



# POLICY MATTERS

*Using Information and Ideas to Transform Public Policy*

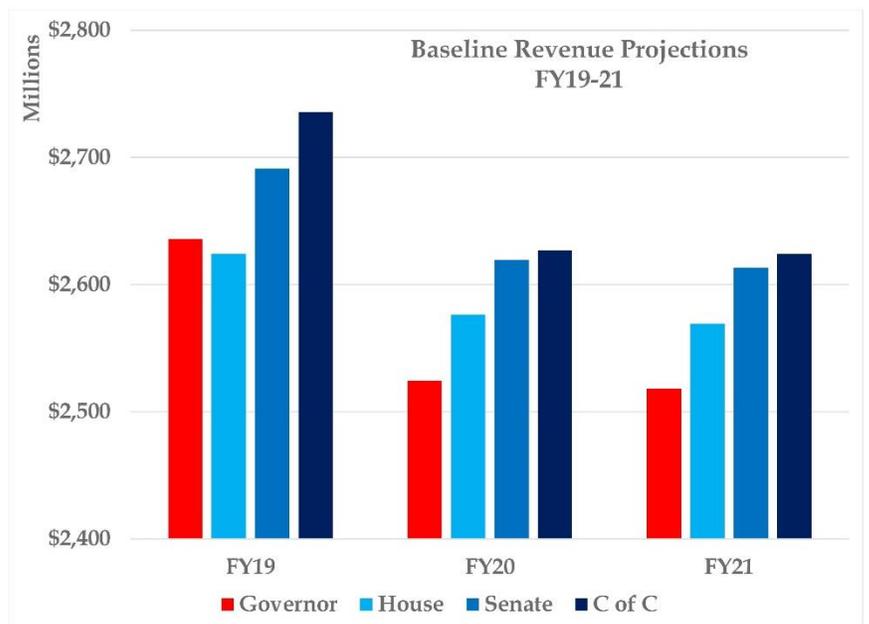
## Budget Visions: 2020-21 *Legislature vs. The Governor*

**SUMMARY:** The Legislature’s budget spends \$497.3 million more than Gov. Chris Sununu’s budget in General and Education Trust Fund appropriations in the 2019 and 2020-21 fiscal years. This report examines the three major differences between these competing budget visions: total General and Education Trust Fund appropriations, business tax rates, and disposition of the current-year surplus.

### APPROPRIATIONS

In past budget battles, revenue estimates were a major obstacle. This year, the Democratically controlled Legislature’s budget includes higher revenue estimates than the Republican governor’s, but that difference is largely explained by the calendar rather than partisan disagreement.

The Committee of Conference had the benefit of seeing actual revenue from this spring, April<sup>i</sup> and May<sup>ii</sup>, which showed continued strong performance from the state’s primary business taxes, the Business Profits Tax (BPT) and Business Enterprise Tax (BET). With these revenues in the books, legislative budget writers were able to count on Fiscal Year 2019 revenues coming in higher than the governor’s budget anticipated back in February. The Legislature and governor agree that FY18-19 revenues benefitted from a short-term spike tied to changes in the federal tax code. They agree that this spike will likely fade over the next two years, leading to a drop in FY20-21 revenues from existing sources. The governor projects a slightly larger drop in the next two years, but almost all of the difference in revenue projections stems from the higher starting point in FY19.



While the budget approved by the New Hampshire House started within \$10 million of Gov. Chris Sununu’s current-year appropriations level, the Committee of Conference budget would increase 2019 spending by \$130.6 million more than the governor’s budget.<sup>iii</sup>

The governor’s budget included \$66 million in FY19 spending above the FY18-19 budget appropriation approved in 2017 to account for appropriations approved since then. The House-Senate Committee of Conference included \$206.7 million in appropriations adjustments for FY19, starting the state’s two-year operating budget at a much higher base than the governor’s proposal<sup>iv</sup>.

**Proposed General and Education Fund Appropriations (millions)**

	FY16	FY17	FY18	FY19	FY20	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>Legislature</b>				\$2,667.8	\$2,727.9	\$2,818.0
<b>Difference</b>	-	-	-	\$130.6	\$147.0	\$219.7

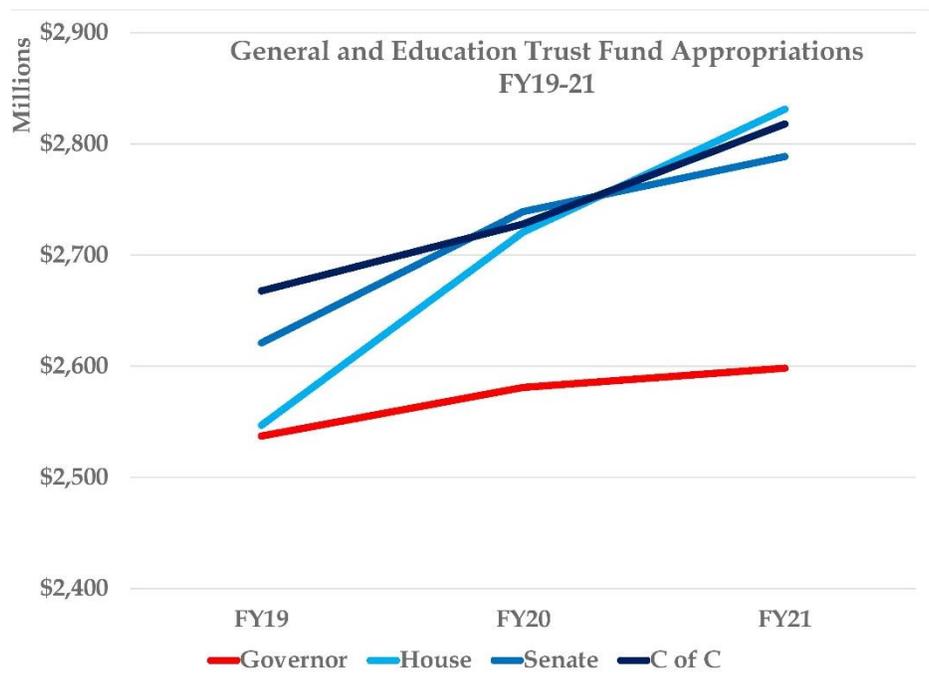
These competing budget visions diverged even faster as they move into Fiscal Years 2020 and 2021. As the accompanying chart shows, the governor’s budget increased operational spending slightly, in line with the anticipated drop in revenues from existing sources. (The governor’s budget proposed eliminating the Education Trust Fund as a separate account and folding it into the General Fund. For this reason, we focus here on the combined General Fund and Education Trust Fund appropriations in each version of the budget.)<sup>v</sup>

All told, the Committee of Conference budget spends \$130.6 million more than the governor in FY19 and \$366.7 million more in the FY20-21 biennial budget.

**BUSINESS TAX RATES**

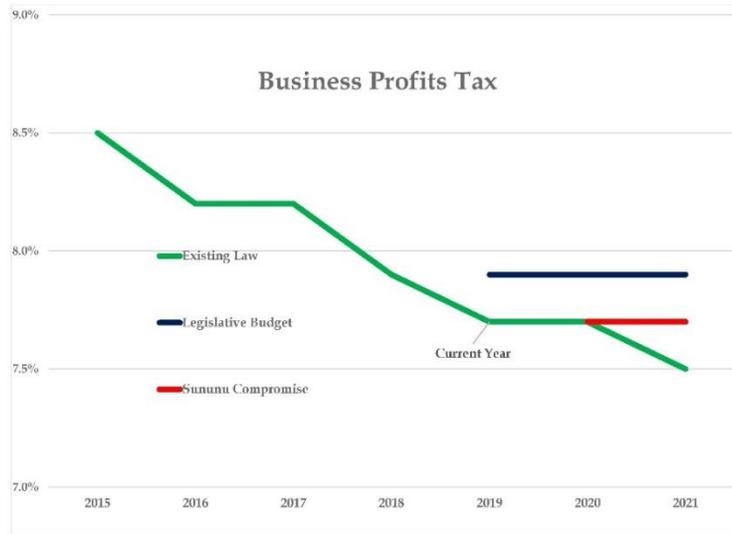
Four years ago, a dispute over business tax rates led to a budget veto and a short-term continuing resolution to fund New Hampshire government past the end of the fiscal year on June 30. Then, it was a

Republican Legislature pushing for reductions in the BPT and BET, with Democratic Gov. Maggie



Hassan opposed. Hassan eventually relented, signing a series of reductions in the BPT and BET into law in exchange for a revenue trigger on the second step of those tax cuts.

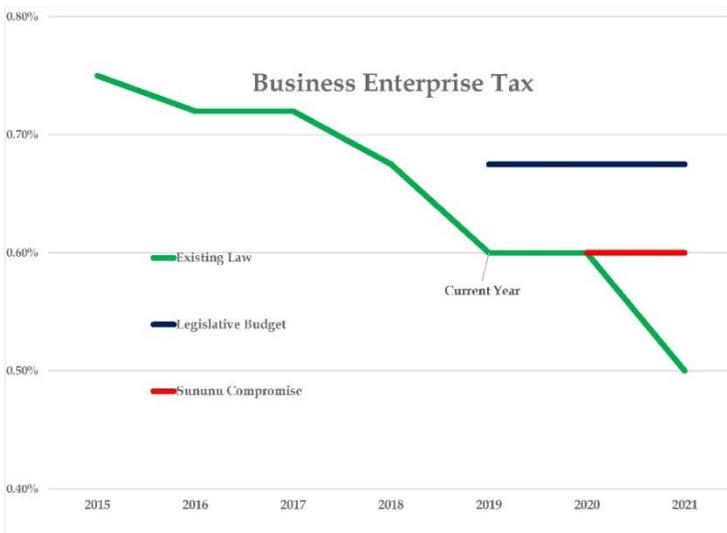
This year, the parties are reversed, with the Democratic Legislature pushing for business tax rate



increases, with the Republican Sununu insisting on no tax increases in the budget.

On January 1, 2019, the BPT rate dropped from 7.9% to 7.7% while the BET went from 0.675% to 0.6%. Both taxes are scheduled under current law to drop again in 2021.

The Legislature’s budget would reverse the most recent rate cuts and rescind the reductions scheduled for 2020 and 2021. Legislative budget writers estimate that the higher rates would generate \$37.6 million in FY20 and \$55.5 million in FY21, for a total increase in business taxes of \$93.1 million.



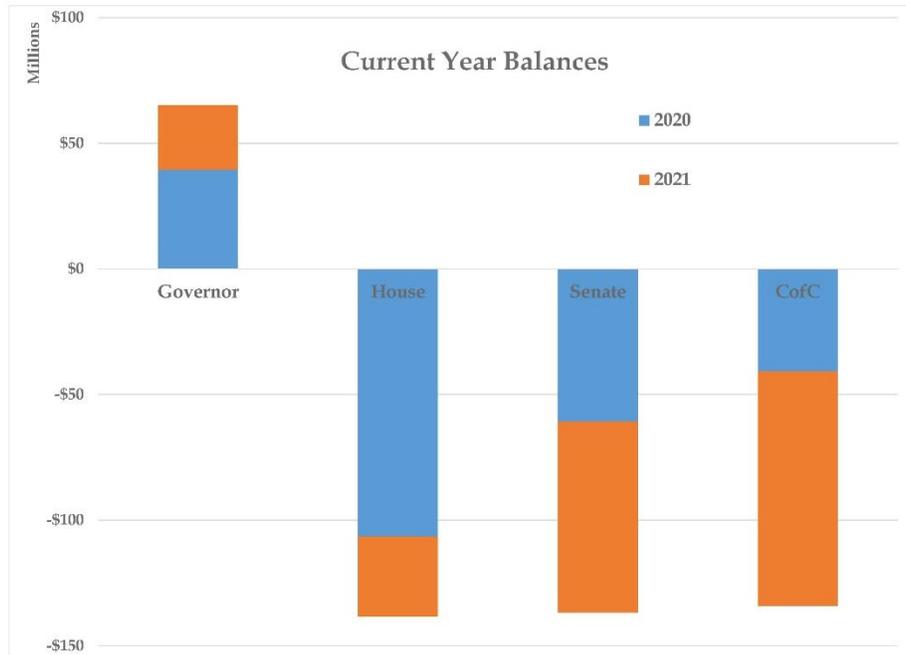
Legislative budget writers claim that their proposal would not raise rates, but freeze them at FY18 levels. They argue that businesses won’t pay taxes under the new rates until spring of 2020. This is not accurate.

The rate reductions were effective on January 1, 2019, and will remain at those rates until January 1, 2021 unless the statute is amended. Firms with BPT and BET liabilities of more than \$200 must make quarterly estimated payments on the 15<sup>th</sup> day of April, June, September and December. So, almost all New Hampshire firms with BPT and BET liabilities have already paid half of their FY19 taxes under the current rates. Increasing those rates would be a tax increase.

Gov. Sununu has signaled that he would veto any budget that increases tax rates, but he has signaled that he would compromise and agree to let the Legislature repeal the scheduled 2021 rate reductions in the BPT and BET. The above charts show the BPT and BET rates under current law, under the Legislative budget, and under the governor’s suggested compromise.

## STRUCTURAL DEFICIT

The governor’s budget proposes spending \$194.2 million in 2019 surplus funds, but on one-time projects rather than in the operating budget. The governor’s budget includes \$63.7 million in targeted school aid and \$115.5 million for a newly created Capital Infrastructure Reserve. The governor would add \$15 million to the state’s Rainy Day Fund this year, and \$27.3 million by the end of FY21, compared to the Legislature’s \$8.5 million.



Where the governor would spend most of the surplus on one-time expenditures (or save it,) the Legislature counts on that money to fuel growth in the state’s operating budget. The Committee of Conference budget carries \$158.4 million in FY19 surplus into FY20, spending \$40.8 million of it.

The Legislature would carry the remaining \$117.7 million in 2019 surplus funds into FY21, spending \$93.4 million of it.

By moving this one-time surplus forward and using it to pay for operating spending the Legislature’s budget creates a structural deficit of \$134.2 million in FY20-21.

By contrast, the governor’s budget balances current-year spending with current-year revenues in both FY20 and FY21, creating surpluses of \$39.5 million and \$25.7 million respectively, for a total anticipated surplus of \$65.2 million at the end of the two-year budget.

The governor would target this to the Capital Infrastructure Reserve, again using one-time surpluses for one-time spending in the current year.

<sup>i</sup> State of NH Monthly Revenue Focus, April 2019, [https://das.nh.gov/accounting/FY%2019/Monthly\\_Rev\\_April.pdf](https://das.nh.gov/accounting/FY%2019/Monthly_Rev_April.pdf)

<sup>ii</sup> State of NH Monthly Revenue Focus, May 2019, [https://das.nh.gov/accounting/FY%2019/Monthly\\_Rev\\_May.pdf](https://das.nh.gov/accounting/FY%2019/Monthly_Rev_May.pdf)

<sup>iii</sup> Legislative Budget Assistant’s Office, Surplus Statement, June 20, 2019

[http://www.gencourt.state.nh.us/LBA/Budget/operating\\_budgets/2020\\_2021/C%20of%20C/CofC%20Surplus%20Statement%206-20-19.pdf](http://www.gencourt.state.nh.us/LBA/Budget/operating_budgets/2020_2021/C%20of%20C/CofC%20Surplus%20Statement%206-20-19.pdf)

<sup>iv</sup> Governor’s Operating Budget, February 19, 2019

<sup>v</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).