



State of New Hampshire

DEPARTMENT OF ADMINISTRATIVE SERVICES
OFFICE OF THE COMMISSIONER
25 Capitol Street – Room 120
Concord, New Hampshire 03301

Charles M. Arlinghaus
Commissioner
(603) 271-3201

JOSEPH B. BOUCHARD
Assistant Commissioner
(603) 271-3204

January 16, 2020

Governor Christopher T. Sununu
State House
Concord, NH 03301

Sen. Donna Soucy
Senate President
State House
Concord, NH 03301

Rep. Stephen Shurtleff
Speaker of the House
State House
Concord, NH 03301

Dear Gov. Sununu, Sen. Soucy, and Speaker Shurtleff,

The Commissioner of Administrative Services is directed by RSA 9:5 II to provide in even numbered years an updated estimate of the total income for the state in the current fiscal year and in the next fiscal year. This estimate of annual totals differs from the "Monthly Revenue Focus" in that the Focus is a snapshot of a moment in time. Various anomalies and timing issues can combine to make some totals less predictive of where the state may end the fiscal year. The revenue estimate attached here is meant to inform policymakers as they consider legislation and other policy changes.

Based on information provided by the various agencies in charge of collecting each state tax, General and Education fund revenues are estimated to be as budgeted in the state fiscal year ending June 30, 2020. The preliminary outlook for state fiscal year 2021, according to state agency estimates, is approximately \$9.2 million below the budgeted amount.

Business Tax Rates Unlikely To Change

Important for many policy makers, the revenue levels at which business tax rates would automatically increase or automatically decrease will not likely be reached. The variance would have to be more than \$157 million in either direction which remains unlikely.

The estimate for the current fiscal year is difficult because of two changes to business taxes this year, described as GILTI and conformity, and because of the unusual tax activity of the last two years that makes it hard to estimate which portion of revenues constitutes a base to grow from and which portion is anomalous and therefore expiring.

Below are some of the assumptions behind the largest revenue sources along with an administrative and operational suggestion that would not affect revenues but would make reporting easier and clearer.

Business Taxes

The most important and difficult item to predict is always business taxes (the combined total of Business Profits Tax and Business Enterprise Tax). The Department of Revenue Administration (DRA) has not chosen to change the amount estimated to be collected. Nonetheless those taxes bear watching. Business Tax revenues through the first six months of the year exceeded the month-by-month plan by \$13 million. Over ten years the December total was an average of 43% of final collections. This year's plan supposes the December total to be 40%, in part because of the changes described below.

GILTI and Conformity

Changes associated with Global Intangible Low Tax Income (GILTI) and changing our business tax to conform with more recent versions of the federal tax code (conformity) will start in the second six months of this fiscal year. DRA had not done official estimates for the specific revenue attributable to these two changes but the budget surplus statements estimated the net result of these changes as \$5 million and \$21.2 million, respectively, in Fiscal Year 2020. The next six months, particularly the Spring, will help increase our understanding of these changes and allow the second fiscal year to have estimates based in part on experience.

What follows is a brief description of other notable variances. As always, we would be pleased to engage in further discussion or provide any additional information that would be helpful.

- **Meals and Rooms Tax (-\$5.3m)**: The Department of Revenue Administration estimates that M&R revenues will be \$5.3 million short of the budget. The estimate in the budget had predicted stronger growth than the high end of the DRA range of estimates. DRA's current estimate is also that Meals and Rooms revenues in Fiscal Year 2021 will fall an additional \$9.3 million short of budgeted estimates.
- **Real Estate Transfer Tax (+\$5.3m)**: Offsetting the M&R shortfall, DRA's estimate for the strongly performing Real Estate Transfer Tax is that it will end Fiscal Year 2020 \$5.3 million ahead of budget and an additional \$4.6 million ahead in Fiscal Year 2021. Historically, the Real Estate Transfer Tax is one of the most volatile state taxes. The new estimate for FY2020 would be a 7.7% increase over last year.
- **Transfer from Liquor (-\$2.7m)**: The Liquor Commission projects that the transfer to the general fund will be \$2.7 million less than budgeted. Proceeds from a land sale were expected to offset operating expenses but that land sale has been delayed. They suggested no change to the Fiscal Year 2021 budgeted amount.
- **Securities Revenue (-\$2.0m)**: The Secretary of State's office had revised their estimate of securities revenue in the summer but that change did not make it into the final budget document. They project revenues of \$43.0 million in each of the two fiscal years. That total is \$2.0 million lower than budget in Fiscal Year 2020 and \$1.3 million lower in Fiscal Year 2021. It represents a small increase over the \$42.6 million received last year.
- **Lottery Revenues (no change)**: The budget as passed did not predict a date certain for the start of a new sports betting program. Instead it budgeted revenue only in the second fiscal year. The first fiscal year was considered developmental and unpredictable. The program has now started but not with all channels operating or robust information about the seasonality of interest. There will be revenue gains realized from that source but at this time Lottery anticipates them being offset by slow revenues in high margin products whose sales are driven by unpredictable jackpot sizes. They are comfortable with current estimates without changes.

The attached spreadsheet collects the estimates provided by the agencies responsible for collecting each tax. It also includes spreadsheets for the Highway Fund and Fish and Game Fund. In general, an agency has not made a change without a strong basis for change. It is also rare for an agency to suggest a variance if the variation is relatively small.

Operational Recommendation: After collection, business taxes are allocated in part to the General Fund and in part to the Education Trust Fund. To complicate matters, the BPT and the BET are allocated in different ratios. Further, those ratios aren't consistent and change when rates change. During a time with different rates for different fiscal years, estimates may come in at one rate the same day a return appears at a different rate.

The allocation ratio, though complex, is insignificant. At the end of the year a transfer from the general fund makes up any difference -- the funds are balanced as one not separately. Instead of competing ratios, a transparent simplification could allocate both taxes, regardless of rate changes, to be split 60/40 between the two funds for the current and all future fiscal years. Such change would alter nothing in this report or the state budget and have no policy implication whatsoever. It would merely eliminate a pointless complication that causes a lot of unnecessary work. The Department respectfully submits this request for your consideration.

Respectfully,

A handwritten signature in black ink, appearing to read "Charles M. Arlinghaus". The signature is fluid and cursive, with a large initial "C" and "A".

Charles M. Arlinghaus
Commissioner

**STATE OF NEW HAMPSHIRE
UNRESTRICTED REVENUE - GENERAL & EDUCATION TRUST FUNDS
RSA 9:5 ESTIMATE JANUARY 2020
FISCAL YEAR 2020 & 2021 ANNUAL PLAN & AGENCY ESTIMATES
WITH FY 2019 ACTUALS AND FY 2019/2020 YTD DECEMBER ACTUALS/PLAN**

(reported on a cash basis, dollars in millions)

**Note: This is a summary compiled by DAS;
however, the revenues are collected and projected
by the Agencies.**

	1	2	3	4	5	6	7	8	9	10	11
Description	FY 2019 YTD Dec-Actuals	FY 2020 YTD Dec-Actuals	FY 2020 YTD Dec-Plan	FY 2019 Actuals (CAFR)	FY 2020 Annual Plan	FY 2020 Adj. Estimate	Adj. Est. Over (Under) Plan	FY 2021 Annual Plan	FY 2021 Adj. Estimate	Adj. Est. Over (Under) Plan	
1 Business Profits Tax	\$ 245.4	\$ 208.4	\$ 197.8	\$ 473.5	\$ 501.1	\$ 501.1	\$ -	\$ 496.3	\$ 496.3	\$ -	
2 Business Enterprise Tax	163.4	125.2	122.6	332.1	294.0	294.0	-	289.7	289.7	-	
3 Business Taxes - Subtotal	408.8	333.6	320.4	805.6	795.1	795.1	-	786.0	786.0	-	
4 Meals & Rooms Tax	193.7	202.0	203.9	350.1	368.5	363.2	(5.3)	386.9	377.6	(9.3)	
5 Tobacco Tax	104.8	103.4	102.7	202.4	198.0	198.0	-	201.2	201.2	-	
6 Transfer from Liquor	76.1	77.2	75.4	133.5	132.8	130.1	(2.7)	133.8	133.8	-	
7 Interest & Dividends Tax	24.8	29.3	29.8	114.7	116.9	116.9	-	116.9	116.9	-	
8 Insurance Tax	11.8	11.6	11.3	135.1	125.1	125.1	-	130.9	130.9	-	
9 Communications Tax	21.1	19.6	19.9	41.2	40.7	40.7	-	39.8	39.8	-	
10 Real Estate Transfer Tax	89.5	98.5	92.9	152.9	159.4	164.7	5.3	158.4	163.0	4.6	
11 Court Fines & Fees	6.4	6.9	6.2	13.2	12.9	13.7	0.8	12.7	13.7	1.0	
12 Securities Revenue	2.4	2.1	2.7	42.6	45.0	43.0	(2.0)	44.3	43.0	(1.3)	
13 Utility Consumption Tax **	3.0	-	-	-	-	-	-	-	-	-	
14 Beer Tax	7.0	6.9	7.0	12.8	13.1	13.0	(0.1)	13.1	13.0	(0.1)	
15 Transfer from Lottery	41.6	41.5	38.5	105.6	100.4	100.4	-	110.4	110.4	-	
17 Tobacco Settlement	-	-	-	44.6	39.7	39.7	-	39.2	39.2	-	
18 Utility Property Tax	18.0	20.0	20.8	39.5	43.4	43.4	-	44.2	44.2	-	
19 State Property Tax	-	-	-	363.1	363.1	363.1	-	363.1	363.1	-	
20 Recoveries	1.6	1.6	1.9	4.4	3.7	4.8	1.1	3.3	3.3	-	
21 Subtotal of Identified	1,010.6	954.2	933.4	2,561.3	2,557.8	2,554.9	(2.9)	2,584.2	2,579.1	(5.1)	
22 % of Total	98%	97%	98%	97%	97%	97%		97%	97%		
23 All Others *	22.1	26.3	19.9	83.3	68.4	71.2	2.8	71.8	67.7	(4.1)	
25 TOTAL	\$ 1,032.7	\$ 980.5	\$ 953.3	\$ 2,644.6	\$ 2,626.2	\$ 2,626.1	\$ (0.1)	\$ 2,656.0	\$ 2,646.8	\$ (9.2)	

* Represents approximately 150 different revenue sources

** The Utility Consumption Tax was repealed effective January 1, 2019 per HB517 (Ch.156:224, Laws of 2017)

Note - The Plan for FY 2020 and FY 2021 represents revenues included within HB3 (Ch. 345, Laws of 2019) plus Schedule 2/4 Revenue Adjustments per the LBA Surplus Statement, excluding \$68.1 million in the Education Fund for FY 2020. It is anticipated that this will be appropriated to the Department of Education and not be recorded as a cash revenue transaction.

**STATE OF NEW HAMPSHIRE
UNRESTRICTED REVENUE - HIGHWAY AND FISH & GAME FUNDS
RSA 9:5 ESTIMATE JANUARY 2020
FISCAL YEAR 2020 & 2021 ANNUAL PLAN & AGENCY ESTIMATES
WITH FY 2019 ACTUALS AND FY 2019/2020 YTD DECEMBER ACTUALS/PLAN**
(reported on a cash basis, dollars in millions)

**Note: This is a summary compiled by DAS;
however, the revenues are collected and
projected by the Agencies.**

1 2 3 4 5 6 7 8 9 10 11

Description	FY 2019 YTD Dec-Actuals	FY 2020 YTD Dec-Actuals	FY 2020 YTD Dec-Plan	FY 2019 Actuals (CAFR)	FY 2020 Annual Plan	FY 2020 Adj. Estimate	Adj. Est. Over (Under) Plan	FY 2021 Annual Plan	FY 2021 Adj. Estimate	Adj. Est. Over (Under) Plan
1 Highway Categories*:										
2 Gasoline Road Toll	\$ 66.0	\$ 66.4	\$ 65.7	\$ 127.6	\$ 127.0	\$ 127.0	\$ -	\$ 129.1	\$ 129.1	\$ -
3 Miscellaneous	0.3	-	0.1	0.6	0.2	0.2	-	0.2	0.2	-
4 Motor Vehicle Registrations	35.7	36.4	31.8	71.9	66.6	66.6	-	66.6	66.6	-
5 Motor Vehicle Operators	4.1	4.7	4.2	8.2	8.7	8.7	-	3.4	3.4	-
6 Inspection Station Fees	1.6	2.1	1.5	3.3	2.9	2.9	-	2.8	2.8	-
7 Motor Vehicle Miscellaneous Fees	3.8	7.3	7.6	8.1	16.0	16.0	-	15.4	15.7	0.3
8 Certificate of Title	3.0	3.4	2.9	6.5	6.2	6.2	-	6.3	6.3	-
9 Total Highway	114.5	120.3	113.8	226.2	227.6	227.6	-	223.8	224.1	0.3
10 Fish & Game Categories**:										
12 Fish & Game Licenses	4.2	4.3	3.7	9.8	9.7	9.7	-	9.7	9.7	-
13 Fines and Penalties	-	-	0.1	0.1	0.1	0.1	-	0.1	0.1	-
14 Miscellaneous Sales	0.2	0.4	1.9	0.9	2.2	2.2	-	2.2	2.2	-
15 Federal Recoveries Indirect Costs	0.4	0.3	0.4	0.9	0.9	0.9	-	0.9	0.9	-
16 Total Fish & Game	4.8	5.0	6.1	11.7	12.9	12.9	-	12.9	12.9	-
18 TOTAL HIGHWAY AND FISH & GAME	\$ 119.3	\$ 125.3	\$ 119.9	\$ 237.9	\$ 240.5	\$ 240.5	\$ -	\$ 236.7	\$ 237.0	\$ 0.3

* The Highway Fund Plan for FY 2020 and FY 2021 represents revenues included within HB3 (Ch. 345, Laws of 2019) reduced by \$33.3 million (FY20) and \$33.7 million (FY21) of revenue associated with the cost of collection and other adjustments per HB4 (Ch. 346). The Plan does not reflect a \$4.0 million general fund transfer to the highway fund per Ch. 346:311. It is anticipated this will be appropriated to the highway fund and not recorded as a cash revenue transaction.

** The Fish & Game Fund Plan for FY 2020 and FY 2021 represents revenues included within HB3 (Ch. 345, Laws of 2019). It does not reflect funding from the General Fund.