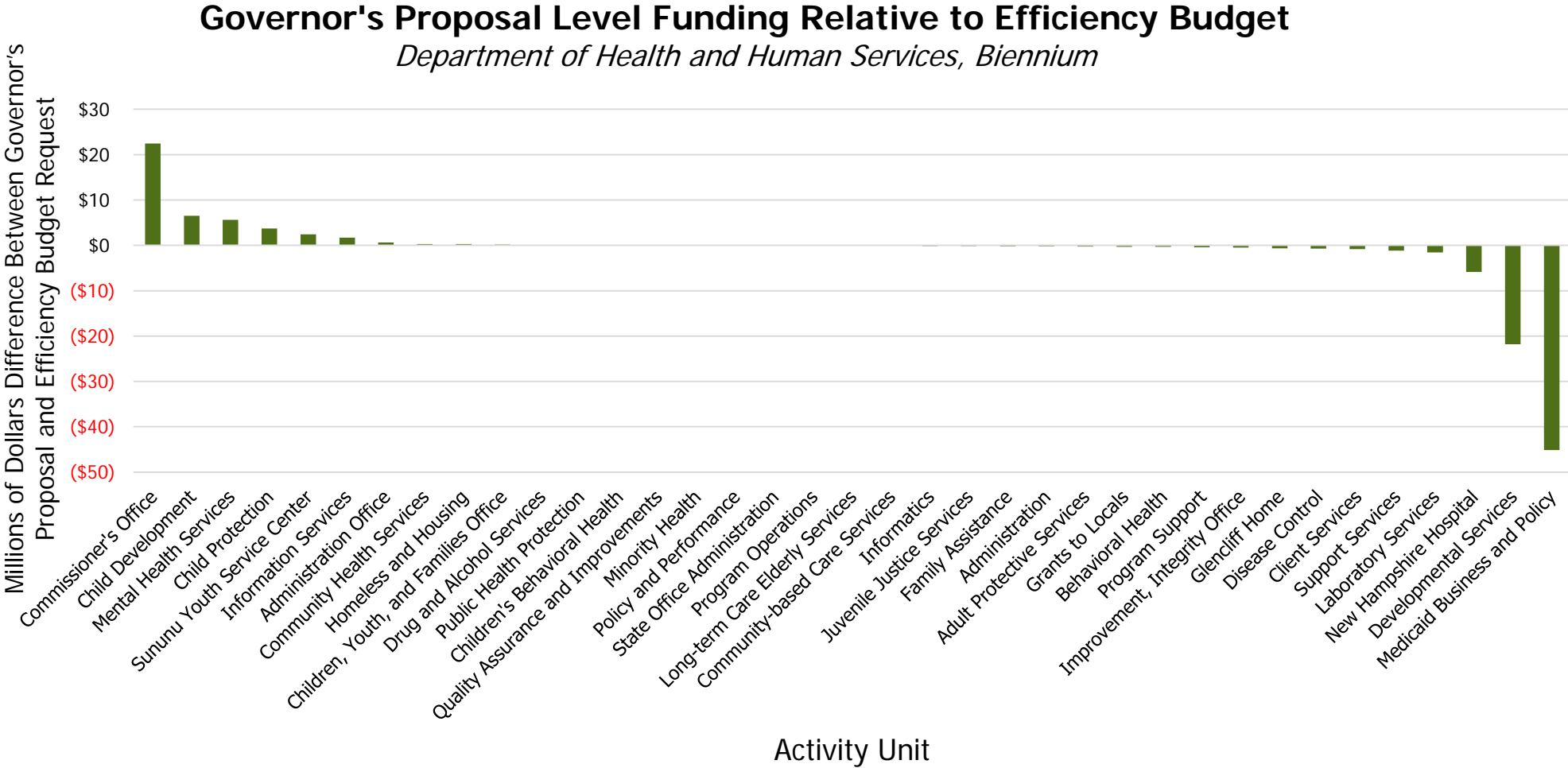


# The Governor's Budget Proposal: Health and Human Services



Sources: Chapter 275 (HB 1), Laws of 2015; Agency Budget Requests and Governor's Executive Budget Proposal (SFYs 2018-2019)

# The Governor's Budget Proposal: Health and Human Services



Sources: Agency Budget Requests SFY 2018-2019, Governor's Executive Budget Proposal SFY 2018-2019



# The Governor's Budget Proposal: Key Statistics

- Governor's proposed budget grows 7.3 percent for the biennium over the current operating budget as initially authorized
  - If passed as proposed, higher growth than comparable figures for last two biennial changes (5.1 percent and 3.0 percent, respectively)
- Governor's proposed SFY 2018 budget grows 4.5 percent from the SFY 2017 adjusted authorized budget
  - 39.4 percent of Activity Units appropriated the same or less funding
- Relative to efficiency budget requests, 62.8 percent have the same or less appropriated to them
  - Another 28.6 percent had increases of two percent or less over efficiency budget

# The Governor's Budget Proposal: Targets for Investment

Activity Units with Greatest Dollar Increase Over Efficiency Budget Requests
1. Department of Information Technology
2. DHHS – Office of the Commissioner
3. Office of Energy and Planning/Strategic Initiatives
4. DHHS – Child Development Bureau
5. DHHS – Bureau of Mental Health Services
6. New Hampshire Employment Security
7. Liquor Commission – Marketing and Merchandising
8. DHHS – Bureau of Child Protection
9. DHHS – Sununu Youth Service Center
10. Judicial Council
Sources: Governor's Executive Budget Summary, State Agency Budget Requests (both for the SFYs 2018-2019 biennium) Technical note: Comparison between SFY 2018 Efficiency Budget Request and SFY 2018 Governor's Proposal

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5. Liquor Commission Financial Management Division
6. DHHS – Sununu Youth Service Center
7. DHHS – Division of Children, Youth and Families Human Services Director's Office
8. DHHS – Child Development Bureau
9. Department of Natural and Cultural Resources – Office of the Commissioner
10. Adjutant General's Office – Veterans' Cemetery
Sources: Governor's Executive Budget Summary, State Agency Budget Requests (both for the SFYs 2018-2019 biennium) Technical note: Comparison between SFY 2018 Efficiency Budget Request and SFY 2018 Governor's Proposal

# The Governor's Budget Proposal: Areas Well Under Efficiency Budgets

Activity Units with Greatest Dollar Decrease Relative to Efficiency Budget Requests
1. DHHS – Office of Medicaid Business and Policy
2. Dept. of Education – Office of the Commissioner
3. Public Utilities Comm. – Energy Efficiency Fund
4. DHHS – Division of Developmental Services
5. University System of New Hampshire
6. Treasury Department
7. Dept. of Safety – Division of State Police
8. DHHS – New Hampshire Hospital
9. Community College System of New Hampshire
10. DAS – Commissioner's Office
Sources: Governor's Executive Budget Summary, State Agency Budget Requests (both for the SFYs 2018-2019 biennium) Technical note: Comparison between SFY 2018 Efficiency Budget Request and SFY 2018 Governor's Proposal; higher placement on list corresponds to a larger dollar amount decrease

Activity Units with Greatest Percent Decrease Relative to Efficiency Budget Requests
1. Public Utilities Comm. – Energy Efficiency Fund
2. DAS – Division of Accounting Services
3. DAS – Division of Personnel
4. DAS – Commissioner's Office
5. DAMF – Agricultural Education
6. DAMF – Division of Regulatory Services
7. DAMF – Agricultural Development
8. Police Standards & Training Council – Administration and Standards
9. University System of New Hampshire
10. Dept. of Corrections – Division of Administration
Sources: Governor's Executive Budget Summary, State Agency Budget Requests (both for the SFYs 2018-2019 biennium) Technical note: Comparison between SFY 2018 Efficiency Budget Request and SFY 2018 Governor's Proposal; higher placement on list corresponds to a larger percentage decrease

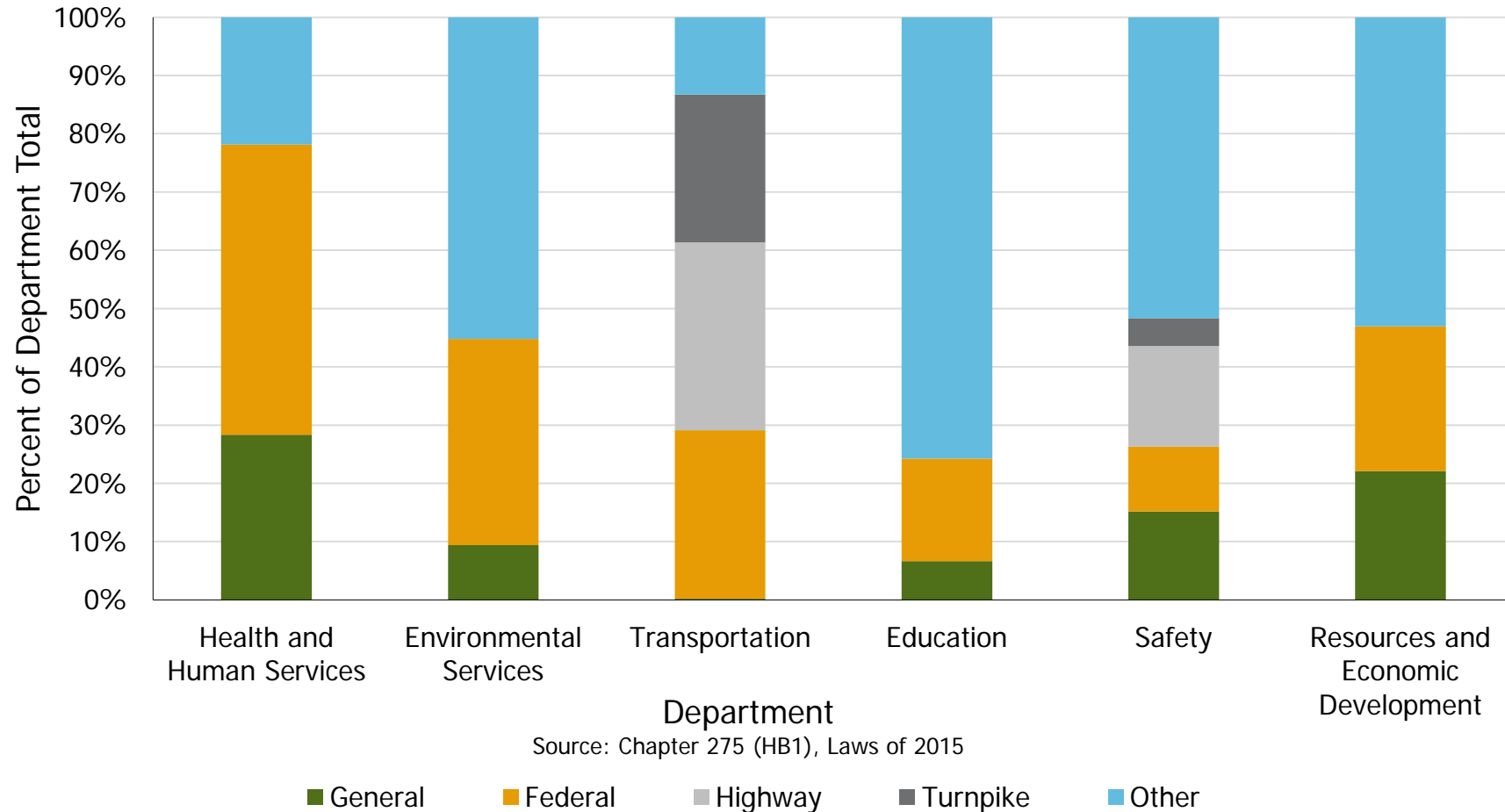
# The Governor's Budget Proposal: Major Initiatives in House Bill 2

- Full-day kindergarten
  - Sets up framework for sliding scale subsidy
  - Grants to every municipality based on property wealth, free- and reduced-price lunch eligibility percentage, and English-language learner percentage
- Infrastructure Revitalization Trust Fund
  - Estimated \$84.4 million for broad uses directed by Governor
- Department of Resources and Economic Development reorganization
  - Some components join the Department of Cultural Resources, form the new Department of Natural and Cultural Resources
  - New Department of Business and Economic Affairs created from remaining two divisions
- Consolidation of Department of Health and Human Services information technology operations under the Department of Information Technology

# QUESTIONS?

# Agency Funding Streams: Examples

Funding Streams for Selected Departments  
SFY 2017



# Continuing Questions: Federal Issues

## ■ American Health Care Act: Medicaid

- Under the Patient Protection and Affordable Care Act (ACA), match for Medicaid for New Hampshire is usually 50%-50%, and Medicaid expansion (the New Hampshire Health Protection Program) is 90%-10% after 2020
- AHCA would remove 90%-10% match for new enrollees in expanded Medicaid programs starting in 2020, make all rates 50%-50% for those new or with coverage discontinuity
- AHCA has block grants for Medicaid based on a per capita cap with growth rate limit
- Congressional Budget Office: Nationwide reductions in Medicaid payments to states total \$880 billion from 2017-2026
- New Hampshire received approximately \$1 billion in federal Medicaid dollars in SFY 2016
- Medicaid program (in total) was 29 percent of all State spending in SFY 2016
- Additional AHCA component: Patient and State Stability Fund grants, \$80 billion of federal dollars nationwide from 2018-2026 with matching state funds likely to be used to offset costs to insurers for high-cost claims

# Continuing Questions: Federal Issues

- The President's proposed federal budget - not the full federal budget, only discretionary spending proposals
  - Center on Budget and Policy Priorities: a roughly \$18 billion reduction in state and local funding in federal fiscal year 2018; non-Defense, Veterans, and Homeland Security discretionary spending falls about 15 percent
  - U.S. Department of Education funding reduced by 13.5 percent
  - Eliminates 21st Century Community Learning Centers funding, program targeted at high poverty school students (\$6.4 million in SFY 2017 State budget)
  - Reduces funding for certain teacher training programs
  - Eliminates Low Income Home Energy Assistance Program, which funds the State Fuel Assistance Program (\$29.2 million in SFY 2017 State budget)
  - Reduces Women, Infants, and Children Nutrition Program (WIC) funding from \$6.4 billion to \$6.2 billion nationally (\$14.2 million in SFY 2017 State budget)
  - Weatherization Assistance Program eliminated (\$1.4 million in SFY 2017 State budget)



# Continuing Questions: Federal Issues

- The President's proposed federal budget - not the full federal budget, only discretionary spending proposals (continued)
  - Changes to Centers for Disease Control funding mechanisms, block grants to states
  - U.S. Department of Transportation funding reduced by 12.7 percent – later transportation bills may be pending
  - U.S. Environmental Protection Agency funding reduced by 31.4 percent, State Revolving Funds for drinking water and wastewater supported, Categorical Grants dramatically reduced, regional efforts and programs also reduced or eliminated with “more than 50 EPA programs”
  - Reduces federal support for job training and employment service formula grants, helps states expand apprenticeships
  - Increased spending to combat drug trafficking and \$500 million above 2016 levels for opioid misuse prevention and treatment/recovery services – State budget effects unknown
  - Eliminates Northern Border Regional Commission – Coos, Grafton, Sullivan, and Carroll counties

# Continuing Questions: State Issues

- Revenue, the surplus, and the economy
- Disproportionate Share (DSH) payments to hospitals for uncompensated care (~\$33 million)
- Business tax refund potential (\$173.4 million for SFY 2016)
- Concord Steam costs to State (~\$25 million)
- Any additional unbudgeted costs in SFY 2017 (Department of Health and Human Services commitments, etc.)
- Potential education funding changes

# Additional Resources

- Building the Budget: <http://nhfpi.org/research/state-budget/building-budget-new-hampshires-state-budget-process-recent-funding-trends.html>
- The Governor's Proposed Budget: <http://nhfpi.org/research/state-budget/governor-sununu-proposed-budget.html>
- NHFPI NH State Budget page: <http://nhfpi.org/resources/nh-state-budget>
- Office of Legislative Budget Assistant: <http://www.gencourt.state.nh.us/LBA/>
- Department of Administrative Services Budget Office: <https://das.nh.gov/budget/index.asp>
- Department of Administrative Services Revenue Reports: [https://das.nh.gov/accounting/revenue\\_reports.asp](https://das.nh.gov/accounting/revenue_reports.asp)
- Department of Health and Human Services Budget Materials: <http://www.dhhs.nh.gov/ocom/budget.htm>
- New Hampshire General Court (State Legislature): <http://www.gencourt.state.nh.us/>

# QUESTIONS?

# THANK YOU FOR YOUR TIME

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