Testimony of Jeff McLynch,
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Before the Senate Internal Affairs Committee
Regarding CACR 6
May 11, 2011

Chairman Prescott, Members of the Committee, thank you for the opportunity to appear before you this afternoon. My name is Jeff McLynch and I am the Executive Director of the New Hampshire Fiscal Policy Institute (NHFPI), an independent, non-partisan organization dedicated to exploring, developing, and promoting public policies that foster economic opportunity and prosperity for all New Hampshire residents, with an emphasis on low- and moderate-income families and individuals.

I am here today to offer testimony on CACR 6, a measure that would amend the state's constitution to require a three-fifths "supermajority" vote in both chambers of the legislature in order to increase any existing tax or license fee, create a new tax or license fee, or authorize the issuance of state bonds.

In brief, CACR 6 would undermine sound fiscal policy in New Hampshire. It would unduly constrain the flexibility New Hampshire needs to respond to changing economic circumstances or to shifting public preferences and would likely lead to a greater reliance upon temporary solutions to future budgetary shortfalls, more frequent legislative stalemates, and higher borrowing costs. Consequently, I urge the Committee to recommend the measure as inexpedient to legislate.

NHFPI's March Issue Brief on CACR 6, which I have submitted to the Committee for its consideration, explores the measure's shortcomings at greater length, but there are several points from that Brief that I wish to highlight for you today.

Perhaps the most immediately relevant point – given that the Senate is now crafting its version of the state's FY 2012-2013 budget – is that procedural barriers to tax increases, such as the one CACR 6 would create, effectively limit the range of options available to policymakers in addressing budget shortfalls. Accordingly, to bring revenue and expenditures into balance in the presence of a supermajority requirement, policymakers would either have to enact deeper spending cuts than would otherwise be the case or would have to rely upon temporary solutions or short-sighted accounting gimmicks. As deep spending cuts can have adverse

economic consequences, the pressure becomes that much greater to resort to policy options that offer some fiscal relief in the short-run, but that create fiscal stress over time.

Residents of Arizona saw this firsthand last year, when a similar requirement led to the sale of various state buildings, including the Arizona Capitol and the Arizona Supreme Court. While those sales helped to close an immediate multibillion dollar budget gap, Arizonans will have to deal with the cost of leasing back their own state house for years to come.

Limits on fiscal flexibility can distort policy choices in other ways as well. As the members of the Committee are aware, both the Senate and the House are considering various proposals to reduce taxes here in New Hampshire. A common justification for those proposals is that such changes are needed to attract or retain employers. With a supermajority requirement in place, if such proposals were adopted, but later proved to be ineffective in achieving those goals or in boosting employment, it would be exceptionally difficult to revisit – let alone repeal – such changes. Similarly, at present, the Department of Revenue Administration is unable to offer precise estimates of the likely revenue loss associated with several of these proposals; again, if a supermajority requirement were in place and such proposals were adopted, but later proved to be more costly than initially anticipated, it would be exceptionally difficult to revisit – let alone repeal – such changes.

Lastly, economic research and market events demonstrate that limits on fiscal flexibility come with very real costs for taxpayers. A comprehensive 1999 study conducted by James Poterba of MIT and Kim Rueben of the Urban Institute finds that states that have supermajority requirements in place face higher borrowing costs – in their words, as much as "an extra $1,750 in interest payments per million dollars of debt issued." Indeed, in just the past two years, Moody's Financial Services has downgraded its bond ratings for both Arizona and Nevada, explicitly citing the presence of a supermajority requirement for tax increases in those states as one of the factors influencing its decisions.

In closing, as the Members of the Committee know well, New Hampshire has long had one of the lowest levels of taxation in the nation, even in the absence of a supermajority requirement. As a result, instituting such a requirement, as CACR 6 envisions, seems at best unnecessary and, at worst, could prove harmful to the state's long-term fiscal condition.

Once more, I thank you for the opportunity to testify and would be more than happy to answer any questions the Committee may have.