

# New Hampshire's Budget Journey

*The Present, Past, and Future of the FY12-13 Budget*

Every Child Matters NH & YWCA NH  
July 26, 2011

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A black and white photograph of a winding asphalt road that curves through a dense forest of tall evergreen trees. In the background, rugged mountains are visible under a hazy sky. The road has white lane markings and leads the viewer's eye into the distance.

# New Hampshire's Budget Journey *Overview*

Where are we?

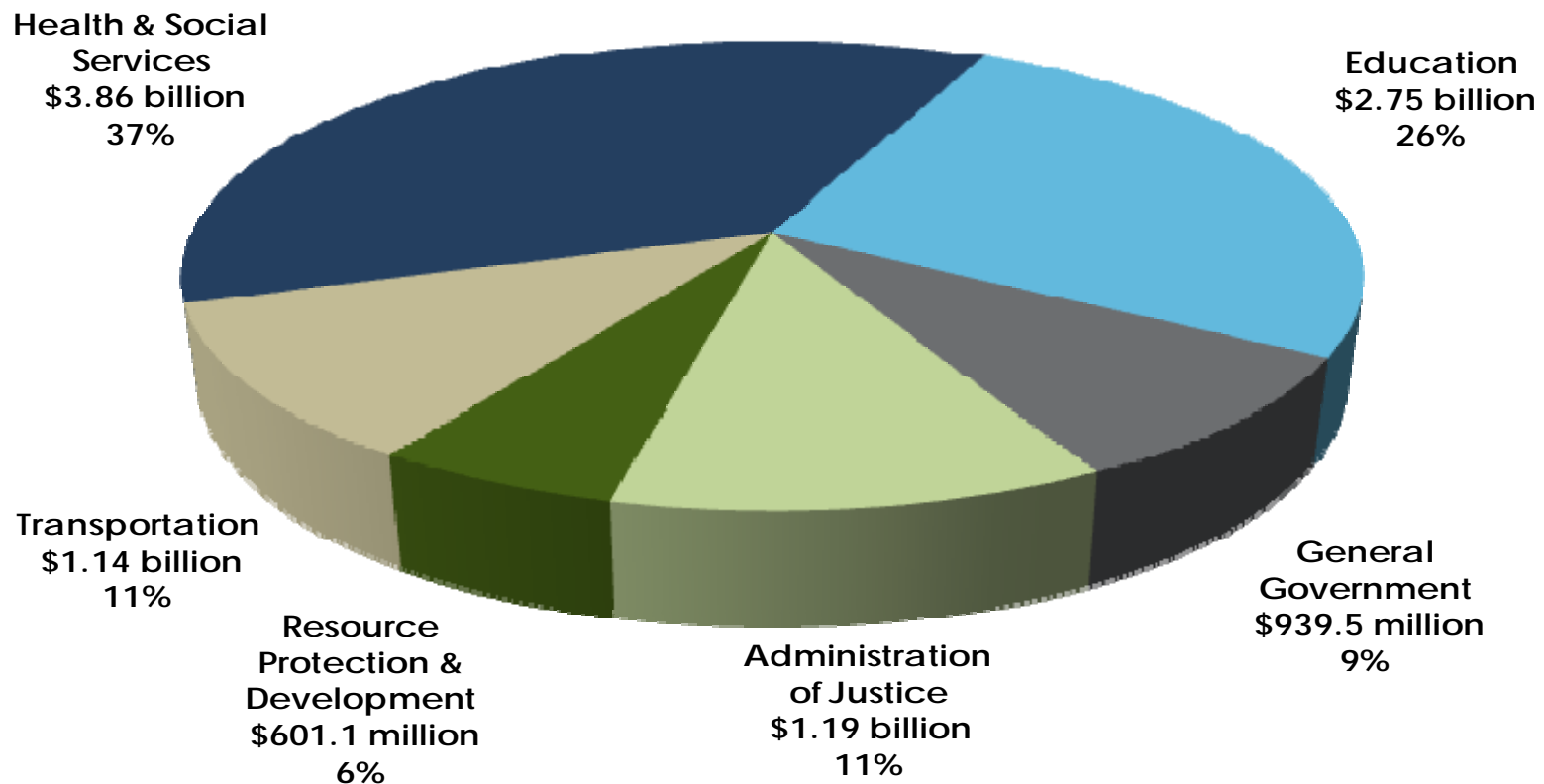
How did we get here?

Where are we going?



# The FY 12-13 Budget at Present: Expenditures

*Total Fund Appropriations: \$10.5 billion*



Source: NHFPI calculations based on Chapter 223 of the Acts of 2011

# The FY 12-13 Budget at Present: Expenditures

## GENERAL GOVERNMENT

Office of the Governor  
House of Representatives & Senate  
Secretary of State  
Departments of Treasury, Revenue Administration

## ADMINISTRATION OF JUSTICE

Department of Justice  
Department of Safety  
Department of Corrections

## RESOURCE PROTECTION & DEVELOPMENT

Department of Resources & Economic Development  
Department of Environmental Resources

## HEALTH & SOCIAL SERVICES

Division for Children, Youth and Families  
Office of Medicaid Business and Policy  
Division of Family Assistance  
Division of Public Health Services

## EDUCATION

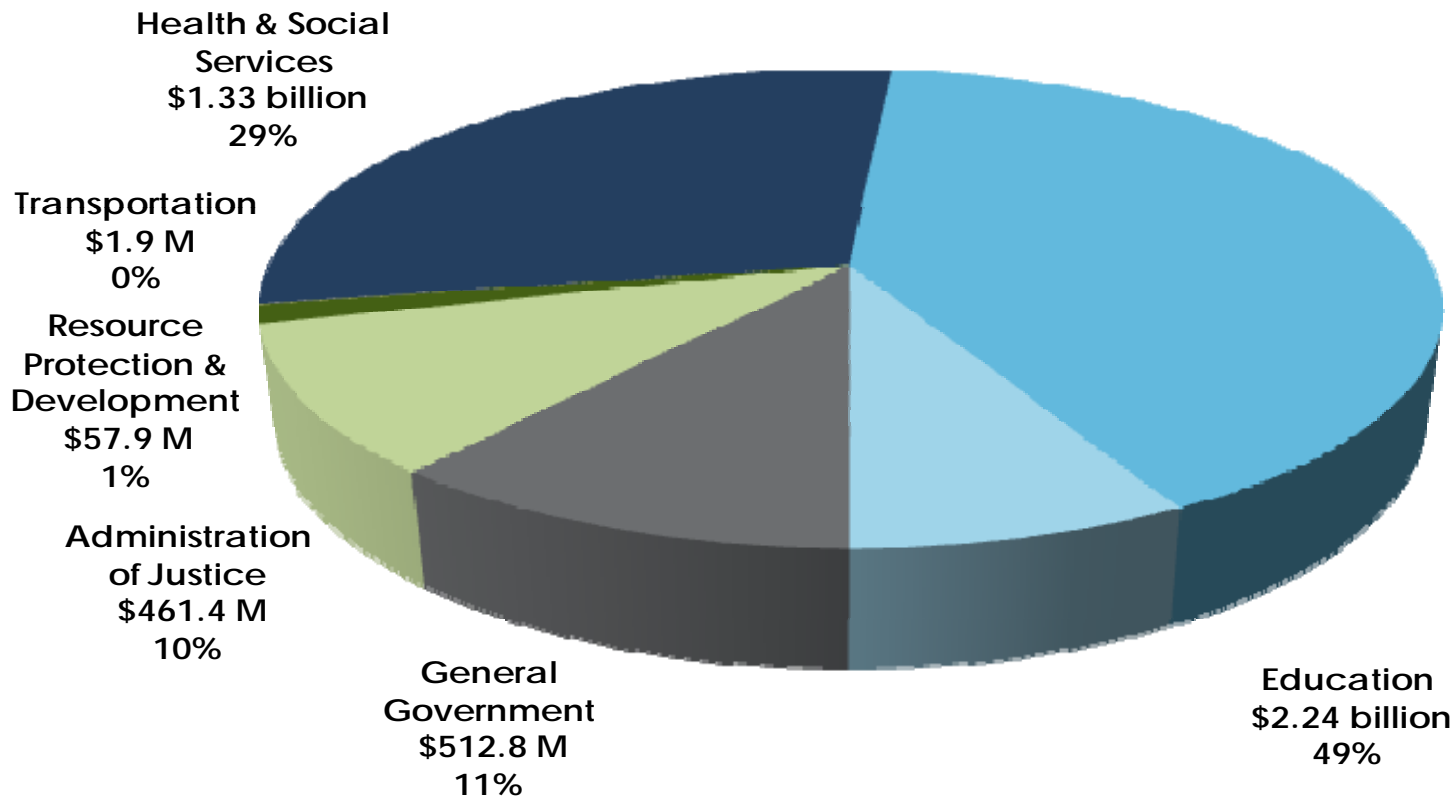
Department of Education  
University of New Hampshire  
Regional, Community, and Technical Colleges

## TRANSPORTATION

Department of Transportation

# The FY 12-13 Budget at Present: Expenditures

*General & Education Fund Appropriations: \$4.6 billion*

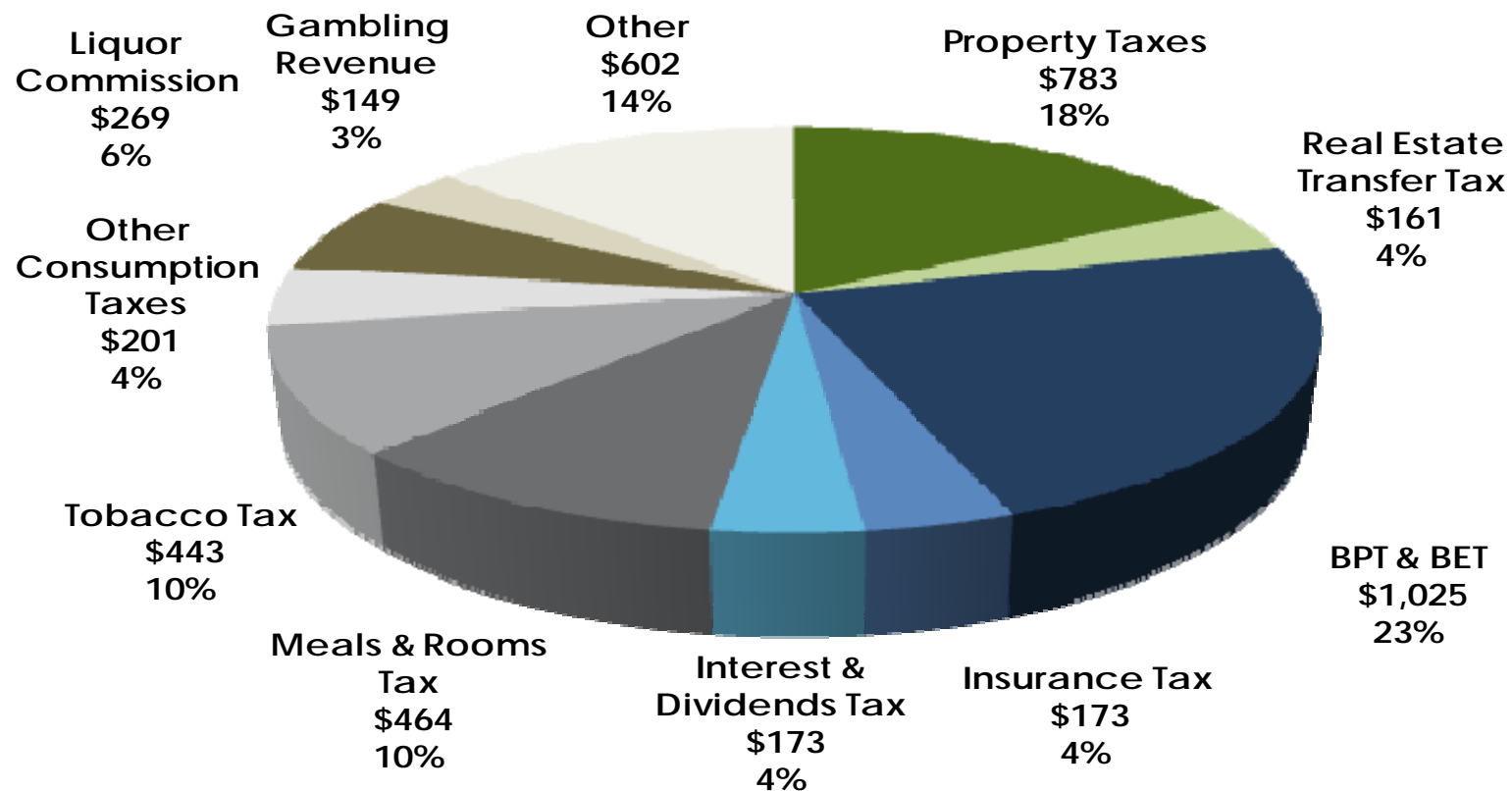


Source: NHFPI calculations based on Chapter 223 of the Acts of 2011

# The FY 12-13 Budget at Present: Revenue

*Projected General & Education Fund Revenue: \$4.44 billion*

*individual sources of revenue in millions of dollars*

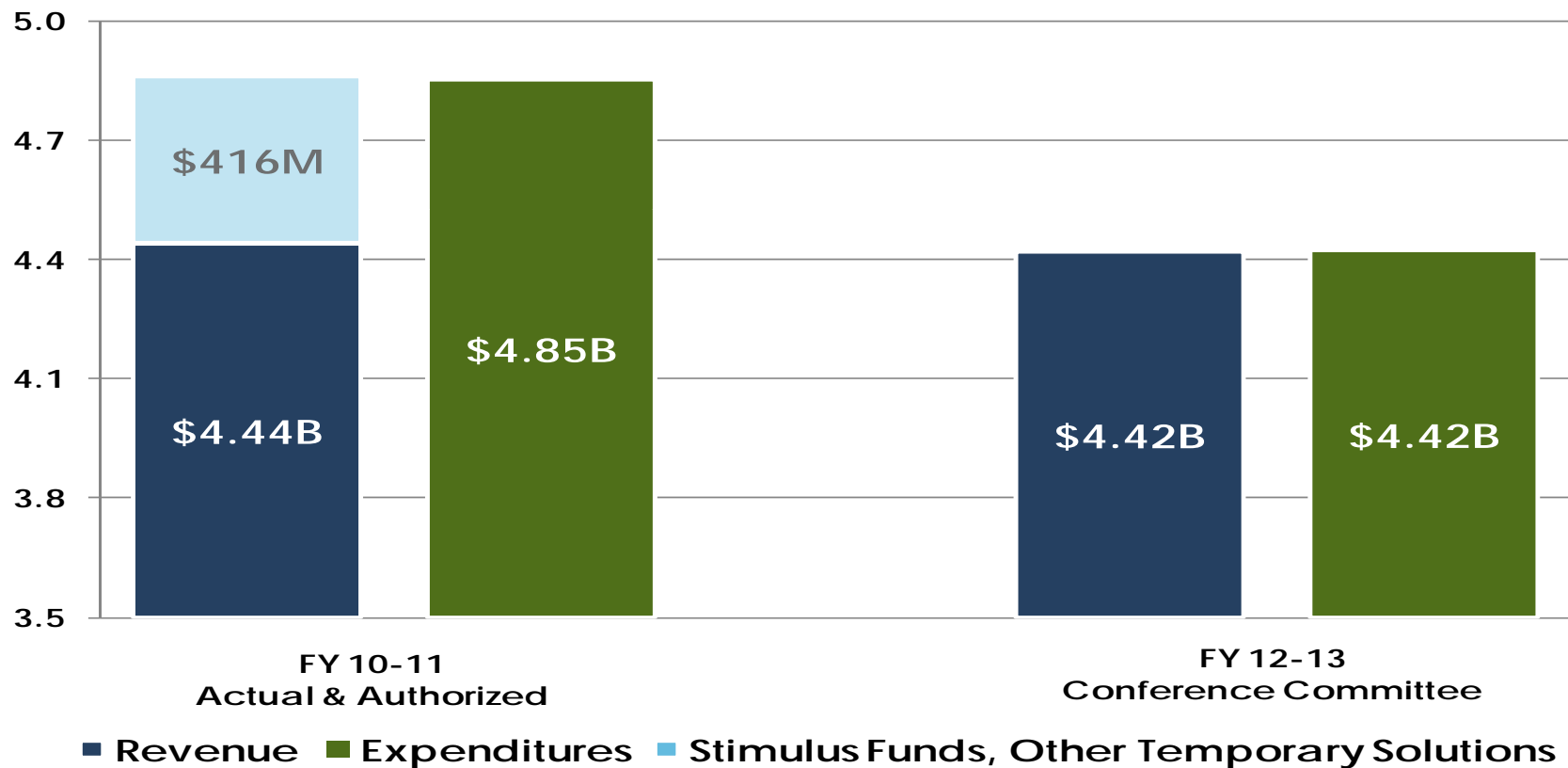


Source: NHFPI calculations based on Chapter 223 of the Acts of 2011

# FY 12-13 Budget Balance

## Achieved Almost Entirely Through Spending Reductions

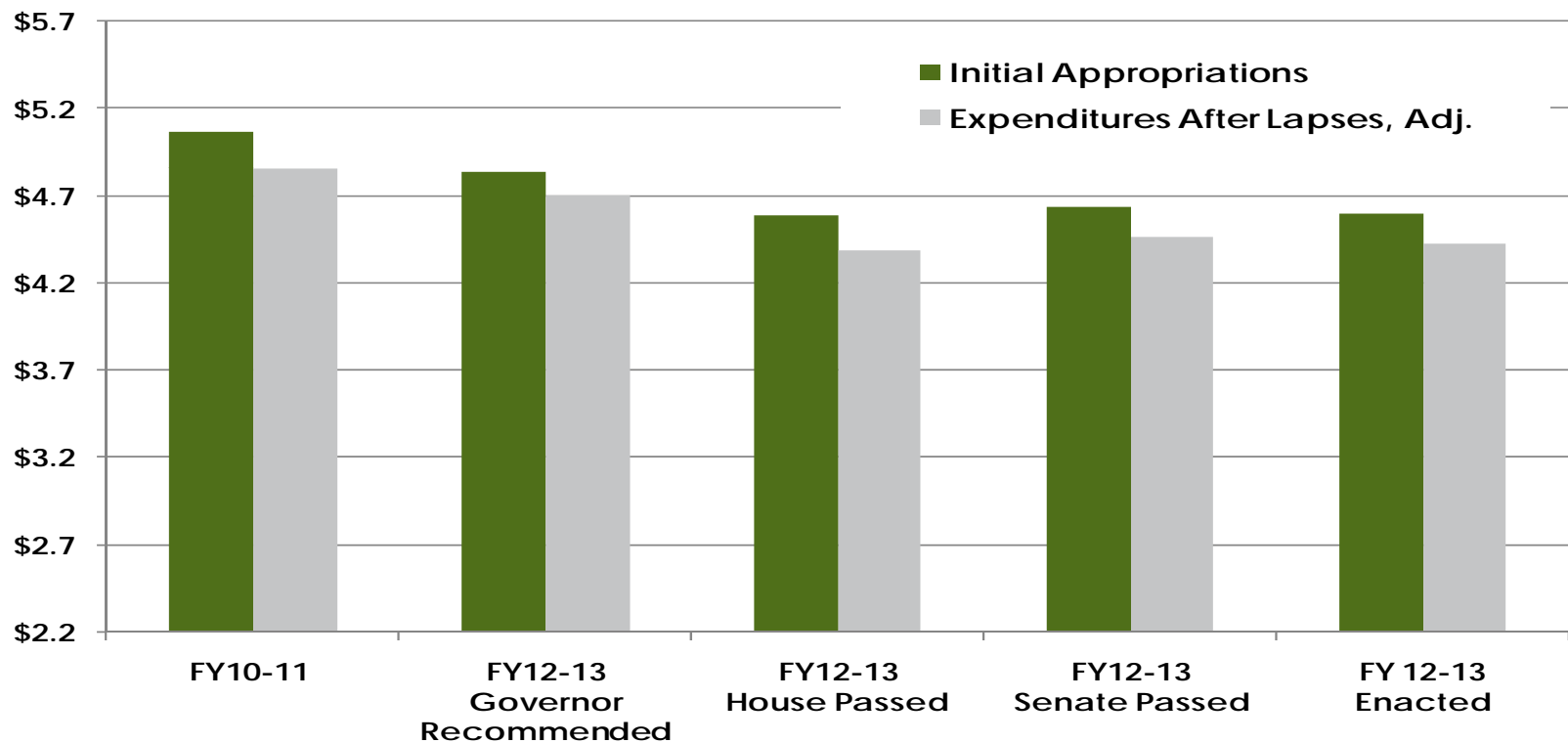
*General & Education Fund Revenue and Expenditures, FY10 - FY13*



Source: NHFPI calculations based on data from the Office of the Legislative Budget Assistant

# Aggregate Spending Levels Significantly Lower Than Prior Levels

*FY 2010-2013 General & Education Fund Spending in Billions of Dollars*



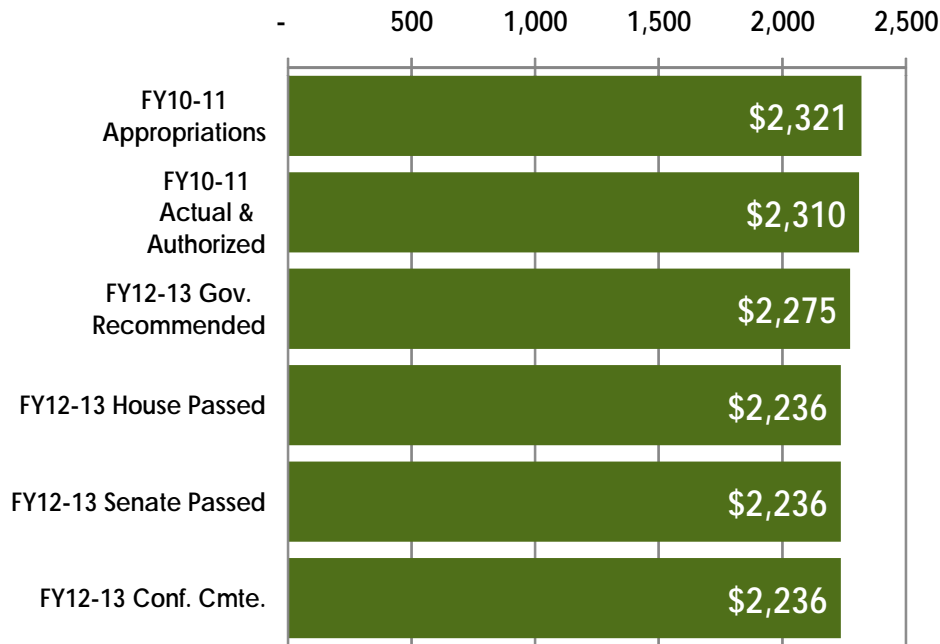
Source: NHFPI calculations based on data from the Office of the Legislative Budget Assistant



# Aggregate Spending Levels Significantly Lower Under Legislative Budgets

## Education Expenditures

(General & Education Fund only; millions of nominal dollars)



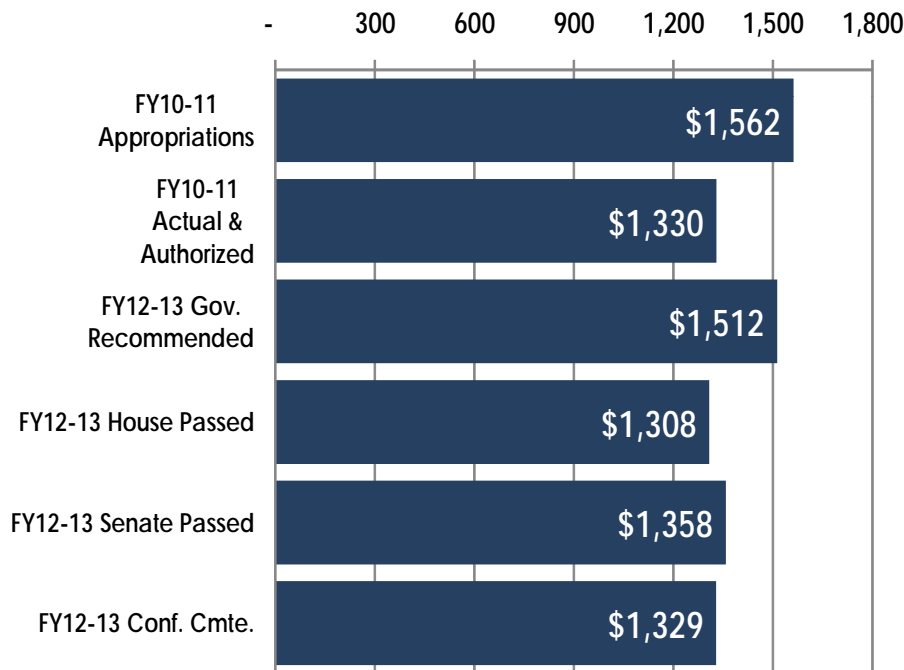
- **General Fund support for community colleges reduced by roughly \$29 million - or close to 36% - relative to prior levels**
- **As enacted, budget cuts General Fund appropriations for the state's university system by about \$114 million - or 58% - compared to FY10-11**

Source: NHFPI calculations based on LBA data, Governor's Executive Budget Summary, HB1 and related amdt.

# Aggregate Spending Levels Significantly Lower Under Legislative Budgets

## Health & Social Services Expenditures

(General Fund only; millions of nominal dollars)



**FY12-13 General Fund appropriations for health & social services are \$183 million lower than the levels recommended by the Governor**

### Major cuts include:

- **Uncompensated care**  
*\$115 million*
- **Child care**  
*\$10.2 million*
- **Unemployed parents program**  
*\$4.5 million*

Source: NHFPI calculations based on LBA data, Governor's Executive Budget Summary, HB1 and related amdt.

# Impact of Spending Cuts Already Being Felt



New Hampshire Gov. John Lynch directed state agency heads ... to develop contingency plans to lay off potentially hundreds of state workers if negotiations with their union fail to produce \$50 million in savings ...

The governor's office said so far they know of about 130 executive branch layoffs from budget cuts, but more are likely ...

Families First, which provides health care and support services to individuals and families as well as the homeless ... underwent a \$417,000 reduction ... close to 10 percent of its operating budget. As a result, the agency laid off five employees and reduced the hours of 16 more [and is] cutting direct services like nutritional counseling and dentists' hours ...

*Foster's Daily Democrat*



Tuition at every major public college in the state will rise ... after University System of New Hampshire trustees ... approved increases larger than any previously announced to help offset expected cuts in state funding.

In state tuition this fall at the University of New Hampshire will rise 12.4 percent over the previous year ... The total cost of attendance there ... will rise 8.7 percent ...



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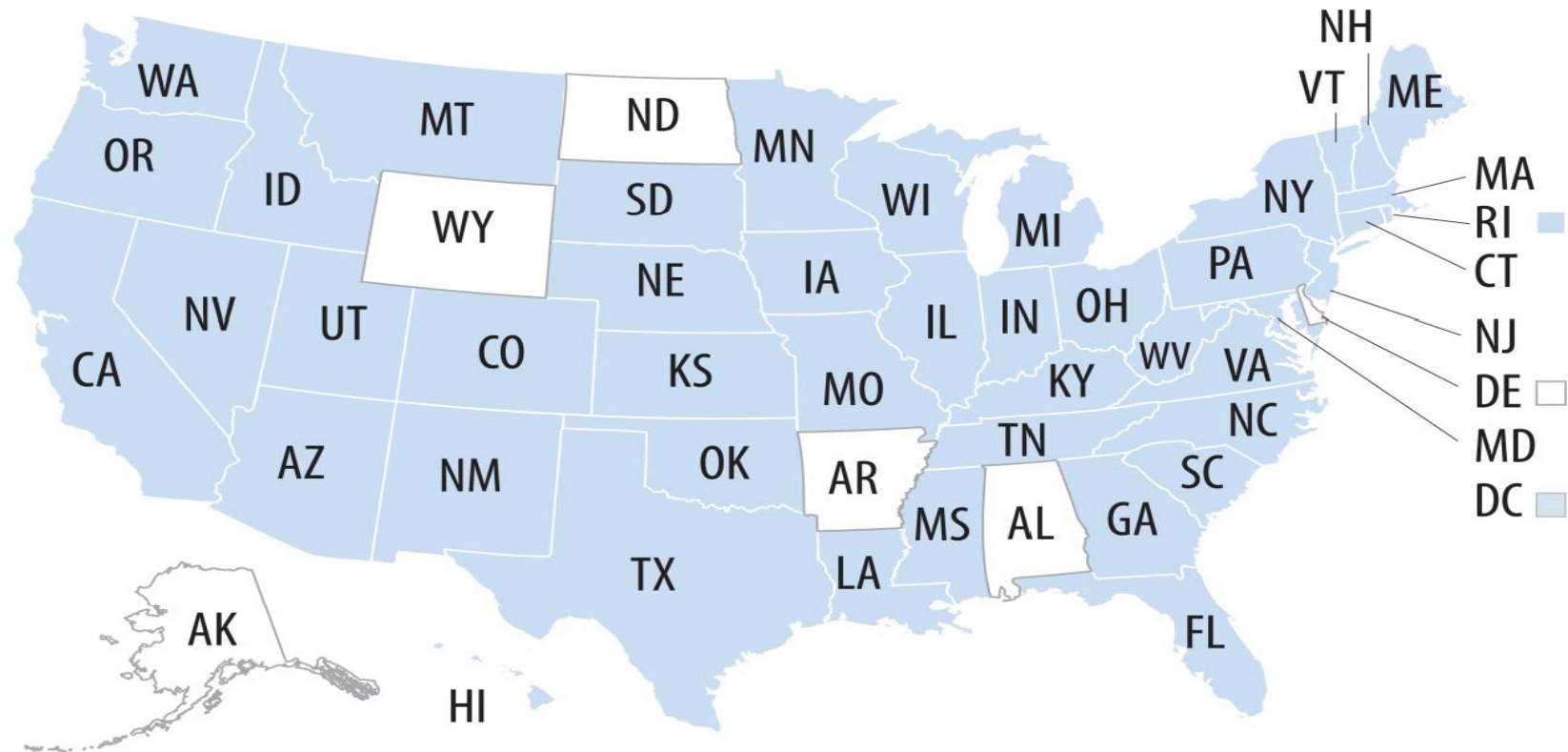
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# New Hampshire is Not Alone

Nearly Every State in the Union Expected to Face a Budget Deficit in FY 2012



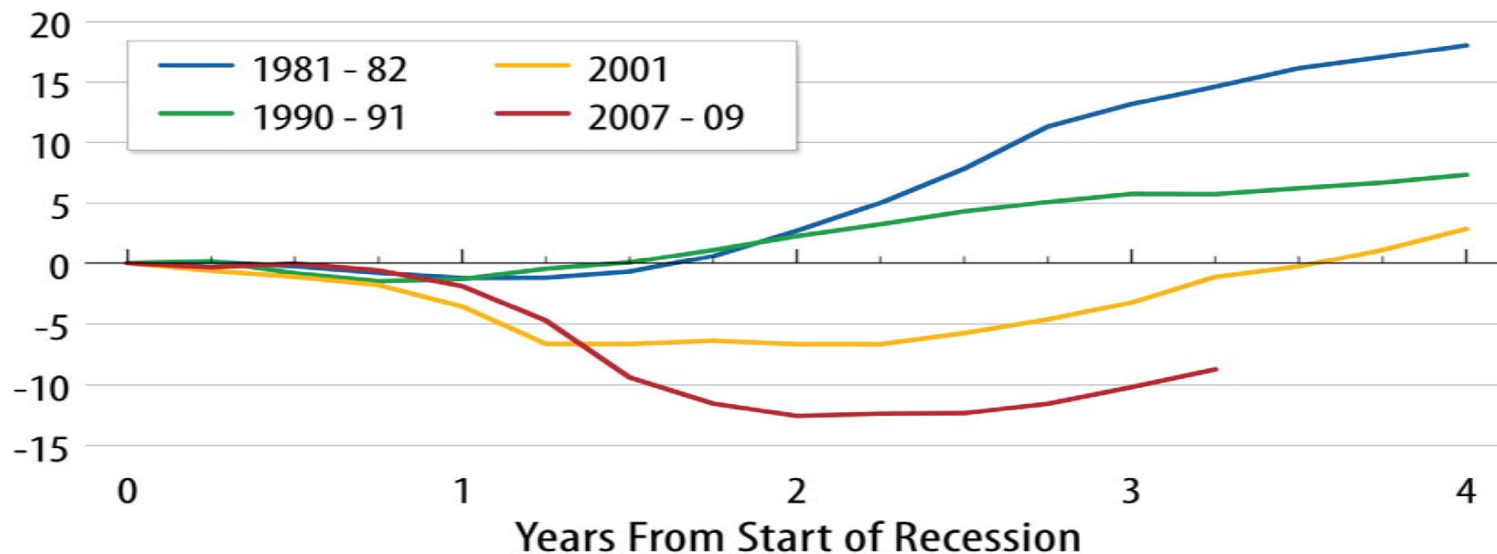
Source: Center on Budget and Policy Priorities



# National Recession Has Battered State Tax Revenue

## State Revenue Losses Far Exceed Other Recent Recessions

Percent change in state tax revenue since start of recession, adjusted for inflation

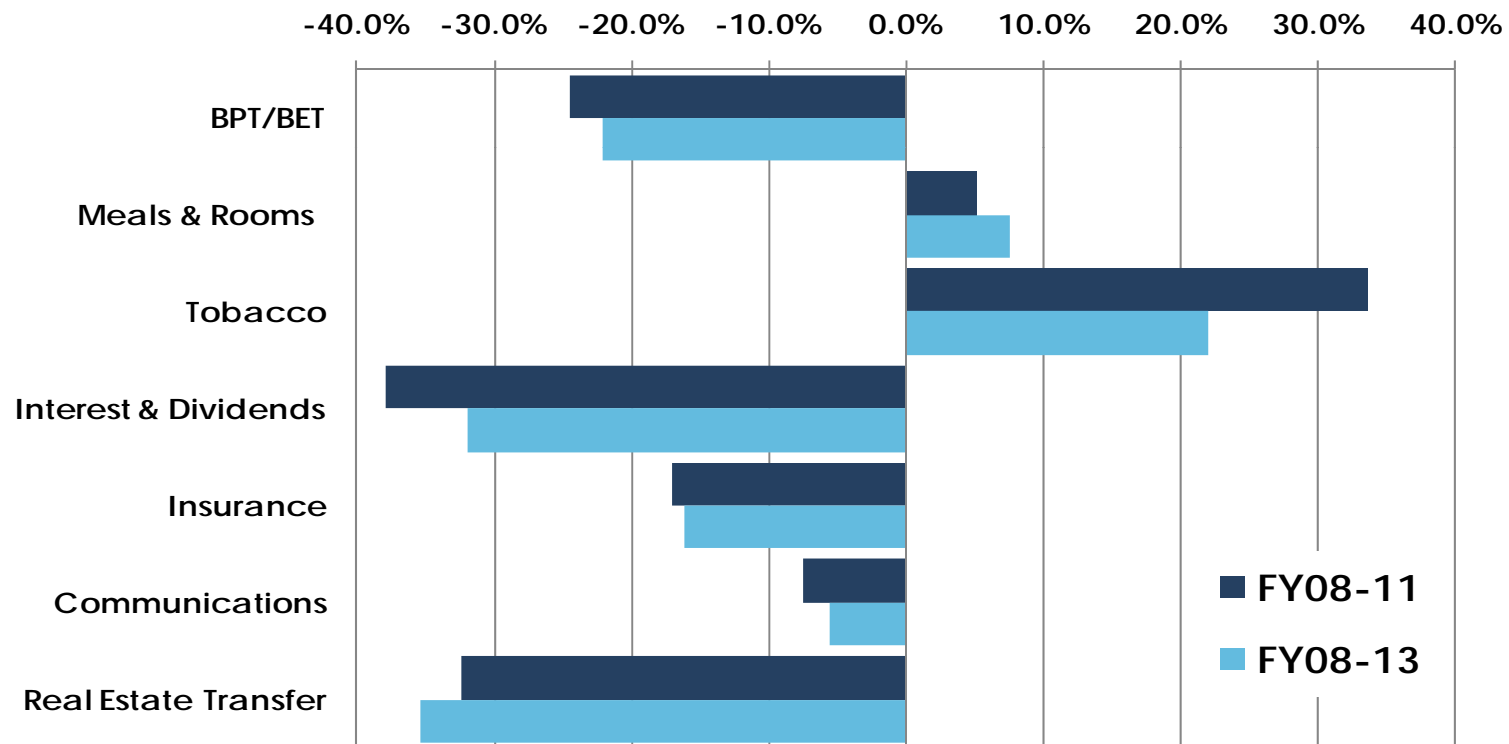


Figures represent four-quarter rolling averages.

Source: Center on Budget and Policy Priorities, July 2011

# Most Major Sources of Tax Revenue in NH Have Declined Since Start of Recession

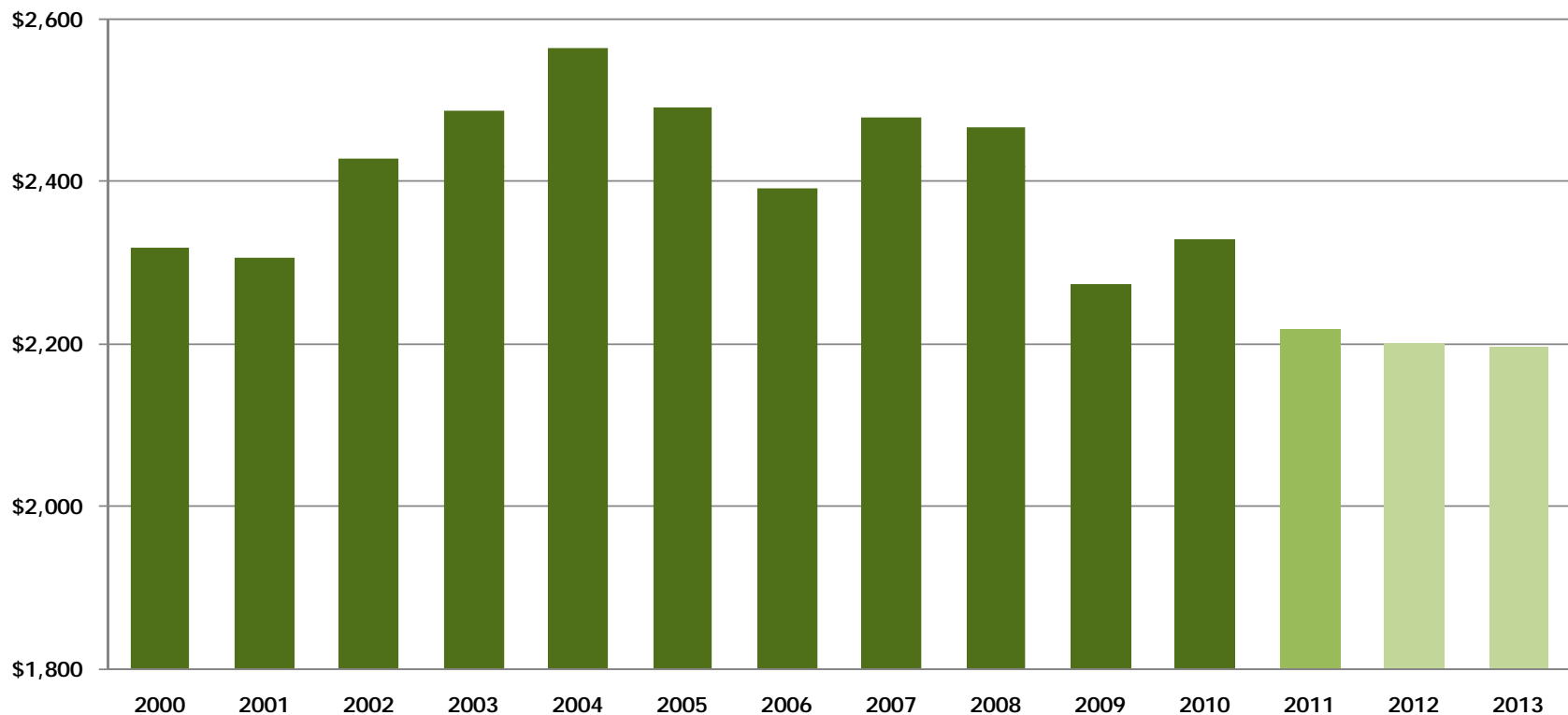
*Projected Real Aggregate Change in Select NH Taxes, FY 2008 – FY 2013*



Source: NHFPI calculations based on NH DAS & US Bureau of Labor Statistics data

# Current Projections Leave Real Revenue at Lowest Level Since the Creation of Education Fund

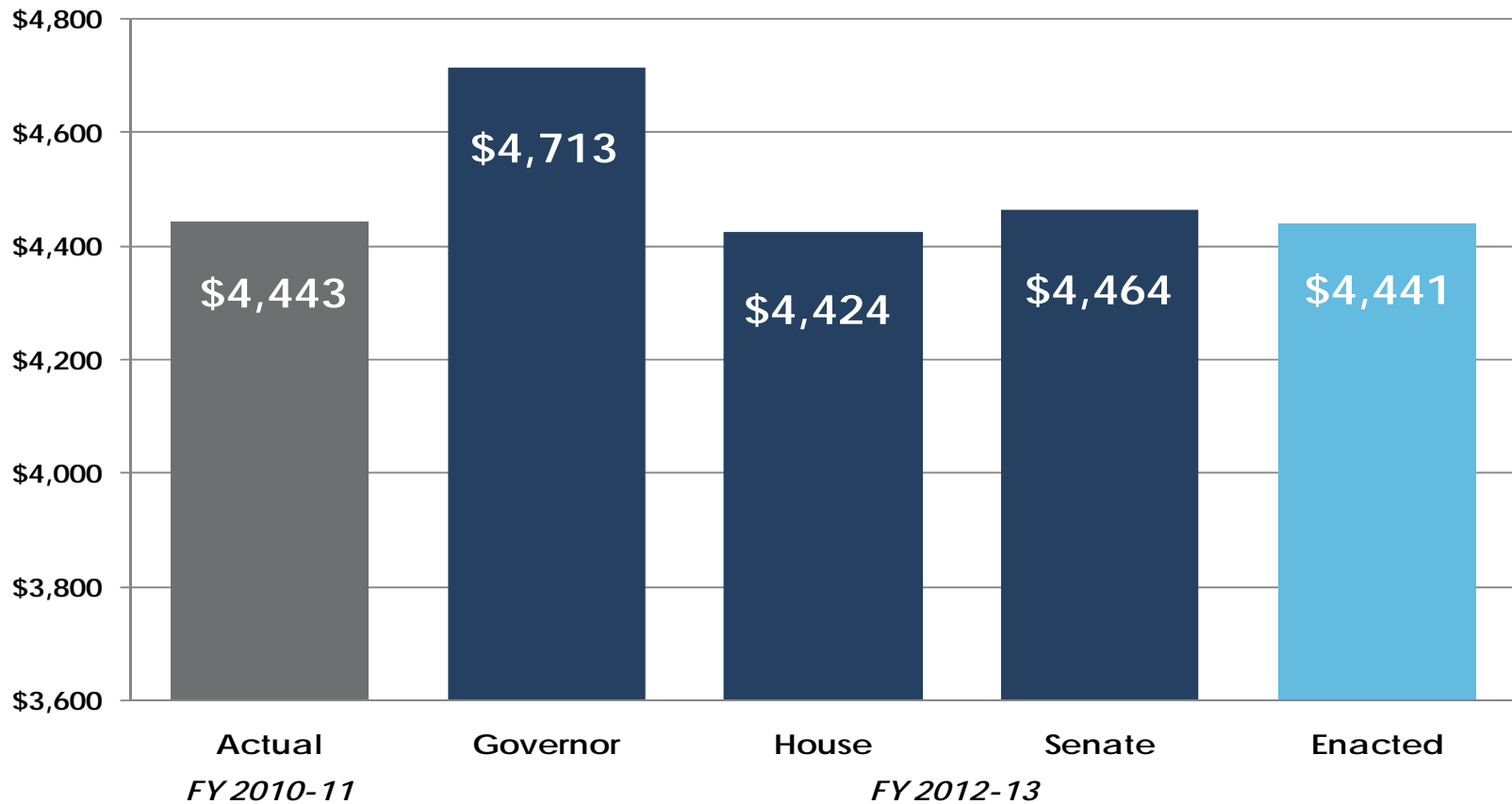
*General & Education Fund Collections in Millions of FY 12 Dollars, FY 2000-2013*



Source: NHFPI calculations based on NH DAS, HB1 and related amendments, and US Bureau of Labor Statistics data

# Legislature Anticipates Little to No Revenue Growth

*General and Education Trust Fund Revenue, FY 2010-13, in \$M*



Source: NH DAS; HR 11; HR 12; HB1 and related amendments

# 2011 Tax Cuts Likely to Exacerbate Revenue Declines

BILL#	DESCRIPTION	EFF. DATE	IMPACT
HB229	Repealing the tax on gambling winnings	23-May-11	Generated \$2.9M in FY10 and \$3.2M in FY11
SB125	Relative to the the business profits tax deduction for reasonable compensation	1-Jan-11	DRA indicated revenue loss could be as much as \$6M annually; LBA Surplus Statement shows loss of \$2M annually
HB2	Reduces the cigarette tax rate from \$1.78 to \$1.68 per pack	1-Jul-11	DRA fiscal note indicated revenue loss from these two changes could be \$7 to \$15M annually; LBA Surplus Statement fails to reflect any revenue loss from such changes;
	Reduces the tax on other tobacco products from 65.03% to 48% of wholesale price	1-Jul-11	
	Increases the limit on the net operating loss (NOL) carryforward from \$1M to \$10M	1-Jul-13	Initial DRA fiscal note indicated revenue loss "indeterminable" but could be significant
HB187	Extends the carryforward period for the BET credit against the BPT from 5 to 10 years	1-Jul-14	Initial DRA fiscal note indicated revenue loss "indeterminable" but could be substantial



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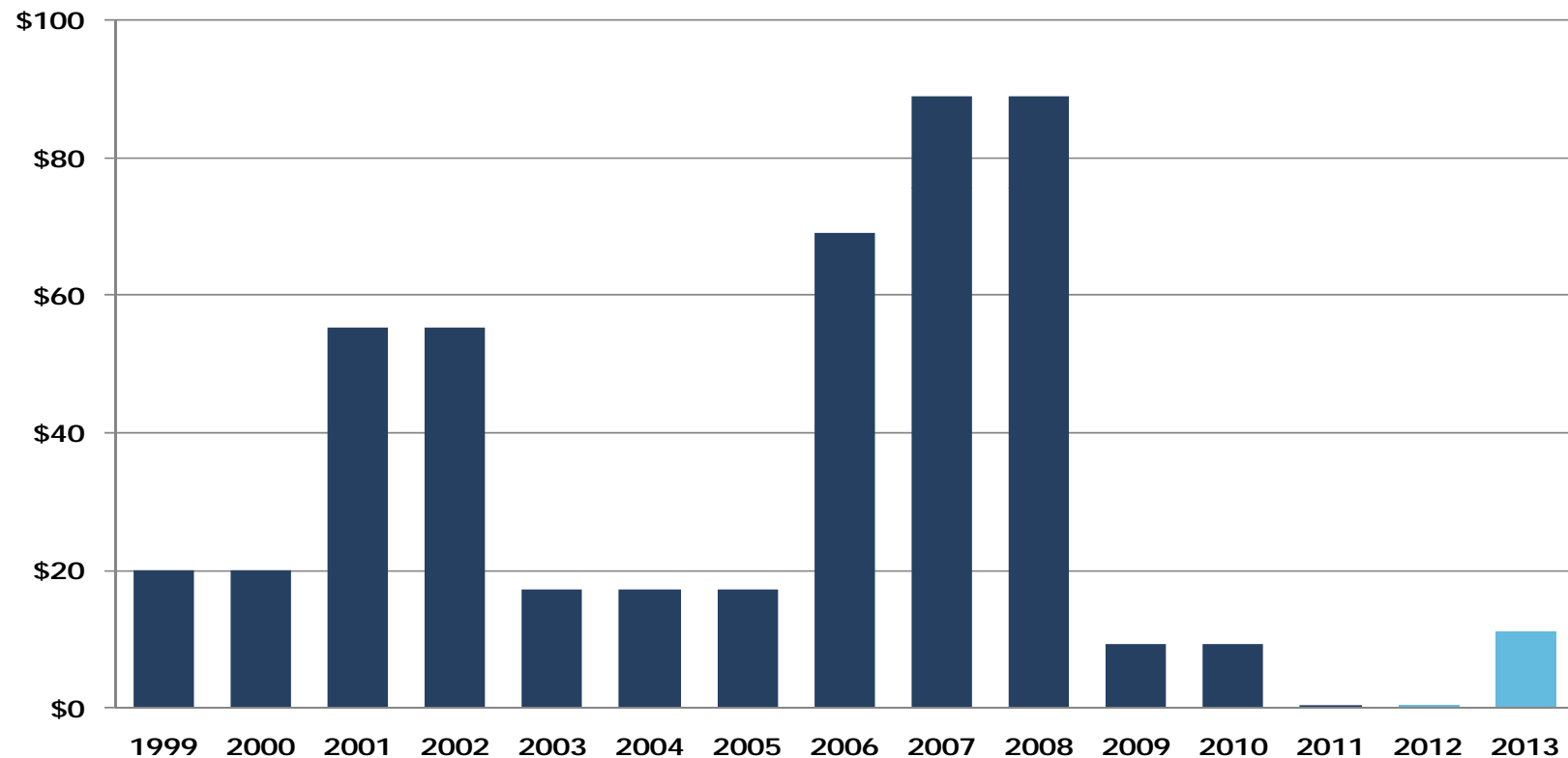
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# New Hampshire Has Largely Exhausted Its Rainy Day Fund Over the Course of the Recession

*Stabilization Fund balance at close of fiscal year, in millions of dollars*



Sources: Office of the Legislative Budget Assistant, Department of Administrative Services

# Stronger than Anticipated Revenue Growth Could Provide Resources Needed to Mitigate Cuts

*General & Education Fund Revenue (\$M) under various scenarios*

	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY12-13</u> Total	Difference from Enacted
Actual	2,189.7				
Enacted					
Implicit growth from prior year		1.2%	1.8%		
Revenue		2,200.3	2,240.3	4,440.6	-
"Senate Projections"					
Growth from prior year		1.7%	2.6%		
Resulting revenue		2,211.4	2,259.0	4,470.5	29.9
"Administration Projections"					
Growth from prior year		3.9%	3.8%		
Resulting revenue		2,260.9	2,284.8	4,545.7	105.1



# House and Senate May Have Competing Priorities for Any Surplus Funds



“It is the intent of the House of Representatives that revenue reductions ... will be considered and supported to the extent that state revenues exceed the adopted revenue estimates...”

“The department of health and human services shall present a plan ... for making uncompensated care payments to hospitals ... for the fiscal year ending June 30, 2013.

Said plan shall be presented to the fiscal committee of the general court no later than September 12, 2012


Such payments may be paid on the warrant of the governor, out of any money in the treasury not otherwise appropriated”



## Tax Cuts Specified in House's Version of HB2 Would Lead to Significant Revenue Losses...

Bill Number	Description	Projected FY12-13 Revenue Loss
HB 37	Reestablishing the monthly exemption to the communications services tax	\$4 M
HB 154	Increasing a threshold amount for taxation under the business enterprise tax (BET)	\$12 M
HB 213	Reducing the business profits tax (BPT) rate from 8.5 to 8.0 percent by 2012	\$27 M
HB 166	Reducing the meals and rooms tax rate from 9 to 8 percent	\$54 M
<b>TOTAL</b>		<b>\$97 M</b>





# ...with Many Other Tax Proposals Waiting in the Wings

## *Select 2012 Legislative Service Requests*

2012-H-2116-L	Reducing the rate of the meals and rooms tax over a 5 year period
2012-H-2211-R	Relative to business tax reforms
2012-H-2318-R	Establishing a property tax credit for married couples with children
2012-H-2439-R	Repealing the interest & dividends tax
2012-H-2495-R	Requiring all property taxes to be assessed on the value that exceeds \$100,000
2012-H-2563-R	Establishing a committee to study BPT apportionment based on costs of performance
2012-H-2565-R	Relative to the IRC version used for state tax statutes
2012-H-2566-R	Relative to combined filings for business taxes
2012-H-2567-R	Establishing a committee to study updating the CST
2012-H-2568-R	Establishing a committee to study the step up in basis under the BPT
2012-H-2569-R	Relative to the definition of an overseas business organization under the BPT
2012-H-2577-R	Relative to residential property valuation
2012-H-2607-L	Establishing an education tax credit

# Numerous Factors Could Affect Budget Balance Over Next 2 Years

- ❖ Impact of US DHHS decision on DSH payments  
*NH could see loss of \$35M in federal funds*
- ❖ Impact of requested MET refunds  
*Hospitals seeking collective refund of roughly \$50M*
- ❖ Tax cuts could prove more costly than anticipated  
*Budget assumes tobacco tax cut revenue neutral, but DRA suggests up to \$30M loss; BPT reasonable compensation changes could lose \$8M more than expected*
- ❖ Proceeds from sale of Lakes Region Facility  
*Senate assumes \$10M in additional revenue in FY13*

# Supermajority Requirement for Tax Increases at Odds with Sound Fiscal Policy



## **Projected FY12 shortfall: \$974 million**

2010 – Moody’s downgrades bond rating due in part to “...a requirement for a 2/3 majority vote of the state legislature or vote of the people to increase revenues.”



## **Projected FY12 shortfall: \$25.4 billion**

1998 – Citizens’ Budget Commission: two-thirds supermajority “makes it relatively easy to enact tax breaks but difficult to repeal them”



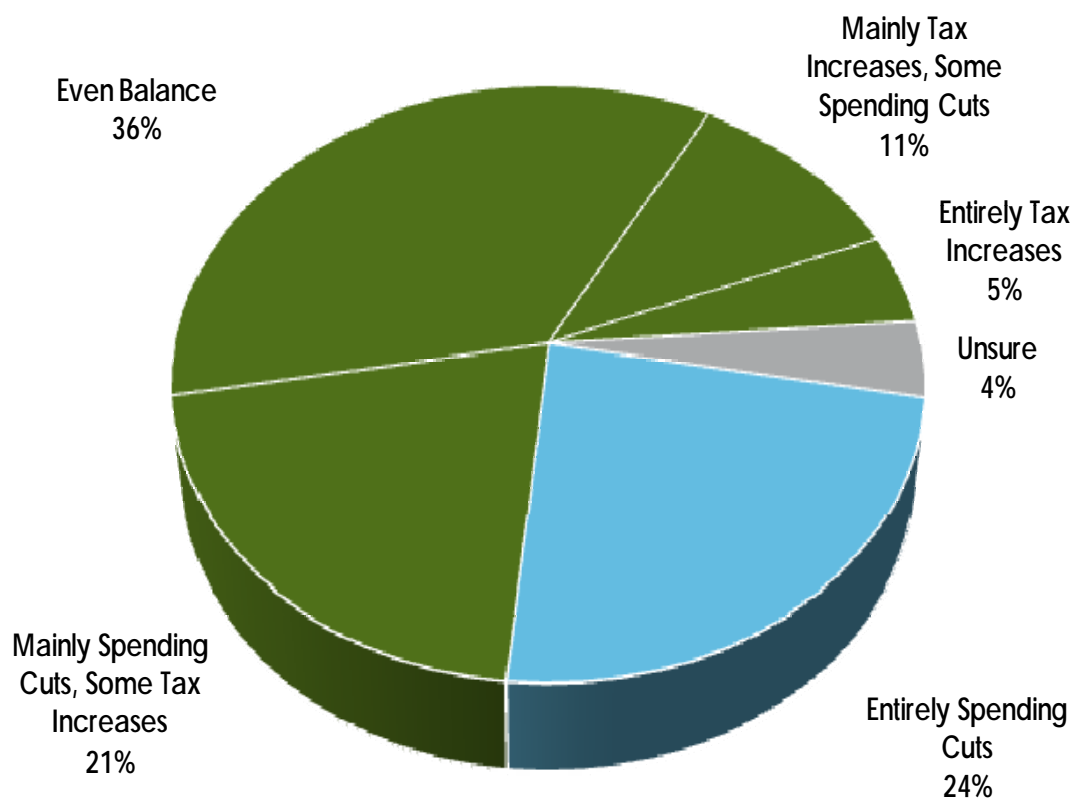
## **Projected FY12 shortfall: \$1.5 billion**

2011 – Moody’s downgrades bond rating, as two-thirds supermajority requirement “presents a hurdle to achieving balance on an ongoing basis going forward.”

# Public Supports Taking a Balanced Approach to Addressing New Hampshire's Fiscal Crisis

*"...Let's turn to the state budget. Which approach would you choose for dealing with the state's budget shortfall?..."*

- WMUR Granite State Poll,  
April 2011



# Revenue Options Are Available to Address State's Budget Shortfall

## ❖ **Modify Existing Taxes**

- Adopt a Business Profits Tax surcharge  
*POTENTIAL IMPACT:                      uncertain, up to \$30 million annually*
- Expand the Interest & Dividends Tax to include capital gains  
*POTENTIAL IMPACT:                      \$90 million annually*
- Adjust excise taxes (e.g. beer and/or motor fuels) to account for inflation  
*POTENTIAL IMPACT:                      \$15 to \$90 million annually*

## ❖ **Reinstate Prior Taxes**

- Bring back some form of an Estate Tax  
*POTENTIAL IMPACT:                      \$25 to \$60 million annually*





*economic opportunity, prosperity, and security for all New Hampshire residents*

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