

## The House Finance Committee's Proposed FY 2014-2015 Budget

Like the plan offered by Governor Hassan earlier this year, the version of the FY 2014-2015 budget the House of Representatives will consider this week begins to undo the damage wrought by several years of spending cuts. It would not only increase the resources available to programs designed to serve some of the state's most vulnerable citizens, such as the developmentally disabled and the mentally ill, but would also renew investments critical to New Hampshire's economy and quality of life, such as higher education and local infrastructure projects.

Moreover, the budget crafted by the House Finance Committee, like the one put forward by the Governor, sets the stage for the expansion of New Hampshire's Medicaid program under the Affordable Care Act. Should New Hampshire adopt such an expansion, it would be able to extend health care coverage to tens of thousands of the state's poorest adults, at no net cost to the state in the coming biennium, while attracting hundreds of millions of dollars in federal funds over the next two years and beyond.

Still, the budget the House will soon debate does not go as far as the Governor's proposal in mitigating the impact of prior budget cuts. All told, the House Finance Committee's budget would appropriate \$4.66 billion from the General and Education Funds over the FY 2014-2015 biennium. While that sum is \$187 million or 4.2 percent higher than what New Hampshire is expected to spend in the current biennium, it is approximately \$54 million lower than the General and Education Fund appropriations recommended by the Governor.<sup>i</sup> In particular, House Finance would provide \$12 million less to the University System of New Hampshire and nearly \$33 million less in uncompensated care payments to local hospitals than would Governor Hassan.

The principal reason for these differing approaches to FY14-15 spending levels lies in a critical assumption about casino gambling in New Hampshire. Governor Hassan's budget presumes that New Hampshire will legalize casino gambling later this year and that the license fees associated with such a move will produce \$80 million for the General Fund this coming biennium. While legislation to accomplish that goal (SB 152) has been approved by the Senate, it has not yet been taken up by the House of Representatives. Consequently, the House Finance Committee does not count upon such revenue in its version of the budget.

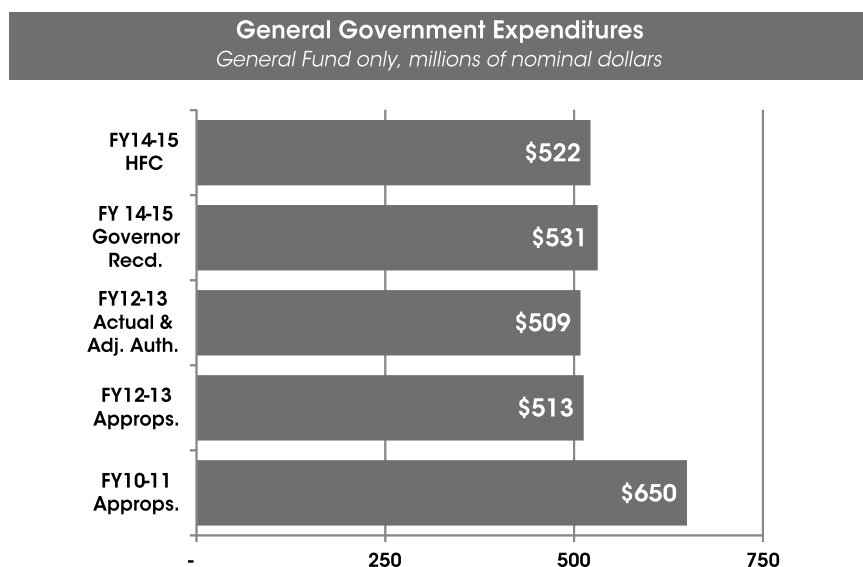
The remainder of this Budget Brief explores in greater detail the differences between the Governor's and the House Finance Committee's proposed FY 2014-15 budgets.

## Proposed Appropriations

### General Government

As approved by the Finance Committee, the House's version of the budget would appropriate \$521.6 million for the State Treasury, the Departments of Administrative Services and Revenue Administration, the Legislature, and the other offices and entities that comprise this category of expenditures.

This sum is roughly \$9.6 million less than the level recommended by the Governor for FY 2014-15, due largely to two changes. First, based on consultations with the State



Treasurer, the Committee has lowered the amount of General Funds devoted to debt service by \$8 million over the biennium; second, the Finance Committee chose not to make the changes to the Joint Board of Licensure and Certification contained in the Governor's budget and thus reduced the Joint Board's appropriation by about \$1.5 million over the next two years.

The Finance Committee preserved, among other changes put forward by Governor Hassan, a \$5 million increase in the amount of Meals and Rooms tax revenue distributed to cities and towns across the state. Still, like the Governor, the House's version of the budget would not make any additional progress in restoring other forms of local aid, such as the \$25 million in annual general revenue sharing that has been suspended since 2009.

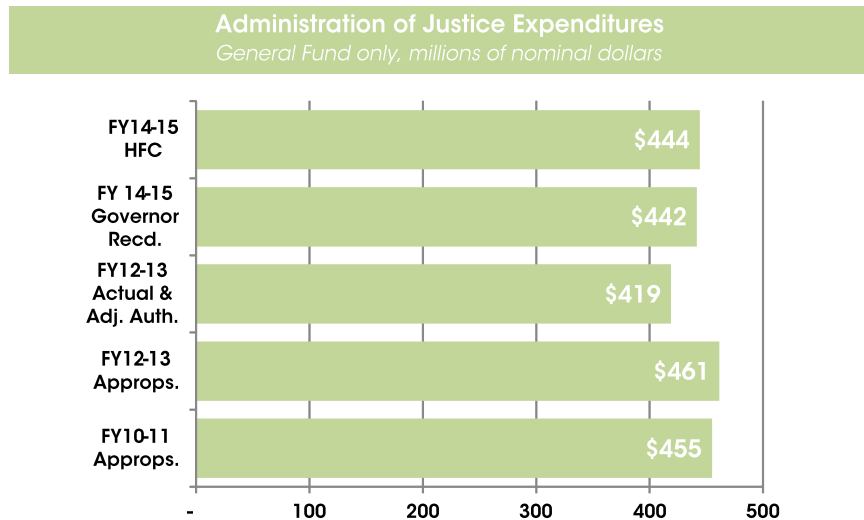
### Administration of Justice & Public Protection

The version of the FY 2014-15 budget approved by the House Finance Committee would appropriate \$444.3 million in General Funds for the spending category known as Administration of Justice and Public Protection. This category includes parts of the executive branch, such as the Departments of Agriculture, Justice, Safety, and Corrections, as well as New Hampshire's judicial branch.

This level of spending is about \$2.5 million more than that recommended by Governor Hassan, but much of that change – about \$1.7 million – comes from shifting certain responsibilities from the Joint Board of Licensure and Certification back to the Department of Safety. In addition, while House Finance’s recommendations

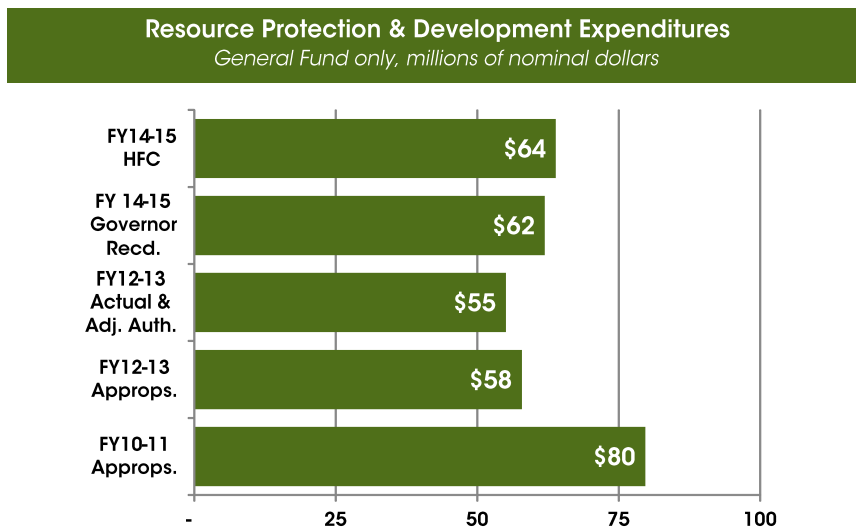
would boost funding for the Judicial Council by \$600,000 over the biennium in order to provide legal counsel for indigent parents in abuse and neglect cases, they would also reduce support for the judicial branch by that same amount, via a so-called “back of the budget” cut.

If enacted into law, the House Finance Committee’s recommendations would put General Fund support for the Administration of Justice and Public Protection nearly \$25 million above what the state expects to spend in this category in the current biennium, but leave it at least \$10 million lower than what had been appropriated for this category in each of the last two biennia.



### Resource Protection & Development

Like the budget plan put forward by Governor Hassan, the set of recommendations approved by the House Finance Committee would bolster support for the Department of Resources and Economic Development (DRED) and the Department of Environmental Services (DES), the two main components of Resource Protection and



Development. Both versions of the FY 2014-15 budget would provide DRED with \$27.6 million in General Funds over the next biennium, \$2.8 million or 11.5 percent more than the Department is expected to expend in the current biennium. The bulk of that addition would be devoted to enhanced tourism promotion.

Where the Governor would allocate \$32.6 million for DES in FY14-15, the House Finance Committee would allot nearly \$34.5 million, with the \$1.9 million difference going towards state grants to help finance delayed and deferred municipal infrastructure projects, such as water and solid waste systems.

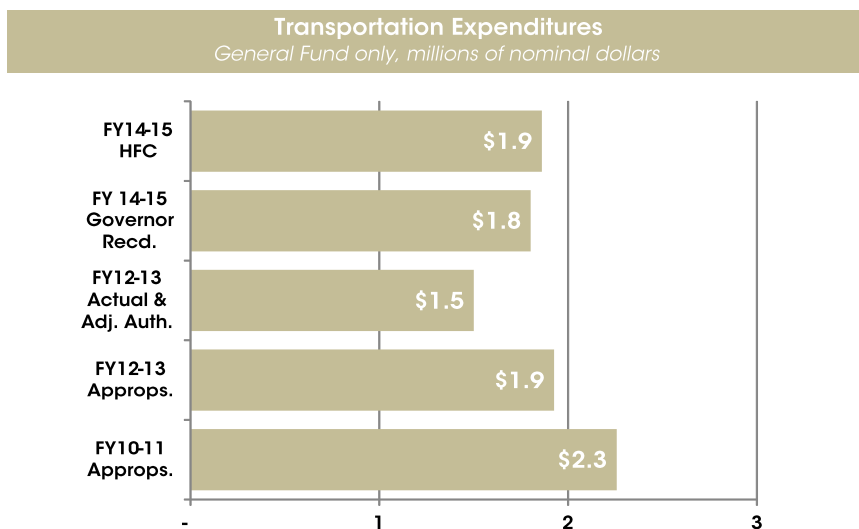
All told, the \$63.9 million the House Finance Committee would appropriate for Resource Protection and Development represents a roughly 16 percent increase over what New Hampshire will likely spend in this category in FY 2012-13 and a 10 percent jump from what was originally appropriated in that biennium. Still, it remains close to 20 percent less than what legislators had devoted to this purpose in FY 2010-2011.

## Transportation

If enacted into law, the version of the budget backed by the House Finance Committee would provide just under \$1.9 million in General Funds to the Department of Transportation over the course of the FY 2014-15 biennium. This sum is slightly higher than the Governor's recommendation and about \$360,000 more than the Department is expected to spend from that source in the current biennium. The additional funds would principally be used to bolster the Division of Aeronautics, Rail, and Transit.

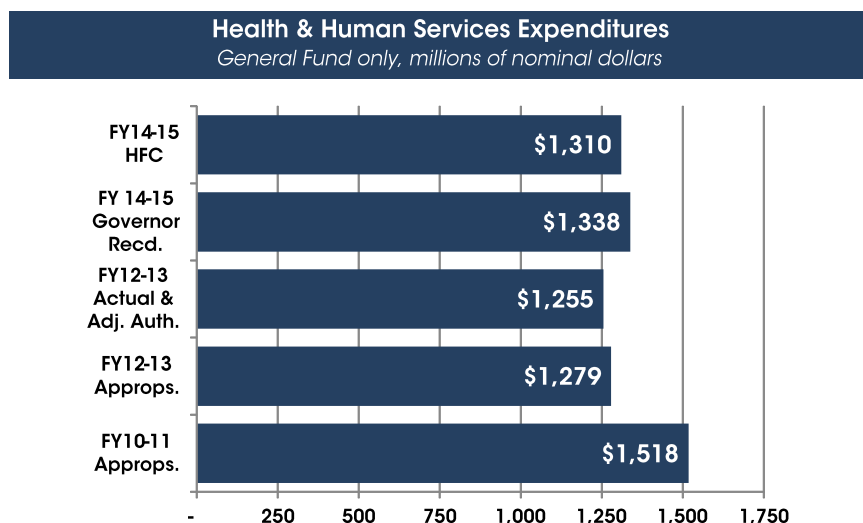
Of course, General Funds provide only very small fraction of the resources for New Hampshire's

transportation programs and services. Provisions added to the House Finance Committee's recommendations (and previously approved by the full House of Representatives in the form of HB 617) would substantially augment those resources by raising New Hampshire's gas tax from 18 cents per gallon to 30 cents per gallon by 2015 and by increasing the tax on diesel fuel to that same rate by 2018. Such changes would generate close to \$90 million in additional revenue over the course of the FY 2014-15 biennium, but that revenue would not accumulate in the General Fund. Rather, it would be directed to a new "state and municipal road and bridge" account within the Highway Fund. In turn, that account is to be used "exclusively for the construction, reconstruction, and maintenance of state and municipal roads and bridges...to improve safe travel...create jobs, and promote commerce, tourism, and economic growth..."



## Health and Human Services

The House Finance Committee has proposed General Fund appropriations for health and social services in the FY14-15 budget totaling \$1.31 billion, representing a \$28 million reduction – or a 3 percent difference – from the Governor’s recommendations. Of note, the House Finance General Fund appropriation for the Department of Health and Human Services (DHHS) in the coming biennium is a 5 percent increase over the



actual and authorized appropriations for FY12-13, but remains lower than FY 10-11 appropriations for DHHS by 14 percent. While the Committee strived to restore vital programs that have been subjected to several years of spending cuts, House Finance does not go as far as the Governor: funding for uncompensated care as well as for cash

assistance to the poor and disabled are both lower in its version of the budget. However, the Committee’s budget protects affirms the recommendations the Governor’s budget made for mental health services and developmental disability services and prepares the state to extend Medicaid coverage to low-income adults as made possible by the Affordable Care Act.

### Reduction in Uncompensated Care Funds

The House Finance Committee has proposed reducing the Governor’s FY14-15 General Fund budget recommendation for uncompensated care by \$33 million, from \$197 million to \$164 million. Typically, to provide hospitals with some financial relief for uncompensated care – losses related to care for the uninsured and for Medicaid members – New Hampshire participates in a federal matching program called the Disproportionate Share Hospital program (DSH). Through DSH, New Hampshire receives one dollar in federal funds for every non-federal dollar contributed toward hospitals’ uncompensated care costs. Excluding the current budget, over the last 10 years, the state has provided approximately \$150 million to \$250 million non-federal dollars for uncompensated care every biennium and has successfully drawn down an additional \$150 million to \$250 million in federal aid that, together, are paid to the state’s hospitals.<sup>ii</sup> The DSH program historically had been funded by half of the revenues produced by the Medicaid Enhancement Tax (MET); the other half of the MET was traditionally deposited in the General Fund. The MET distribution changed dramatically in the FY12-13 budget, in which the state sent only \$50 million of MET

revenue to uncompensated care and only after appropriations were made for Medicaid provider payments and the General Fund.

The House Finance plan mirrors the Governor's plan with respect to the order in which funds from the MET will be distributed, prioritizing provider payments and General Fund contributions before funding for uncompensated care for hospitals. However, the House Finance plan would increase distributions for provider payments and the General Fund and would thus reduce the funds allocated for uncompensated care. Specifically, House Finance would first allocate \$81.7 million to Medicaid provider payments in FY14 and \$90.3 million in FY15, representing an \$8.6 million increase in funding for provider payments. The next priority would be to make deposits – amounting to \$72.2 million in FY 14 and \$73.7 million in FY15 – into the General Fund, representing a \$24.3 million increase relative to the Governor's budget position. The House plan would then provide \$78 million in FY14 and \$86 million in FY15 – representing a reduction of \$32.9 million for uncompensated care, relative to the Governor's budget plan.

The House Finance plan also assumes the same level of gross revenue from the MET as the Governor's plan. Given recent trends in collections of MET, it is reasonable to expect that the state's hospitals may not receive the full amount of \$164 million anticipated in the House's budget. Like the Governor, the House's budget projects that gross MET revenue will grow 8 percent annually from the level of revenue it was originally expected to produce in FY 2013 – \$213 million. Based on that projection, the House's budget forecasts MET collections of \$232 million in FY 2014 and \$250 million in FY 2015. However, FY13 MET collections are about 20 percent below projected levels for FY 2013. Consequently, the forecast for FY 2014-15 will likely need to be adjusted downward, which will in turn affect the amount of funds available for distribution in the uncompensated care pool to all of the state's hospitals.

### **Medicaid Expansion & Medicaid Managed Care**

The House Finance budget includes the same commitment to moving forward with extending Medicaid coverage to adults, aged 19 to 64 with incomes below 138 percent of the federal poverty line, under the Affordable Care Act (ACA) that was in the Governor's budget plan. It creates a separate line item appropriation that will ultimately reflect the federal funds New Hampshire will receive, should it elect the expansion. In addition, the House preserves a provision found in the Governor's version of HB 2, the so-called "trailer bill", that directs the Commissioner of Health and Human Services to take the administrative steps necessary to institute the expansion. Nevertheless, despite testimony from DHHS officials regarding the projected \$319 million in federal payments that New Hampshire would receive over the biennium for the coverage of this new population, House Finance's version of the budget, like the Governor's, does not include such payments.

In addition, the version of the budget backed by House Finance also assumes that Medicaid managed care, enacted into law in 2011, will begin July 1, 2013 as the Governor's budget plan did.

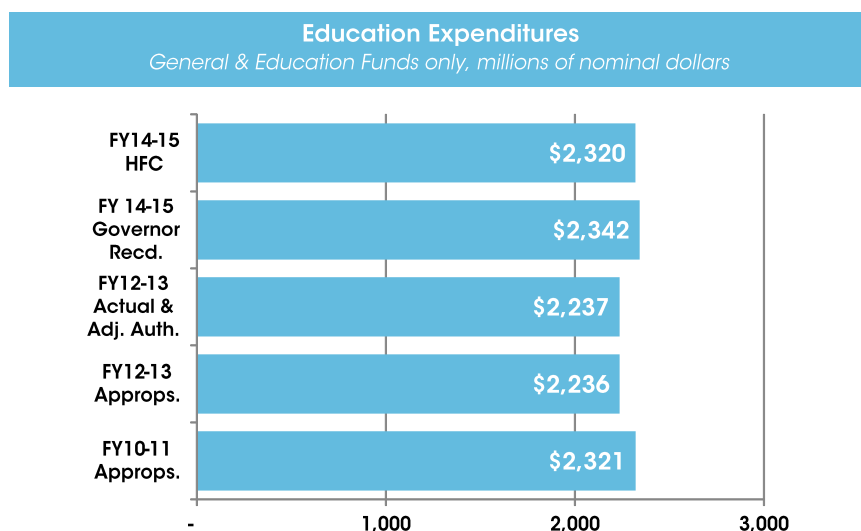
## Reduction for Aid to the Permanently and Totally Disabled

The House Finance plan reduces the Governor's FY14-15 General Fund budget recommendation of \$31.7 million for Aid to the Permanently and Totally Disabled (APTD) program by \$8.7 million. APTD is a bi-weekly financial assistance benefit that is paid to income eligible residents between the ages of 18 - 64 who are determined to be physically or mentally disabled. The Governor's budget assumed a 2 percent annual increase in caseload and grant amounts, despite a fairly steady decrease in both in the last year. This funding reduction reflects revised caseloads and grant award projections that follow a slight downward trend. Should caseloads come in above projections, however, budget writers may need to revise this appropriation.

## Education

Of the changes to the Governor's proposed budget that the House Finance Committee has approved, some of the most substantial fall within Education. In the aggregate, House Finance would dedicate \$2.32 billion in General and Education Funds to the Department of Education, local adequacy aid, and public institutions of higher learning for FY 2014-15. While this sum is \$83.9 million higher than what the state is expected to spend in these areas for FY 2012-13, it is \$21.7 million lower than the level proposed by the Governor for the upcoming biennium.

Within K-12 education, the House Finance Committee would cut, relative to the Governor's proposal, \$7.2 million from school building aid, bringing General Fund support for this function to \$88 million or about 8 percent less than the state is expected to spend in FY12-13. In addition, House Finance's version of the budget would remove \$2.5 million in Education Funds related to charter schools (tuition and fiscal disparity aid) from the Governor's budget plan.



Concerning higher education, the House Finance Committee would maintain the level of funding that the Governor has suggested for the Community College System of New Hampshire for FY14-15: \$76.9 million. Such an appropriation would fully restore the cuts that were made to the state's community colleges in the current biennium. Yet, House Finance would provide just \$139.9 million in General Funds to the University System of New Hampshire for FY14-15, some \$57 million below what was appropriated in FY 10-11 and \$12 million less than the level recommended by the Governor.

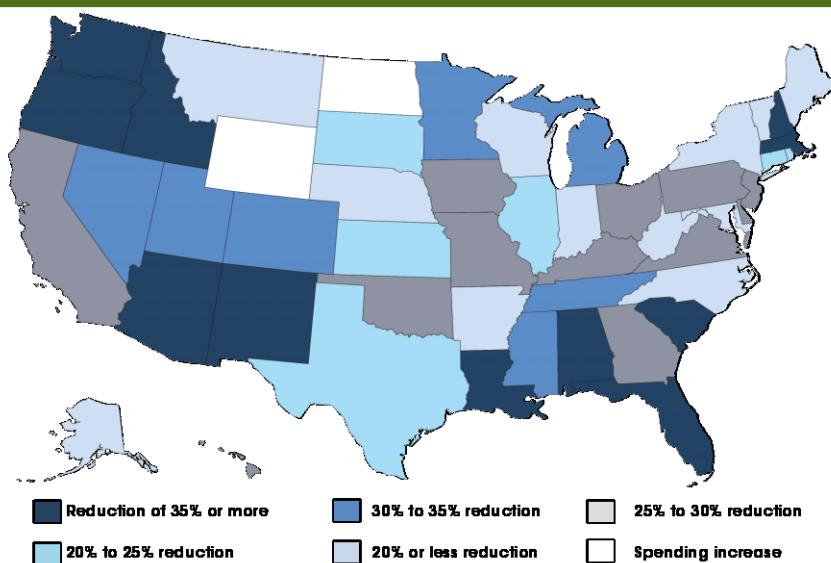


So, while the House Finance Committee, like the Governor, would begin to reverse some of the cuts to higher education made in the FY 2012-2013 budget, it would still leave many of them in place. A recent study conducted by the Center on Budget and Policy Priorities highlights just how deeply New Hampshire has cut public colleges and universities since the start of the recession and details the consequences for college affordability and economic development.<sup>iii</sup>

Of note, the study finds that New Hampshire has reduced its support for public higher education more than all but one state in recent years. Between FY 2008 and FY 2013, state spending for higher education, on an inflation-adjusted, per pupil basis, fell 49.9

### NH Higher Education Cuts Nearly the Sharpest in the Nation

*Percent change in state spending per student, inflation adjusted, FY 2008-13*



Source: Center on Budget and Policy Priorities

percent here in the Granite State. Only Arizona, where it plummeted 50.4 percent, imposed steeper cuts over this time frame. In fact, New Hampshire's reduction was more than one and half times greater than the national average reduction of 28 percent.

The study also notes that tuition has risen far more rapidly in New Hampshire than in most states during this period, as

administrators have been forced to compensate for the loss of state funds. From FY08 to FY13, the average tuition at public, four-year colleges in New Hampshire climbed 36.7 percent after adjusting for inflation. Just 10 states saw bigger jumps over this stretch, while the increase for the nation as a whole was 27 percent.

## Revenue

If its recommendations were enacted into law, the House Finance Committee expects that they would yield \$4.55 billion in General and Education Fund revenue over the FY 2014-15 biennium. That is, based on estimates from the House Ways & Means Committee, Finance projects that the state's existing tax and revenue system will produce \$4.49 billion in the next two fiscal years. The version of the budget approved by House Finance contains policy changes that would generate, on net, another \$64 million.

As the table below illustrates, the total amount of General and Education Fund revenue on which the Finance Committee's budget relies is roughly \$64 million less



than that found in Governor Hassan's budget. This difference is, needless to say, the driving factor in appropriations changes that the House is likely to make to the Governor's budget plan. More specifically, while the Governor's and the House's estimates of the "baseline" revenue New Hampshire's existing tax system will yield for the coming biennium are relatively similar, it is the difference in policy proposals that create the gap between the two versions of the budget.

#### General & Education Fund Revenue Changes in the FY 2014-2015 Budget

*All figures in millions of dollars*

	Governor	House Finance
<b>Projected FY 2014-15 General &amp; Education Fund Revenue (baseline, no policy changes)</b>	<b>4,484.9</b>	<b>4,489.2</b>
<b>Recommended Policy Changes (with projected FY 2014-15 revenue impact)</b>	<b>132.5</b>	<b>64.4</b>
Tobacco tax increase (e.g. cigarette tax rate of \$1.98)	60.0	60.0
DRA staffing changes	27.0	27.0
Repeal, suspend, delay 2010-2011 tax cuts	12.0	12.0
Increase in R&D tax credit		(2.0)
Additional insurance premium tax revenue due to Medicaid expansion	5.8	5.8
LCHIP diversion	3.0	5.0
Move Board & Care revenue to restricted funds	(55.3)	(55.7)
<b>Subtotal - common changes</b>	<b>52.5</b>	<b>52.1</b>
Legalization of casino gambling	80.0	-
Additional tobacco settlement payments (SB 199)	-	24.1
Other revenue changes	-	(9.8)
<b>Projected FY 2014-2015 General &amp; Education Fund Revenue (including policy changes)</b>	<b>4,617.4</b>	<b>4,553.6</b>

Source: NHFPI calculations based on LBAO data

As the table details, the Governor and the House Finance Committee agree on policy changes that, on net, would bring an additional \$52 million into the General and Education Funds in the next biennium. Among them are an increase in the cigarette tax rate to \$1.98 per pack (with corresponding rate increases for other tobacco products); the repeal or suspension of several business tax cuts enacted in the prior legislature; and restoring certain staffing resources at the Department of Revenue Administration that will enable it to enforce the state's existing tax laws and thus collect outstanding revenue.

The budget plan put forward by the Governor assumes that the legalization of casino gambling would enable New Hampshire to collect licensing fees of \$80 million in the coming biennium. The House Finance Committee did not include such revenue in constructing its version of the budget. However, it did count upon \$24 million in payments that New Hampshire may soon receive as a result of a new legal settlement with cigarette manufacturers. As authorized by SB 199, New Hampshire is now one of roughly 30 states that have elected to settle a dispute with cigarette manufacturers over the enforcement of the 1998 master settlement agreement (MSA). This new agreement will likely yield a net lump sum payment for New Hampshire of about \$17 million, but the timing for New Hampshire's receipt of that payment is uncertain. Testimony by the Legislative Budget Assistant before the House Finance Committee

suggests that New Hampshire could receive that payment as early as April 15, 2013, but that receipt is likely to be delayed beyond that date, since the states that are not parties to the new agreement will likely seek to block it from taking effect. Consequently, the House Finance Committee's budget assumes that that lump sum payment, plus a roughly \$2 million in increase in the annual tobacco payments New Hampshire is already slated to receive will fall in the next biennium.

Finally, should New Hampshire achieve a budget surplus in either FY 2013 or FY 2014, whether due to higher than expected revenue collections or because of other factors, a provision in House Finance's version of the budget would dedicate that surplus to restoring funding in certain areas. Often called a "waterfall" amendment, that provision specifies that the first \$6.4 million of any FY13 surplus would be used for increasing funding for uncompensated care payments. The University System of New Hampshire (USNH) would receive up to the next \$6 million of any such surplus, with chartered public schools receiving the next \$1 million beyond that. If a FY14 surplus were available, the first \$26.5 million would accrue to uncompensated care, followed by (as funds allow): \$7.2 million for school building aid, \$6 million for USNH, and \$1.4 million for charter schools.

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<sup>i</sup> Since the House Finance Committee's budget would redirect the more than \$55 million in board and care revenue the state is expected to receive in FY 2014-15 from unrestricted General Fund revenue to restricted revenue, prior year totals have been similarly adjusted for comparison purposes throughout this Budget Brief.

<sup>ii</sup> Based on Department of Administrative Services, *New Hampshire Comprehensive Annual Financial Report for year ending June 30 2009*, p. 111.

<sup>iii</sup> Oliff, Phil, et.al., *Recent Deep State Higher Education Cuts May Harm Students and the Economy for Years to Come*, Center on Budget and Policy Priorities, Washington, DC, March 19, 2013; available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=3927>