

Joint Legislative Economic Briefing

State of New Hampshire Treasury

January 11, 2023

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State Treasurer

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Role of the State Treasury

- ❖ Non-partisan constitutional office
- ❖ Responsible for the State's cash, investments, issuance of general obligation and revenue bonds, and other financing activities
- ❖ Other responsibilities:
 - Unclaimed Property - \$15.2 million credited to GF in FY2022
 - 529 College Savings Plan - \$21 billion in Assets Under Management
 - Achieving a Better Life Experience (ABLE) Savings Plan - \$6.4M AUM
- ❖ State Treasurer is ex-officio member of several statutory boards and commissions (i.e. Retirement System, Business Finance Authority, Bond Bank, etc.)

State's Financial Condition

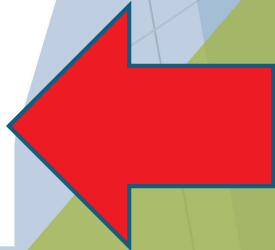
- ❖ In fiscal year 2022, the State's finances remained strong following an extraordinary recovery from the pandemic.
- ❖ Unrestricted general and education trust fund revenues were \$3,234.4 million, \$435.5 million (15.6%) above plan (\$2,798.9M).
- ❖ With the additional projected revenue, the legislature elected to fund projects outside the FY2022-23 enacted budget: \$140 million designated for fiscal year 2022 and approximately \$175 million for fiscal year 2023.
- ❖ General and education trust fund undesignated balance (or surplus) was \$361.3 million (\$253.3M GF and \$108M ETF).
- ❖ Revenue stabilization reserve account (rainy day fund) finished the year with \$159.9 million compared to \$257.8 million in fiscal year 2021. \$100 million was appropriated to YDC settlement fund and \$2.1 million of legal settlement funds were added to the account.

State's Financial Condition (cont.)

General Fund & Education Trust Fund FY 2020, 2021 & 2022
(\$ in millions)

	FY 2020	FY 2021			FY 2022		
	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	\$ 208.9	\$ (51.2)	\$ (3.2)	\$ (54.4)	\$ —	\$ 2.2	\$ 2.2
Unrestricted Revenue	2,520.2	1,843.8	1,135.9	2,979.7	1,991.0	1,243.4	3,234.4
Other Additions			62.5	62.5			—
Total Additions	2,520.2	1,843.8	1,198.4	3,042.2	1,991.0	1,243.4	3,234.4
Deductions:							
Appropriations Net of Estimated Revenues	(2,861.7)	(1,798.6)	(1,208.0)	(3,006.6)	(1,656.9)	(1,089.4)	(2,746.3)
Additional Appropriations	(14.2)	(13.0)		(13.0)	(55.1)	(10.4)	(65.5)
Less Lapses	102.7	205.9	16.2	222.1	104.8	—	104.8
Total Net Appropriations	(2,773.2)	(1,605.7)	(1,191.8)	(2,797.5)	(1,607.2)	(1,099.8)	(2,707.0)
GAAP and Other Adjustments, standard - net	7.4	(8.8)		(8.8)	(15.4)	(37.8)	(53.2)
GAAP and Other Adjustments - FEMA future recoveries	(13.5)	(28.9)		(28.9)	(62.9)		(62.9)
Current Year Balance	(259.1)	200.4	6.6	207.0	305.5	105.8	411.3
Fund Balance Transfers (To)/From							
Rainy Day	(0.2)	(142.3)		(142.3)	(2.1)		(2.1)
Highway Fund	(4.0)	(8.1)		(8.1)	(50.0)		(50.0)
Fish and Game Fund	—			—	(0.1)		(0.1)
Public School Infrastructure Fund	—			—			—
Education Trust Fund	—	1.2	(1.2)	—			—
Undesignated Fund Balance, June 30	(54.4)	—	2.2	2.2	253.3	108.0	361.3
Designated for Education Aid, June 30	62.5	—	—	—		—	—
Designated for Appropriation to Settlement Fund, June 30					100.0		100.0
Reserved for Rainy Day Account	115.5	257.8		257.8	159.9		159.9
Total Fund Balance	\$ 123.6	\$ 257.8	\$ 2.2	\$ 260.0	\$ 513.2	\$ 108.0	\$ 621.2

From
pg. 6 below

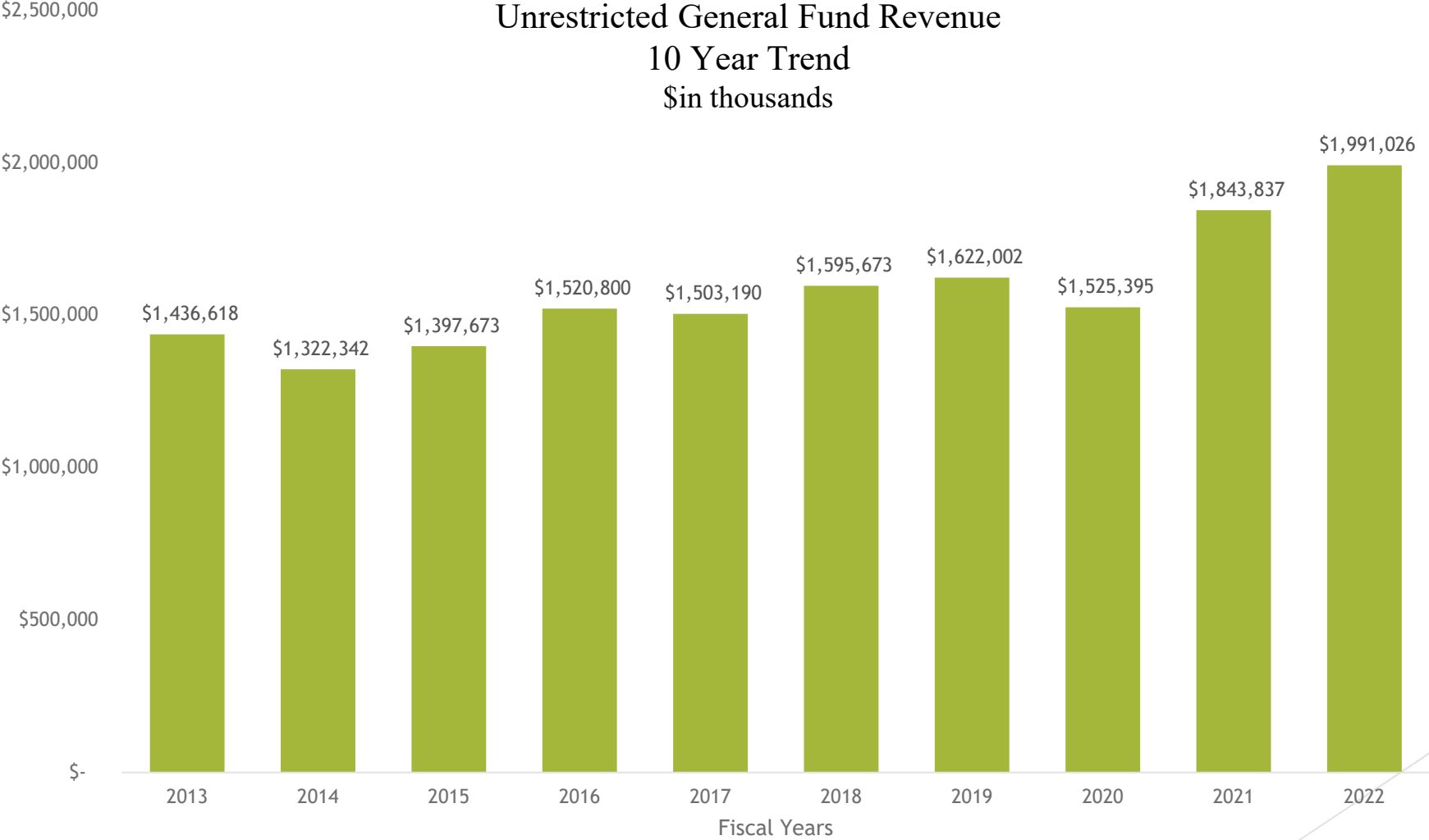


State's Financial Condition (cont.)

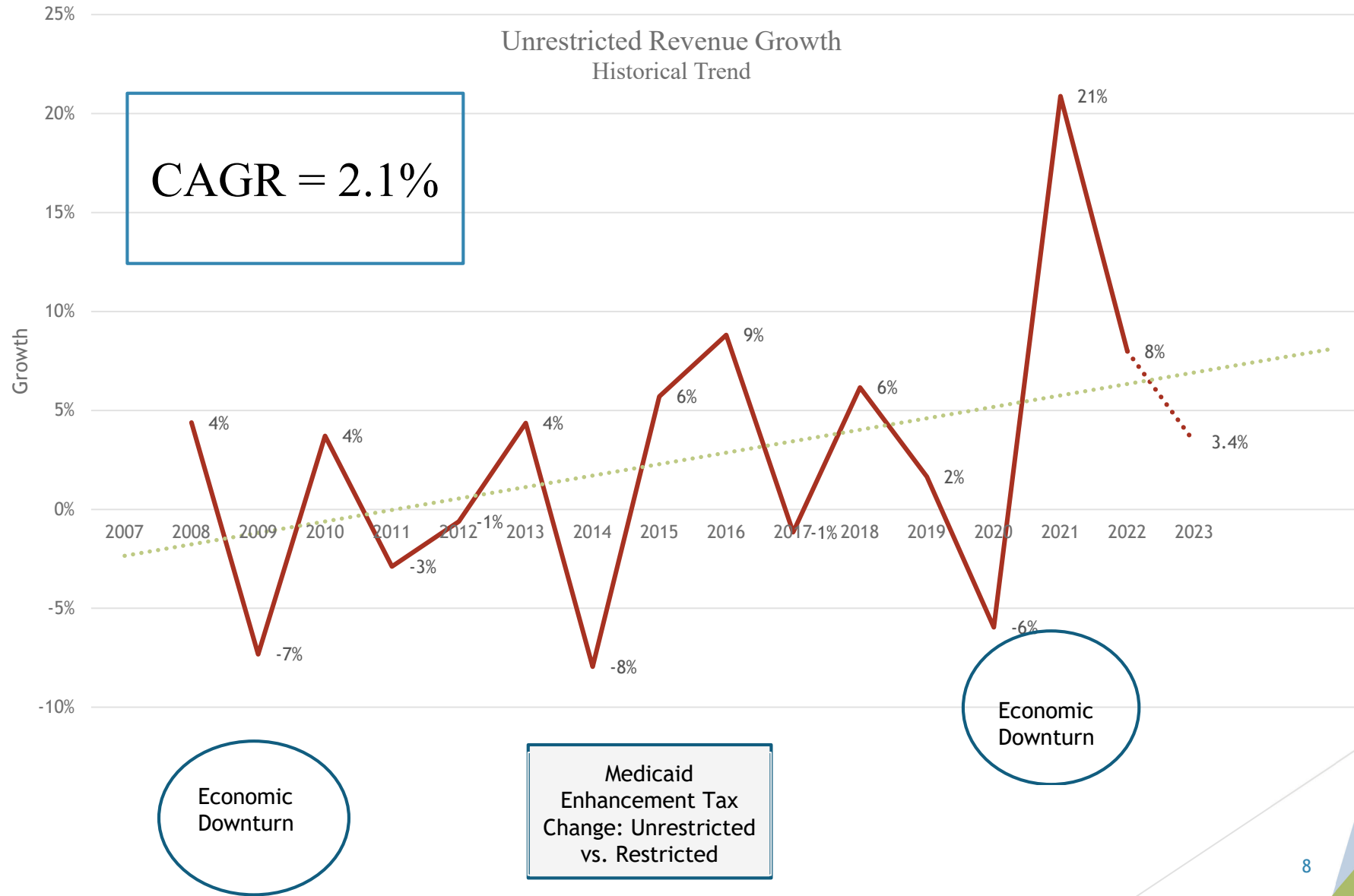
Comparison to LBA Total Legislatively Approved Appropriations <i>(Remaining appropriations will be in FY23)</i>	FY 2022		
	General	Education	Total
HB 1/ HB 2 total Approp per LBA Surplus Statement	1,662.3	1,089.4	2,751.7
Legislative Approp - 2022 session designated for FY22	140.1		140.1
Total	1,802.4	1,089.4	2,891.8
Change in net actual results compared to estimates	(5.4)		(5.4)
2022 session bills - agencies moved to FY23 vs FY22	(105.7)		(105.7)
Statutory, from funds otherwise not appropriated (not in LBA #s)	20.7	10.4	31.1
Total Appropriations Transacted in FY22 (above)	1,712.0	1,099.8	2,811.8

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State's Financial Condition (cont.)



State's Financial Condition (cont.)

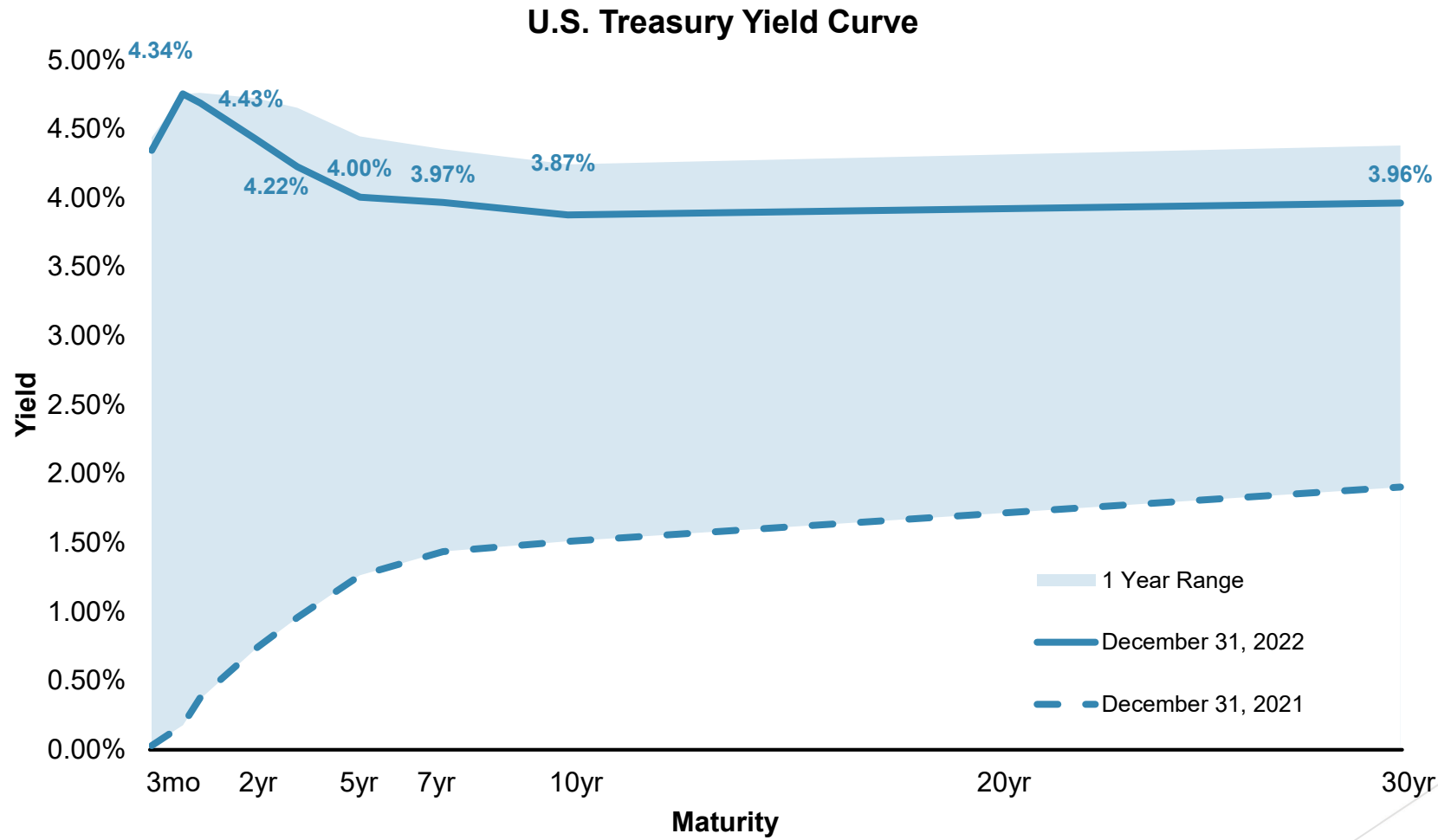


Economic Indicators

	Dec 22	Sep 22	Jun 22	Mar 22	Dec 21
Economic Growth	N/A	3.2%	-0.6%	-1.6%	6.9%
Unemployment Rate	3.5%	3.5%	3.6%	3.6%	3.9%
Labor Participation	62.3%	62.3%	62.2%	62.4%	61.9%
Inflation	7.1%	8.2%	9.1%	8.5%	7.0%
Federal Funds Target Rate	4.25%- 4.50%	3.00%- 3.25%	1.50%- 1.75%	0.25%- 0.50%	0.00%- 0.25%

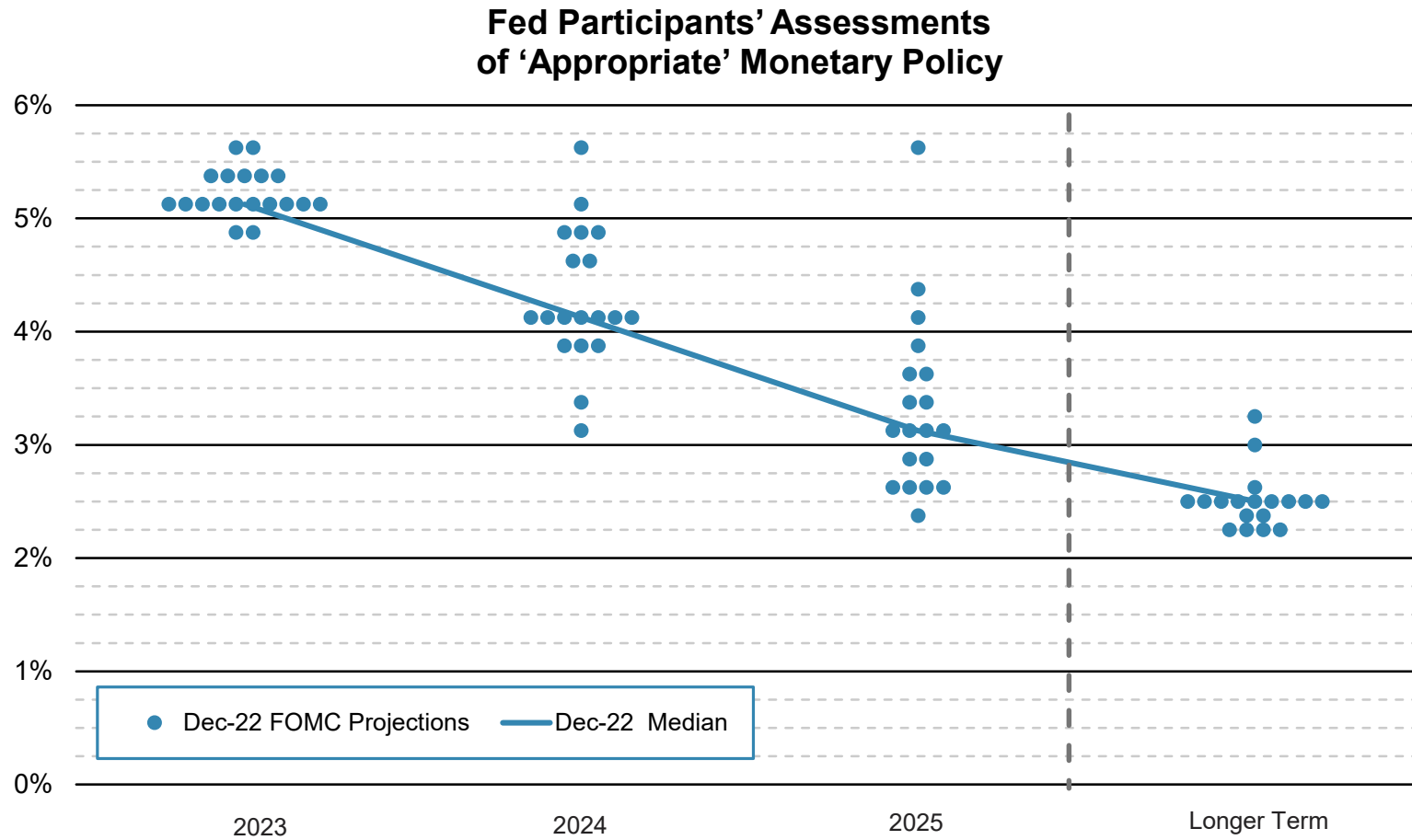
The Federal Reserve increased rates seven times in 2022.

Treasury Curve Inverts Further



Source: Bloomberg, as of 12/31/2022.

What Could the Fed's Pivot Look Like?



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.

Cash Flows and Reserves

- ❖ State's cash position and reserves remain strong.
- ❖ Cash flows changed dramatically over the last two years as a result of robust revenue performance and federal COVID-19 relief funds
- ❖ From daily administration of \$200-\$800 million to nearly \$2.5 billion in operating funds
- ❖ As of June 30, 2023, total cash, all funds combined, totaled approximately \$3 billion
 - In fiscal year 2022, the Treasury collected and concentrated State agency bank deposits of \$9.3 billion and disbursed payments to employees, vendors, banking services, and other State programs of \$8.4 billion
- ❖ Trustee and fiduciary of 50+ trust, custodial, and escrow accounts. \$58 million in the aggregate in fiscal year 2022

Cash Flows and Reserves (cont.)

- ❖ Federal Financial Assistance – COVID-19 Relief Funds
 - FY2020
 - \$1.25 billion CARES Act
 - FY2021
 - \$179.4 million CRRSA Emergency Rental Assistance (ERA1)
American Rescue Plan
 - \$46.1 million Emergency Rental Assistance (ERA2)
 - \$5 million Homeowners Assistance Fund (HAF)
 - \$497.2 million State and Local Fiscal Recovery Funds (SLFR)
 - \$56.1 million SLFRF for NEUs (municipalities)
 - FY2022
 - Received \$55.6M in ERA2 funds, \$69 million requested
 - Received remaining HAF allocation of \$45 million
 - Received remaining SLRF allocation of \$497.2 million
 - Received remaining SLFRF for NEUs of \$56.1 million

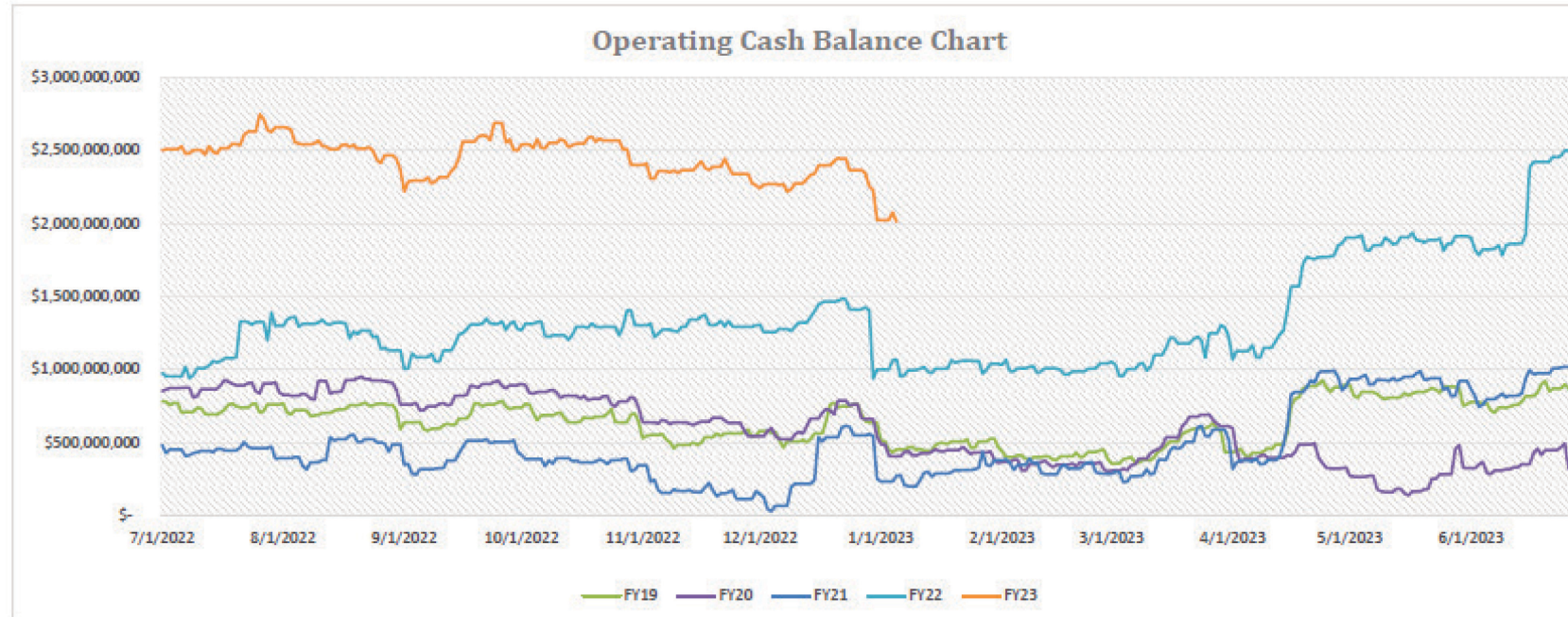
Cash Flows and Reserves (cont.)

- U.S. Treasury SLFRF Compliance and Reporting Guidance, September 20, 2022
 - “SLFRF payments to recipients are not subject to the requirements of the Cash Management Improvement Act and Treasury’s implementing regulations at 31 CFR Part 205 or 2 CFR 200.305(b)(8)-(9). As such, recipients can place funds in interest-bearing accounts, do not need to remit interest to Treasury, and are not limited to using that interest for eligible uses under the SLFRF award.”
- As of September 30, 2022 approximately 84% had been allocated and only 21% expended.
- SLFRF funds need to be obligated by December 31, 2024 and expended by December 31, 2026.

Cash Flows and Reserves (cont.)

State of New Hampshire Treasury
Fiscal Year 2023

Net Cash Flows



- 1) FY2020 - The filing deadline for the Business and Interest & Dividends Tax was moved to June 15 from April 15, 2020 and filing deadline for the Medicaid Enhancement Tax changed to May 28 from May 15, 2020.
- 2) FY2021 - In November 2020 cash declined below traditional levels due to a delay in reimbursing pooled cash from the CARES account. In addition, first tranche of ARP SLFR funds was received on May 19, 2021.
- 3) FY2022 - Received second tranche of ARP SLFR funds on May 19, 2022.

Cash Flows and Reserves (cont.)

- ❖ RSA 6:8 directs the Treasurer to invest all funds, aside from such sums of money the Treasurer may deem necessary to hold for meeting current expenses, in a wide range of approved investment instruments.

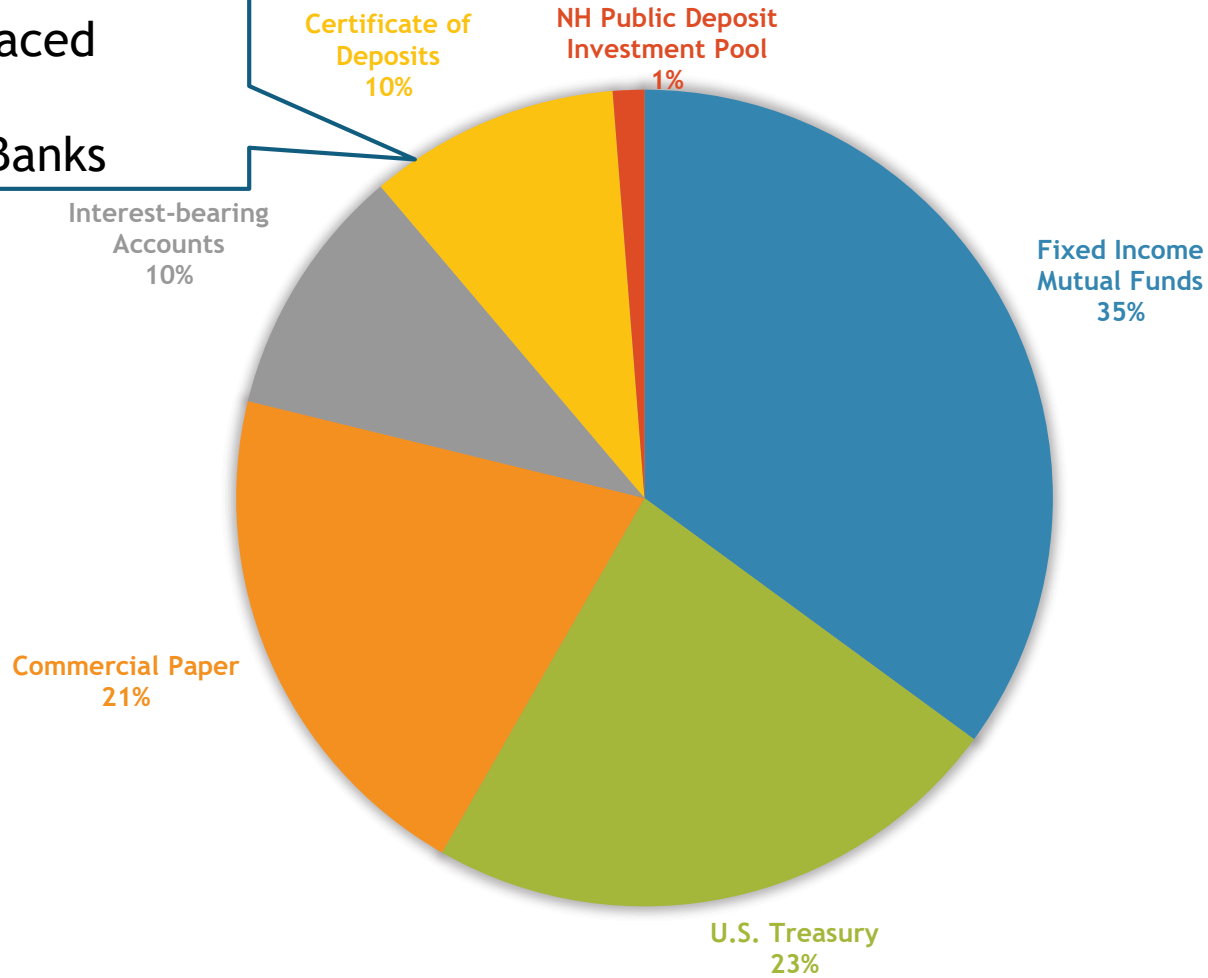
- ❖ Investment Policy for the State's Operating Funds establishes general guidelines to ensure compliance with federal and state laws and provides a clear understanding of investment objectives:
 - Preserve value and safety of principal
 - Provide sufficient liquidity to meet all operating requirements operations
 - Optimize rate of return

- ❖ In addition to traditional cash flow requirements, we are working with State agencies to learn their SLFRF spending plans

Cash Flows and Reserves (cont.)

Operating Funds Investments

\$52M (or 25% of total CDs) placed with 14 NH Community Banks



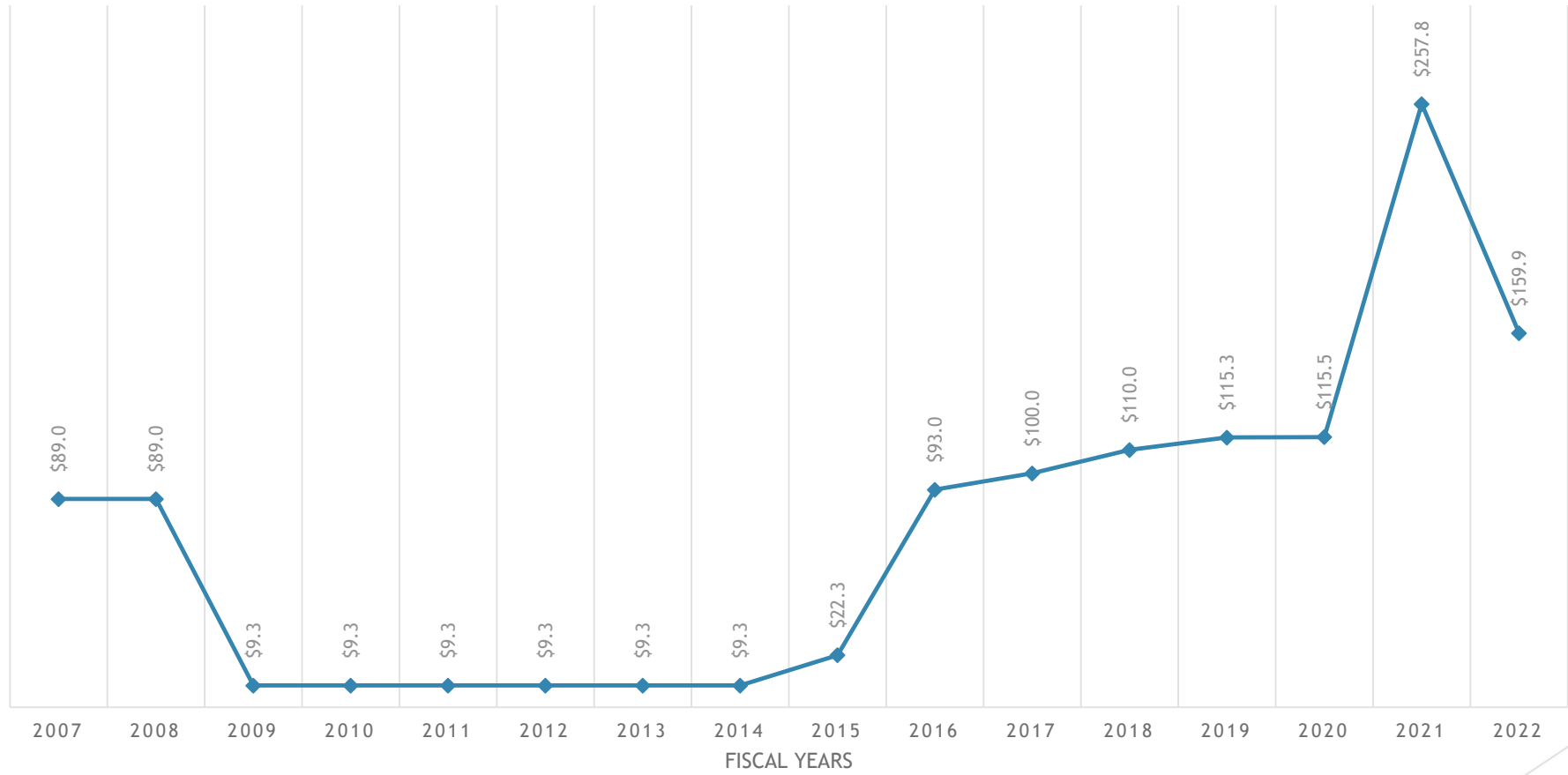
Cash Flows and Reserves (cont.)

Rainy Day Fund

- ❖ At the end of fiscal year 2022 the Revenue Stabilization Reserve Account stood at \$159.9 million.
- ❖ RSA 9:13-e provides statutory framework for transfers to/from the reserve account
 - Any surplus at end of fiscal biennium is transferred in
 - Transfers out are permitted due to a budget deficit for most recently-completed biennium or Unrestricted GF operating revenues fell short of budgeted amount

Cash Flows and Reserves (cont.)

REVENUE STABILIZATION ACCOUNT \$IN MILLIONS



Cash Flows and Reserves (cont.)

Rainy Day Fund

- ❖ Rating agencies encourage holding maximum allowable balance in the rainy day fund to mitigate economic downturns
- ❖ Maximum allowable balance is 10% of unrestricted GF revenues for the most recently completed fiscal biennium or \$336.9 million (10% of \$3,369 million GF revenue for FY2020-21 biennium)
 - Fiscal year 2022 balance of \$159.9 million represents 47.4% of the maximum allowed
- ❖ Number of days the State could run on savings alone:
 - Fiscal Year 2022 = 36.3 days to cover general fund expenditures (\$1,607M), 21.6 days to cover general and education trust fund obligations (\$2,707M)
 - Fiscal Year 2022 Median per Pew Charitable Trusts = 42.5 days ²⁰

Cash Flows and Reserves (cont.)

Rainy Day Fund

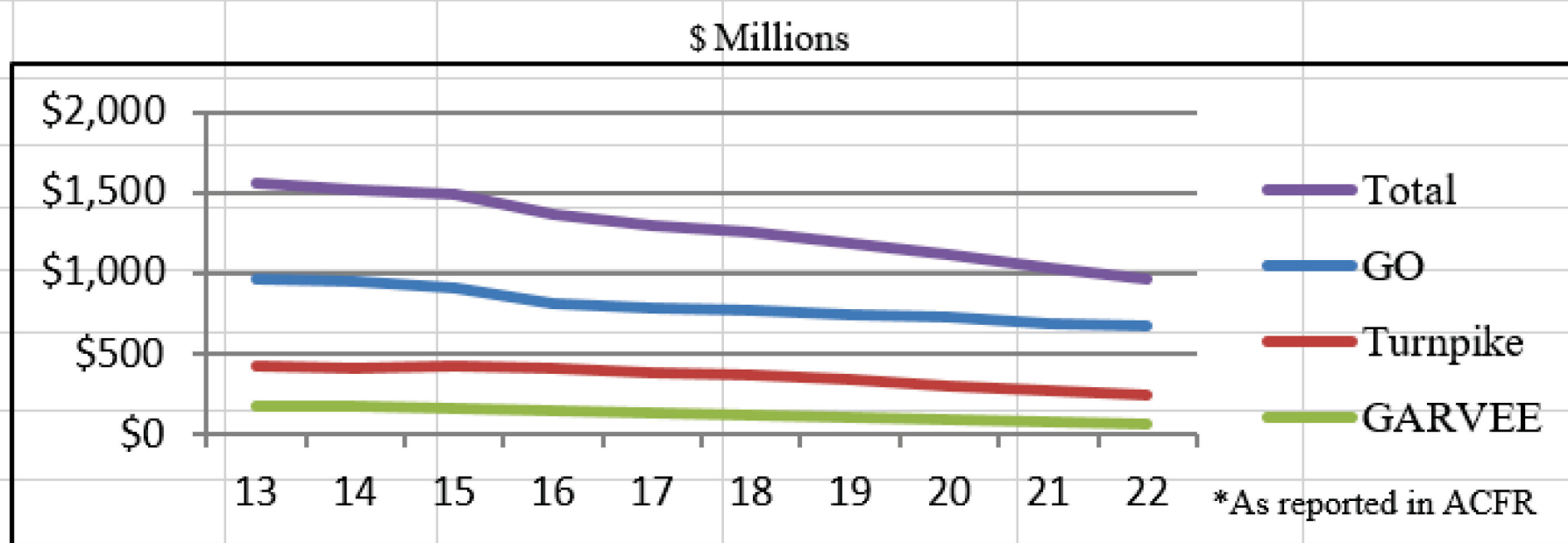
- ❖ Developed Investment Policy for the Rainy Day Fund. Same objectives as the Operating Funds Investment Policy: Preservation of capital, liquidity, and rate of return. Weighted average maturity greater than one year.
- ❖ Current positions in U.S. Treasury Notes/Bonds (75%) and U.S. Federal Agency Notes/Bonds (25%).
- ❖ Interest Income credited to the General Fund.
- ❖ Unrestricted GF Interest on Surplus Funds in FY2022 = \$3 million
FYTD = \$17 million (cash basis). Estimated yield for FY2023 = 4%,
4.5% for FY2024, and 3.5% for FY2025. Total earnings will depend on
average cash balances.

Debt and Bonds

- ❖ The State's outstanding debt continues to decline
- ❖ As of June 30, 2022, the State had \$967 million in bonds outstanding
 - \$669.2 million in General Obligation (“G.O.”) bonds, which are backed by the “full faith and credit” of the State
 - \$236.5 million of Turnpike revenue bonds – debt service payments made from Turnpike toll revenues
 - \$61.4 million of Grant Anticipation Revenue Vehicle (“GARVEE”) bonds supported by revenues received from Federal Highway Administration
- ❖ In fiscal year 2022 the State incurred \$70.8 million in debt service compared to \$84.6 million in fiscal year 2021
- ❖ G.O. Bonds typically paid off in 20 years – 60% in first 10 years, 40% in final 10 years

Debt Management (cont.)

Bonds Outstanding - Fiscal Years 2013-2022*



FY	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GO	\$959	\$949	\$906	\$813	\$787	\$770	\$740	\$729	\$685	\$669
Turnpike	\$422	\$405	\$428	\$408	\$381	\$363	\$336	\$296	\$272	\$237
GARVEE	\$178	\$167	\$156	\$144	\$132	\$119	\$105	\$91	\$76	\$61
	\$1,559	\$1,521	\$1,490	\$1,365	\$1,299	\$1,251	\$1,181	\$1,116	\$1,032	\$967

Debt Management (cont.)

- ❖ In fiscal year 2022, \$59 million of G.O. bonds were issued through a competitive sale to fund capital projects. Overall true interest (TIC) cost to the State of 2.47%. Approximately 70% of debt service will be paid from unrestricted general fund revenues and the rest from other funds.
- ❖ Turnpike System issued refunding revenue bonds of \$90.2 million achieving \$6.1 million in present value savings (or 6.8% of refunded bonds) with an TIC of 3.28%.
- ❖ In addition, \$4.06 million of G.O. bonds were issued through a private placement to the NH Municipal Bond Bank.
- ❖ At June 30, 2022, bonds authorized and unissued total \$663.2 million (\$316.5 million of GO bonds)

Debt Management (cont.)
State's credit ratings

Rating Agency	Rating
Moody's Investor Service	Aa1, stable outlook
Fitch Ratings	AA+, stable outlook
S&P Global Ratings	AA, positive outlook

Debt Management (cont.)

Credit Ratings

- ❖ The State's borrowing costs are largely influenced by State's credit rating
 - Rating agencies evaluate State's financial condition and operating results focusing on:
 - Rainy Day Fund balance
 - Structural budget balance or imbalance
 - Medicaid, pension, and post-employment benefit obligations and funding levels
 - Stability and diversity of revenue sources
 - Flexibility to manage revenues, expenditures, and reserves

Debt Management (cont.)

Credit Ratings

- ❖ Rating Agency Considerations for 2023:
 - Macroeconomic conditions and budget impacts:
 - Slower economy, inflation, higher borrowing costs
 - Infrastructure Investment
 - Funding available through Infrastructure Bill, American Rescue Plan, and Inflation Reduction Act
 - Risk Management: New threats, cyber risks, acceptance of cryptocurrency, extreme weather and climate resiliency