

Presentation to the Keene Board of Education Finance  
Committee

Update on Proposed State Budget for 2011 – 2012

Administrative Planning to respond to anticipated  
expenditure and revenue losses.

Bill Gurney

April 5, 2011

## **Introduction**

There has been much speculation regarding the impact of proposed budget legislation and the impact of funding reductions on the Keene School District. The quick answer to questions about funding for next year is that we will likely not know the extent of cuts until July.

The New Hampshire Fiscal Policy Institute (NHFPI) issued a paper on March 29, 2011 entitled "*House Committee's FY 2011-2012 Budget Proposal.*" The report is a comprehensive overview of the dramatic reductions in support for social services and education. Public education may escape major cuts for the next biennium but draconian cuts to services for mental health, public health and other social services will no doubt affect the schools in the next few years. These cuts are being driven by overly conservative revenue projections by the NH House. Below is the NHFPI summary of the House's education initiatives. The entire study is attached to the appendix of this report.

## **Education**

*Expenditures for education, from both the General Fund and the Education Fund would total \$2.24 billion for FY12-13 under the House Finance Committee's version of the budget. Of this sum, approximately \$1.92 billion would flow from the Education Fund and \$321 million would derive from the General Fund. Thus, the House Finance Committee would devote \$42.3 million less in General Funds to education in the coming biennium than would the Governor and \$79.1 million less from that source than the state is projected to spend over the course of the current FY10-11 biennium.*

*These declines occur principally because, while the Finance Committee would fully fund school building aid and make less steep reductions in catastrophic aid than would the Governor, it would also make exceptionally sharp cuts to New Hampshire's university and community college systems. More specifically, the recommendations offered by the Finance Committee would slash General Fund appropriations for the University System of New Hampshire from an anticipated level of \$197 million for FY10-11 to \$83.3 million for FY 12-13, a drop of 58 percent and well beyond the already substantial reductions contained in the Governor's budget plan.*

The NHFPI report may paint a rosier than realistic portrait of the fiscal challenge the Keene School District may face in the months ahead. We anticipate cuts on both revenue and expenditure sides of our budget.

The most immediate concern is the \$1,000,000 obligation the State has for contributions to the New Hampshire Retirement System on behalf of school district employees. Until last

year, the State paid 35% of the costs associated with the pension system. That contribution fell to 25% for the current year and Governor Lynch's proposed budget cut the entire contribution, thereby downshifting the cost to local municipalities and school districts. Since we are not able to raise our budget for the 2011-2012 school year, the million dollars will need to be raised through staffing and program reductions. The question of how to address these cuts is of immediate concern since contracts must be issued to certified staff by April 15.

On the revenue side, significant funding cuts are being discussed. Ultimately, any loss of revenue will need to be borne by local taxpayers unless additional cuts are made to our budget. Keene already bears a heavy burden compared to other school districts across the State. Potential revenue losses include:

- Building Aid may be cut or eliminated. Our revenue projections for the next school year included significant funds to help cover the cost of bonds on Keene High School and the new middle school.
- Catastrophic Aid for Special Education helps our district absorb the costs of expensive out of district tuition expenses for students whose educational needs cannot be met by our educational programs.
- Adequacy Aid to the Keene School District was about \$10 million for last year. A constitutional amendment is working its way through the legislature that could eliminate this important source of funding in future years.
- Transportation aid for students from other districts to attend the Cheshire Career Center is in jeopardy. If districts cannot afford to send their students to the CCC, tuition revenues that help fund our outstanding programs will be lost.

We have no real understanding of what reductions will be faced once the legislature approves the final budget. However, we need to develop a strategic plan that will help us to respond quickly once the uncertainties are resolved. We fear the possibility that the legislature will fail to approve a budget, and the state government will enact a series of continuing resolutions over the course of next year to keep basic services running. However, revenues would be parceled out on a monthly basis with no guarantee that funds will be available. Such a situation would be untenable in terms of proper budget planning.

Another major uncertainty has been the proposed creation of a legislative committee to review federal funds coming into our state. HB 590 would create the House Constitutional Review and Statutory Recodification Committee which could potentially limit our access to millions of dollars in funds flowing from Washington.

The Keene School Board has worked hard to limit district budget increases over the last few years. District employees have also recognized these challenging times by negotiating fair collective bargaining agreements. The Board has consistently returned large surpluses to voters at the end of fiscal years which reflects its commitment to prudent spending. While these measures have had positive results, the combination of factors facing us now will require more dramatic measures in the years ahead.

Co-Superintendent Wayne Woolridge has been active in advocating with legislators for continued funds for education. We have followed with concern decisions being made in Concord and worked with colleagues to advocate for continued student services.

Closer to home, Keene administrators have been meeting to develop recommendations in response to the loss of state funds. The first deadline facing us is April 15, which is when we

are obligated to issue employment contracts to certified staff. Administrators have worked with legal counsel to prepare a list of certified staff that will not be issued contracts for next year. Instead, those identified will receive a letter explaining that economic factors beyond our control prevents the school district from issuing contracts to them at this time. A number of experienced educators may receive this notice as a result of declining enrollment in programs. We will also notify certified staff with less than three years experience in the district that their contracts will not be renewed at this time. This action gives us the necessary flexibility to absorb the \$1 million in increased cost for retirement contributions that is being downshifted to the district. We hope that over the next few months, most if not all of these positions can be reinstated.

A suggestion that might alleviate the need to reduce as many certified staff positions would be to invite representatives of the various collective bargaining groups to meet with the Keene Board of Education to discuss the possibility of temporarily increasing employee contributions to health and dental insurance for the 2011-12 school year. Overall, a 5% increase in employee contributions could save the district about \$371,000 or more.

Our next step is to identify areas of the budget where reductions may be made. We have begun this difficult process and will outline some of these reductions at the April Finance Committee meeting. As we introduce these reductions, it is hoped that we will be able to offer more teaching contracts.

There are some possible bright spots in the near future that may serve to alleviate some of the damage. The district has not spent any of the federal jobs funds provided during the economic stimulus package. These funds amount to \$350,000 and could be used to supplant local spending. We are also projecting a robust surplus for the 2010-11 school year. We were very fortunate to have lower than anticipated costs for health insurance, special education and debt service. These funds will be used to reduce the local tax rate for next year. I would recommend that the Keene Board of Education return at least \$2.75 million in surplus funds to reduce taxes. This commitment may result in some budget trimming for the current year but the sacrifice now may lessen our crisis next year. We also look forward to the sale of the old middle school at a price of \$1.3 million much of which will be used to reduce taxes and therefore the impact of state and federal revenues.

A bill is working through the legislature that may give us an opportunity to adjust our budget later this spring. The bill would give the Board of Education the option of holding a special district meeting to adjust the budget. While not an ideal situation, the meeting may become a necessity as we gain a better understanding of the extent of our budget woes.

We are blessed to live and work in the Keene community. Despite growing concerns about the state's commitment to fund its obligations, the voters of Keene overwhelmingly supported new collective bargaining agreements for staff and affirmed our proposed operating budget. Please understand that we will do our best to address this difficult situation fairly but there is no escaping the fact that deep cuts to programs and staffing will have a negative impact on the quality of education delivered to our students. This crisis will be prolonged and I fear that deep reductions in services will be the norm over the next few years.

Following are a number of options to consider at this time:

**Option A (For immediate action)**

Issue employment contracts to most certified staff by April 15, 2011.

For some experienced staff and all staff in their first or second year of employment with the Keene School District, issue letters stating that a contract will not be issued at this time due to uncertainties about future funding. This represents a cost reduction of +/- \$1 million and addresses the increased costs for the NH Retirement System.

Limit current district spending immediately to ensure a budget surplus of not less than \$2.75 million as of June 30, 2011 excluding proceeds from the sale of real estate. This surplus would be used to reduce the amount of money to be raised by property taxes. This should even out much of the impact expected from the loss of funding.

The Keene Board of Education and administrators will work cooperatively to identify program reductions to reinstate teaching positions. A preliminary draft of areas for reductions is included in this report.

**Option B (Not recommended)**

Do not issue any employment contracts to certified staff and notify them that they may not have jobs in 2011-12.

The Keene Board of Education and administrators will work cooperatively to identify program reductions to reinstate teaching positions. A preliminary draft of areas for reductions is included in this report.

**Option C Not recommended)**

Issue employment contracts to all certified staff by April 15, 2011.

Maintain current spending levels in 2010-11 to ensure a budget surplus of \$1.75 million by the end of the school year.

Use the entire proceeds of the sale of the old middle school to reduce 2011-12 property taxes.

The Keene Board of Education and administrators will work cooperatively to identify program reductions to reinstate teaching positions. A preliminary draft of areas for reductions is included in this report.

TO: Keene Finance Committee  
FROM: Paul Cooper  
DATE: April 5, 2011  
RE: STAFF REDUCTIONS

This memo is to outline how we will be approaching staff reductions. The operating assumption is that we will be faced with an additional expense to the budget of \$1,000,000 in NHRS costs. This will require us to find and reduce the 2011-12 budget by at least that amount.

Reducing the budget is complicated by the District's legal requirement to notify certified staff that they will or will not be issued a contract no later than April 15. In order to accommodate the deadline for notification, the principals have been asked to find cuts in certified staff. The second step is to go back through the budget and find areas that can be cut to allow us to lessen the impact on certified and other staff. The guiding principle throughout this process has been to minimize the impact on students.

So far:

The High School has identified \$478,400 in staff cuts.

The Middle School has identified \$172,500 in staff cuts.

The elementary schools are still identifying staff cuts that will help us hit the target.

In order to give our principals flexibility to identify staff cuts and to make accommodations for bumping, we are recommending "pink slipping" (notifying people we will not be offering them a contract) most staff hired from 8/09 to present. The only exclusion would be people that have no chance of being bumped (some math and science staff at the high school). This will result in approximately 38 staff who will receive notification that they will not receive a contract and approximately 320 who will receive a contract. As the budget shortfalls become clearer and as we continue to develop non-staff cuts we will go back through the list and issue contracts where we can.

Once we have the OK from the Board to move ahead with this plan, principals will meet with members of their staffs that will be impacted. Contracts and letters will follow over the next several days.

*March 29, 2011*

## House Finance Committee's FY 2012-13 Budget Proposal

On Thursday, March 24, the House Finance Committee completed its deliberations on the state's biennial budget bills – HB1 and HB2, the so-called “trailer” bill – and forwarded its recommended changes to those bills to the full House of Representatives for its consideration.

Under the Committee's recommendations, the state would spend approximately \$4.4 billion from its General and Education Funds over the course of the FY 2012-2013 biennium, close to \$300 million below Governor Lynch's proposed budget for the same period and approximately 10 percent less than the \$4.9 billion the state expects to spend from those funds and in federal stimulus monies by the close of the current FY 2010-2011 biennium. Accordingly, the Committee's recommendations, if enacted, would entail either the outright elimination of, or exceptionally sharp reductions to, a wide range of vital public services and programs. In particular, the House Finance Committee would reduce General Fund support for New Hampshire's university and community college systems by \$135 million in the aggregate, an amount equal to 49 percent of what they now receive. It would also dramatically curtail the payments the state makes to local hospitals for the care they provide to uninsured patients and Medicaid recipients, as well as funding for mental health services for adults and children, shrinking the former by some \$115 million in General Funds alone and dropping the latter by \$25 million.

Given a projected deficit of roughly half a billion dollars for the FY12-13 biennium, some degree of spending reductions were certain to emerge from the Finance Committee's deliberations, just as Governor Lynch counted upon \$175 million in expenditure changes to help balance his proposed budget. Still, the cuts to public safety, health and social services, and education that were put forward by the House Finance Committee are particularly steep, for at least two reasons.

First, the leadership of the House of Representatives has repeatedly expressed a desire to avoid “downshifting” costs to local government. The changes recommended by the House Finance Committee succeed in reversing some of the major reductions in aid to cities, towns, and school districts contained in the budget proposed by the Governor, but, in achieving that outcome, the version of the budget crafted by the House Finance Committee will impose other costs, directly and indirectly, now and in the future, on New Hampshire residents and the communities in which they live. To take just one example, declining state support for services for the mentally ill will likely lead to escalating police and fire costs, as first-responders will be compelled to assist

those who may pose a threat to themselves or others because they are no longer receiving the treatments they need.

Second, the revenue projections on which the House Finance Committee’s version of the FY12-13 budget is based are significantly more conservative than those employed by the Governor. As noted in earlier NHFPI publications, HR 11, approved by the House of Representatives in February and re-affirmed in the Finance Committee’s amendments to HB 2, estimates that General and Education Fund revenue will grow by just 1.0 percent in FY 2012 and by 1.5 percent in FY 2013, thus remaining below its FY 2010 level throughout the biennium. Consequently, the House predicts that the state will collect some \$290 million less in General and Education Fund revenue than the Lynch Administration anticipates, leading to far steeper spending reductions than those found in the Governor’s budget.

Importantly, in the event that the state collects more revenue in the coming months than the House now anticipates, the Finance Committee has made quite clear that it will not use those funds to mitigate cuts to institutions of higher learning or to critical services for the mentally ill and at-risk children. Rather, the House Finance Committee included an amendment among its recommendations to express the intent of the House of Representatives to provide “tax and fee relief” via four specific measures – HB 37, HB 154, HB 166, and HB 213 – should “state revenues exceed ... adopted revenue estimates.” In other words, the Finance Committee’s top priority for any additional revenue that the state may collect is to cover simply the initial costs of permanent changes in tax policy, changes that would reduce state revenue by tens of millions of dollars each year and that would direct substantial benefits to visitors to the state or to large and profitable corporations operating not solely in New Hampshire, but around the globe.

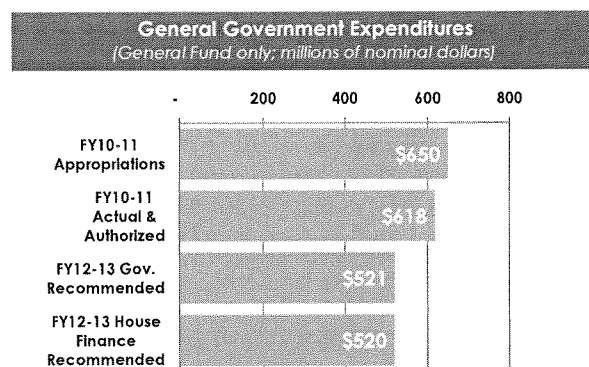
The remainder of this Budget Brief examines the House Finance Committee’s spending and revenue recommendations in greater detail.

### Major Expenditure Proposals

#### General Government

General Fund appropriations for general government, which includes funding for the legislative branch, the state treasury, the Governor’s office, and other executive branch agencies, would amount to \$520 million in FY12-13 if the Finance Committee’s recommendations were enacted into law.<sup>i</sup> This level of funding represents a drop of approximately \$98 million – or 16

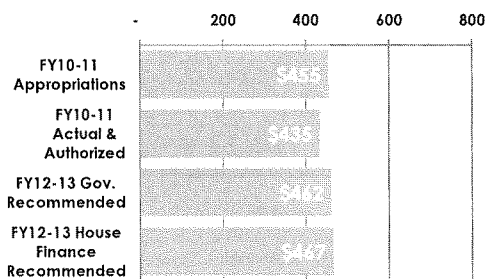
percent – from anticipated FY10-11 levels and is only slightly below the level proposed by the Governor. The bulk of this reduction is due to the Committee’s decision largely to follow the Governor’s lead and eliminate all but \$7 million of the state’s contribution



on behalf of local governments to the New Hampshire Retirement System; that contribution will total \$97.5 million in the FY10-11 biennium and was slated to rise to at least \$125 million for FY12-13. At the same time though, the Committee's version of the budget includes provisions that would, among other changes to the state's public employee pension system, raise the retirement age for certain employees and significantly increase employee contribution rates, changes that appear designed to reduce the system costs borne by public employers – and by extension, the state budget – and to shift them onto public employees. In fact, the Finance Committee anticipates that such changes will result in annual savings of roughly \$43 million for local governments, costs that would instead fall onto workers themselves.<sup>ii</sup>

In addition, the Committee's recommendations would hold the distribution of meals and rooms tax revenue to municipalities to its FY11 level in both years of the coming biennium, whereas the Governor had suggested a \$5 million increase in the distribution in FY13.

**Admin. of Justice & Public Protection Expenditures**  
(General Fund only; millions of nominal dollars)



*Administration of Justice & Public Protection*

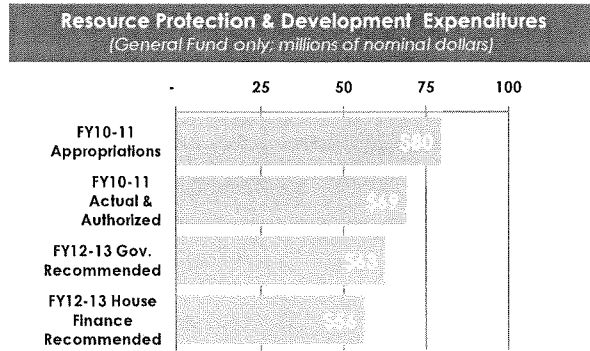
Under the Finance Committee's proposed budget, General Fund expenditures for the administration of justice and public protection would appear to grow, in the aggregate, from \$435 million in the current biennium to \$467 million for FY12-13, a difference of just over 7 percent. However, a sizable portion of this difference arises from the

Committee's proposed diversion of plea by mail revenue, a move that would boost the General Fund by more than \$15 million according to the Legislative Budget Assistant. What's more, while initial appropriations would seem to rise substantially, the Committee's proposed budget contains several so-called "back of the budget" changes, including a \$21 million reduction in judicial branch funding and a \$5 million cut in support for the Department of Corrections. Indeed, this latter provision has prompted the Commissioner of the Department of Corrections, William Wrenn, to inform the Committee, via letter, that the "Department cannot continue to operate in a safe, effective, and efficient manner if the proposed cuts take effect" and could achieve such cuts only through the closure of the Northern New Hampshire Correctional Facility in Berlin, an institution that currently houses 618 inmates and employs 185 workers.<sup>iii</sup>

### Resource Protection & Development

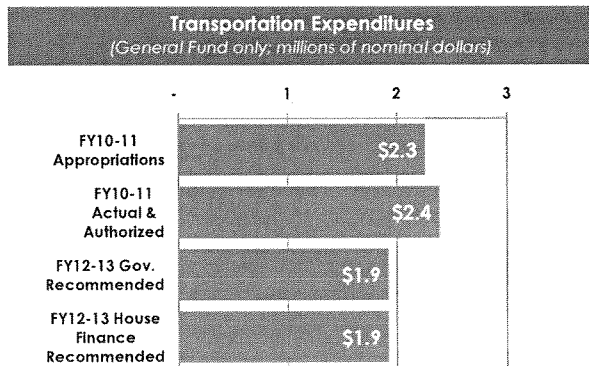
The recommendations put forward by the House Finance Committee would shrink General Fund appropriations for resource protection and development from \$69 million in anticipated spending for the FY10-11 biennium to \$56 million for FY12-13, a drop of 19 percent. Of the two departments that comprise much of this expenditure category, the Department of Resources and

Economic Development would experience a reduction of just over \$1 million in General Funds relative to FY10-11, while the Department of Environmental Services would be slated for a cut of \$11.8 million in the coming biennium.



### Transportation

General Fund appropriations for transportation under the Finance Committee’s budget plan would be identical to those in the version of the budget put forward by the Governor: approximately \$1.9 billion for the coming biennium or about half a million less than what the state will likely spend in the current two-year budget cycle.



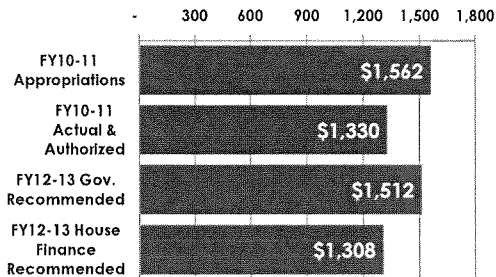
unlike the Governor, the House Finance Committee recommends allowing a temporary surcharge on motor vehicle registration fees, which had been in place through the FY10-11 biennium, to expire. When combined with other changes proposed by the Governor, this means Highway Fund expenditures would be some \$85 million lower under the House Finance Committee’s recommendations over the course of the biennium.

### Health & Social Services

The House Finance Committee has proposed General Fund appropriations for health and social services in the FY12-13 budget totaling \$1.308 billion, representing a drop of \$204 million – or a 14 percent difference – from the Governor’s FY12-13 budget recommendation and a drop of \$22 million from actual and authorized General Fund expenditures for this category in FY10-11. Of note, the House Finance General Fund

appropriation for the Department of Health and Human Services (DHHS) in the coming biennium is not only lower than FY 10-11 actual and authorized expenditures, but also brings DHHS appropriation levels to a four year low, representing funding levels below FY 2008-2009 General Fund net appropriations. These proposals may help to close the

**Health & Social Services Expenditures**  
 (General Fund only; millions of nominal dollars)



state's immediate budget gap but will have costly outcomes across the state: additional health care cost hikes, employment barriers for working families, and greater burdens on already strained community services such as police and fire departments and schools. Below are just some of the reductions to health and human services spending proposed by the House Finance Committee.

## I. Changes to Services that Help to Manage Health Care Costs

### A. Limiting Uncompensated Care Funds to Critical Access Hospitals

The House Finance Committee has proposed reducing the Governor's FY12-13 General Fund budget recommendation of \$166 million for uncompensated care by \$115 million, effectively reducing total funds allocated for this purpose by \$231 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, a state receives one dollar in federal funds for every non-federal dollar contributed toward hospitals' uncompensated care costs. Over the last 10 years, the New Hampshire budget has provided approximately \$150 to \$250 million non-federal dollars for uncompensated care every biennium and has successfully drawn down an additional \$150 to \$250 million in federal aid that, together, are paid to the state's hospitals.<sup>iv</sup> While DSH enabled New Hampshire to reimburse every hospital for some portion of its uncompensated costs in FY 11, the state was not able, even with federal matching funds, to fully compensate all New Hampshire hospitals, in the aggregate, for their total uncompensated care losses.<sup>v</sup>

In making this cut, the version of the budget put forward by House Finance would limit uncompensated care funding distributions to just 13 of the state's 28 hospitals, known as critical access hospitals (CAH). Critical access hospitals are rural, acute care hospitals with 25 or fewer beds and are frequently not only the sole source of health care in some regions of the state, but also a major regional employer. The House Finance Committee has limited uncompensated care funding to these hospitals to avoid closures of hospitals in rural areas of the state, as well as to avoid significant employment losses in those regions.

The remaining fifteen institutions will not receive any reimbursement for their uncompensated care losses. Uncompensated care may represent as much as 2.5

percent to 14.9 percent of the general revenue a hospital expects to collect - from patients and other payers - for services provided.<sup>vi</sup> Without uncompensated care funding, hospitals will cover these deficits by charging other patient populations - mostly the privately insured - more than the actual cost of their care. In 2009, a year in which all New Hampshire hospitals received some uncompensated care reimbursement, private insurance payments were \$800 million above expenses.<sup>vii</sup> In other words, cost-shifting occurs even when some reimbursement for uncompensated care is provided. The complete absence of uncompensated care funding for most of the hospitals in the state will likely push health insurance premiums even higher.

#### *B. Reduction of Mental Health Services for Children and Adults*

The House Finance plan reduces the Governor's FY12-13 General Fund budget recommendation of \$106 million for mental health services by \$25.1 million. This funding reduction will force 3,500 adults with severe mental disabilities and 3,400 children with serious emotional disturbances either to forgo necessary treatment or be placed on a waitlist to receive it. In the absence of these services, many of these patients will likely have increased contact with law enforcement and hospital emergency departments, thus shifting the cost of aiding these individuals from the state budget to local governments and organizations.

#### *C. Reduction of Family Support Services*

The recommendations put forward by House Finance reduce the Governor's FY12-13 General Fund budget recommendation for Family Support Services by an additional \$7.8 million. These services enable 3,000 families to be the primary caregiver for family members with developmental disabilities, including assistance with home modifications and respite care. Without these supports for families, there will likely be an increase in demand for other developmental services provided by the state. There may also be an increase in more expensive, institutional, long-term care for which the state may be responsible, if families find themselves unable to remain the primary caregiver for their disabled family members.

#### *D. Reduction in Public Health Funding*

General Fund appropriations for public health programs would be \$3.5 million lower in FY12-13 under the House Finance Committee's budget than under the Governor's. General Fund budget reductions or eliminations will be made to all of the following public health programs if the House Finance proposal is enacted: emergency preparedness programs to respond to biological, chemical or other health threats; surveillance and epidemiology labs that track infectious diseases and food safety events; family planning and community health center programs that provide preventive health care services and medical treatment, which in turn, divert people from expensive hospital emergency department visits; tobacco cessation programs; and nutrition support for low-income women and children. These cost-effective programs reach tens of thousands of residents and help to reduce acute and avoidable health care emergencies and conditions that can be drivers of high health care costs.

## **II. Changes to Services That Help Manage Employment Barriers**

### *A. Reduction of Support for Childcare Services*

The House Finance proposal reduces the Governor's FY12-13 budget recommendation for childcare services by an additional \$10.2 million. This reduction will create the need for a waitlist for childcare services in FY 12 for up to 4,000 children, erecting a significant obstacle to remaining employed for families who are working and are on the path to becoming self-sufficient. In the absence of affordable childcare, some families may experience a loss of employment and, in turn, would be forced to seek financial assistance from the state or local cities or towns.

### *B. Reduction in Waiver Day Services*

The House Finance proposal reduces the Governor's FY12-13 General Fund budget recommendation for Waiver Day Services by an additional \$5.7 million. Day Services enable nearly 400 adults with developmental disabilities to remain at home with their families and allow those family members to maintain their employment. Day Services provide assistance with basic living skills and safety skills at home and in the community, as well as vocational and volunteering opportunities for developmentally disabled people. Elimination of day services may result in families being forced to leave the workforce in order to care for their adult child at home or to make the difficult choice to seek more expensive options such as costly out-of-home placements or twenty-four hour/residential support. These reductions create real barriers to employment for disabled adults and their family members and may increase demands for more expensive, institutional care for which the state would be responsible.

### *C. Repeal of the Unemployed Parents Program*

The House Finance proposal reduces the Governor's FY 12-13 General Fund budget recommendations for services for unemployed parents by \$4.5 million and repeals the statutory language authorizing the program as a whole. This is a program that provides employment training services and financial assistance to families in which one parent is unemployed or underemployed. These changes will affect approximately 250 families who are struggling to enter the workforce or to keep a job.

## **III. Changes to Existing Community Services and Infrastructure**

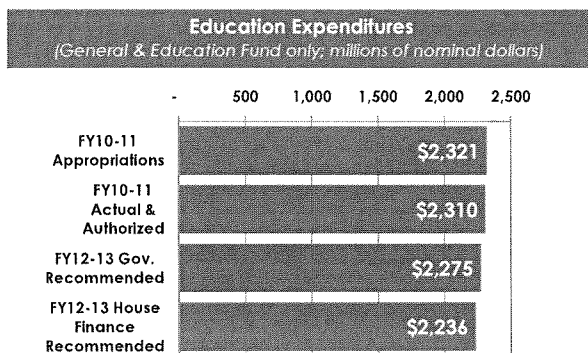
### *A. Changes to Local Welfare*

The House Finance Committee has proposed suspending, for the FY 12-13 biennium, the statute that requires cities and towns to provide local welfare assistance, but will also require municipalities to maintain their level of current spending. Through this measure, the House Finance Committee is attempting to ensure that cities and towns will not face additional costs as a result of the budget cuts that it is proposing, yet, the elimination of supports and financial assistance across numerous service sectors will drive increased demand for assistance from local governments. A maintenance of effort standard may preserve local welfare assistance for some people in need, but will

not provide the additional resources needed to meet the increased demand likely to result from the proposed budget cuts.

*B. Elimination of CHINS Program*

The Committee’s proposal eliminates the Governor’s FY12-13 General Fund appropriation of \$7.2 million for the child in need of services (CHINS) program and repeals the statute that created the program. CHINS provides a court ordered process through which youth can be ordered to receive – and are provided - treatment, care, guidance counseling and rehabilitation to help them overcome difficulties that if untreated, could lead to being charged with violations of the law as a minor. In fact, the Department of Juvenile Justice estimates that twenty percent of children who are currently successfully diverted away from delinquency adjudication by receiving CHINS services will become court involved in the absence of these services. The elimination of CHINS will put more pressure on families, local law enforcement, and schools to maintain a safe setting for all young people in the community.



*Education*

Expenditures for education, from both the General Fund and the Education Fund would total \$2.24 billion for FY12-13 under the House Finance Committee’s version of the budget. Of this sum, approximately \$1.92 billion would flow from the Education Fund and \$321 million would derive from the General Fund. Thus, the House Finance Committee would devote \$42.3 million

less in General Funds to education in the coming biennium than would the Governor and \$79.1 million less from that source than the state is projected to spend over the course of the current FY10-11 biennium.

These declines occur principally because, while the Finance Committee would fully fund school building aid and make less steep reductions in catastrophic aid than would the Governor, it would also make exceptionally sharp cuts to New Hampshire’s university and community college systems. More specifically, the recommendations offered by the Finance Committee would slash General Fund appropriations for the University System of New Hampshire from an anticipated level of \$197 million for FY10-11 to \$83.3 million for FY 12-13, a drop of 58 percent and well beyond the already substantial reductions contained in the Governor’s budget plan.

Cuts of this magnitude would likely exacerbate recent trends in the affordability of a college education in New Hampshire. Data from the New Hampshire Postsecondary Education Commission indicate that, between FY 2002 and FY 2010, state appropriations for the university system have grown by just 0.1 percent per year in real terms. In fact, on both a per capita basis and relative to personal income, state appropriations for higher education in New Hampshire were the lowest in the nation in FY 2010.<sup>viii</sup> Over the same period, however, the average in-state tuition at a public four-

year college or university in New Hampshire has climbed by 4.2 percent per year, after adjusting for inflation, from \$6,837 in 2002 to \$9,506 in 2010.

Similarly, the budget put forward by the House Finance Committee would reduce state support for New Hampshire's community colleges by 36 percent relative to anticipated outlays for FY10-11, dropping spending in this area from \$81.5 million to \$52.5 million. The decision to add to the Governor's proposed reductions to the community college system is particularly jarring when juxtaposed with the conclusions of a recent study from the New England Public Center at the Federal Reserve Bank of Boston. It finds that "the supply of skilled workers is not likely to keep pace with demand over the next two decades" and notes that "New England will likely face even greater challenges in maintaining an adequate supply of skilled workers compared with the nation - particularly those required to fill 'middle-skill' jobs that require some postsecondary education but less than a bachelor's degree." As a result, the study argues that "now is the time to make additional investments in human capital" and goes on to suggest that "strengthening community colleges can be a win-win-win for students, employers, and the region," an outcome that seems unlikely to occur should the Finance Committee's recommendations become law.<sup>ix</sup>

### **Revenue Projections and Proposed Tax and Fee Changes**

As noted at the outset, the version of the budget recommended by the House Finance Committee relies on estimates for the amount of General and Education Fund revenue that the state will collect in the next two years that are far more conservative than those produced by the Lynch Administration. More specifically, the Committee anticipates that baseline General and Education Fund revenue will total \$4.42 billion for the FY12-13 biennium, a figure that would represent a decline of more than 1 percent from the \$4.48 billion the state is expected to collect in those two funds during the FY10-11 biennium. In contrast, the budget put forward by Governor Lynch assumes that these revenue sources would grow by about 5 percent, in the aggregate, to about \$4.71 billion. This roughly \$290 million difference between the two sets of revenue estimates is, again, one of the driving forces behind the magnitude of the spending cuts backed by the House Finance Committee.

Given the inherent uncertainty of projecting state tax and fee collections and the relatively slow pace of the nation's economic recovery, one could argue that the House Finance Committee's revenue estimates represent an abundance of caution. However, given the breadth and depth of the budgetary changes envisioned by the Committee, there should be little argument that, should actual revenue collections exceed the Committee's expectations, any excess should be used to restore cuts to essential public services.

Yet, one provision of the Committee's recommendations would do almost precisely the opposite. It expresses the intent of the House of Representatives to support four specific measures - HB 37, HB 154, HB 213, and HB 166 - to provide "tax and fee relief" should "state revenues exceed ... adopted revenue estimates." As the figure below details, these four measures, if enacted into law, would reduce revenue over the course of FY12-13 by \$97 million, funds that could be otherwise used to undo extensive cuts to higher education or to health and social service programs.

## House Approved Tax Cuts Would Reduce FY12-13 Revenue by At Least \$225 Million

| Bill Number  | Description  | Projected FY12-13 Revenue Loss |
|--|--|--------------------------------|
| <b><i>Approved by the House, Included in Finance Committee "Intent of the House" Amendment</i></b> |  |                                |
| 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>SUBTOTAL</b>  |  | <b>\$97 M</b>                  |
| <b><i>Approved by the House, Pending in Senate Ways and Means</i></b>                              |  |                                |
| HB 156   | Reducing the cigarette tax rate from \$1.78 to \$1.68  | \$30 M                         |
| HB 557   | Regarding the reasonable compensation deduction for certain entities (LLCs, et. al.) under the BPT | \$99 M                         |
| HB 187   | Increasing the carry forward periods for the BET credit against the BPT                            | unknown                        |
| <b>TOTAL</b>   |  | <b>at least \$226 M</b>        |

Source: NHFPI calculations based on available fiscal notes for above legislation

Worse still, the four measures specified in the Committee's amendment to HB 2 represent less than half of the total reduction in tax revenue approved by the House of Representatives to date. As the figure above further indicates, the House as a whole has already voted in favor of legislation to reduce the cigarette tax rate by 10 cents per pack (HB 156); to expand the reasonable compensation deduction certain types of businesses are allowed to use in determining the business profits tax (BPT) they owe (HB 557); and to increase the number of years over which businesses can reduce the BPT they owe should they have particularly large liabilities under the business enterprise tax (HB 187). Based on the fiscal notes produced by the Department of Revenue Administration, the first two of these three bills could reduce tax revenue by as much as \$129 million over the coming biennium; the Department is unable even to estimate how much revenue the enactment of HB 187 would drain away. In short, then, at a time that the House of Representatives is poised to consider a budget that would reduce spending by close to half a billion dollars, putting new and sizable strains on families and communities across the state, it has already expressed its desire to cut taxes by some \$220 million.

<sup>i</sup> Unless otherwise noted, the appropriations figures discussed in this Budget Brief are exclusive of so-called "back of the budget" changes. For instance, the \$520 million in General Funds the House Finance Committee would devote to general government for FY12-13 excludes the \$5.2 million reduction in salaries and benefits at the Department of Revenue Administration that the Committee would achieve through legislative language at the "back of the budget."

<sup>ii</sup> House Committee on Finance, *Budget Briefing - House Bill 1 & 2*, March 29, 2011, p. 12.

<sup>iii</sup> New Hampshire Department of Corrections, Office of the Commissioner, Letter to the Chair and Members of House Finance Committee Division I, March 17, 2011.

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

<sup>v</sup> Based on "DHHS Projections 12-13 012111.xls DHHS FAV ALT NO TRANS," Uncompensated Care Funding History of 2011 presented to Division III of the House Finance Committee by the Department of Health and Human Services, March 10, 2011.

<sup>vi</sup> HB2, as amended by House Finance, appears to restrict the remaining \$115 million General Fund dollars to Medicaid provider payments.

<sup>vii</sup> Norton, S., et al. "Health System Cost-Shifting in New Hampshire," Center for Public Policy Studies, February 2001, p. 1.

<sup>viii</sup> New Hampshire Postsecondary Education Commission, *The Status of Postsecondary Education in New Hampshire*, February 2010, p. 17-19.

<sup>ix</sup> Modestino, Alicia Sasser, *Mismatch in the Labor Market: Measuring the Supply of and Demand for Skilled Labor in New England*, Federal Reserve Bank of Boston, November 2010, p. 40-47.

General Fund Appropriated, Actual, and Recommended Expenditures, FY 2010 - FY 2013

| Department Name  | FY 10-11 Biennium    |                      | FY 12-13 Biennium    |                           | FY 10-11 Actual and Authorized |                           | Change from FY10-11 Actual and Authorized |                           | Difference between House Recommended and Governor Recommended |
|--|----------------------|----------------------|----------------------|---------------------------|--------------------------------|---------------------------|---|---------------------------|---|
|  | Appropriations       | Actual & Authorized  | Governor Recommended | House Finance Recommended | Governor Recommended           | House Finance Recommended | Governor Recommended                      | House Finance Recommended |   |
| <b>General Government</b>                                | <b>649,555,721</b>   | <b>618,002,311</b>   | <b>521,369,765</b>   | <b>519,704,164</b>        | <b>(128,185,955)</b>           | <b>(127,851,557)</b>      | <b>(96,632,546)</b>                       | <b>(98,298,147)</b>       | <b>(1,645,601)</b>  |
| 02 Executive Office                                      | 8,054,001            | 6,830,178            | 6,432,830            | 5,841,081                 | (1,621,171)                    | (397,348)                 | (989,097)                                 | (72,440)                  | (591,749)   |
| 03 Department of Information Technology                  | 743,305              | 627,483              | 555,043              | 555,043                   | (188,262)                      | (188,262)                 | (72,440)                                  | (72,440)                  | -   |
| 04 Legislative Branch                                    | 31,828,664           | 31,085,474           | 31,828,664           | 31,828,664                | -                              | -                         | 743,190                                   | 743,190                   | -   |
| 05 Executive Council                                     | 466,938              | 449,484              | 432,310              | 432,310                   | (34,628)                       | (34,628)                  | (17,174)                                  | (17,174)                  | -   |
| 14 Department of Administrative Services                 | 131,503,224          | 119,433,761          | 120,185,939          | 118,292,410               | (11,317,265)                   | (13,210,814)              | 752,198                                   | (1,141,351)               | (1,893,549)   |
| 28 Real Estate Commission                                | 1,025,557            | 921,422              | 832,286              | 816,935                   | (193,271)                      | (208,622)                 | (89,136)                                  | (104,487)                 | (15,351)  |
| 29 Real Estate Appraiser Board                           | 306,828              | 291,192              | (306,828)            | -                         | (306,828)                      | (306,828)                 | (291,192)                                 | (291,192)                 | -   |
| 30 Boxing & Wrestling Commission                         | 7,075                | 7,047                | (7,075)              | 7,076                     | (7,075)                        | 1                         | (7,075)                                   | 29                        | 7,076   |
| 31 Jt. Board of Licensure & Certification                | 1,374,522            | 1,191,935            | 2,127,718            | 1,976,279                 | 753,196                        | 601,757                   | 935,783                                   | 784,344                   | (151,439)   |
| 32 Department of State                                   | 3,744,640            | 3,570,958            | 3,431,477            | 3,345,734                 | (313,143)                      | (398,906)                 | (138,581)                                 | (224,324)                 | (85,743)  |
| 33 Commission on Pro. Status of Women                    | 42,001               | 82,423               | (62,001)             | -                         | (62,001)                       | (62,001)                  | (82,423)                                  | (82,423)                  | -   |
| 34 Department of Cultural Resources                      | 7,984,368            | 6,943,805            | 6,342,117            | 5,245,941                 | (1,642,251)                    | (2,718,427)               | (601,688)                                 | (1,677,864)               | (1,076,176)   |
| 38 State Treasury  | 321,016,672          | 312,589,019          | 314,973,237          | 309,973,237               | (6,043,435)                    | (11,043,435)              | 2,384,218                                 | (2,615,782)               | (5,000,000)   |
| 39 Board of Manufactured Housing                         | 42,000               | 37,905               | (42,000)             | -                         | (42,000)                       | (42,000)                  | (37,905)                                  | (37,905)                  | -   |
| 51 Board of Accountancy                                  | 589,549              | 522,866              | (589,549)            | -                         | (589,549)                      | (589,549)                 | (522,866)                                 | (522,866)                 | -   |
| 59 NH Retirement System                                  | 106,622,710          | 97,486,110           | -                    | 7,300,000                 | (100,622,710)                  | (93,322,710)              | (97,486,110)                              | (90,186,110)              | 7,300,000   |
| 84 Department of Revenue Administration                  | 38,210,016           | 34,080,967           | 32,497,092           | 32,469,900                | (5,712,924)                    | (5,803,875)               | (1,583,875)                               | (1,671,067)               | (87,192)  |
| 89 Board of Tax & Land Appeals                           | 1,904,701            | 1,816,182            | 1,731,032            | 1,659,554                 | (173,669)                      | (245,147)                 | (85,150)                                  | (156,628)                 | (71,478)  |
| 97 Developmental Disabilities Council                    | 68,950               | 35,000               | (68,950)             | -                         | (68,950)                       | (68,950)                  | (35,000)                                  | (35,000)                  | -   |
| <b>Administration of Justice &amp; Public Protection</b> | <b>454,292,330</b>   | <b>435,131,735</b>   | <b>462,275,377</b>   | <b>467,259,061</b>        | <b>7,900,047</b>               | <b>12,283,731</b>         | <b>27,143,642</b>                         | <b>32,127,326</b>         | <b>4,983,684</b>  |
| 07 Judicial Council                                      | 51,311,318           | 53,471,075           | 49,211,535           | 46,473,045                | (2,097,983)                    | (4,838,273)               | (4,289,546)                               | (6,996,030)               | (2,738,490)   |
| 10 Judicial Branch                                       | 142,692,074          | 139,476,684          | 162,046,622          | 160,690,412               | 19,569,338                     | 17,998,338                | 22,568,938                                | 21,213,728                | (1,355,210)   |
| 12 Adjutant General                                      | 8,420,014            | 7,480,743            | 7,154,400            | 6,832,850                 | (1,265,614)                    | (1,587,164)               | (296,343)                                 | (617,893)                 | (321,550)   |
| 18 Department of Agriculture                             | 6,548,320            | 5,780,819            | 5,735,743            | 5,328,001                 | (812,576)                      | (1,220,319)               | (1,582,056)                               | (542,818)                 | (407,762)   |
| 20 Department of Justice                                 | 20,743,336           | 18,336,595           | 17,819,867           | 14,770,413                | (2,923,469)                    | (5,972,923)               | (5,166,182)                               | (3,049,454)               | (3,875,959)   |
| 23 Department of Safety                                  | 4,310,142            | 3,873,040            | 1,017,823            | 14,893,782                | (3,292,319)                    | 10,583,640                | (2,855,217)                               | 11,020,742                | 13,875,959  |
| 26 Department of Labor                                   | 2,663,696            | 2,389,198            | (2,663,696)          | -                         | (2,663,696)                    | (2,663,696)               | (2,389,198)                               | (2,389,198)               | -   |
| 46 Department of Corrections                             | 213,789,204          | 200,381,053          | 217,375,582          | 216,550,194               | 3,586,378                      | 2,760,990                 | 16,994,529                                | 16,169,141                | (825,388)   |
| 73 Regulatory Boards & Commissions                       | 917,263              | 882,333              | (917,263)            | 185,821                   | (101,442)                      | (121,442)                 | (66,572)                                  | (86,512)                  | (20,000)  |
| 76 Human Rights Commission                               | 1,196,869            | 1,120,704            | 1,094,964            | 924,543                   | (101,905)                      | (272,326)                 | (25,400)                                  | (196,161)                 | (170,421)   |
| 86 Racing & Charitable Gaming Commission                 | 2,383,094            | 1,879,491            | 4,000                | -                         | (2,379,094)                    | (2,383,094)               | (1,875,491)                               | (1,879,491)               | (4,000)   |
| <b>Resource Protection and Development</b>               | <b>79,709,189</b>    | <b>69,392,362</b>    | <b>62,644,871</b>    | <b>56,235,747</b>         | <b>(17,064,318)</b>            | <b>(23,473,442)</b>       | <b>(6,747,491)</b>                        | <b>(13,156,615)</b>       | <b>(6,409,124)</b>  |
| 36 Dept. of Resources & Economic Development             | 29,102,402           | 27,261,485           | 29,038,243           | 26,058,154                | (64,139)                       | (3,044,248)               | 1,776,778                                 | (1,203,331)               | (2,980,107)   |
| 37 Community Development Finance                         | 359,931              | 359,931              | 342,000              | 342,000                   | (17,931)                       | (17,931)                  | (17,931)                                  | (17,931)                  | -   |
| 44 Department of Environmental Services                  | 50,146,856           | 41,670,946           | 33,164,608           | 29,835,593                | (16,982,248)                   | (20,311,263)              | (8,506,338)                               | (11,835,353)              | (3,329,015)   |
| 75 Fish & Game Department                                | 100,000              | 100,000              | 100,000              | -                         | -                              | (100,000)                 | -   | (100,000)                 | -   |
| <b>Transportation</b>                                    | <b>2,257,373</b>     | <b>2,387,051</b>     | <b>1,926,046</b>     | <b>1,926,046</b>          | <b>(331,327)</b>               | <b>(331,327)</b>          | <b>(461,005)</b>                          | <b>(461,005)</b>          | <b>-</b>  |
| 96 Department of Transportation                          | 2,257,373            | 2,387,051            | 1,926,046            | 1,926,046                 | (331,327)                      | (331,327)                 | (461,005)                                 | (461,005)                 | -   |
| <b>Health and Social Services</b>                        | <b>1,562,370,014</b> | <b>1,330,003,848</b> | <b>1,512,443,016</b> | <b>1,308,415,238</b>      | <b>(49,226,998)</b>            | <b>(253,954,776)</b>      | <b>182,439,168</b>                        | <b>(21,588,610)</b>       | <b>(204,027,778)</b>  |
| 43 Veterans Home   | 26,735,067           | 25,430,882           | 22,773,738           | 22,773,738                | (3,961,329)                    | (3,961,329)               | (2,677,144)                               | (2,677,144)               | -   |
| 66 Office of Veterans Services                           | 915,849              | 854,408              | 875,139              | 875,139                   | (40,710)                       | (40,710)                  | 20,731                                    | 20,731                    | -   |
| 74 HHS Attached Boards                                   | 8,178,130            | 7,350,461            | 7,899,385            | 7,899,385                 | (278,745)                      | (278,745)                 | 548,924                                   | 548,924                   | -   |
| 95 Department of Health & Human Services                 | 1,526,540,948        | 1,296,348,097        | 1,480,894,754        | 1,276,866,976             | (45,646,214)                   | (249,673,992)             | 184,546,657                               | (19,481,121)              | (204,027,778)   |
| <b>Education</b>   | <b>404,292,259</b>   | <b>400,088,892</b>   | <b>363,252,438</b>   | <b>320,974,525</b>        | <b>(43,039,821)</b>            | <b>(85,317,704)</b>       | <b>(34,836,454)</b>                       | <b>(79,114,367)</b>       | <b>(40,227,913)</b>   |
| 50 University System                                     | 197,000,000          | 197,000,000          | 163,323,000          | 83,323,000                | (33,677,000)                   | (113,677,000)             | (33,677,000)                              | (113,677,000)             | (80,000,000)  |
| 56 Department of Education                               | 125,169,823          | 111,713,663          | 135,243,966          | 184,399,051               | 10,074,143                     | 59,229,228                | 33,530,903                                | 72,685,988                | 49,155,085  |
| 57 Postsecondary Education Commission                    | 9,009,875            | 8,562,265            | -                    | -                         | (9,009,875)                    | (9,009,875)               | (8,562,265)                               | (8,562,265)               | -   |
| 58 Community College System                              | 73,915,187           | 81,479,913           | 63,922,433           | 52,489,435                | (9,552,754)                    | (21,425,752)              | (17,557,480)                              | (28,990,478)              | (11,432,998)  |
| 61 McAuliffe-Shepard Discovery Center                    | 1,197,374            | 1,333,651            | 763,039              | 763,039                   | (434,335)                      | (434,335)                 | (570,612)                                 | (570,612)                 | -   |
| <b>TOTALS</b>  | <b>3,155,159,886</b> | <b>2,855,006,199</b> | <b>2,923,911,513</b> | <b>2,674,514,781</b>      | <b>(231,248,373)</b>           | <b>(480,645,105)</b>      | <b>48,905,314</b>                         | <b>(180,491,418)</b>      | <b>(399,346,732)</b>  |

Sources: Ch. 143 of the Acts of 2009; Governor's FY 2012 and FY 2013 Recommended Budget; House Finance Committee amendment to HB1.  
 Note: Appropriations amounts for FY10-11 and Governor and House recommendations for FY12-13 are exclusive of back of the budget reductions.