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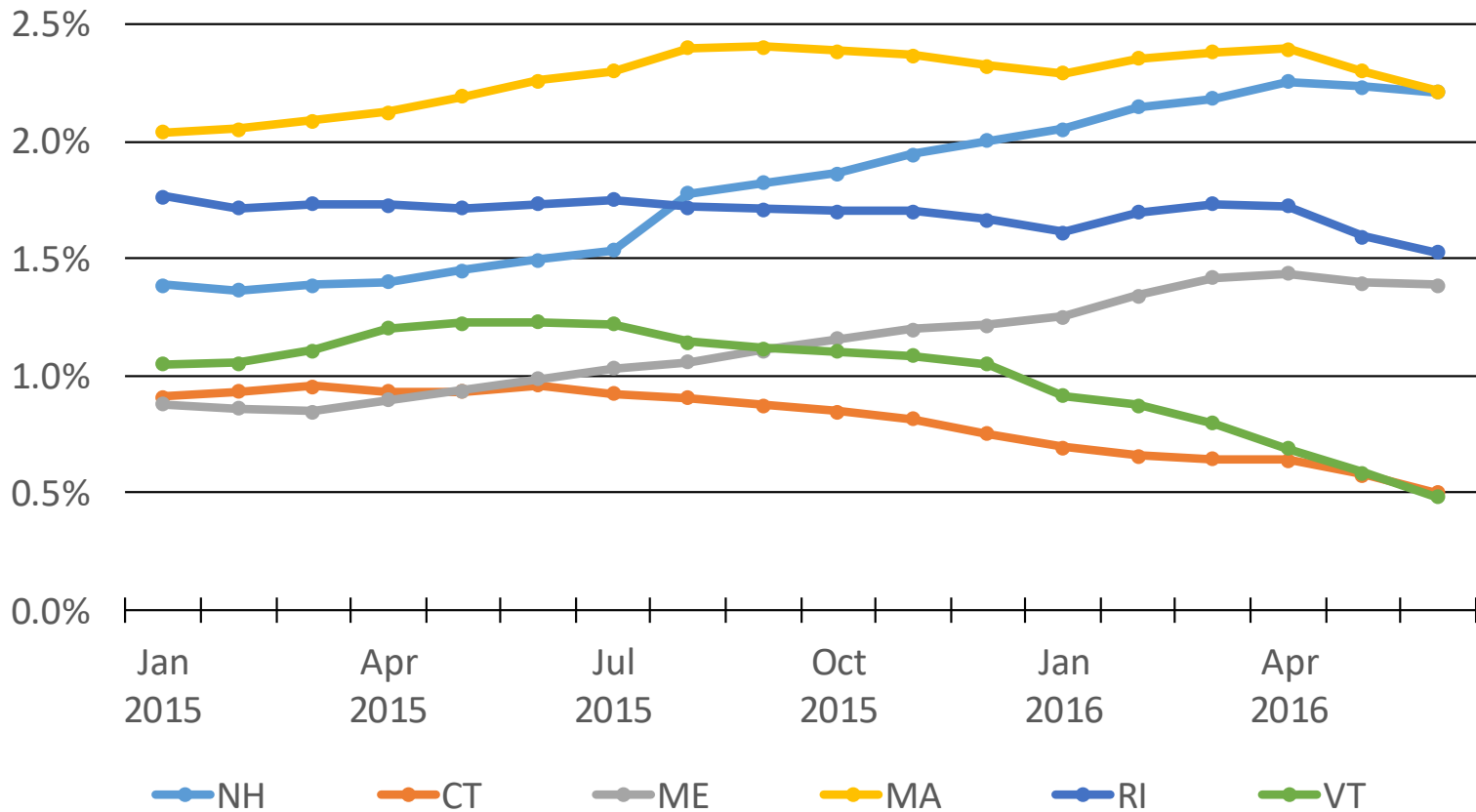
The NH Economy, Revenues, and Predicting the Future

Steve Norton
Executive Director

“...to raise new ideas and improve policy debates through quality information and analysis on issues shaping New Hampshire’s future.”

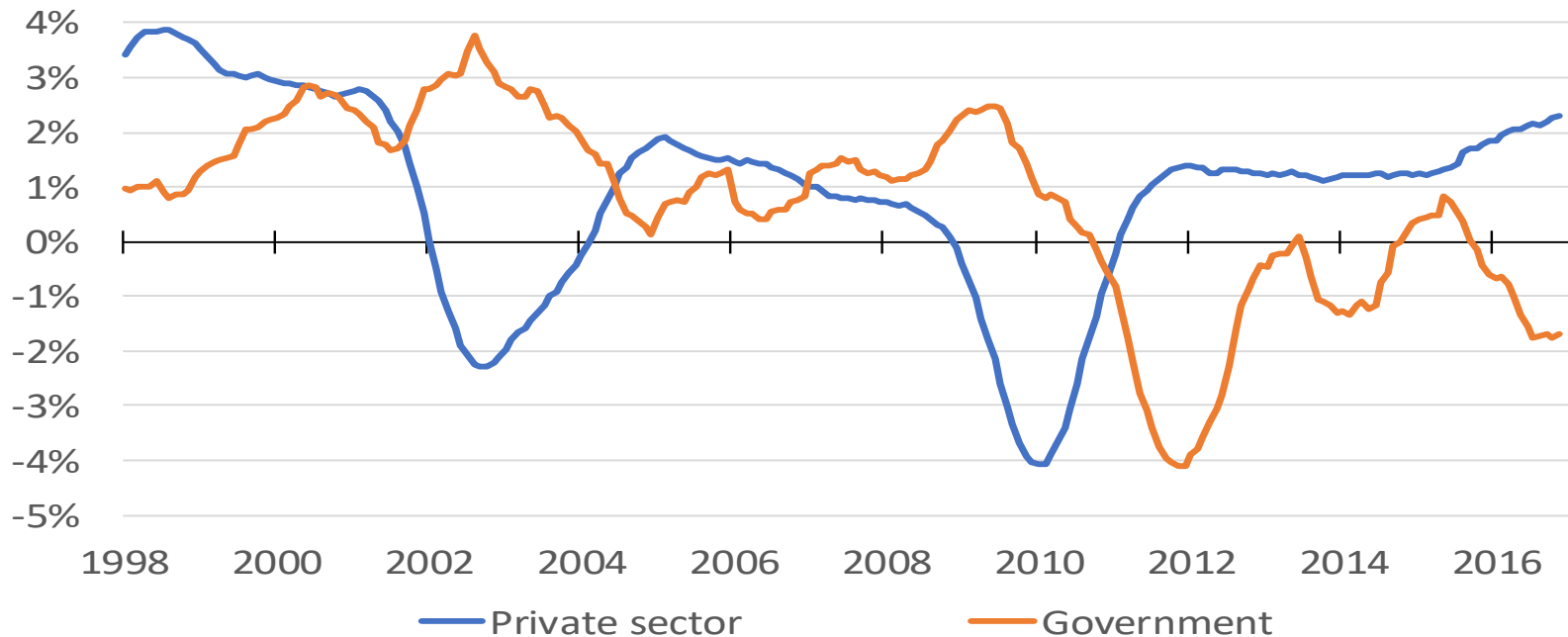
The Business sector is adding jobs at a health clip ...

Private sector employment, % change year ago (12-month moving average)



With Private Growth Offsetting Government declines ...

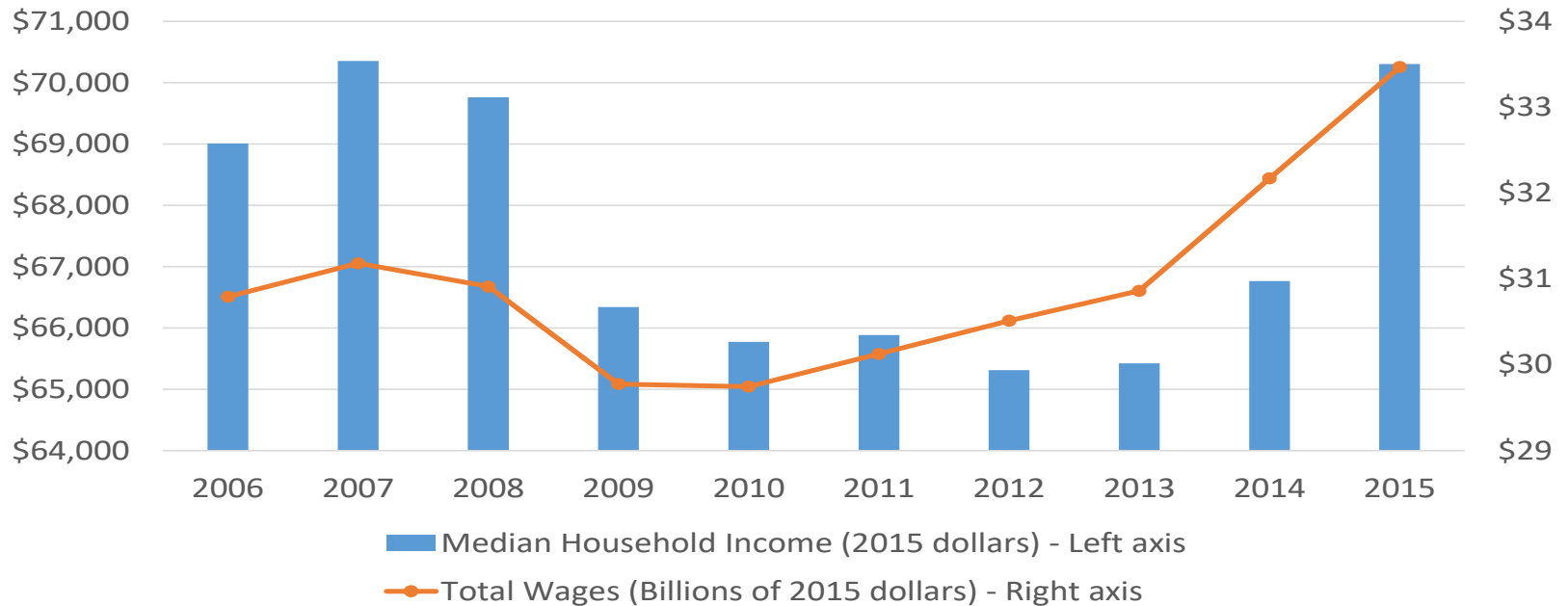
New Hampshire employment, % change from year ago



...With Virtually Every Industry Demanding More Labor.

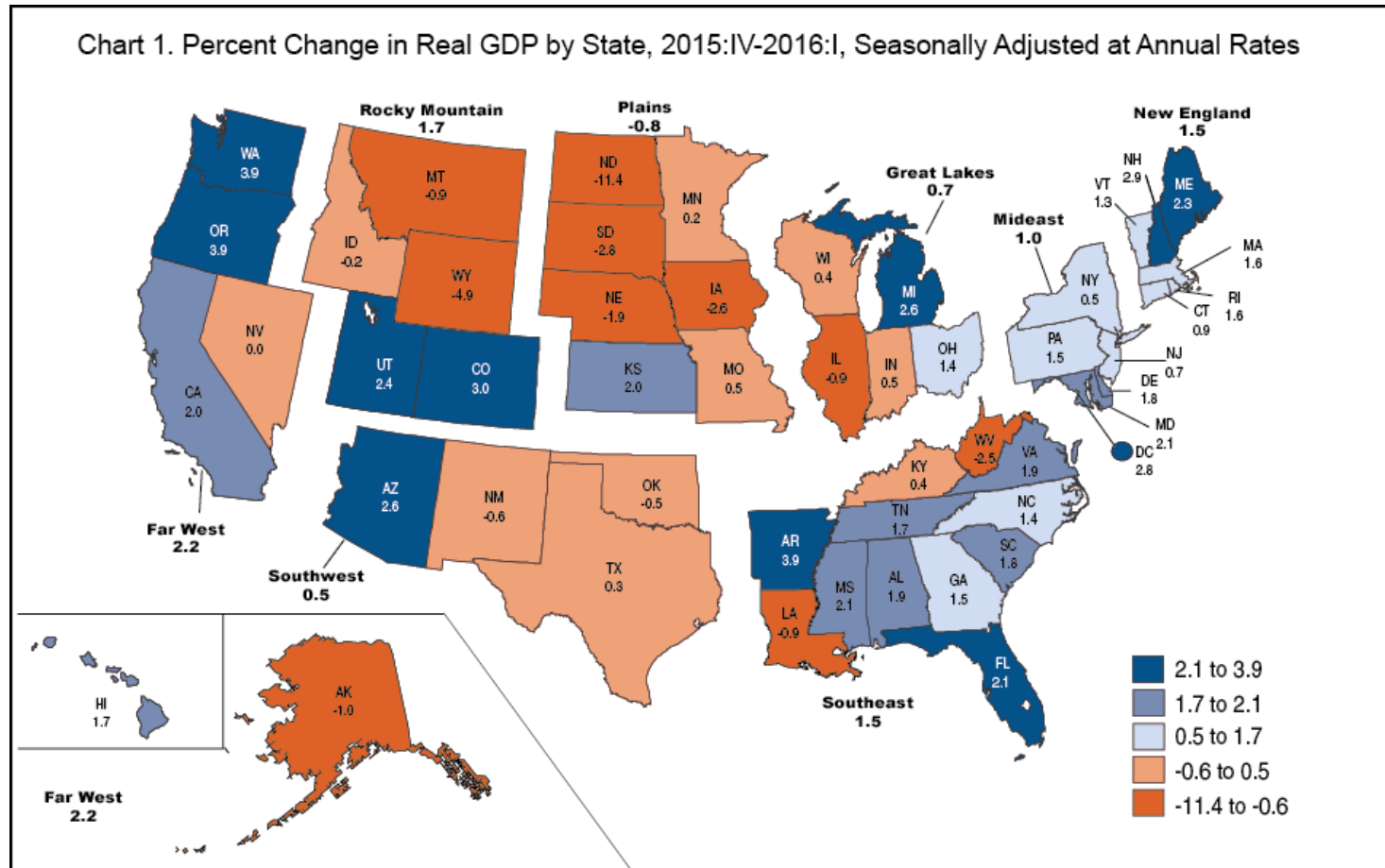
Change in private sector jobs by industry - June 2014 to June 2016			
Administrative and Support Services	3,107	Educational Services	1,465
Healthcare and Social Assistance	2,726	Manufacturing	1,403
Construction	2,268	Finance and Insurance	1,305
Accommodation and Food Services	2,186	Transportation and Warehousing	1,112
Professional, Scientific, and Technical Services	1,578	Retail Trade	714

...And Income Figures Corroborating the Positive Story...



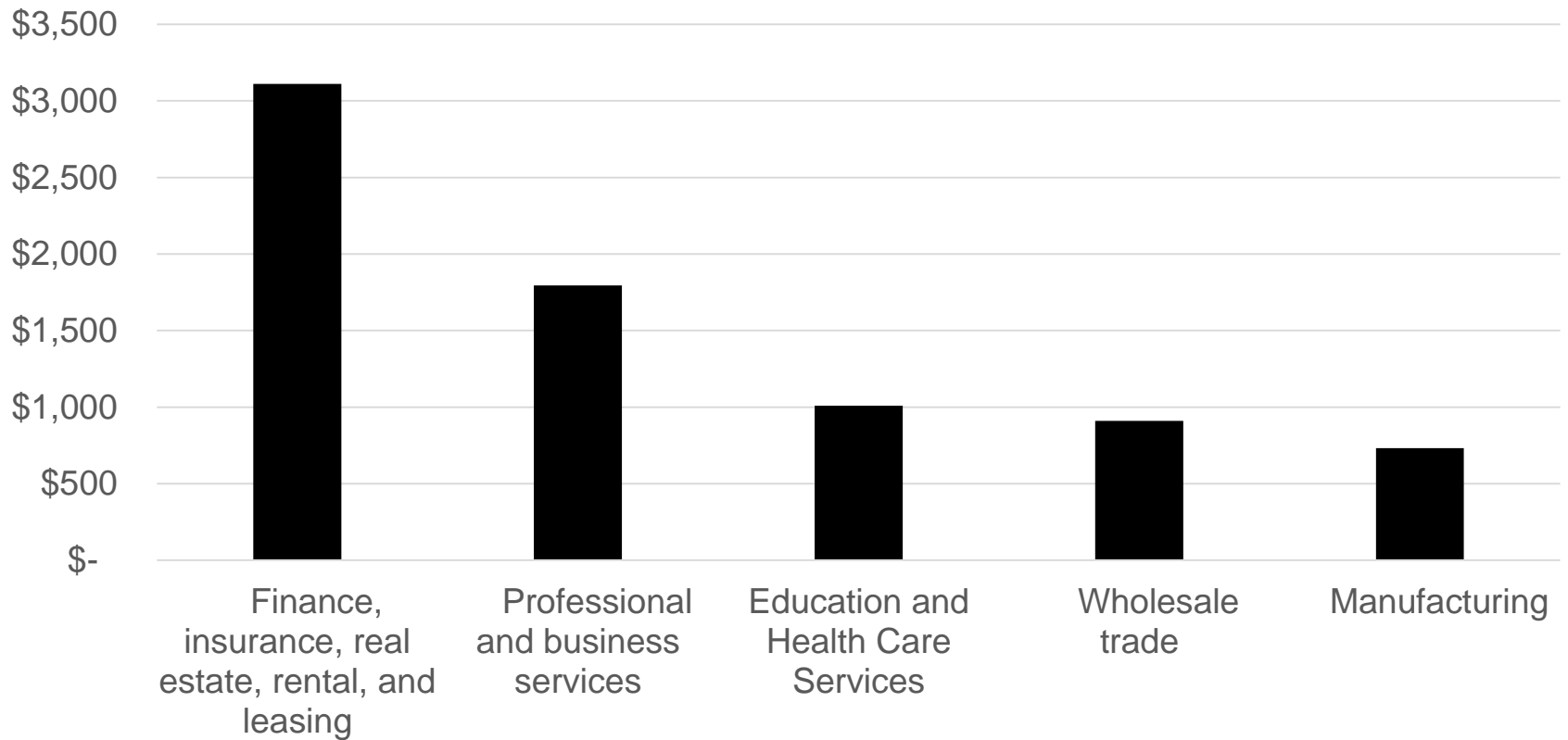
Note: Nominal data adjusted for inflation via the Personal Consumption Expenditures Price Index
Sources: Census Bureau (American Community Survey); Bureau of Labor Statistics (QCEW)

It's only one quarter, but NH identified as 5th Fastest Growing Economy during first quarter of 2016

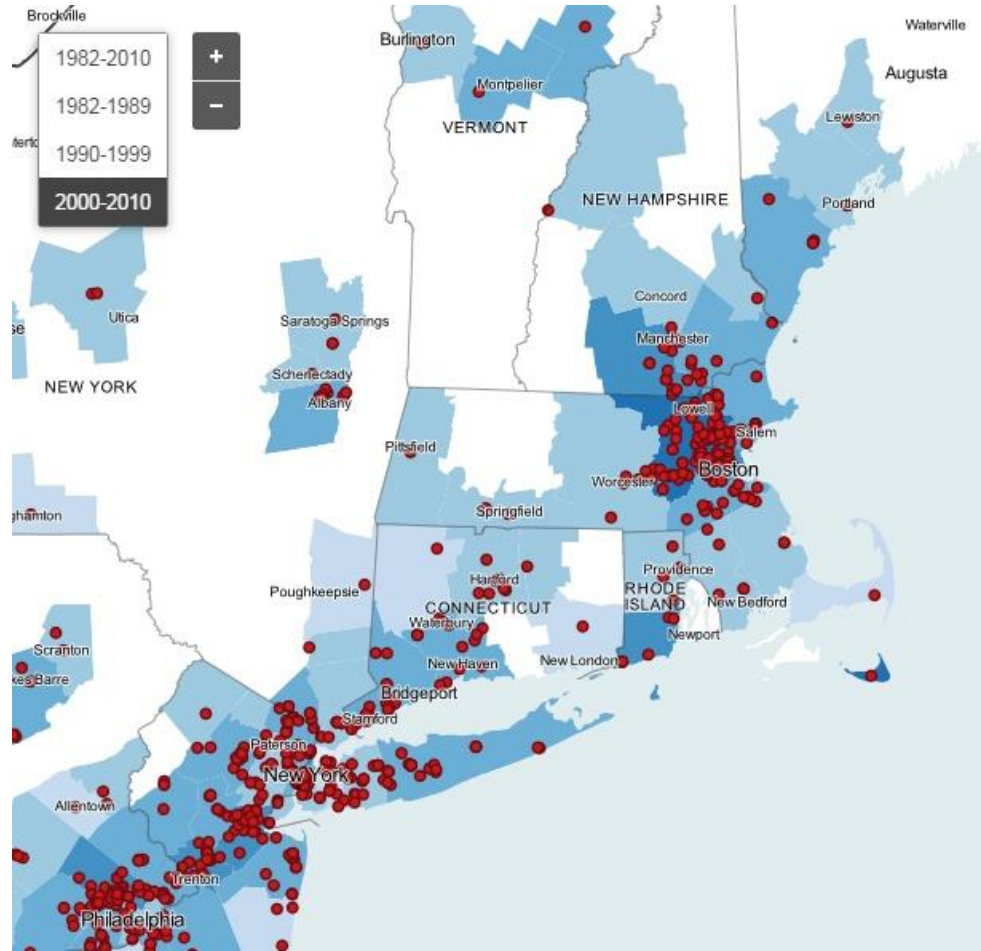


Growth in NH's Economy

Change in Gross Domestic Product in New Hampshire by Industry
(2010-2015) - Millions



For its size, the Nashua-Manchester Corridor is in the top 10 with fastest growing companies

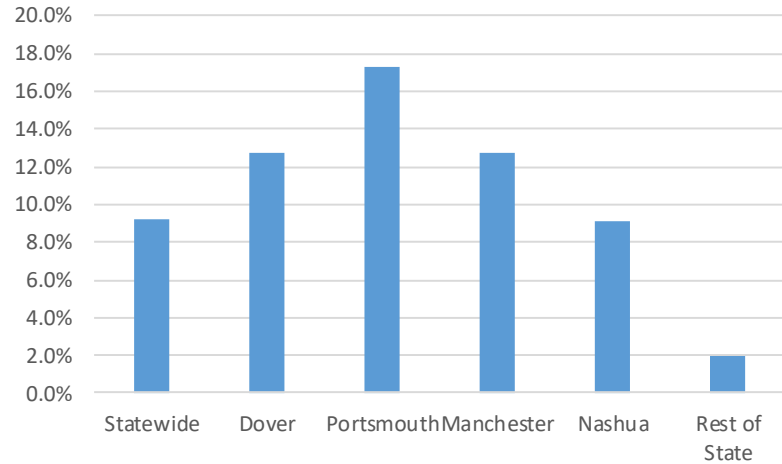


City based recovery

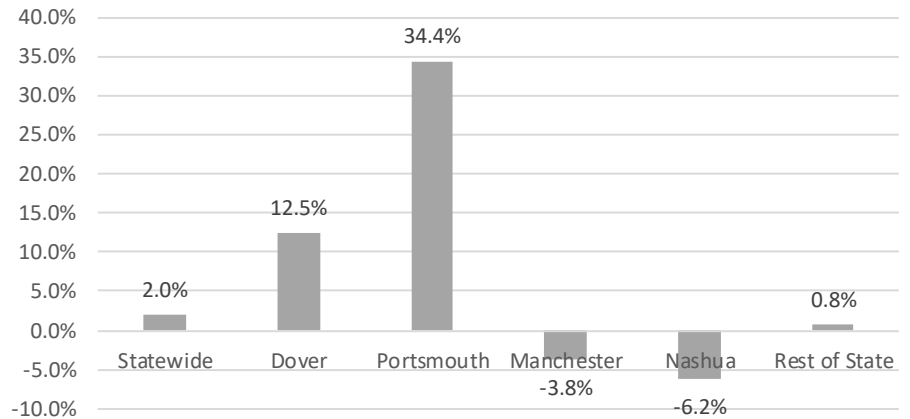
Seacoast is a bright spot

Jobs

Total Job Growth 2010-2015

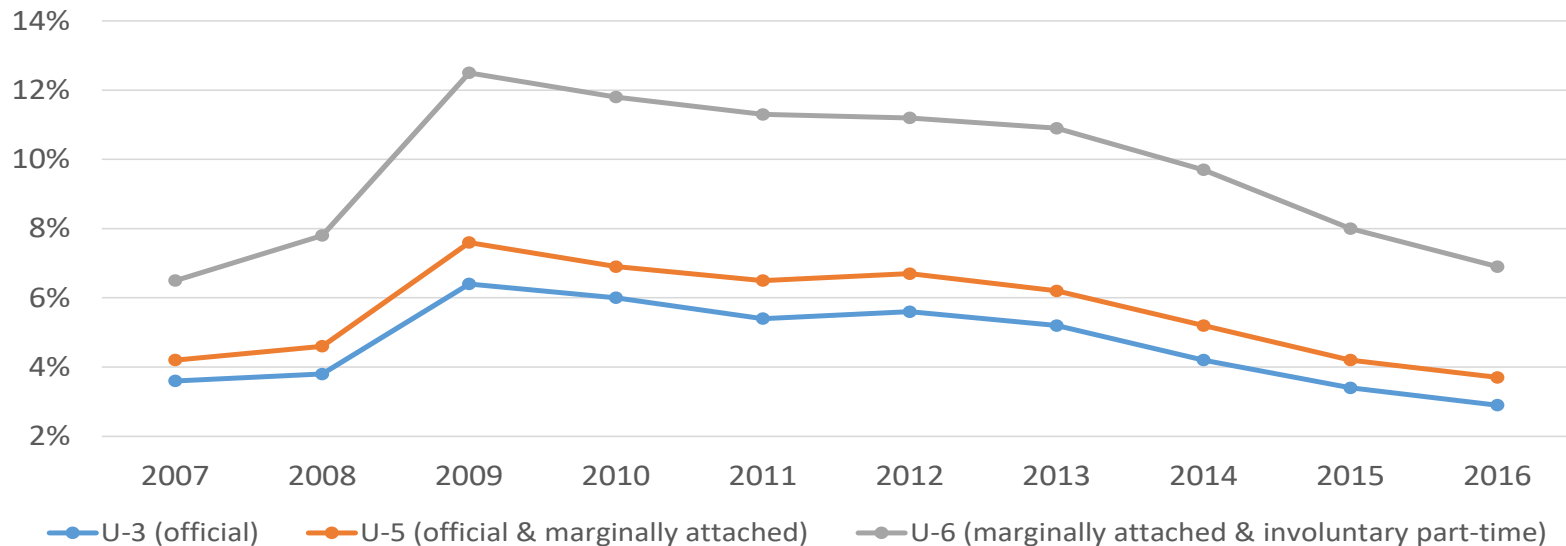


Manufacturing
2010-2015



The Pool Of Unemployed Has Considerably Shrunk And Is Historically Small

Various measures of unemployment - New Hampshire



Note: 2016 data is a four-quarter moving average from 2015Q4 to 2016Q3

Source: New Hampshire Employment Security

Trumponomics

- Introduces more uncertainty
- Immigration? Tighter immigration rules may result in even tighter labor markets.
- Repeal and Replace the ACA? \$500 million in federal subsidies and Medicaid payments at risk.
- Barriers to trade? Exports represent a relatively small share of NH's production, but are high wage and high value add.
- Infrastructure? Insufficient information to really understand potential impact. Stimulus + full employment = Inflation.

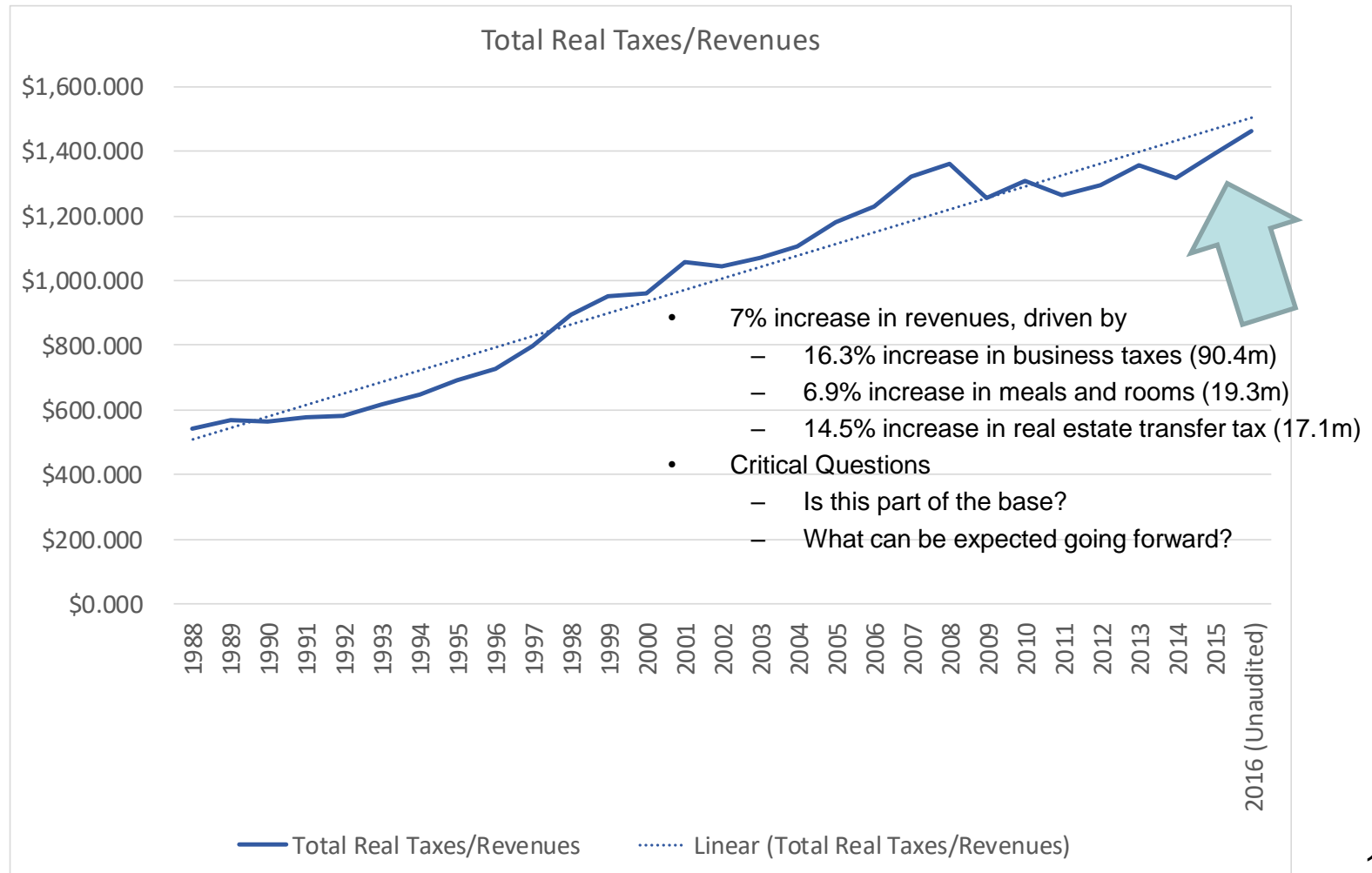
How to translate this into revenues?

State Budget = \$183.2 Million in Equity at end of 2016

State of New Hampshire
General and Education Fund Balances
Fiscal Years 2013-2016 Unaudited
(S in millions)

	FY 2013	FY 2014			FY 2015			FY 2016 (Unaudited)		
	Total	General	Education	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	\$ 13.8	\$ 72.2	\$ -	\$ 72.2	\$ 21.9	\$-	\$ 21.9	\$ 49.0	\$-	\$ 49.0
Additions:										
Unrestricted Revenue	2,275.6	1,322.3	850.9	2,173.2	1,397.7	869.0	2,266.7	1,530.6	928.8	2,459.4
MTBE Litigation Judgment 10% to RDF	-	-	-	-	-	-	-	30.7	-	-
Total Additions	\$ 2,275.6	\$ 1,322.3	\$ 850.9	\$ 2,173.2	\$ 1,397.7	\$ 869.0	\$ 2,266.7	\$ 1,561.3	\$ 928.8	\$ 2,459.4
Deductions:										
Appropriations Net of Estimated Revenues	(2,286.9)	(1,305.4)	(959.3)	(2,264.7)	(1,325.3)	(961.3)	(2,286.6)	(1,423.7)	(960.7)	(2,384.4)
Special Session Reductions	-	-	-	-	-	-	-	-	-	-
Less Lapses	61.6	54.4	5.0	59.4	67.7	13.7	81.4	40.3	-	40.3
Total Net Appropriations	\$ (2,225.3)	\$ (1,251.0)	\$ (954.3)	\$ (2,205.3)	\$ (1,257.6)	\$ (947.6)	\$ (2,205.2)	\$ (1,383.4)	\$ (960.7)	\$ (2,344.1)
GAAP and Other Adjustments	8.1	(18.9)	1.4	(17.5)	(20.5)	-	(20.5)	(37.2)	3.8	(33.4)
-	-	-	-	-	-	-	-	-	-	-
Current Year Balance	\$ 58.4	\$ 52.4	\$ (102.0)	\$ (49.6)	\$ 119.6	\$ (78.6)	\$ 41.0	\$ 140.7	\$ (28.1)	\$ 81.9
Fund Balance Transfers (To)/From:										
Rainy Day Fund	-	-	-	-	(13.0)	-	(13.0)	(70.7)	-	(70.7)
Liquor Commission	-	-	-	-	-	-	-	-	-	-
Highway Fund	-	-	-	-	-	-	-	-	-	-
Fish and Game Fund	-	(0.7)	-	(0.7)	(0.9)	-	(0.9)	(0.7)	-	-
Education Trust Fund	-	(102.0)	102.0	-	(78.6)	78.6	-	(28.1)	28.1	-
Undesignated Fund Balance, June 30	\$ 72.2	\$ 21.9	\$ -	\$ 21.9	\$ 49.0	\$-	\$ 49.0	\$ 90.2	\$ -	\$ 60.2
Reserved for Rainy Day Account	\$ 9.3	\$ 9.3	\$ -	\$ 9.3	\$ 22.3	\$-	\$ 22.3	\$ 93.0	\$-	\$ 93.0
Total Equity	\$ 81.5	\$ 31.2	\$ -	\$ 31.2	\$ 71.3	\$-	\$ 71.3	\$ 183.2	\$ -	\$ 153.2

General Fund Growth



What about 2017?

- 2016 finished with \$183 in equity!
- Growth in key areas continues, but more slowly
 - Business taxes, 4.5% year over year
 - Meals and Rooms, 5.2% year over year
 - Real estate transfer, 7.1% year over year
- Total year over year growth at 2.5% over plan through December 2016

What is the 2017 Base?

NHCPPS 2017 Projections (Through December)

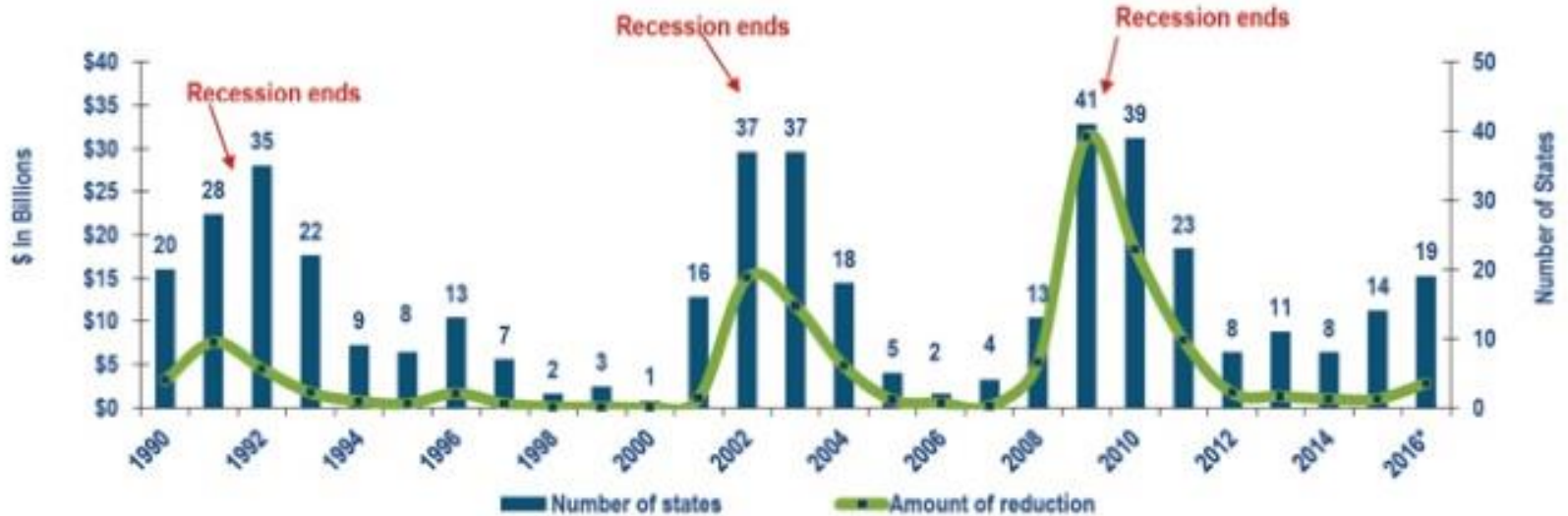
Business Profits Tax	\$401.9
Business Enterprise Tax	\$267.3
Meals & Rooms	\$313.6
Tobacco	\$213.9
Liquor	\$148.9
Interest & Dividends	\$94.1
Insurance	\$135.9
Communication	\$48.1
Real Estate Transfer	\$142.6
Estate & Legacy	\$0.0
Courts	\$13.4
Securities Revenue	\$43.4
Utilities	\$6.0
Beer	\$13.1
Dog Racing and Gaming	\$3.5
Other	\$80.8
Sweepstakes Net Income	\$76.9
Tobacco Settlement	\$39.0
Utility Property Tax	\$41.8
Property Tax Retained Locally	\$363.1
Recoveries	\$5.4
TOTAL GENERAL and Education FUNDS	\$2,452.7

- Used the Center's short term revenue projection model to estimate 2017 (based on data through December).
- Business taxes, Meals and Rooms, and real estate taxes all significantly exceeding plan estimates.
- Results in \$165 million ahead of plan

Predicting the future (two
years out) is more
difficult

State Budget Makers Across the Country are Nervous

ENACTED BUDGET CUTS MADE AFTER THE BUDGET PASSED

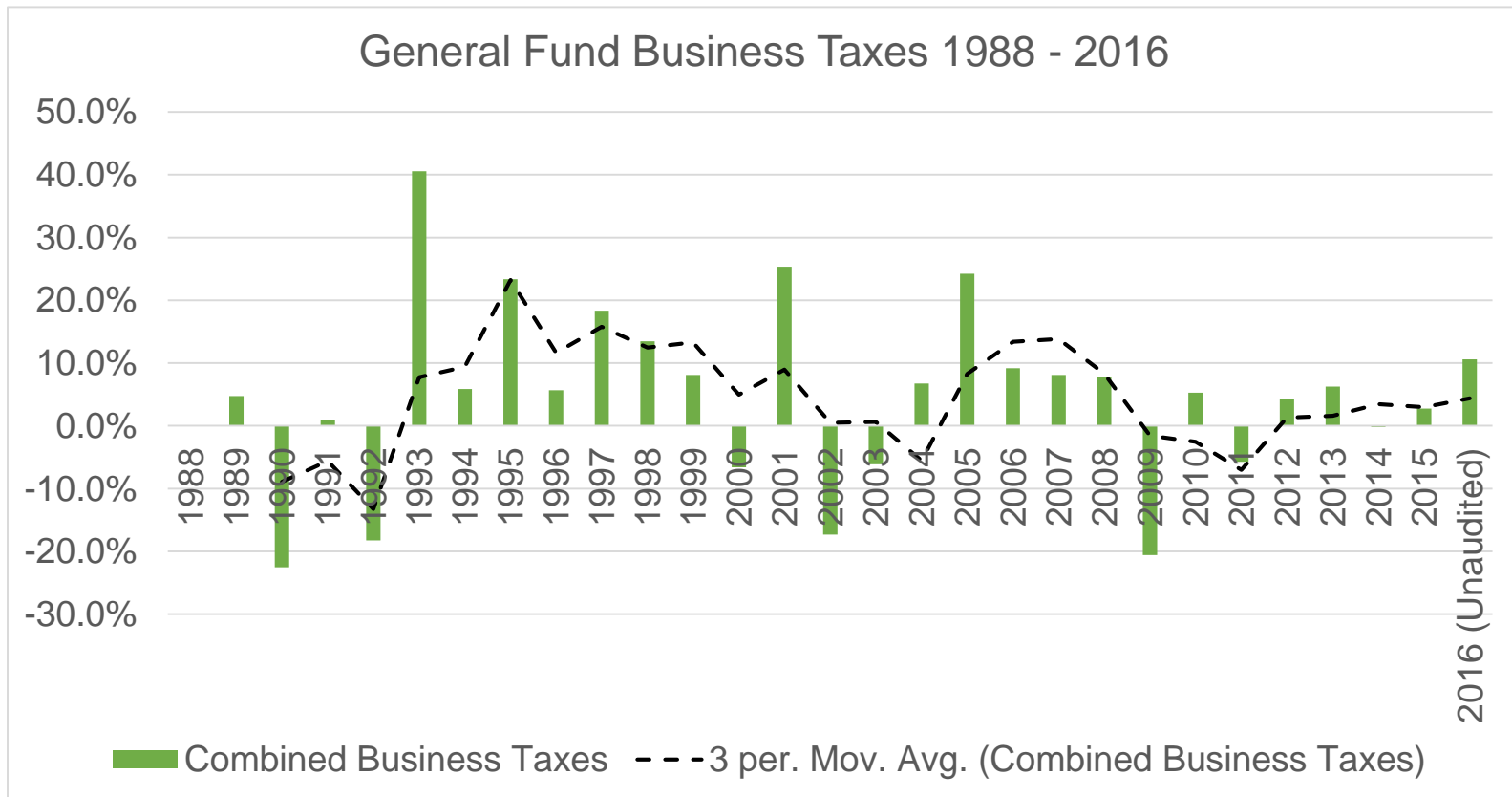


Source: NASBO Fiscal Survey of States

Are we getting to the end of the business cycle?

Forecast? More of the
same for 2017, and likely
2018, constrained by
VERY low
unemployment rate

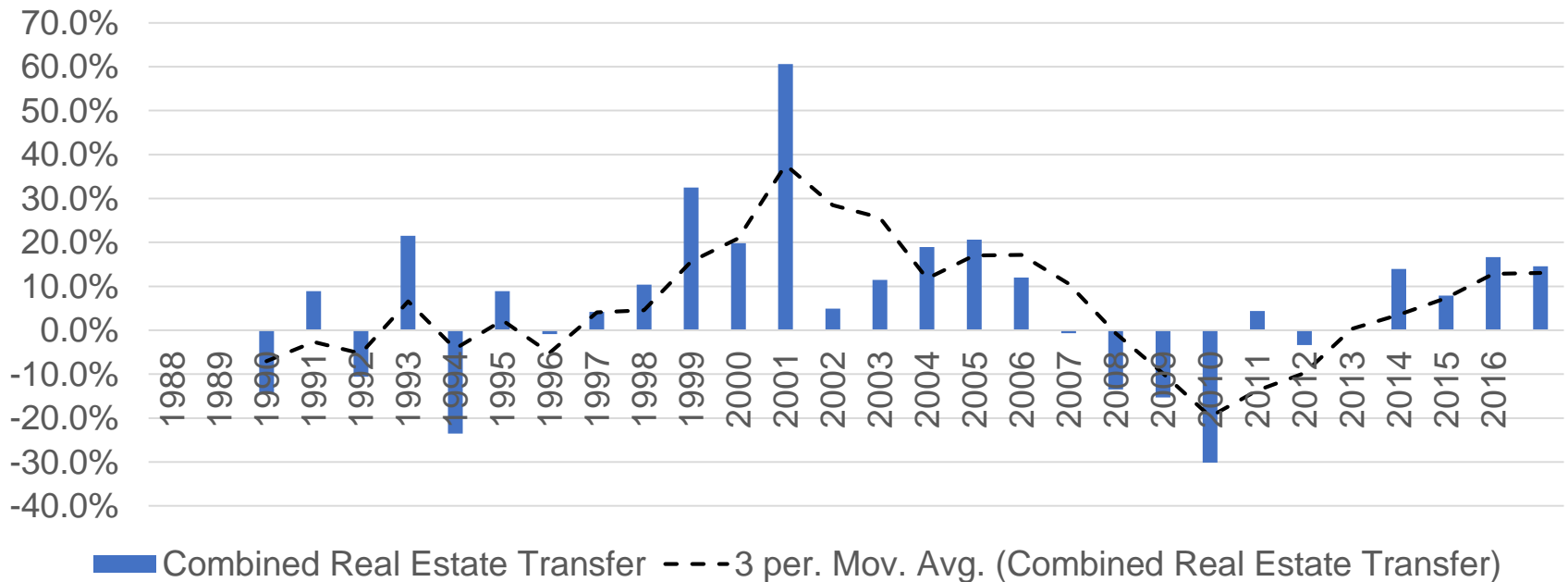
Business Tax Receipts Accelerate even with reductions in rates



Change in the combined receipts from the BPT and BET are very volatile and obviously related to booms and busts. The highs have slowly gotten lower, however, suggesting that growth in business tax receipts may be – in general – moderating. There are significant anomalies – 2001, 2005, and potentially 2016 – but the general trend is likely slower growth in business taxes. In the three years between 2014 and 2016, receipts grew at approximately 3% per year.

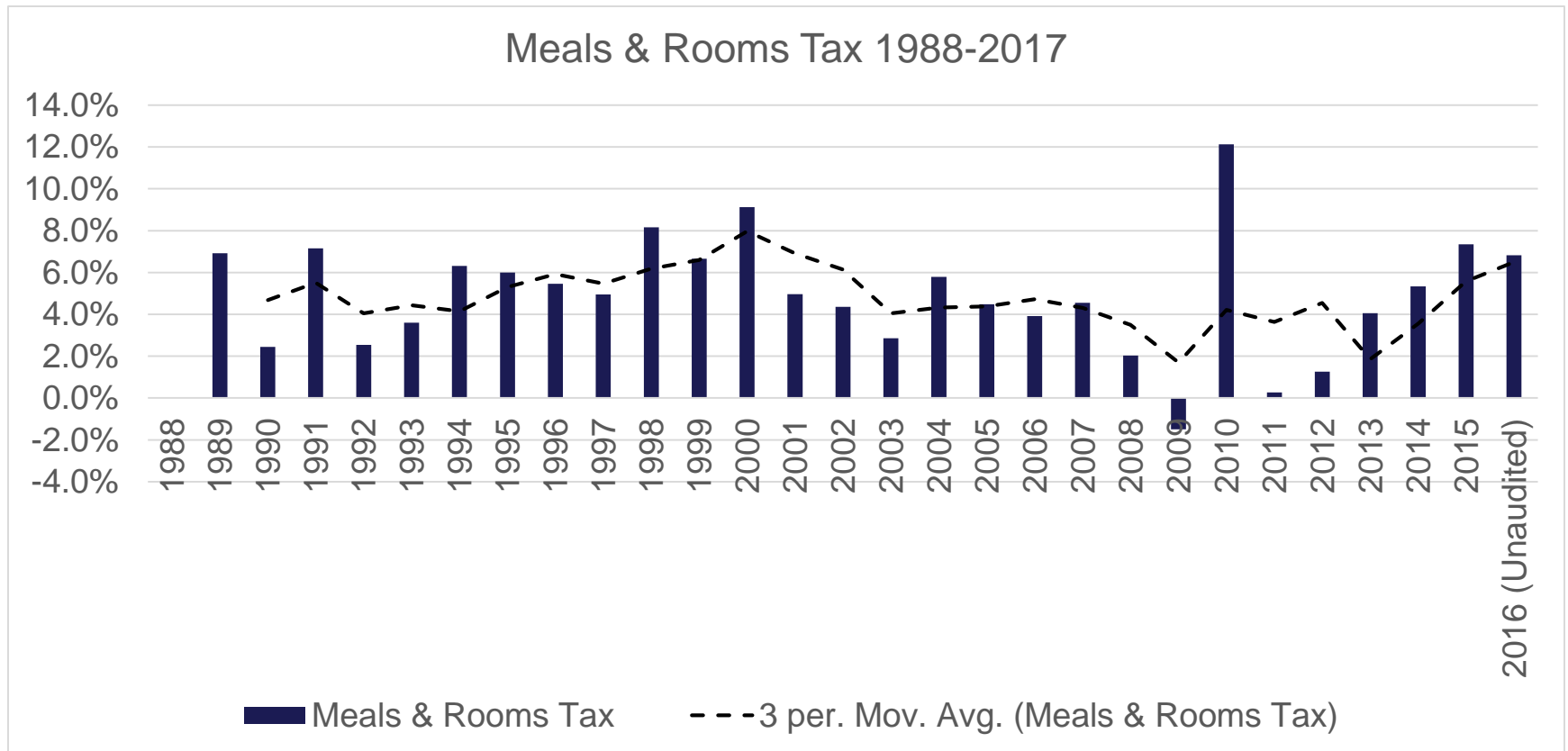
After Years of Doldrums ...

Real Estate Transfer Tax 1988 -2016 Projected



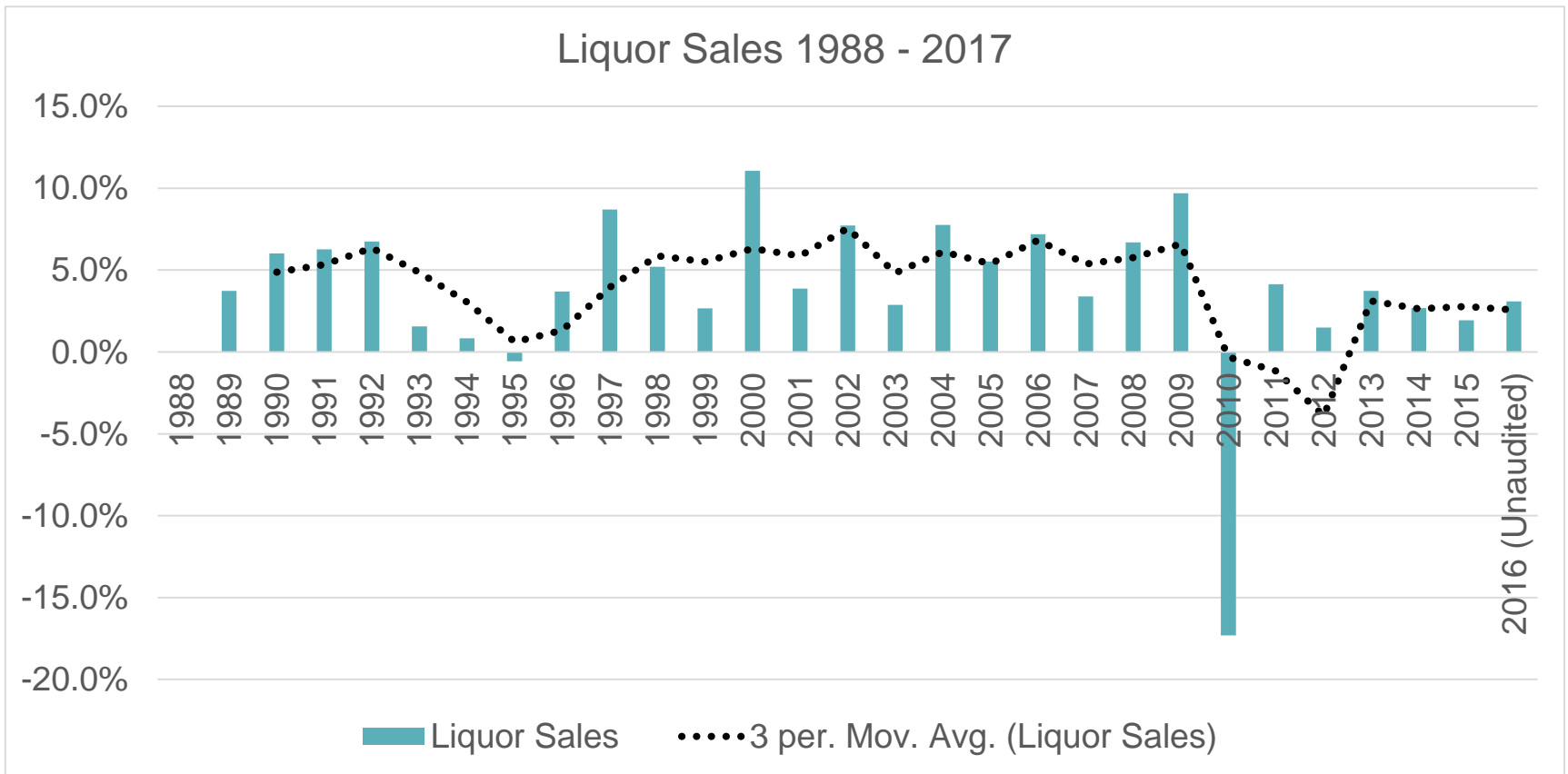
Home sales plummeted during the great recession and so did the tax receipts from the transactions associated with home sales. Sales have rebound and seem to be on an upward trend. Over the past three years, tax receipts from real estate transfers increased significantly.

Meals and Rooms



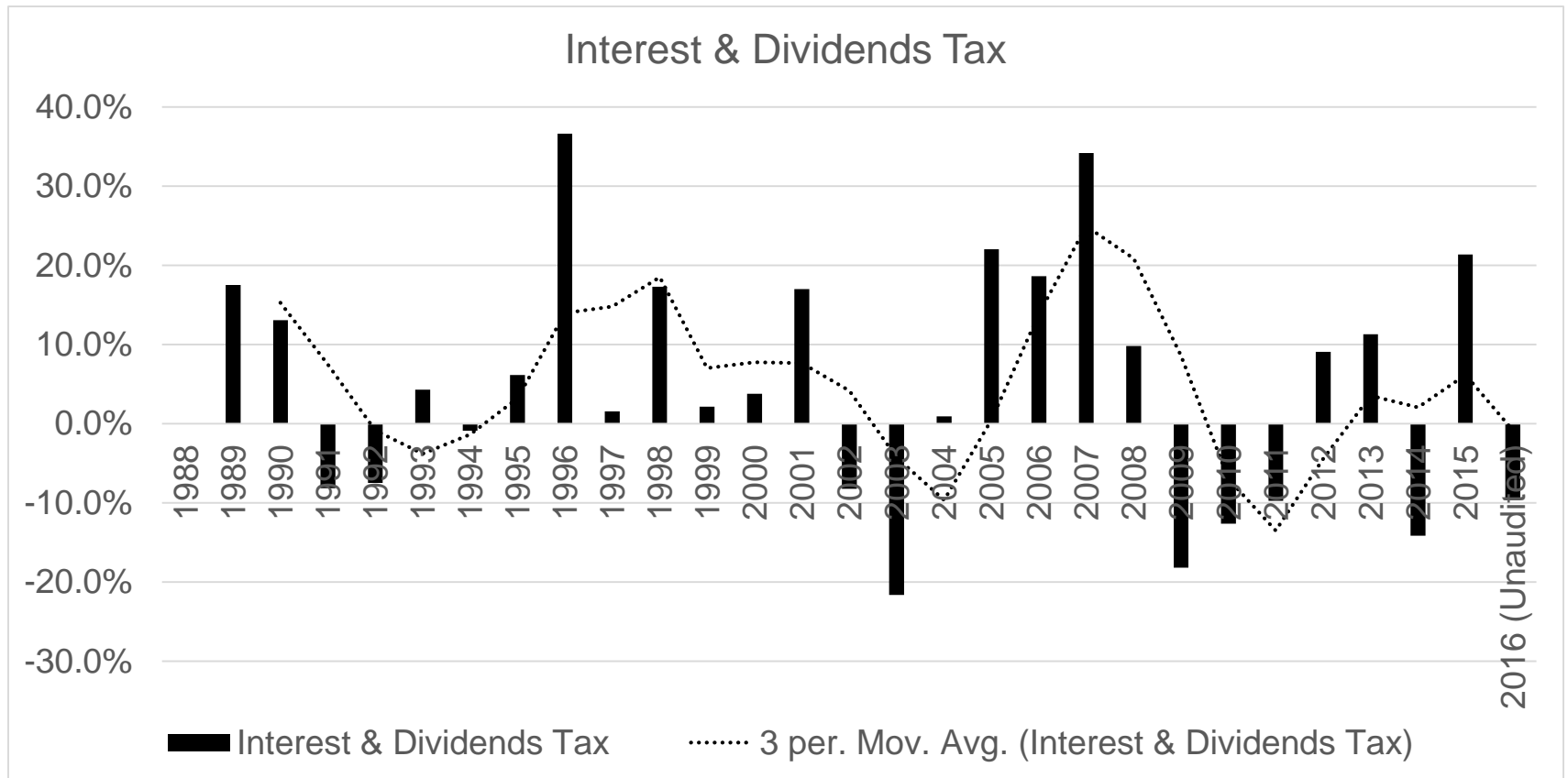
Meals and rooms taxes also follow the economy, but are less volatile than business tax receipts. Across the time period, meals and rooms grew at approximately 5% per year (a figure which is slightly distorted by increases and decreases in tax rates). Over the past three years, tax receipts grew at almost 6% per year.

Liquor Sales



After almost two decades of growth rates in excess of 5% per year on a three year moving average basis, liquor sales growth has slowed. Average growth in the past three years was roughly 3% per year.

Interest and Dividends

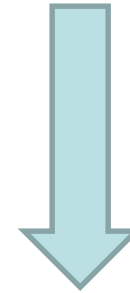


Like business tax receipts, tax receipts from interest and dividends tax are incredibly volatile and closely linked to booms and busts. The recent run up in the stock market is likely to show up in the state's tax receipts. However, the highs have slowly gotten lower, suggesting that growth in interest and dividends over the long term may grow more slowly.

The question is, where are we in the business cycle and what should we predict going forward?

Average Growth 2015-2016

- Combined Business Tax – 14%
- Real Estate Transfer – 10%
- Meals and Rooms – 7%



- If you make some simple assumptions, that per unit taxes remain flat (mostly true historically)
- And that your change will occur in your ad valorem ...
- You can create a baseline against which you can assess 2017

Or use the last three years of experience to project forward?

Revenue Source	2017 Estimated	3 Year Trend (2015- 2017)	2018 Estimate
Beer Tax	\$13.1	1.2%	\$13.26
Insurance Tax	\$135.9	9.3%	\$148.51
Securities Revenue	\$43.4	4.7%	\$45.42
Communications Tax	\$48.1	-2.9%	\$46.74
Tobacco Tax Settlement	\$39.0	0.0%	\$39.00
SWEPT	\$363.10	0.0%	\$363.10
Utility Property Tax	\$41.8	-1.1%	\$41.33
Lottery Transfers	\$76.9	0.6%	\$77.31
Utility Consumption Tax	\$6.0	-1.1%	\$5.93
Court Fines & Fees	\$13.4	1.6%	\$13.61
Tobacco Tax	\$213.9	1.5%	\$217.10
Meals & Rooms Tax	\$313.6	6.5%	\$334.03
Liquor Sales	\$148.9	2.6%	\$152.71
Other	\$80.8	-3.1%	\$78.27
Combined Business Taxes	\$669.2	4.4%	\$698.56
Interest & Dividends Tax	\$94.1	-0.8%	\$93.35
Recoveries	\$5.4	0.0%	\$5.40
Dog Racing and Gaming	\$3.5	0.0%	\$3.47
Real Estate Transfer Tax	\$142.6	13.0%	\$161.21
Total	\$2,452.7	3.5%	\$2,538.31

In a very mechanical way, we can use recent history to predict what might happen. In the table to the left, we use the three year trend (2015-2017) to grow (or shrink) each revenue source. This method results in a increase of slightly more than 2.7% (or \$64 million in a year). This could be a starting point that would need to be amended because we know that some trends (the significant growth in the insurance tax, as an example) may not continue

...

What if Insurance Tax Receipts Fall and Real Estate Boon slows?

Revenue Source	2017 Estimated	3 Year Trend (2015- 2017)	2018 Estimate
Beer Tax	\$13.1	1.2%	\$13.26
Insurance Tax	\$135.9	-10.0%	\$122.29
Securities Revenue	\$43.4	4.7%	\$45.42
Communications Tax	\$48.1	-2.9%	\$46.74
Tobacco Tax Settlement	\$39.0	0.0%	\$39.00
SWEPT	\$363.10	0.0%	\$363.10
Utility Property Tax	\$41.8	-1.1%	\$41.33
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Liquor Sales	\$148.9	2.6%	\$152.71
Other	\$80.8	-3.1%	\$78.27
Combined Business Taxes	\$669.2	4.4%	\$698.56
Interest & Dividends Tax	\$94.1	-0.8%	\$93.35
Recoveries	\$5.4	0.0%	\$5.40
Dog Racing and Gaming	\$3.5	0.0%	\$3.47
Real Estate Transfer Tax	\$142.6	5.0%	\$149.77
Total	\$2,452.7	2.0%	\$2,500.66

Changing assumptions can have a big impact. Assuming the repeal of the ACA (and potential reduction in insurance coverage) and assuming a major slowing in the real estate market results in lowering revenue growth by almost ½ compared to the 'as usual' model.

Summary

- Economic situation looks rosy for New Hampshire, though they remain potential constraints (primarily labor force).
- Revenues have shown strong growth, driven by meals and rooms, corporate tax receipts, and real estate leaving the state with significant growth in rainy day fund and additional equity (surplus) as noted in documents filed with bond rating agencies.
- No reason to expect that revenue growth won't continue, but it will likely slow from its torrid pace, but could be affected by congressional action.

And what happens if you
lower our corporate tax
rates?

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