

# A Budget Full of Holes

BY JEFF MCLYNCH



**W**ith the news that NH's December employment levels had finally returned to pre-recession highs, one might expect our legislators to have a relatively easy time crafting the state's next budget, which goes into effect in July.

Sadly, that will not be the case. A number of daunting challenges face policymakers from Governor Hassan on down, as they put together a plan to provide the services both residents and businesses depend on—from education and infrastructure to health care and public safety.

## Rickety Revenues

Chief among those challenges is NH's rickety revenue system, which hasn't fully recovered from the last downturn. Preliminary data for fiscal year 2014 suggest that, after adjusting for inflation, revenue for the General and Education Funds are about \$250 million below FY 2008 levels.

While some sources of revenue, such as the tobacco tax and the meals and rooms tax (among the largest revenue sources), have rebounded, others have not. In particular, the combination of the business profits tax and the business enterprise tax is, in real terms, still 20 percent below its FY 2008 total, a big problem given these two taxes together constitute the single largest source of revenue for the General and Education Funds.

So what's to blame? Both long-standing structural flaws in NH's revenue system and short-sighted policy changes.

On the whole, NH's revenue system fails to keep up with overall growth in the state's economy. Between FY 1994 and 2013 the state's economy grew by about 2.4 percent annually. By comparison, General Fund revenue, after adjusting for inflation and

tax rates, has risen by just 0.7 percent annually. Policymakers thus struggle, even in good times, to meet the natural growth in state expenses.

Tax cuts put in place in recent years have exacerbated this problem. For example, legislation adopted in 2012 to exempt Internet access from the communications services tax (CST) was reported to cost the state about \$6 million per year. In FY 2014, preliminary CST collections were less than \$60 million—a dramatic change from fiscal years 2002 to 2012, when they exceeded \$80 million each year.

## Unbalanced Equations

In putting together the current two-year budget, policymakers elected to use a one-time \$57 million surplus from FY 2013 to balance the budget. Those funds will have to be replaced during the next two years.

Legal settlements reached in 2014 will also effect budget deliberations. The mental health system settlement commits NH to about \$24 million more for housing, employment supports and other services, while the Medicaid enhancement tax settlement will require NH to forego another \$55 to \$100 million in support for the General Fund.

Legislators must also confront the legacy of past fiscal decisions such as suspending general revenue sharing to cities and towns. That has meant fewer resources for local government, impairing their ability to build and maintain infrastructure or forcing them to increase property taxes.

## The Cascade Effect

The current two-year budget made considerable progress in restoring funding for NH's public colleges and universities, but the cuts made since the start of the recession

remain among the sharpest in the nation. Indeed, on an inflation-adjusted, per-pupil basis, support for public higher education fell more than 36 percent between FY 2008 and FY 2014. Only six states made deeper cuts. New Hampshire cannot create tomorrow's workforce if it continues in this fashion.

And pressures from outside of the General and Education Funds may also come to bear. The recent increase in the gas tax has helped ease some fiscal strains within the Department of Transportation, but the state's Highway Fund may still see a deficit of \$80 million in FY 2016 alone, or more than 30 percent of the Department's operating budget. Failure to address that deficit would jeopardize the state's ability to maintain the roads and bridges depended upon by residents, business and tourists.

Faced with similar challenges in the past, NH's policymakers have all too often made sharp spending cuts or temporary fixes, endangering critical priorities and passing problems on to future legislatures. For NH to grow its economy and build the vibrant communities that attract residents, businesses and visitors, policymakers must take a new, balanced approach that incorporates common-sense reforms to the existing revenue system and looks beyond just the next two years. ■

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