

NEW HAMPSHIRE

In-State Risk Factors and Safeguards

1. Is there a revenue source dedicated to K–12 education? If not, what legal protections exist for education funding?

New Hampshire has multiple revenue sources dedicated to education funding. Business taxes are the largest source of revenue, making up roughly 35 percent of the Education Trust Fund in 2025.¹ These revenue earmarks are changeable during the budget process. For example, in 2025, the legislature reduced the percentage of dollars collected from the business taxes dedicated to education from 41 to 39 percent, but it increased the education-designated percentage of the real estate transfer tax from 33 to 39 percent.²

However, just 28 percent of New Hampshire school revenues came from state dollars in 2023, the smallest share of any state. The national average was 45 percent.³ The funding system has been challenged in court as inadequate, and two significant court rulings, regarding New Hampshire's policies on school taxes and education aid, respectively, recently found the current system unconstitutional.⁴ A bill redefining “an adequate education” more narrowly was signed into law in March 2026, an attempt to push back on court-mandating funding increases.⁵ Related cases are ongoing, and it is not yet clear how court decisions will drive legislative action on school funding.⁶

2. What budget commitments could limit spending flexibility?

Because New Hampshire's Education Trust Fund is separate from the General Fund, there is less of a crowd-out concern than in other states, where increases in non-education costs might put pressure on state education spending. However, one crowd-out risk factor is the newly expanded Education Freedom Account (EFA) program.⁷ Participating families receive money for private school tuition and other school expenses, like tutoring and homeschooling materials. There are no income limits, and the average per-student grant is roughly \$5,000.⁸ Full-time public and charter school students are not eligible for these grants.⁹ As spending on school vouchers increases, the pool of money available for public education shrinks, since both are paid out of the Education Trust Fund. The federal Educational Choice for Children Act (ECCA), which will send additional public dollars to some families paying private school tuition,¹⁰ may soon increase participation in the state voucher

program. EFA vouchers are far below the average cost of private school tuition,¹¹ but the addition of new scholarships funding through ECCA may put private schools within reach for more families.

3. Are the state's revenue sources vulnerable to an economic downturn?

The Education Trust Fund has multiple dedicated revenue sources. The largest are two business taxes: 39 percent of revenue comes from the business profits tax and 39 percent of revenue comes from the business enterprise tax.¹² Corporate taxes tend to be among the most volatile sources of revenue—they see the largest swings from year to year—because they are closely tied to business cycles.¹³ This means an economic downturn could significantly affect the Education Trust Fund. Business tax revenues have already been falling, due to both tax cuts and slowing rates of economic growth.¹⁴ For the past two years, these taxes have failed to meet projections, creating pressure on the budget.¹⁵

The Education Trust Fund also receives specified percentages of the meals and rentals tax, tobacco tax, and real estate transfer tax, as well as all revenues from the utility property tax and state lottery. Apart from the real estate transfer tax, these revenue sources are generally less volatile than business taxes. However, tobacco tax revenues are trending downwards, and the meals and rentals tax revenues may decline in an economic downturn as households cut back on leisure spending.¹⁶

4. Is the state prepared to manage an economic downturn without making cuts to education?

A robust rainy day fund can provide a buffer against budget cuts during a recession.¹⁷ New Hampshire has a rainy day fund of \$245 million, enough for it to cover roughly 44.5 days of state operations.¹⁸ This is slightly below the national median of 47.8 days and falls short of the Government Finance Officers Association's recommendation of two months of operating expenditures.¹⁹ At the same time, the current balance reflects significant growth since 2017.²⁰

The Education Trust Fund itself does not have a dedicated rainy day fund. In addition, any education revenue surpluses above \$20 million are transferred to the General Fund, rather than remaining available for future needs.²¹ In the event of an education revenue shortfall, the General Fund acts as a backstop. This was a regular occurrence until 2018, when the Education Trust Fund started regularly running surpluses, driven by lottery profits.²²

Notes

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