

# Budget Visions: 2020-21

*House pushes significant spending, tax increases*

*By Grant D. Bosse*

**SUMMARY:** Gov. Chris Sununu and the Democratic-controlled House of Representatives presented starkly different visions in their proposed budgets. Compared to the governor's budget proposal, the House Finance Committee budget bill spends \$382 million more in General Fund appropriations across Fiscal Years 2019, 2020, and 2021. The House budget also includes \$417 million in higher taxes and fees not included in the governor's budget. The governor would spend the current year's surplus on one-time projects and reserves. House budget writers propose carrying a large surplus forward into the next biennium, boosting the baseline of New Hampshire's operating budget by 14.8% from FY18 to FY22.

## APPROPRIATIONS

The governor's budget proposal would increase current-year spending by \$66 million to account for special appropriations approved by the Legislature or authorized by the Joint Legislative Fiscal Committee<sup>i</sup>. The House proposal includes an additional \$9.7 million in current-year appropriations.

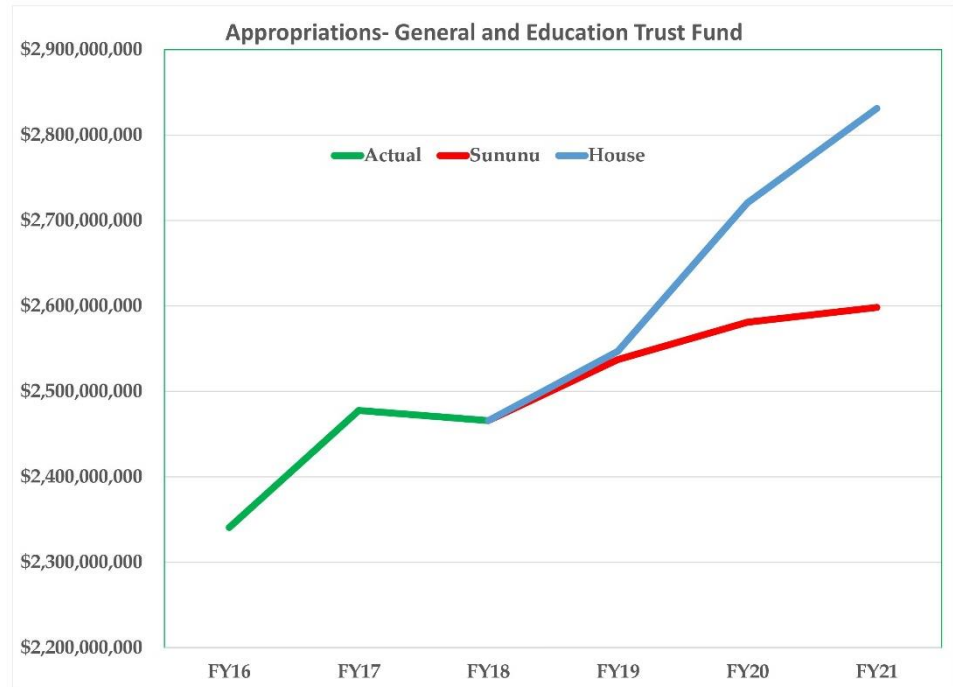
In FY20, the House budget exceeds the governor's proposal by \$139.8 million, a 6.8% annual increase in General Fund spending, and 10.3% higher than FY18. The governor's proposal would increase General Fund spending by \$43.7 million, or 1.7%, in FY20.

**Proposed General and Education Fund Appropriations (millions)<sup>ii</sup>**

	FY16	FY17	FY18	FY19	FY20 <sup>iii</sup>	FY21
<b>Actual</b>	\$2,340.7	\$2,477.7	\$2,465.8			
<b>Governor</b>				\$2,537.2	\$2,580.9	\$2,598.3
<b>House</b>				\$2,546.9	\$2,720.7	\$2,831.2
<b>Difference</b>	-	-	-	\$9.7	\$139.8	\$232.9

In FY21, the House budget increases spending by an additional 4.1%, \$232.9 million more than the governor's budget. This represents a total increase in state General Fund spending of 14.8% compared to FY18. The governor's proposal increases FY21 General Fund appropriations by just 0.7%, for a total increase of 5.4% compared to FY18.

This report tracks changes to baseline General Fund appropriations. Those are the recurring expenditures folded into future budgets. Therefore, this analysis necessarily excludes \$52.9 million that the governor proposes for a newly created Capital Reserve Fund as well as \$194.2 million in FY19 surplus that he proposes spending on one-time items outside the General Fund. (Those are detailed later in this report.) It includes the House's spending on creating and administering its



proposed Family and Medical Leave Plan, but does not include \$168.6 million in anticipated collections and disbursements for that program the House left out of the FY20-21 budget.

**TAXES**

The governor's budget proposal does not rely on new or expanded taxes or fees, with two exceptions. It expands the tobacco tax to cover e-cigarettes (\$7 million annually), and anticipates new revenue from the authorization of sports betting (\$10 million annually). The House budget includes those additions as well as several others detailed below.

**Business Tax Rates**

On January 1, 2019, the BPT rate dropped from 7.9% to 7.7% while the BET went from 0.675% to 0.65%. The House budget proposal would reverse this step and freeze the reductions scheduled for 2020 and 2021. The higher rates would generate an anticipated \$35.6 million in FY20 and \$55.6 million in FY21.

**Capital Gains Tax**

To fund an increase in Adequate Education Grants to cities and towns, the House budget extends the Interest and Dividends Tax to Capital Gains, generating an anticipated \$150 million in FY21.

**Marijuana Sales Tax**

The House budget anticipates the legalization of recreational use of cannabis, and anticipates \$4 million from a tax on the sale of marijuana in FY21.

**Family and Medical Leave**

The House budget replaces the governor's Family and Medical Leave plan, a private-sector partnership across New Hampshire and Vermont insurance carriers, with a state-run program funded by a 0.5% tax on employee wages. This tax is expected to total \$168.6 million for the biennium, according to the fiscal note on the Senate version of the Family and Medical Leave bill.

In total, the House budget would increase taxes and fees by \$416.7 million more than the governor’s budget. That is \$248.1 million in business, capital gains, and marijuana sales taxes plus \$168.6 million from the House Family and Medical Leave Plan’s wage tax.

**REVENUE ESTIMATES**

Revenue estimates from existing sources are fairly close, with the governor’s projections \$79 million higher than those of House budget writers. The key difference is that the governor anticipates FY19 revenues coming in stronger than the House plan, but growing more slowly. The House projects slightly lower current-year revenues, with stronger growth in FY20 and 21.

**SURPLUS**

The governor and the House have very different ideas of how to spend the state’s large budget surplus.

Robust revenues over the past two years, fueled by a huge spike in business tax receipts, generated a surplus of \$95.8 million in FY18. The governor projects this year’s surplus to total \$98.4 million, for a two-year surplus of \$194.2 million. With lower current-year revenues and higher current-year spending, the House is counting on a total surplus of \$173.1 million.

The governor would use the entire surplus in FY19. His budget adds \$15 million to the state’s Rainy Day Fund, puts \$115.5 million into a Capital Infrastructure Reserve to pay for local infrastructure projects, and dedicates \$63.7 million to Targeted School Building Aid.

The House budget adds \$5 million to the Rainy Day Fund in FY19, but carries forward \$168.1 million to cover spending in FY20-21. In fact, neither year of the House budget balances using current-year revenues. The House budget would run a FY20 deficit of \$106.5 million and a FY21 deficit of \$31.9 million if the surplus is not carried forward. Spreading the surplus out over the following two years allows the House to increase General Fund spending much more than the governor. But it also leaves the state with operating expenses that would be unsustainable without new revenue streams.

FY20-21 Revenue Estimates (millions)

Source	Governor <sup>iv</sup>	House <sup>v</sup>	Difference
General and Education Trust Fund			
Business Profits and Business Enterprise Taxes	\$1,574.7	\$1,534.6	-\$40.1
Meals and Rooms Tax	\$725.9	\$749.0 <sup>vi</sup>	\$23.1
Tobacco Tax <sup>vii</sup>	\$410.6	\$401.1	-\$9.5
Transfer from Liquor	\$266.6	\$261.1	-\$5.5
Interest and Dividends Tax	\$211.1	\$203.4	-\$8.1
Insurance	\$252.2	\$252.2	\$0.0
Communications	\$71.0	\$71.8	\$0.8
Real Estate Transfer Tax	\$326.6	\$319.6	-\$7.0
Court Fines and Fees	\$23.6	\$25.6	\$2.0
Securities Revenue	\$91.4	\$87.0	-\$4.4
Beer Tax	\$26.2	\$26.2	\$0.0
Other Revenues	\$157.1	\$140.3	-\$16.8
Medicaid Recoveries	\$7.0	\$6.8	-\$0.2
Transfer from Lottery <sup>viii</sup>	\$192.0	\$192.0	\$0.0
Tobacco Settlement	\$78.9	\$78.9	\$0.0
Utility Property Tax	\$92.9	\$80.6	-\$12.3
Statewide Property Tax	\$726.2	\$726.2	\$0.0
<b>Subtotal (Existing Revenues)</b>	<b>\$5,234.4</b>	<b>\$5,155.4</b>	<b>-\$79.0</b>
Revenue Adjustments			
Source	Sununu	House	Difference
Business tax rate increase	-	\$94.1	\$94.1
Capital Gains Tax	-	\$150.0	\$150.0
Legalized Marijuana	-	\$4.0	\$4.0
Sports Betting	\$10.0	\$10.0	\$0.0
Wage Tax <sup>ix</sup>	-	\$168.6	\$168.6
<b>Subtotal (New Revenues)</b>	<b>-</b>	<b>\$416.7</b>	<b>\$416.7</b>
<b>Total Revenues</b>	<b>\$5,244.4</b>	<b>\$5,562.1</b>	<b>\$337.7</b>
<b>Total Highway Fund</b>	<b>\$497.3</b>	<b>\$497.7</b>	<b>\$0.4</b>
<b>Total Fish and Game Fund</b>	<b>\$25.8</b>	<b>\$25.8</b>	<b>\$0.0</b>

## PROGRAM PRIORITIES

### HHS

The House budget would spend \$77.3 million more than the governor over the biennium on the Department of Health and Human Services<sup>x</sup>, including a new Medicaid dental benefit and higher funding for services for children and the homeless.

The House does not include \$26 million in surplus funds that the governor would designate for a 60-bed secure psychiatric hospital, which would allow patients not charged with crimes, but in need of secured care, to be moved out of the state prison. The House does include several of governor's related proposals.

### Education Funding

The House budget revisited the state's Adequate Education formula, increasing state aid to school districts with higher numbers of students from low-income households, while restoring stabilization grants to cities and towns that received less state aid under the last formula change.

The governor would merge the General Fund with the Education Trust Fund, but this would not change the amount of state money sent to local school districts.

### Higher Education

Both the governor and the House would increase the state's contribution to the University System of New Hampshire. The governor wants to spend \$24 million on workforce initiatives, while the House would increase the state's unrestricted grant to the University System by a total of \$12 million over two years.<sup>xi</sup> The governor would also give \$8 million to USNH and \$5.9 million to the Community College System in one-time capital infrastructure grants from the FY19 surplus.

### Veterans Affairs

The House budget would create a new Department of Military Affairs and Veterans Services. The governor has proposed streamlining veterans services under the Adjutant General of the New Hampshire National Guard, rather than creating a new state department.

### Commuter Rail

The House budget authorizes the state Department of Transportation to use federal funds and federal toll credits for the Capital Corridor project, and appropriates \$1.6 million for demolition of structures on state land that would be used for it.

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<sup>i</sup> One of the challenges in comparing budget proposals, particularly across several years, is that each budget changes how certain pots of money are counted. For instance, the governor's budget merges the Education Trust Fund into the General Fund, while the House budget maintains the ETF separately. In this report, we treat the GF and ETF as one fund under both the governor's and House proposals. We also count one-time spending and a proposed Family and Medical Leave program as outside the General Fund. This and other adjustments are noted below.

<sup>ii</sup> Surplus Statement, Legislative Budget Assistant's Office, April 3, 2019.

<sup>iii</sup> The governor's operating budget would shift transfers from the Lottery Commission from the Education Trust Fund to restricted revenue. We include Lottery in the governor's appropriation totals (\$96m in FY20, \$106m in FY21).

<sup>iv</sup> Governor's Operating Budget, February 14, 2019.

<sup>v</sup> Surplus Statement, Legislative Budget Assistant's Office, April 3, 2019.

<sup>vi</sup> Includes \$200,000 in FY20 and \$800,000 in FY21 from hiring of additional auditors at the Department of Revenue Administration. The governor's budget includes this in its Meals and Rooms revenue estimates, while the House includes it as a revenue adjustment.

<sup>vii</sup> Includes revenue from expanding tobacco tax to e-cigarettes, which the House includes as a revenue adjustment.

<sup>viii</sup> See Note 3. The governor and House Finance Committee include \$10 million in FY21 from authorization of sports betting.

<sup>ix</sup> The House Budget does not include revenues generated by SB 1, the Paid Family and Medical Leave Plan, which would impose a new 0.5% Wage Tax. The House has approved its version of the bill, HB 712, which has been retained by the Finance Committee. Since this program has already received majority support from both chambers, we include it in this report. Source: Fiscal Note to SB 1.

<sup>x</sup> "House Finance Committee Budget Boosts Education and Health Funding", New Hampshire Fiscal Policy Institute, April 5, 2019.

<sup>xi</sup> Compare Report, Legislative Budget Assistant's Office, April 3, 2019.