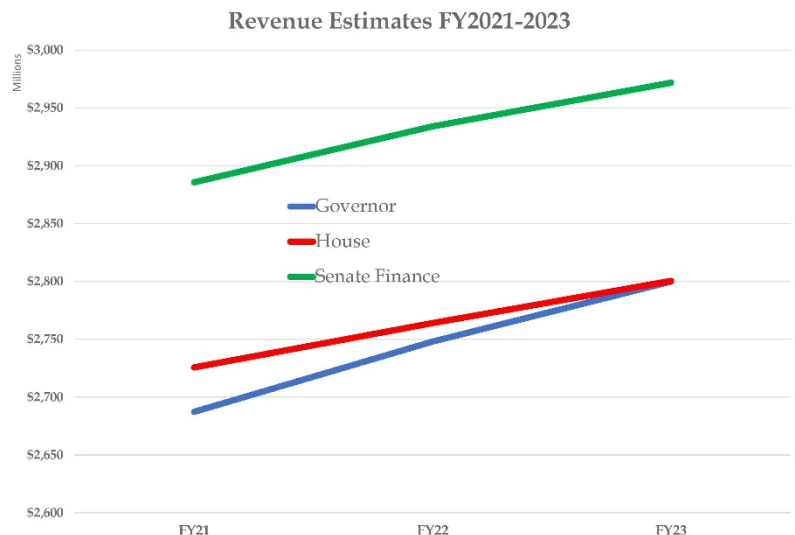


## Budget Visions: 2022-23 The Senate Draft

**SUMMARY:** The 2022-23 state budget approved by the Senate Finance Committee makes some significant changes from the House version. It lowers overall taxes and spending while preserving several of the House's policy initiatives, moving some out of the budget, and adding a few new ones. The Senate's overall two-year state spending package would spend \$150 million less in General and Education Funds than the House version, reduce taxes slightly more, and rely on higher revenue projections.

### ROSY REVENUES

The New Hampshire Senate has a key structural advantage in crafting the state budget: it goes last. The governor must present a budget to the General Court in February. The House has roughly six weeks to make its changes before voting in early April. The Senate Finance Committee finalized its budget package recommendation on May 28, with debate in the full Senate scheduled for June 3. This means that Senate budget writers have the benefit of seeing preliminary revenue reports for April and May, crucial months for state business tax collections, when setting their revenue targets for the next two years.



Source: Legislative Budget Office Surplus Statement, May 28, 2021

With business tax revenues booming, this has allowed the Senate Ways and Means Committee to count on General and Education Trust Fund revenues of \$2.89 billion for the current fiscal year, which runs through June 30. That is \$160 million higher than House estimates and nearly \$200 million more than Gov. Chris Sununu's estimate from February. This higher baseline carries over into higher estimates for FY 2022 and 2023 revenues, even though the governor, House, and Senate project revenues to grow at similar modest rates over the next two years. In total, the higher revenues generated in March, April, and May of this year give the Senate

more than half a billion in General and Education Trust Fund revenue that their House counterparts did not have earlier this Spring.

**TAXES AND SPENDING**

Despite several differences, House and Senate budget writers arrived at similar bottom-line spending numbers. The House version of House Bill 1 would spend \$13.6 billion in total funds, with \$3.46 billion of that in General and Education Trust Funds. The Senate Finance package would spend \$13.5 billion total, \$3.32 billion from the General and Education Trust Funds.

(millions)	Governor	House	Senate Finance
<b>Statewide</b>			
<b>Total</b>	\$13,799.1	\$13,665.7	\$13,542.4
<b>General Funds</b>	\$3,478.2	\$3,463.1	\$3,316.2
<b>DHHS</b>			
<b>Total</b>	\$5,957.4	\$5,820.8	\$5,802.4
<b>General Funds</b>	\$1,794.3	\$1,782.4	\$1,779.1

The Department of Health and Human Services represents roughly half of New Hampshire state government spending and is often at the heart of budget disputes, but this year DHHS spending plans have not changed greatly through the budget process. Notably, the House and Senate versions of the budget are withing \$2.3 million for DHSS General Fund spending.

Tax cuts have been part of the budget since the governor started the budget process in February. All three versions phase out the Interest and Dividends Tax. All three would cut the Meals and Rooms tax on restaurant and hotel bills from 9% to 8.5%. And all three would continue the phased-in reductions in the state’s two largest businesses taxes, the Business Enterprise Tax and Business Profits Tax, which have been a priority for Republican lawmakers over the past decade. All three also include an increase in the filing threshold for businesses paying the Business Profits Tax. The House inserted a one-time \$100 million reduction in the Statewide Education Property Tax (SWEPT) in FY23.

With higher revenues at their disposal, the Senate Finance Committee was able to provide greater tax relief to New Hampshire taxpayers. The Senate bill clarifies that loans received by New Hampshire businesses through the federal Paycheck Protection Program (PPP) are not subject to state business taxes. This would prevent a potential increase of \$70 million in business tax liability over the next two years. The House did not include PPP tax treatment in its budget, though the House Ways and Means Committee is recommending passage of a bill including this provision when the House meets on June 3.

The Senate Finance Committee would also increase the amount of Meals and Rooms Tax revenues shared with New Hampshire municipalities to 30%, up from the 22% shared over most of the past decade, but short of the 40% originally promised. This provision would result in an additional \$188 million going to cities and towns over the next two years.

Other Senate additions include:

- \$25 million to create an Affordable Housing Fund
- \$16 million to fund negotiated pay raises for state employees
- \$15.6 million for Environmental Services State Aid Grants
- \$30 million to build a Forensic Psychiatric Hospital
- \$35 million for Education Relief Aid to local school districts

## **POLICY DIFFERENCES**

The budget trailer bill, House Bill 2, has always been a popular vehicle for policy proposals either unrelated or indirectly related to state expenditures. This year is no exception. In fact, these policy disagreements have drawn more debate than the fiscal issues at the heart of the budget.

**Education Freedom Accounts:** The Senate Finance Committee has added the provisions of SB 130, the Education Freedom Accounts Act, to HB 2. This would provide state scholarships for low-income New Hampshire families seeking alternatives to their local district school. Eligible families earning up to 300% of the federal poverty level (\$79,000 for a family of four) would apply to independent scholarship organizations, which would administer Education Freedom Accounts, funded through the state's per pupil Adequate Education Grants. The accounts could pay for a wide range of approved education expenses, including non-public school tuition, approved independent or community college courses, computer hardware and software, or transportation. The House has tabled its version of the bill.

**Emergency Powers:** The House included a provision amending how the Legislature can terminate states of emergency declared by the governor. The Senate Finance Committee took this language out of the budget, but the full Senate has approved a separate bill (HB 417) addressing the issue. That bill is likely headed to a Committee of Conference to work out differences in the House and Senate approaches to emergency powers.

**Late-Term Abortion Limit:** The Senate tabled HB 625, which included a limit of abortions performed after the 24<sup>th</sup> week of pregnancy, and will instead consider the provision as part of HB 2. New Hampshire is currently one of just seven states with no limits on late-term abortions.

**Critical Race Theory:** While Republicans are broadly opposed to the teaching of Critical Race Theory in New Hampshire schools, the House and Senate have taken different approaches to banning it. The House budget would bar "divisive concepts" in New Hampshire classrooms and public workplaces. The Senate would strengthen the state's anti-discrimination statutes, giving students or public employees a cause of action if taught that one race is inherently inferior or superior to another.

## **TIMETABLE**

The Senate takes up HB 1 and HB 2 on Thursday, June 3, along with HB 25, the Capital Budget, and HB 15, a bill to apply the Meals and Rooms Tax to online rental car and hotel booking sites. If approved, the budget bills will head back to the House on June 10, which routinely requests a Committee of Conference to hammer out differences between the two chambers. That committee must sign off on a compromise budget package by June 17, with the House and Senate considering all Committee of Conference reports on June 24.

The current fiscal year ends on June 30, with the new budget taking effect on July 1, 2021.