

Money in, money out:

A close look at NH's \$13 billion budget

Matthew Mailloux

NH State Budget Director

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Leading Off

- The state budget is a biennial spending plan for the state and its government agencies. It is comprised of two bills:
 - HB1 contains the line by line appropriations for each unit of government
 - HB2 contains the legislative language to make HB1 work, including policy initiatives such as changes in tax law, new programs, or one-time investments
- The current state biennium began on July 1, 2019 and will expire on June 30, 2021
- The current fiscal year (FY2021) total budget is \$6.74 billion, of which \$1.67 billion is from State General Funds.

Key Committees and Agencies

- Legislative Budget Assistant (LBA)
- Department of Administrative Services (DAS)
- Department of Revenue Administration (DRA)
- Other revenue producing agencies including:
 - Liquor
 - Lottery
 - Labor
 - Safety
- House Ways & Means
 - Sets revenue estimates that bind the Finance committee's spending
- House Finance
 - Determine line item expenses for all state agencies (HB1)
 - Approves policy provisions of (HB2)
- Senate Ways & Means and Senate Finance repeat the same process

Key Dates in the Budget Process

- **Summer 2020:** Agencies submit initial budget requests to the Governor
- **Fall 2020:** Governor holds initial public hearings
- **February 15:** Governor introduces HB1/HB2 and delivers budget address to the House Finance Committee
- **Early April:** House passes HB1/HB2 and the budget crosses over to the Senate
- **Early June:** Senate passes HB1/HB2
- **Late June:** House and Senate form a Committee of Conference to reconcile their amendments. Bill goes to the Governor to be signed or vetoed.
- **July 1:** New budget takes effect to begin the new biennium

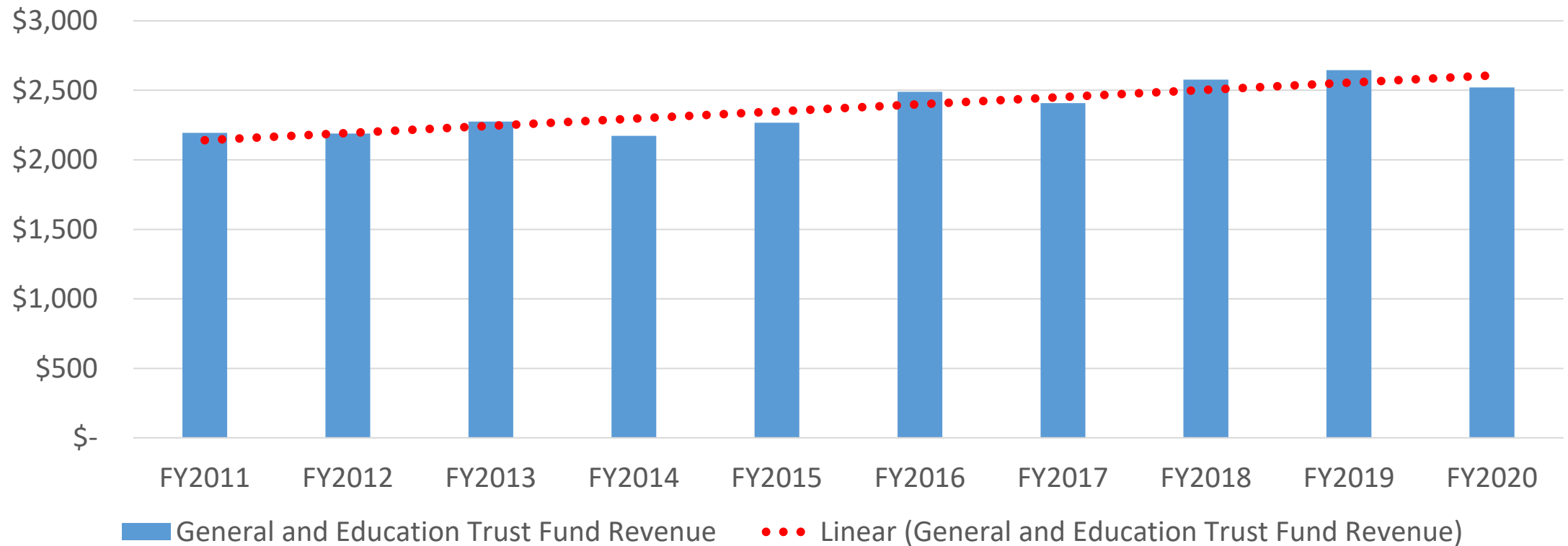
Major State Funds

- New Hampshire's uses fund accounting to separate restricted and unrestricted funds
- Restricted funds include dedicated accounts for special purposes,
 - Examples include the Unemployment Trust Fund, the Clean Drinking Water State Revolving Fund (CWSRF), or the Turnpike Fund
- Unrestricted funds can be appropriated broadly consistent with the nature of the fund.
 - Examples include the General Fund or the Highway Fund

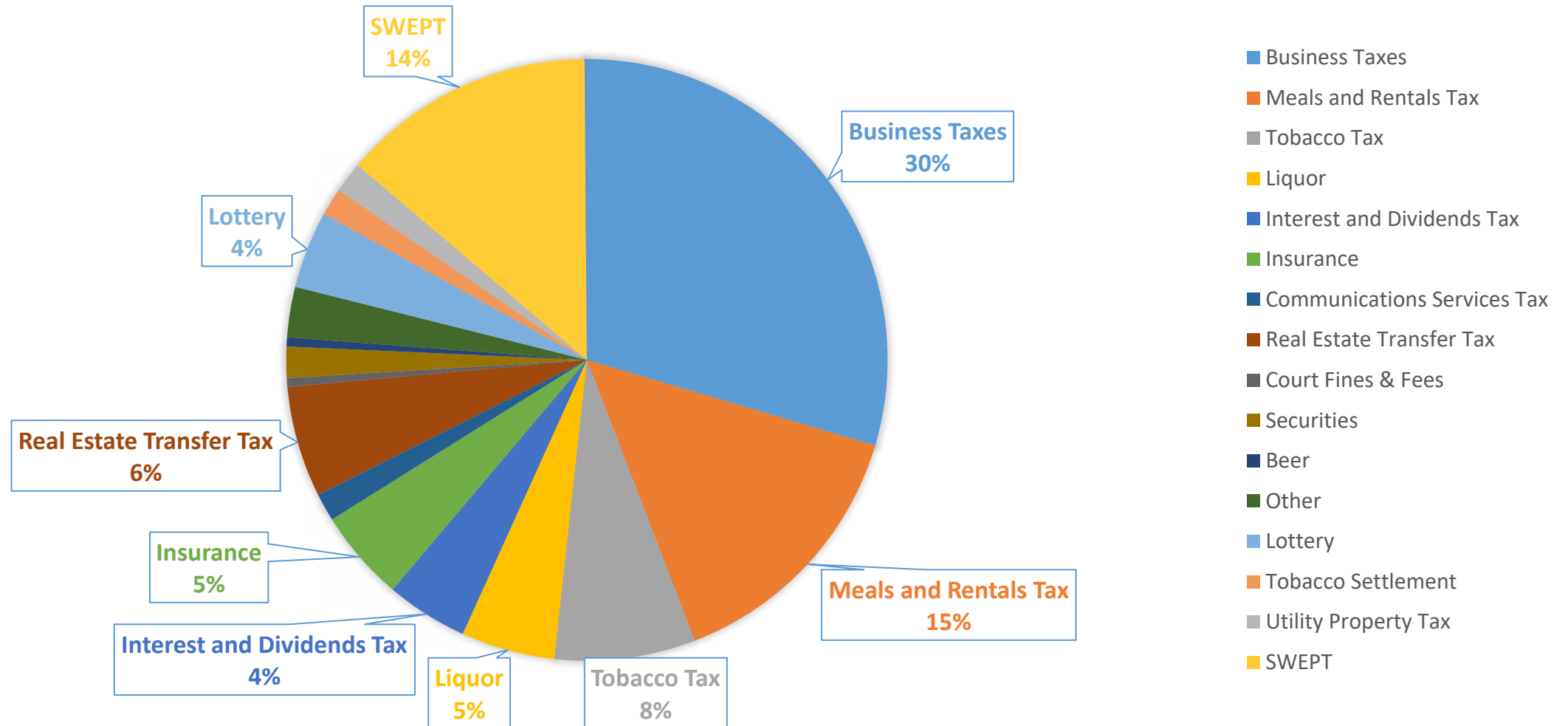
Revenues

State Revenues Over the Last Decade

General and Education Trust Fund Revenue



Fiscal Year FY21 Plan - Sources of Revenue



Monthly Revenue Focus

- The Department of Administrative Services (DAS) publishes the [Revenue Focus](#) monthly to report unaudited revenue data for the State's major funds.
- For April, the Combined General and Education Trust Fund were \$84.6 million ahead of plan.

State Of New Hampshire Monthly Revenue Focus Department of Administrative Services Charles M. Arlinghaus, Commissioner Dana M. Call, Comptroller			
Monthly Revenue Summary			Analysis
<i>(for month)</i>			
	FY 21 Actual	FY 21 Plan	Actual vs. Plan
Gen & Educ	\$434.1	\$349.5	\$84.6
Highway	\$22.5	\$22.0	\$0.5
Fish & Game	\$1.6	\$0.9	\$0.7
Current Month			
GENERAL & EDUCATION FUNDS	FY 21 Actuals	FY 21 Plan	Actual vs. Plan
Business Profits Tax	\$142.3	\$98.1	\$44.2
Business Enterprise Tax	87.0	57.4	29.6
Subtotal Business Taxes	229.3	155.5	73.8
Meals & Rentals Tax	26.5	29.7	(3.2)
Tobacco Tax	23.2	15.5	7.7
Transfer from Liquor Commission	11.0	9.2	1.8
Interest & Dividends Tax	38.8	44.4	(5.6)
Insurance Tax	(7.4)	(6.5)	(0.9)

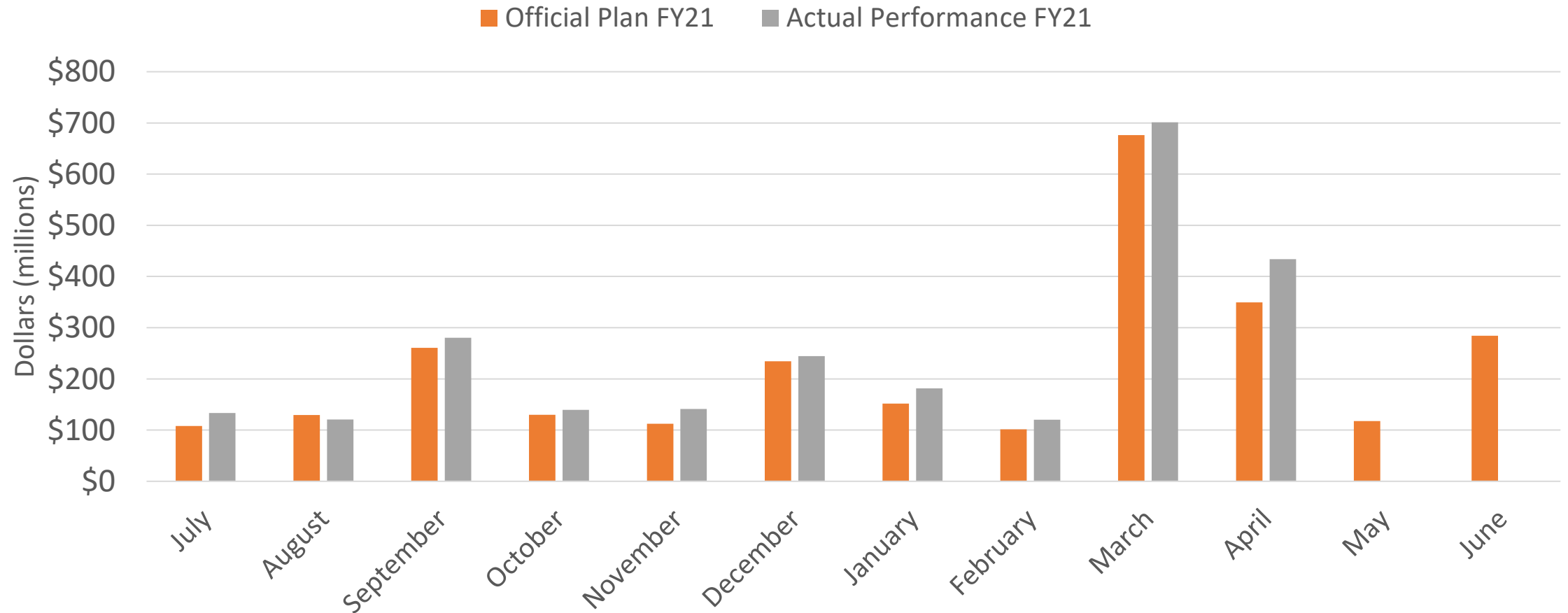
The monthly revenue analysis below reflects cash basis results, before accrual adjustments. As previously reported, due to the COVID-19 pandemic and the impact of the extended federal tax filing deadline on the timing of the collection of state tax revenues, there was a significant increase in the amount of our standard accrual adjustment resulting in approximately \$50 million which has been reclassified from fiscal year 2021 cash basis revenue to fiscal year 2020 modified accrual revenue in the ACTR which was released on December 22, 2020. The year-to-date results presented on page 3 reflect this accrual adjustment in order to compare to year-to-date total plan amounts, and will remain throughout the course of fiscal year 2021 revenue focus reporting.

Unrestricted revenue for the General and Education Funds received during April totaled \$434.1 million, which was above the plan by \$84.6 million (24.2%) and above the prior year by \$170.0 million (64.3%). YTD unrestricted revenue totaled \$2,496.9 million, which was above plan by \$242.9 million (10.8%) and above prior year by \$351.4 million (16.4%).

Business Taxes for April totaled \$229.3 million, which were \$73.8 million (47.5%) above plan and \$139.5 million (155.3%) above prior year. YTD business tax collections are above plan by \$174.5 million (27.5%) and \$252.6 million (45.4%) above the prior year. According to the Dept. of Revenue Administration (DRA), the increase in revenue for April was largely due to increases in revenue attributable to extension, estimate, return and notice payments and a decrease in refunds. However, the monthly activity is more comparable to April of 2019. Due to the COVID-19 pandemic in 2020, DRA issued Technical Information Release (TIR) 2020-001 granting relief to Business and Interest & Dividend taxpayers, by extending filing from April 15, 2020 to June 15, 2020 for qualifying filers. Therefore, a large component of the increase in revenue over prior year is due to the extension of the prior year filing deadlines.

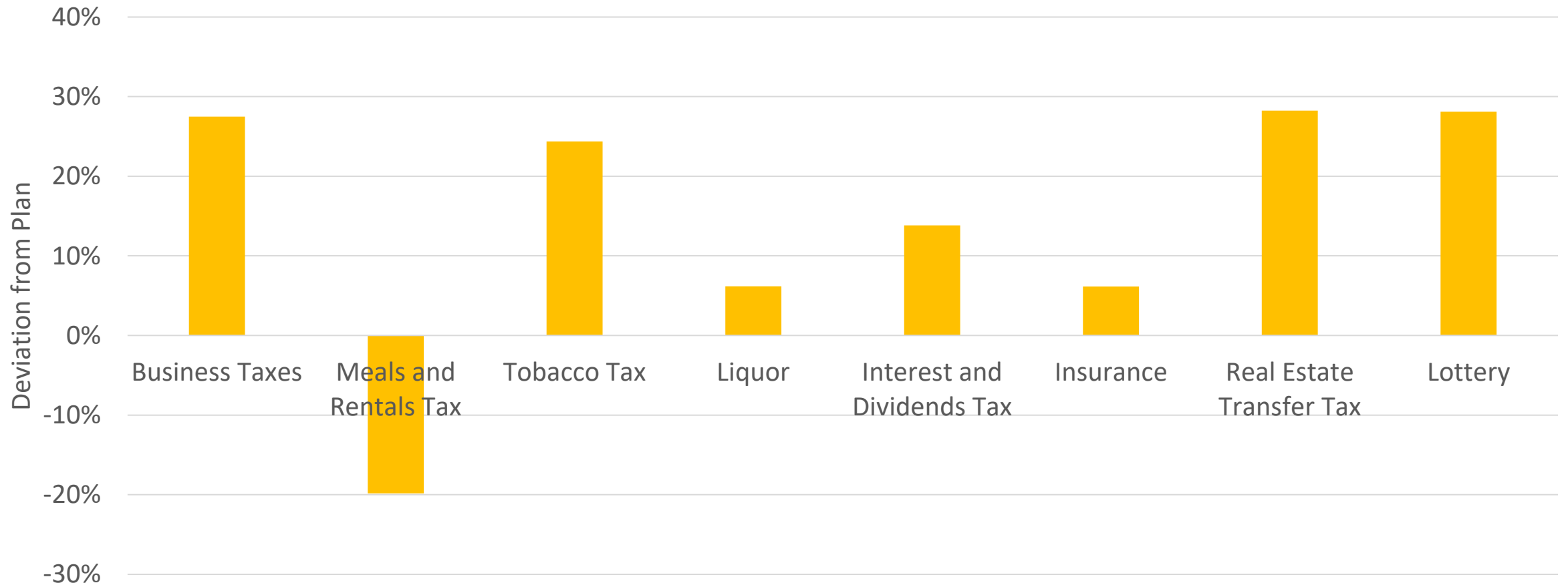
Meals and Rentals Tax (M&R) receipts for April came in below plan by \$3.2 million (10.8%) and above prior year by \$10.4 million (64.6%). YTD collections were \$64.9 million (19.8%) below plan and \$35.5 million (11.9%) below prior year. According to DRA, March activity, reported and paid in April from hotels were up 73.9% while taxable meals were up 45.0% as compared to the same month last year.

Performance Fiscal Year to Date – All Taxes

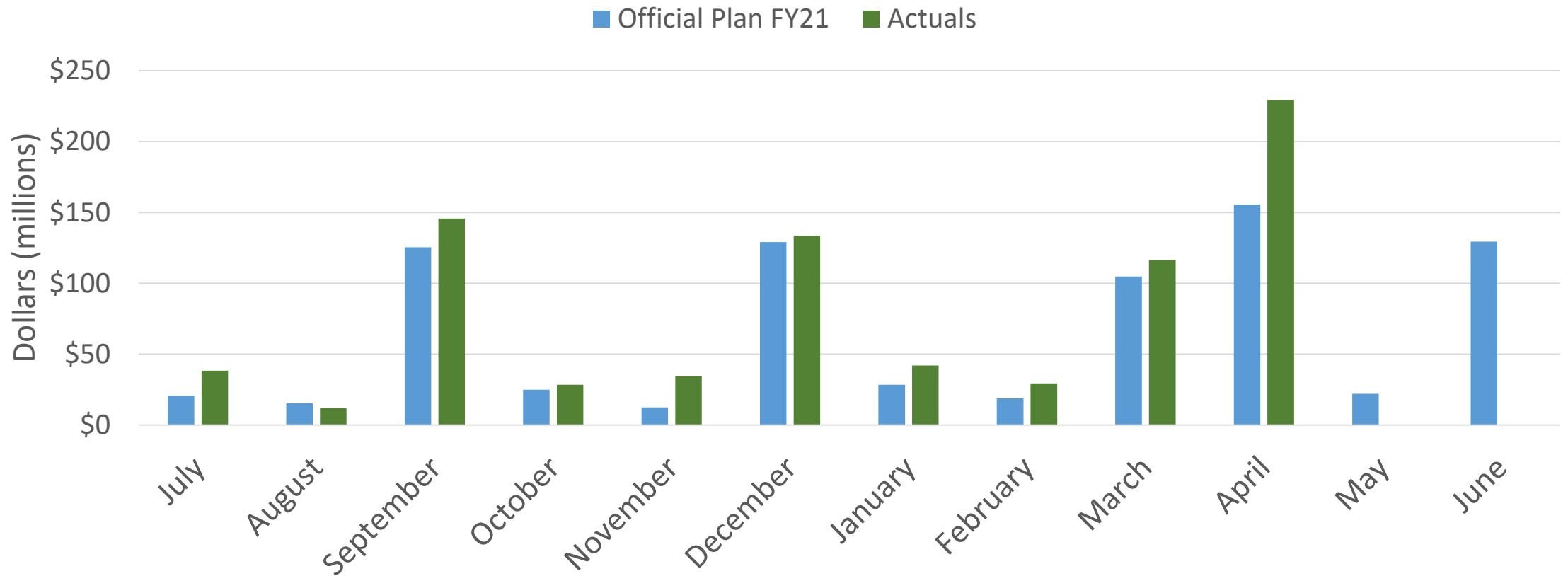


Not all taxes have performed equally

Fiscal Year to Date Performance Compared to Plan – Select Tax Types

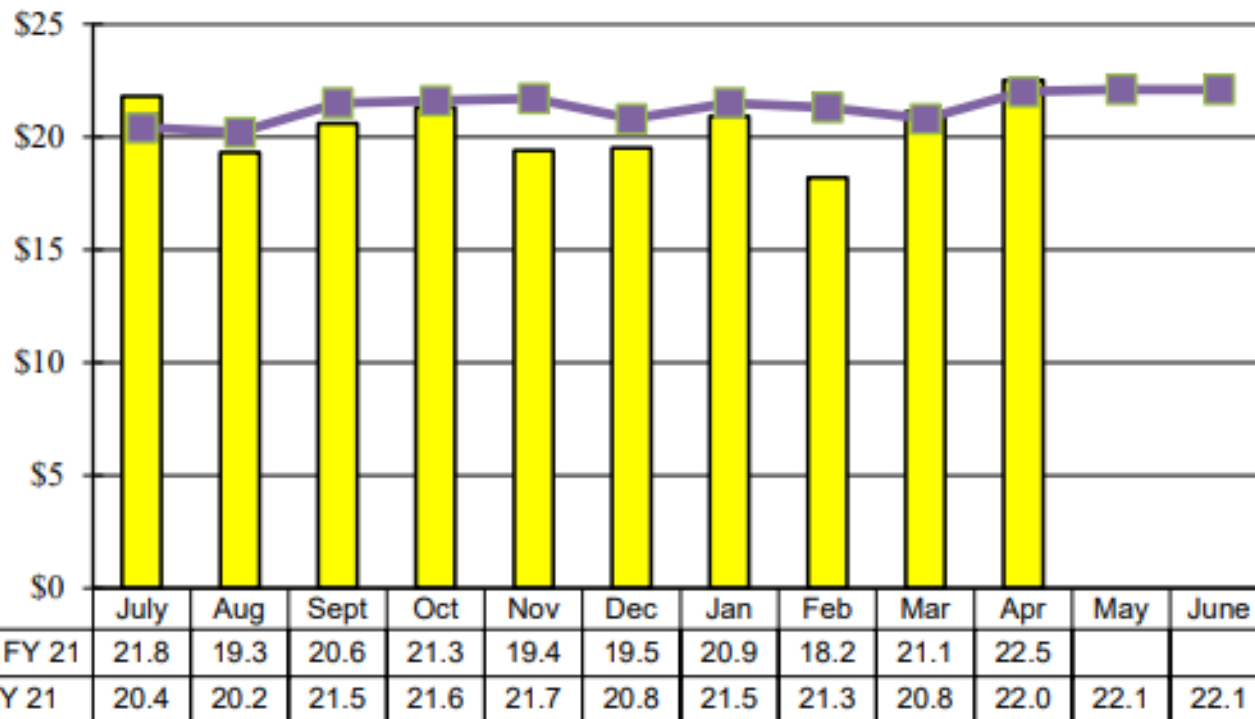


Performance Fiscal Year to Date – Business Taxes



Performance Fiscal Year to Date – Highway Fund

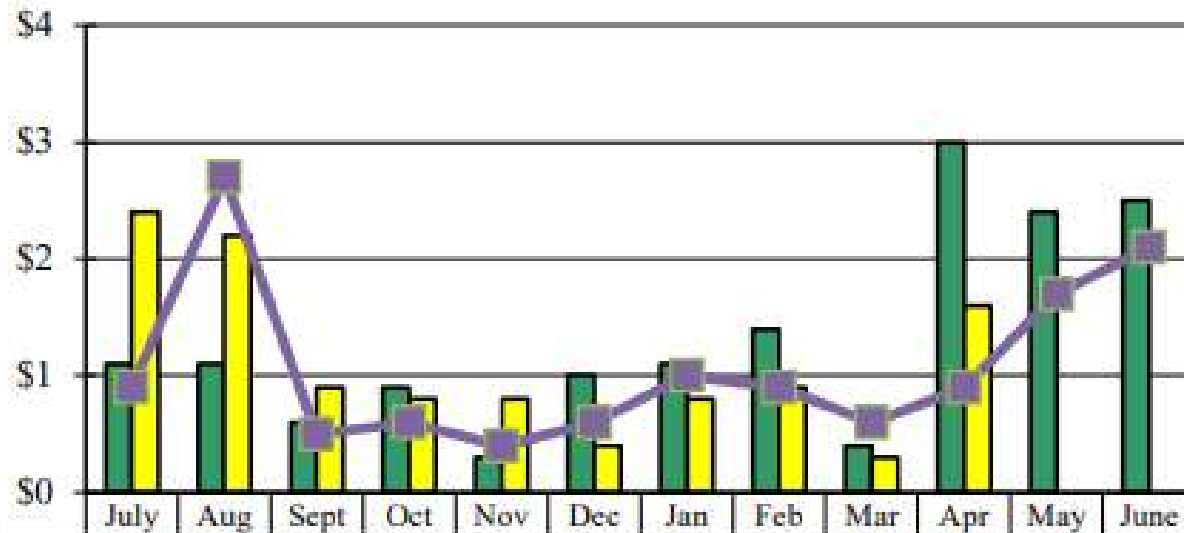
Monthly Comparison to FY21 Highway



- Unlike the General Fund, Highway Fund revenues have been slower to return to pre-pandemic levels
- Revenues have been below plan for 7 of the first 10 months of the fiscal year
 - Some signs on improvement based on March and April data

Performance Fiscal Year to Date – Fish & Game Fund

Monthly Comparison to FY20 Fish & Game



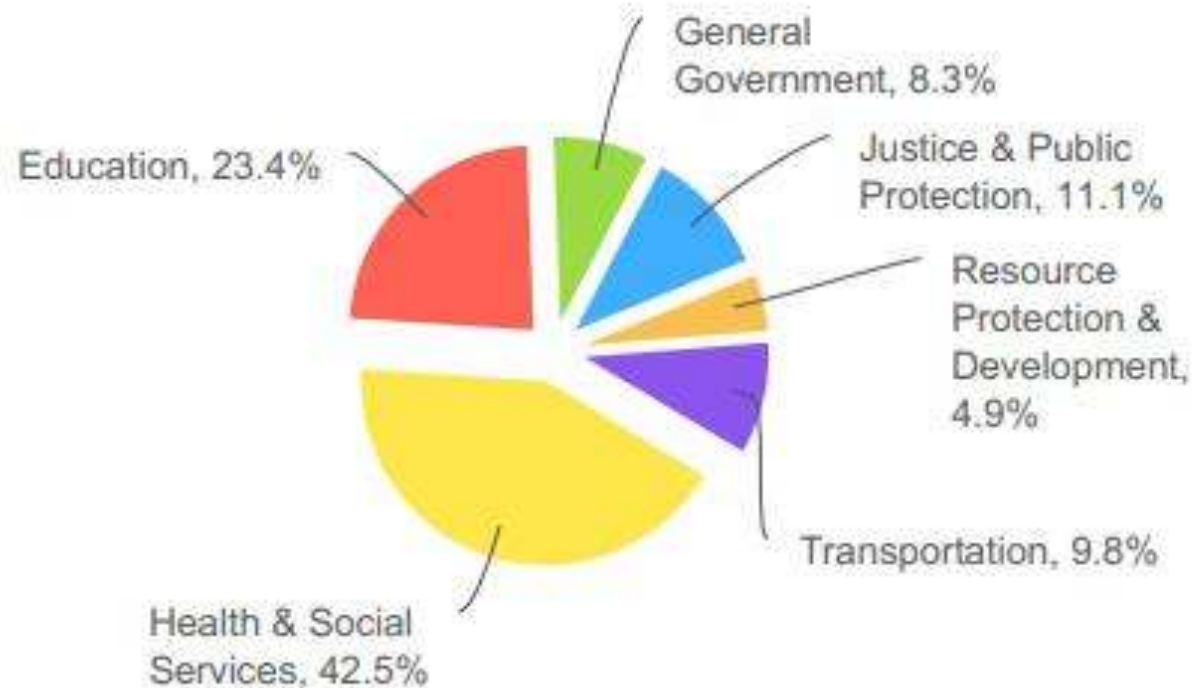
Actual FY 20	1.1	1.1	0.6	0.9	0.3	1.0	1.1	1.4	0.4	3.0	2.4	2.5
Actual FY 21	2.4	2.2	0.9	0.8	0.8	0.4	0.8	0.9	0.3	1.6		
Plan FY 21	0.9	2.7	0.5	0.6	0.4	0.6	1.0	0.9	0.6	0.9	1.7	2.1

- Fish & Game enjoyed a record year in FY20-FY21 as more people chose to recreate outdoors in NH.
 - Notice the strong revenue performance beginning in April of FY20 and continuing through August of FY21
- The fund is \$2 million ahead of plan FYTD
 - \$11.1 million actual compared to FYTD Plan of \$9.1 million

Expenses

How the State Spends its Money

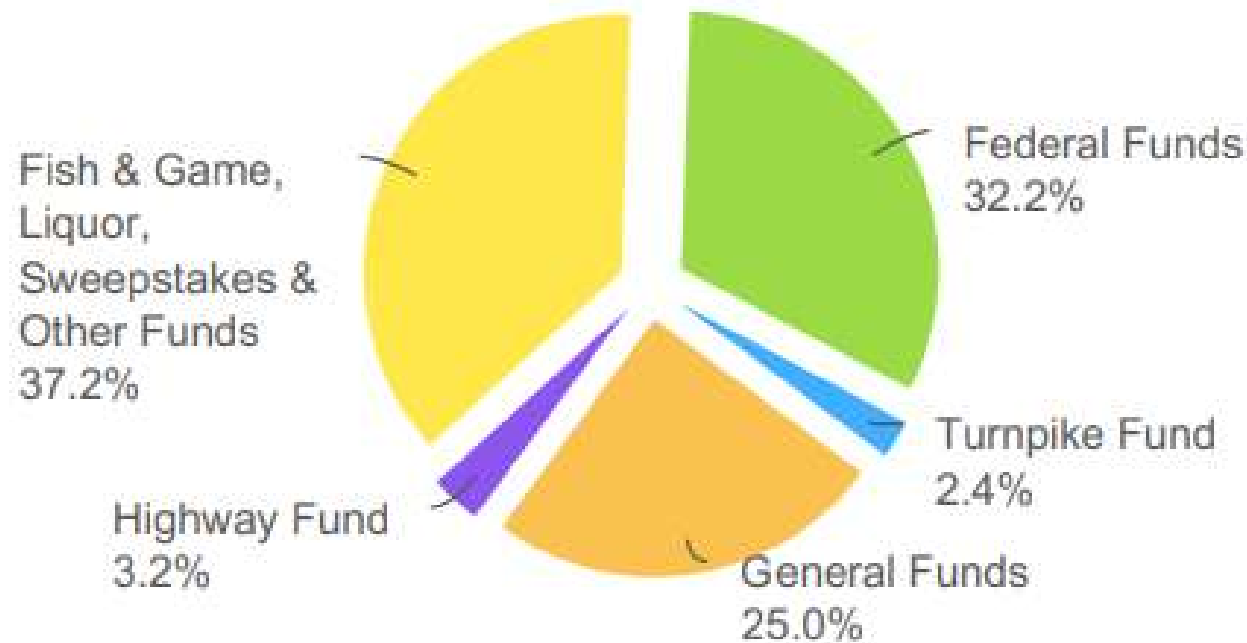
Expenditures by Category of Government Based on
FY 2020 Total Funds



- Healthcare & Social Services along with Education spending accounted for nearly 2/3 of the State budget in FY2020
 - The state has the least control over these cost drivers
 - Healthcare costs have steadily increased over time

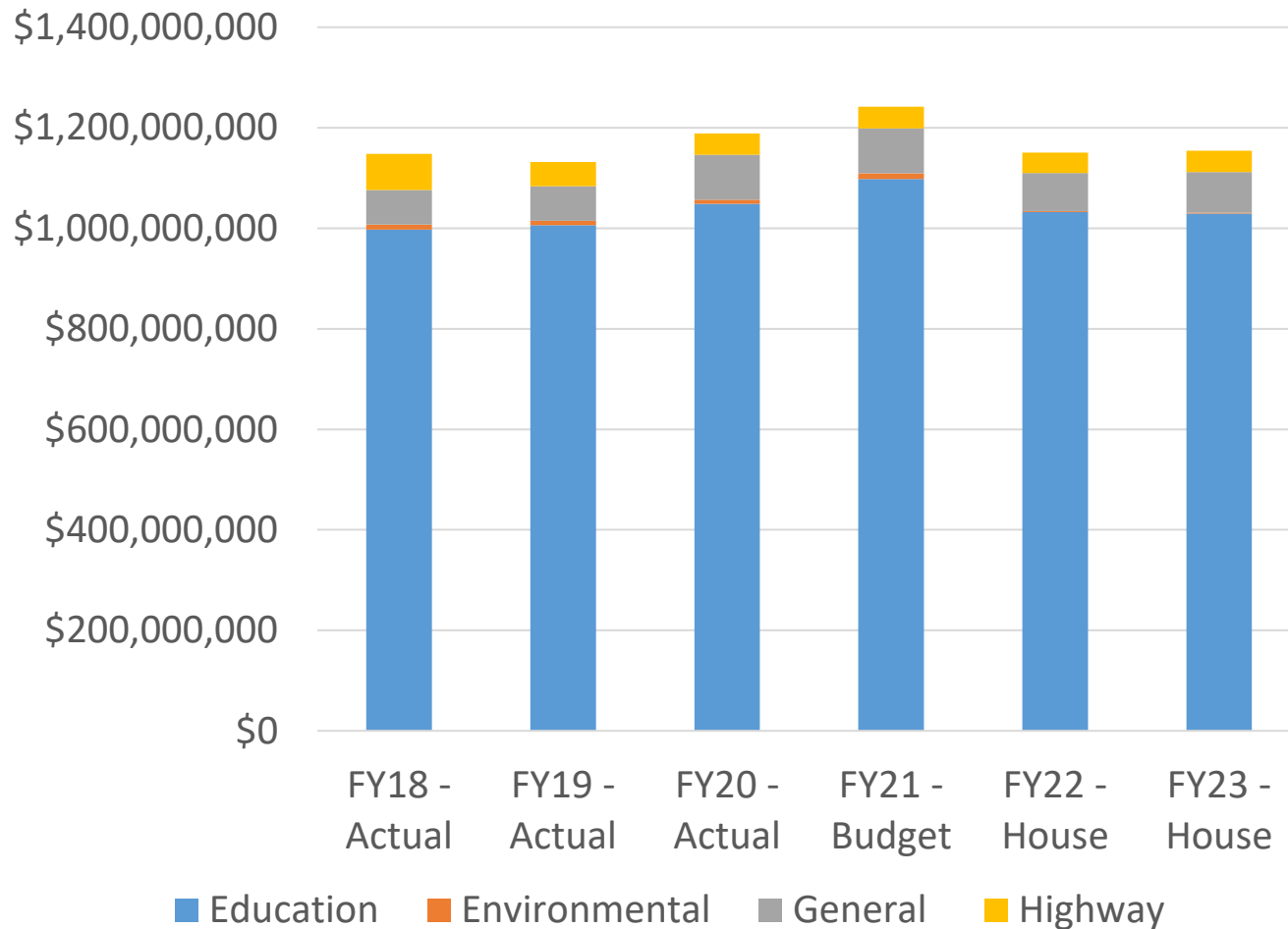
Where the Money Comes From

Source of Funds FY 22



- General funds account for just one quarter of the total state budget proposed for FY2022
- Many of the programs the state operates are federally driven
 - These include the Weatherization Assistance Program (WAP) and Temporary Assistance for Needy Families (TANF) among many others

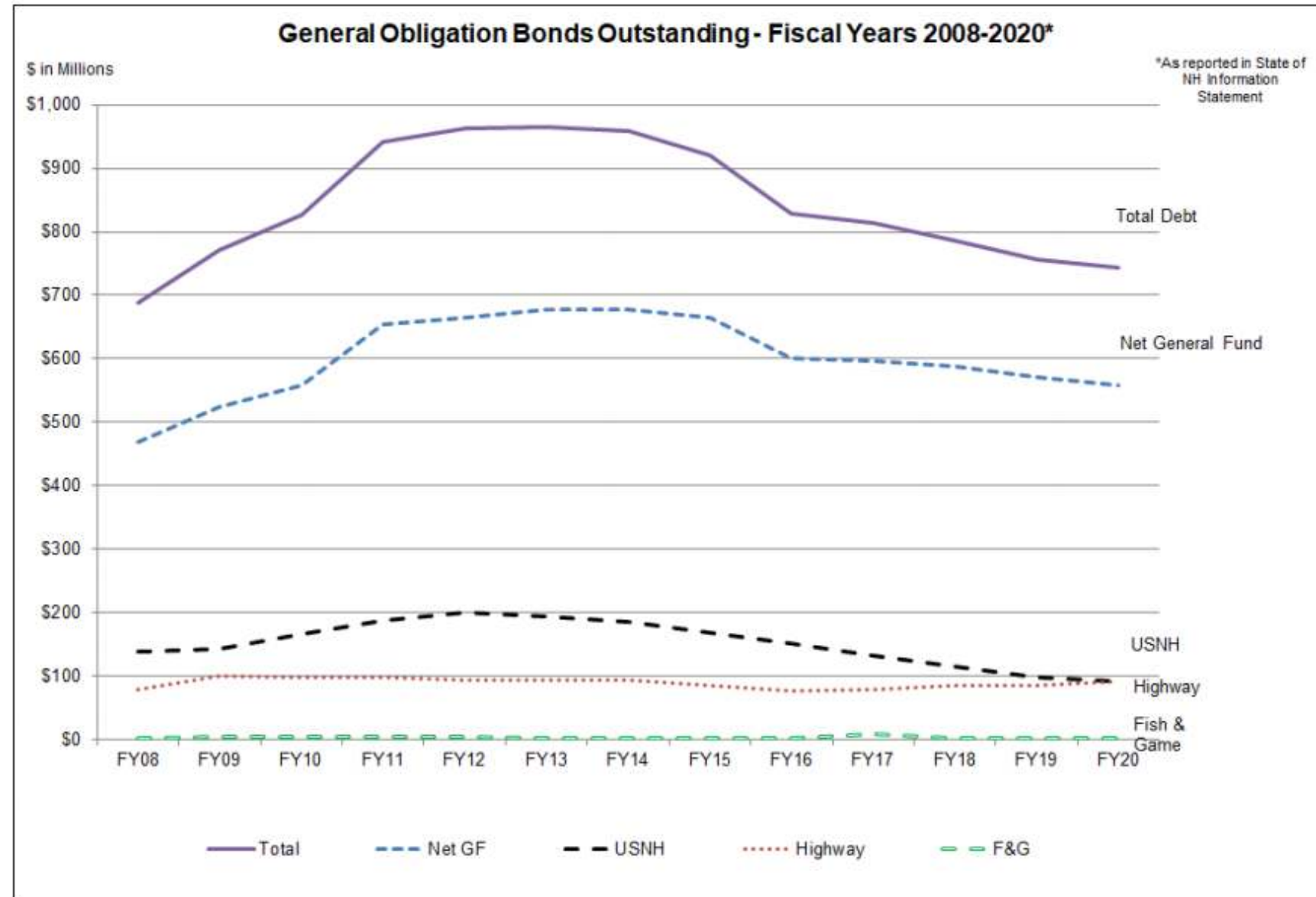
State Aid to Municipalities



- The vast majority of State Aid to cities and towns is for education funding
 - Other areas include environment, highway, and general support
- The Senate is likely to increase aid for cities and towns for education and municipal revenue sharing in the budget

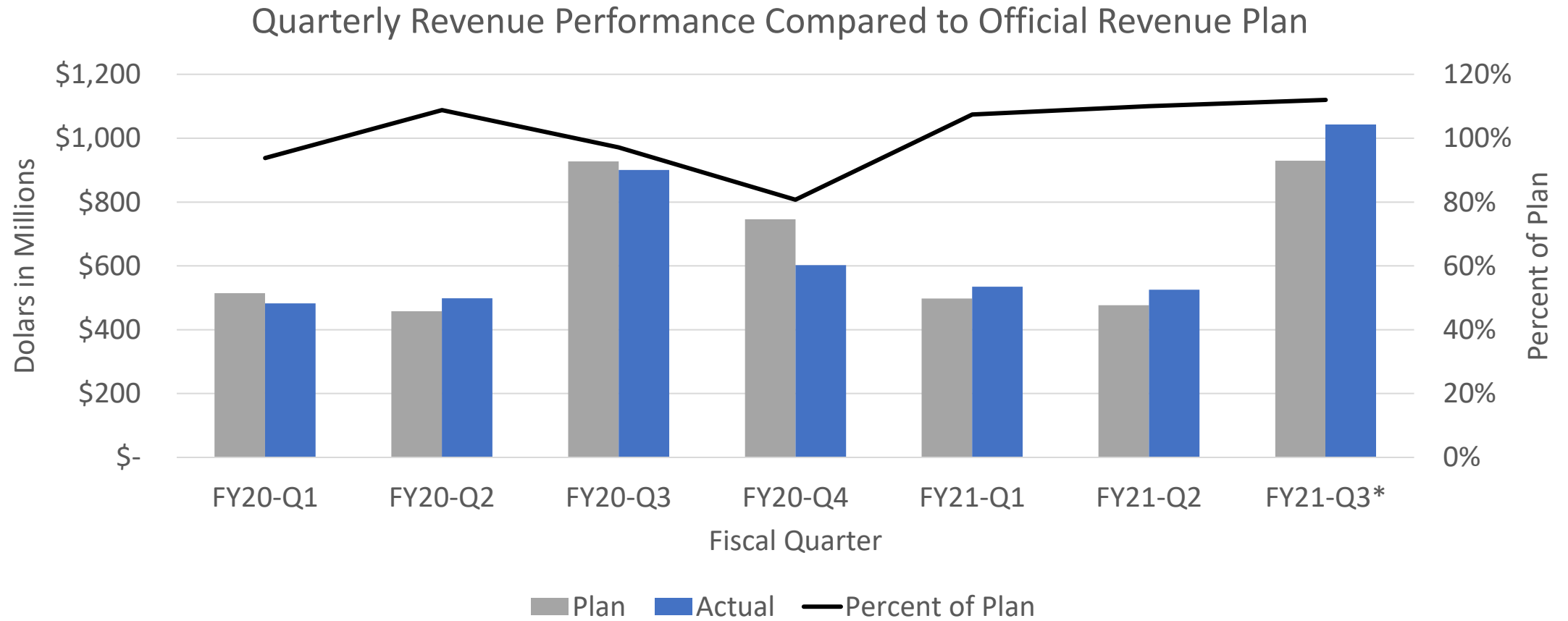
General Obligation Bonds

- The State's debt ratios are considered low by the major rating agencies.
- If the State continues recent trends the amount of debt outstanding would continue to fall through FY2027, as existing debt is retired faster than new debt is issued.

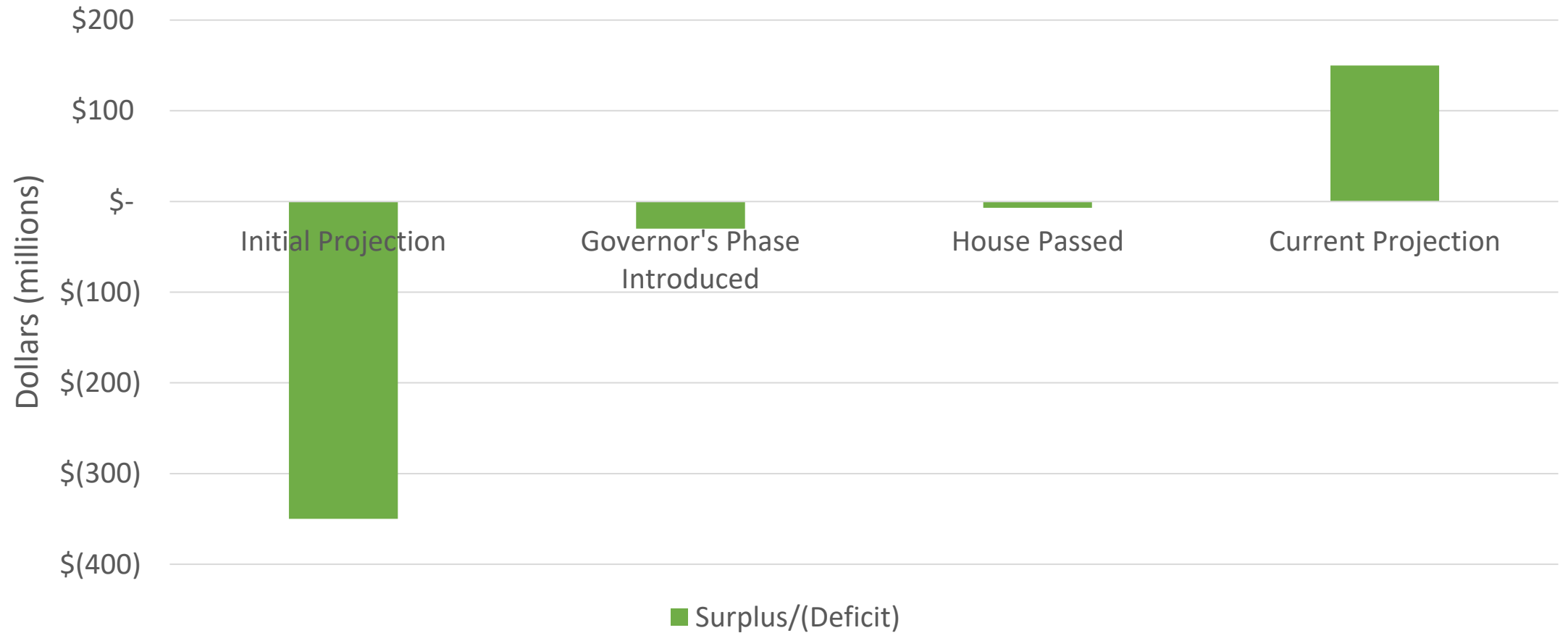


COVID Impacts

State Revenue During COVID-19



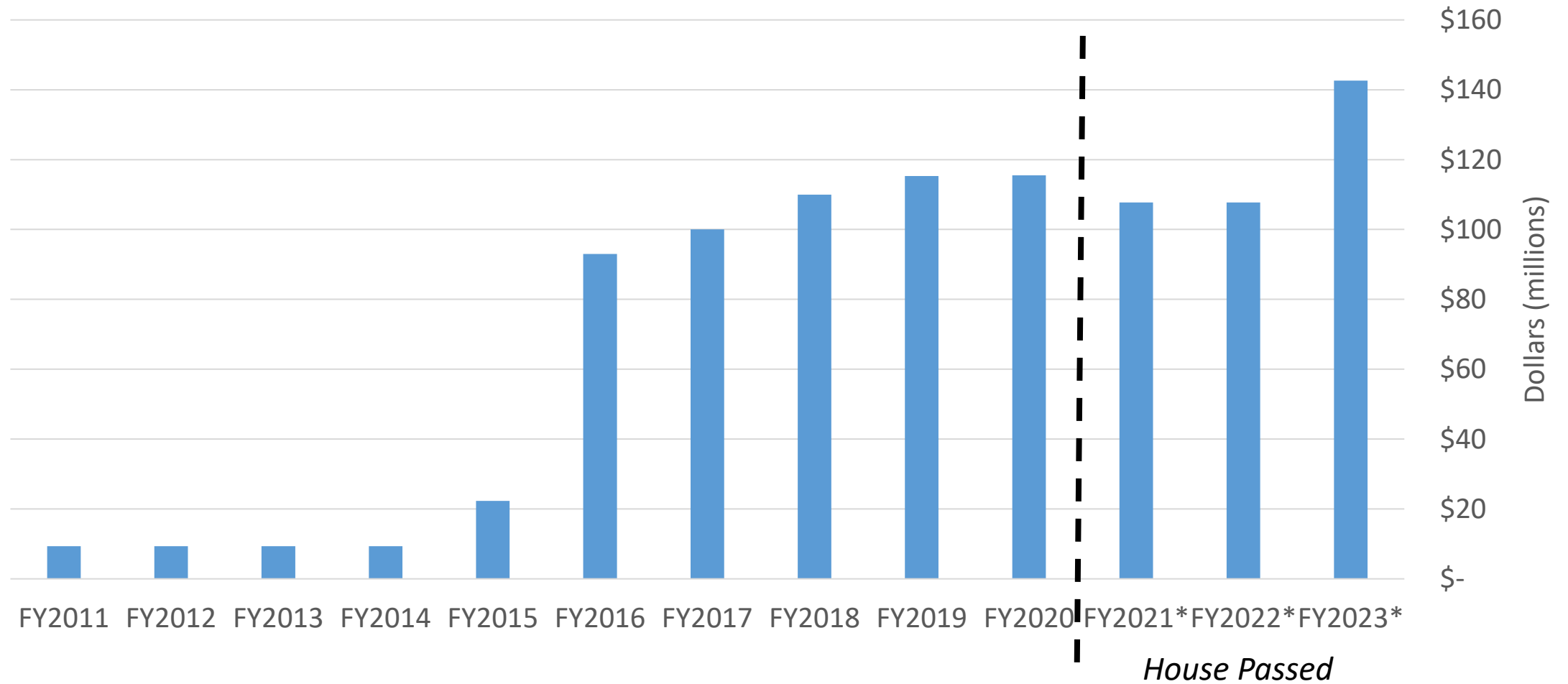
Projected Budget Shortfall due to COVID



Appropriations Lapse Data by Fiscal Year

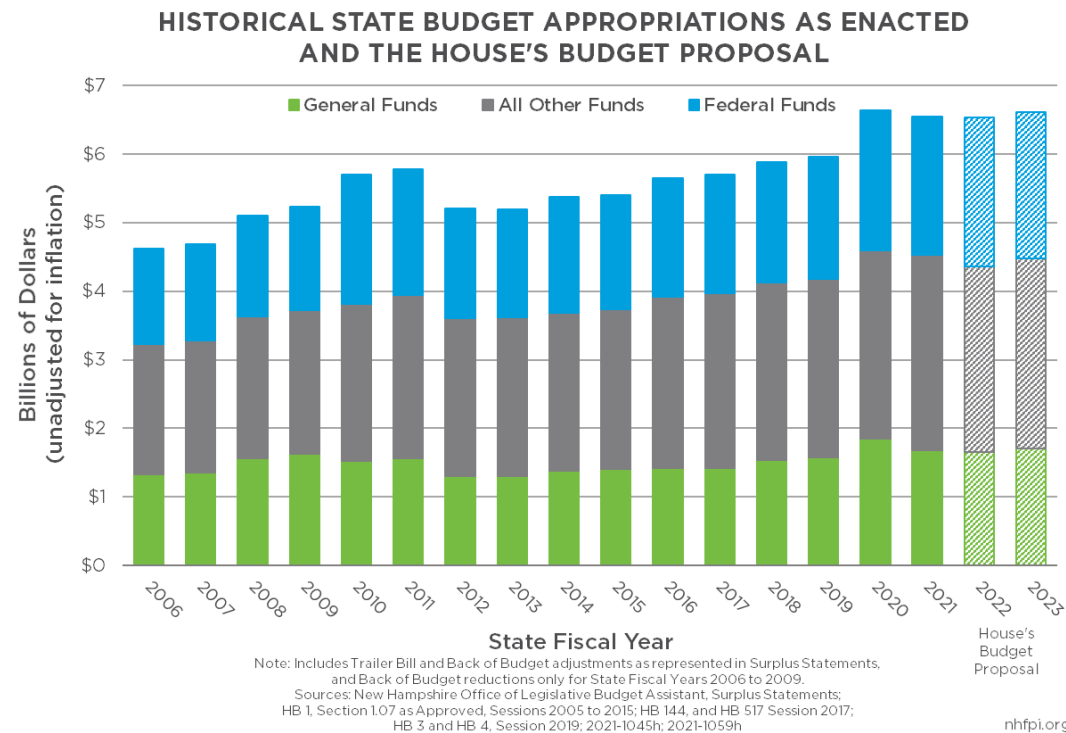


State Rainy Day Fund Balance



Current Budget Cycle

House Passed Budget Data



- House passed budget, if enacted, would spend less over the FY22-23 biennium than the current biennium
 - The current biennium's budget included various one-time expenditures given a revenue surplus

Governor's priorities during the budget cycle

- Voluntary Paid Family Medical Leave
- Student Debt Relief Plan
- Unemployment Insurance Trust Fund Reforms
- University and Community College System Merger
- Department of Energy Proposal
- Increase the Meals and Rentals tax distributions to cities and towns
- Following through on LEACT recommendations
- Critical investments to modernize DHHS processes and structures

Tax Relief to Benefit Everyone

- Business Enterprise Tax (BET) Changes
 - Increase the minimum filing thresholds to \$250k
 - Reduce the tax rate from 0.60% to 0.55%
- Interest & Dividends (I&D) full phase out over the course of 5 years
 - Decreases at 1% per year until 2026 when the tax is repealed outright
- Meals and Rentals reduction to 8.5%
 - Reduces the current rate from 9% to 8.5%
 - Allows for \$15 million increase in revenue sharing with cities and towns over the biennium