

# Developing a Balanced Approach to the FY 2012-2013 Budget

13<sup>th</sup> Annual Children's Summit  
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# Developing a Balanced Approach to the FY12-13 Budget - *Overview*

- ❖ What is the New Hampshire budget?
- ❖ What is the scope of NH's budget crisis?
- ❖ What is the source of NH's budget crisis?
- ❖ What are some of the consequences of NH's budget crisis?
- ❖ What other factors ought to be considered in addressing the budget crisis?
- ❖ What are some of the potential solutions to NH's budget crisis?

# What is the New Hampshire Budget?



*Schools,  
libraries,  
and  
universities*



# What is the New Hampshire Budget?



*Health care and  
human services*

# What is the New Hampshire Budget?



*Public safety*



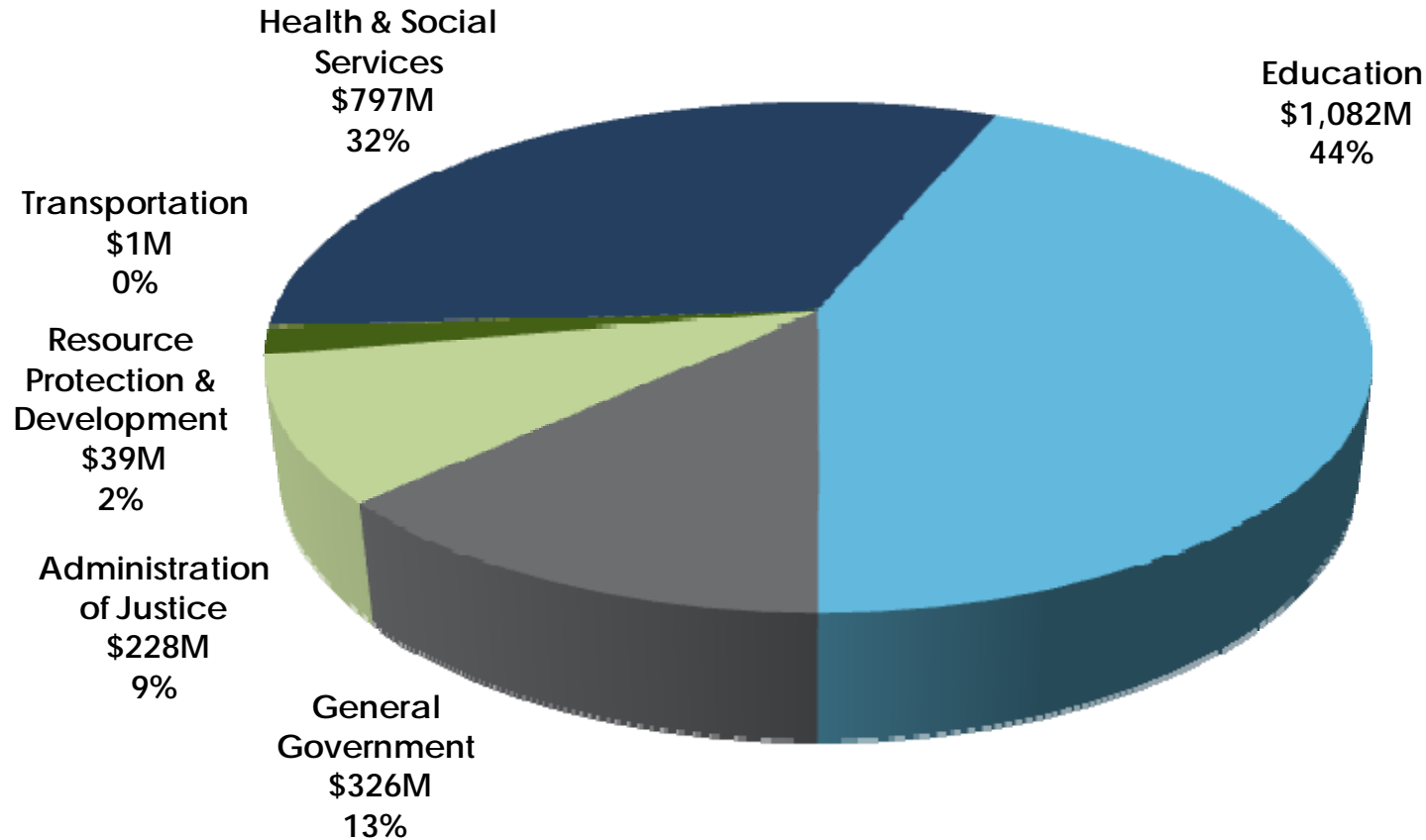
# What is the New Hampshire Budget?



***Parks and  
public infrastructure***

# What is the New Hampshire Budget?

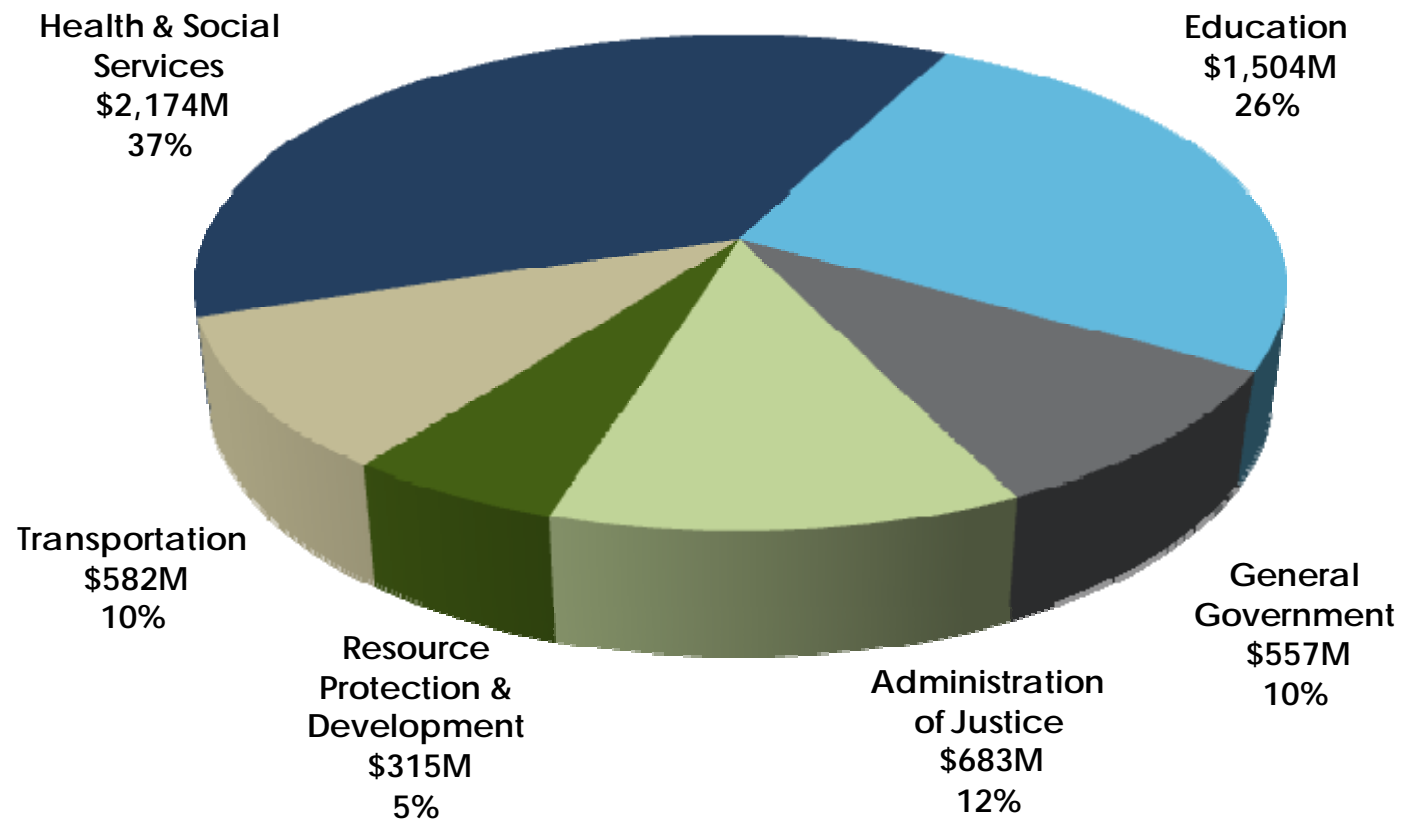
*General & Education Fund Appropriations (FY 2011): \$2.5 billion*



Source: NHFPI calculations based on Ch. 143 of the Laws of 2009

# What is the New Hampshire Budget?

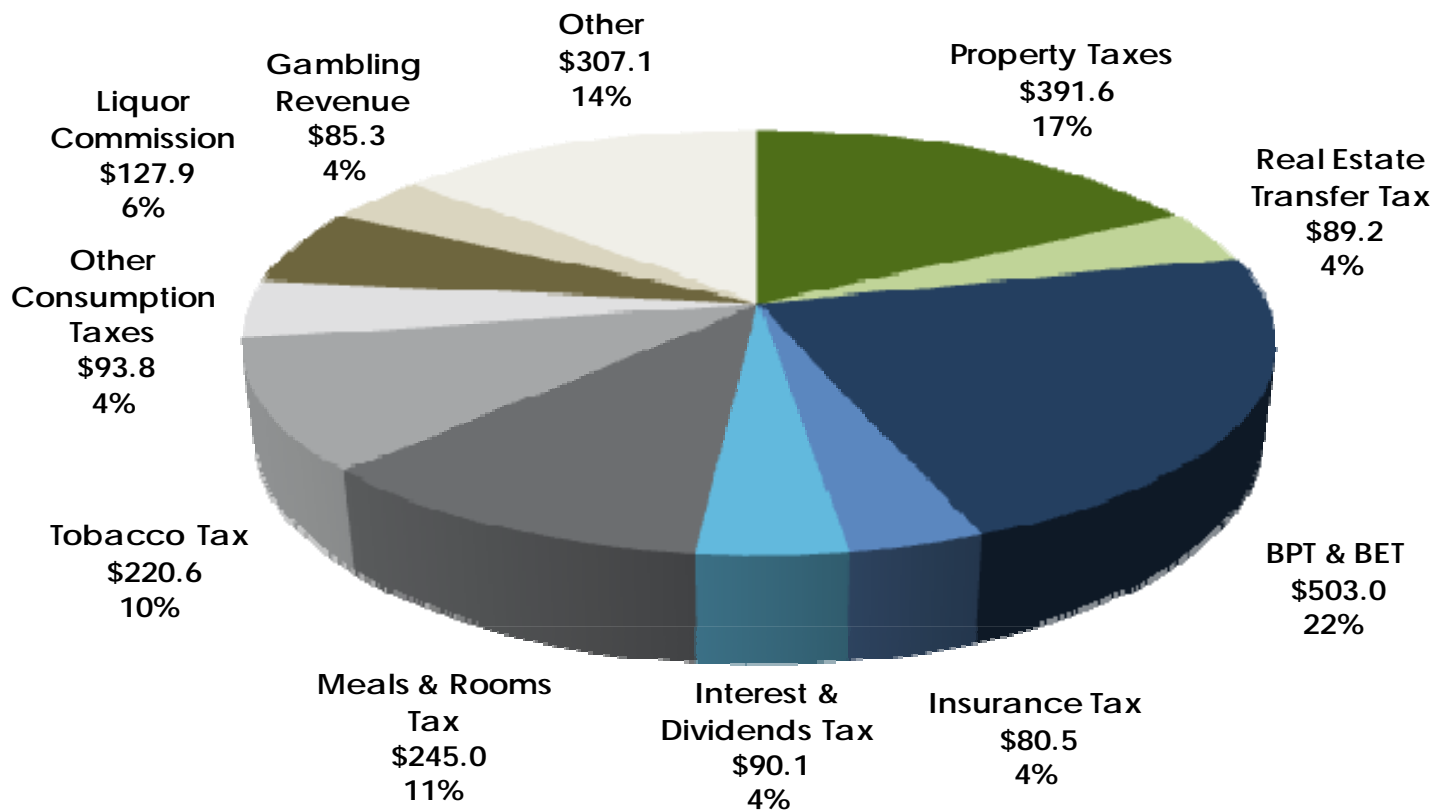
*Total Appropriations (FY 2011): \$5.8 billion*



Source: NHFPI calculations based on Ch. 143 of the Laws of 2009

# What is the New Hampshire Budget?

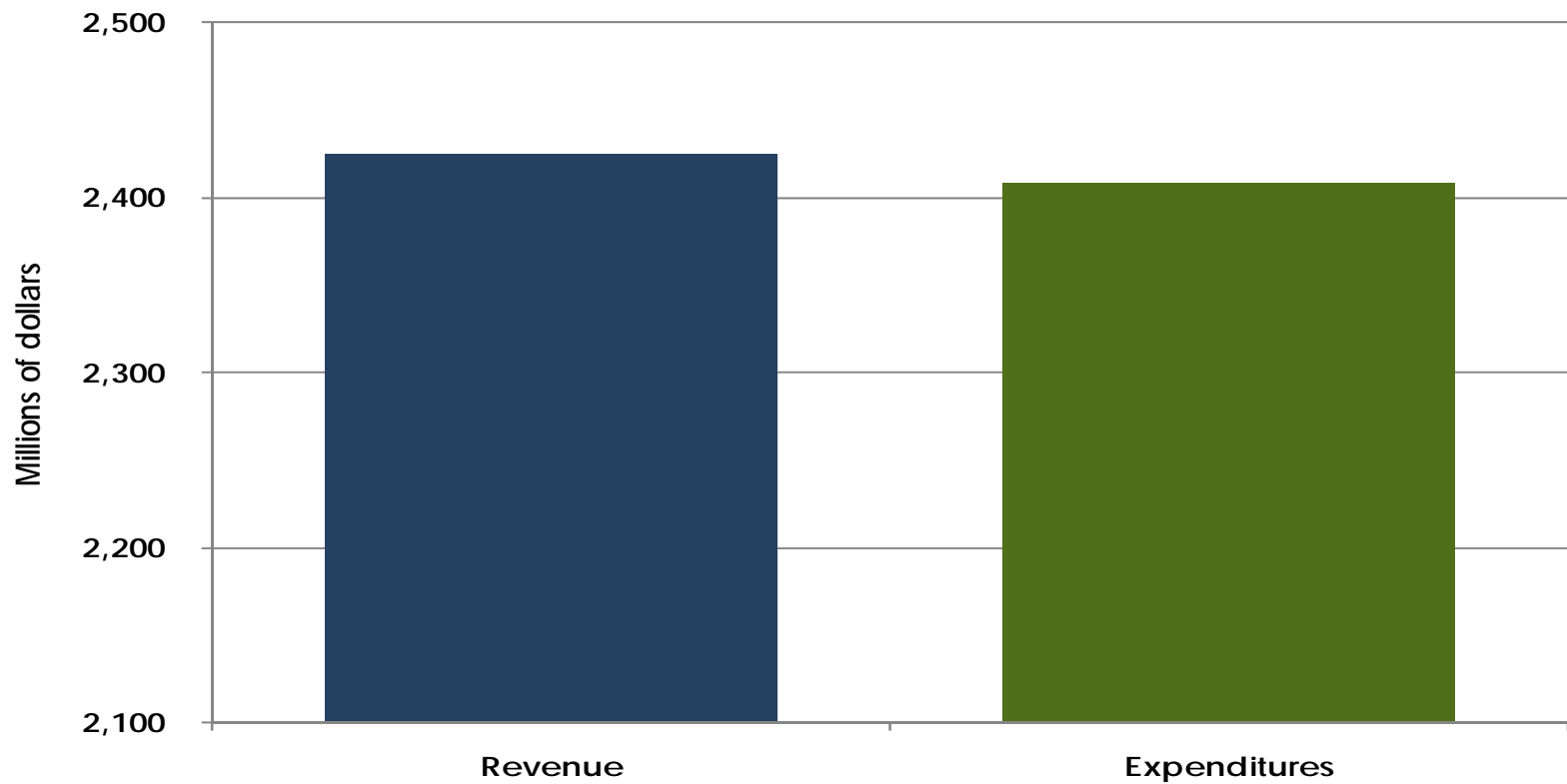
*Projected FY 2011 General & Education Fund Collections in Millions of Dollars*



Source: NH Department of Administrative Services, Monthly Revenue Plan for FY 2011

# Special Session Budget Agreement Brought FY 11 Revenue and Expenditures into Balance ....

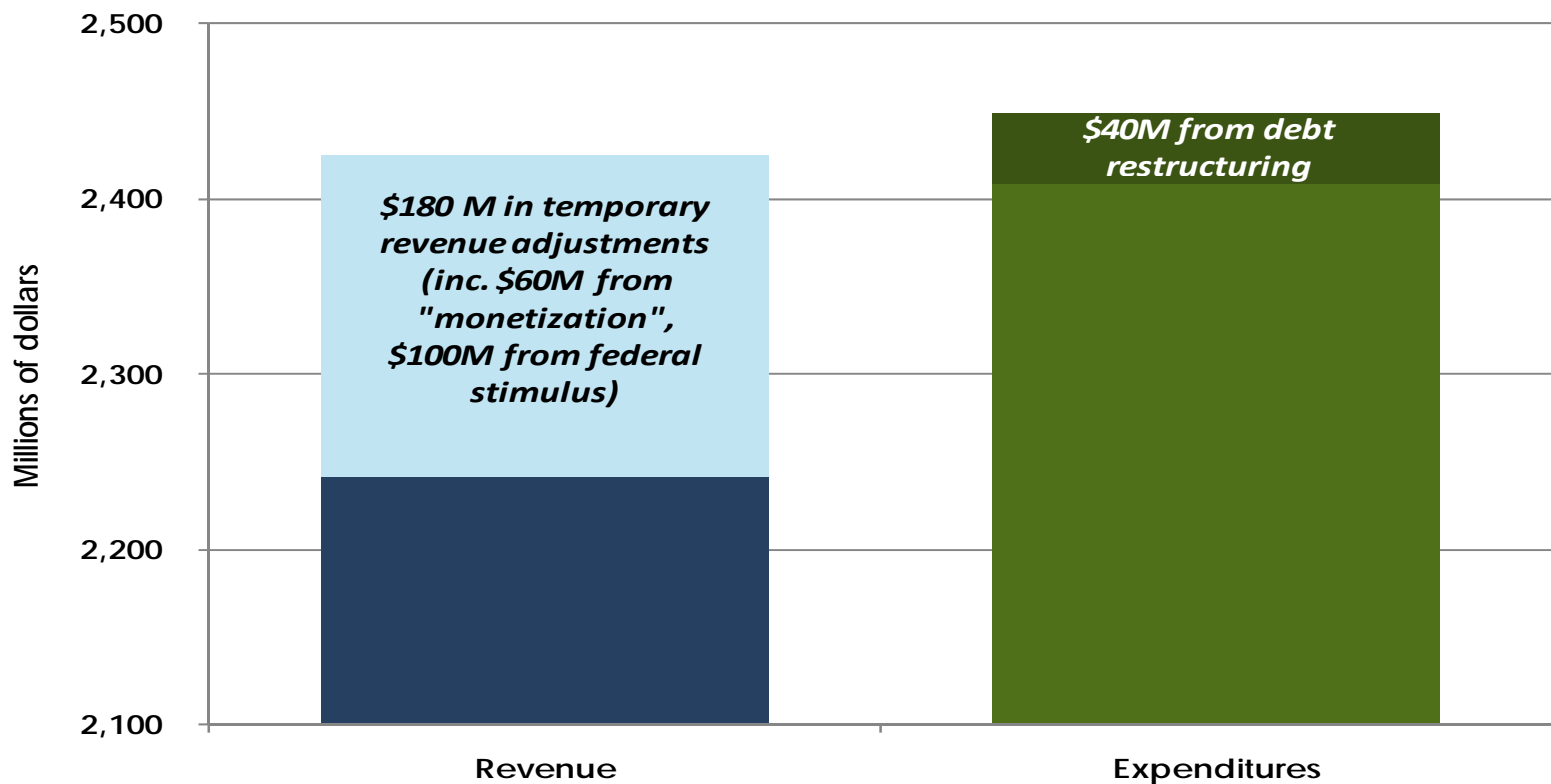
*Total General and Education Fund Revenue & Expenditures, FY 2011*



Source: Office of the Legislative Budget Assistant, Comparative Statement of Undesignated Surplus, June 10, 2010

## ... But Only Temporarily

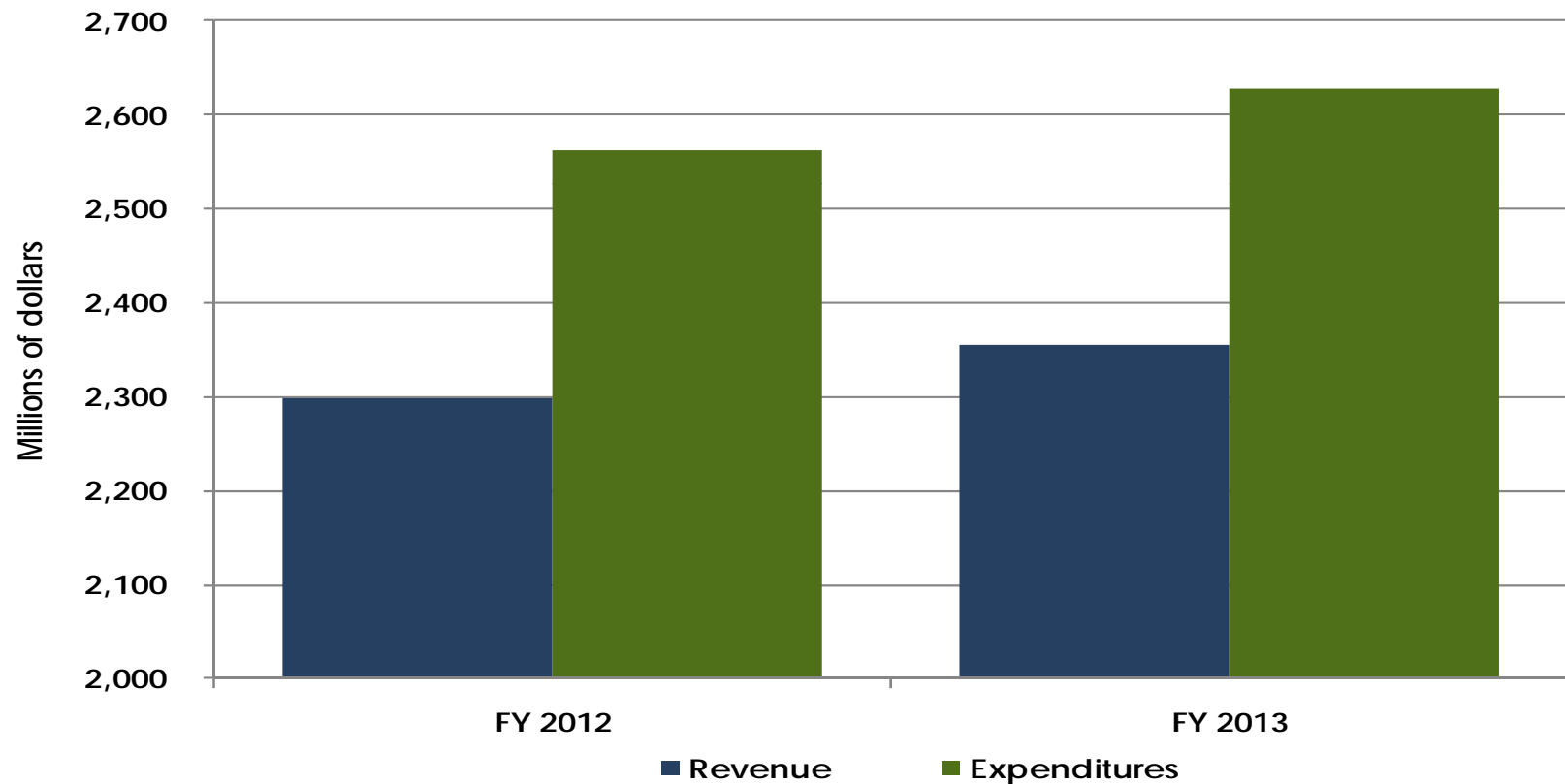
*Total General and Education Fund Revenue & Expenditures after Adjusting for Temporary and One-Time Changes, FY 2011*



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

# Significant Budget Gaps Likely to Persist in FY 12-13

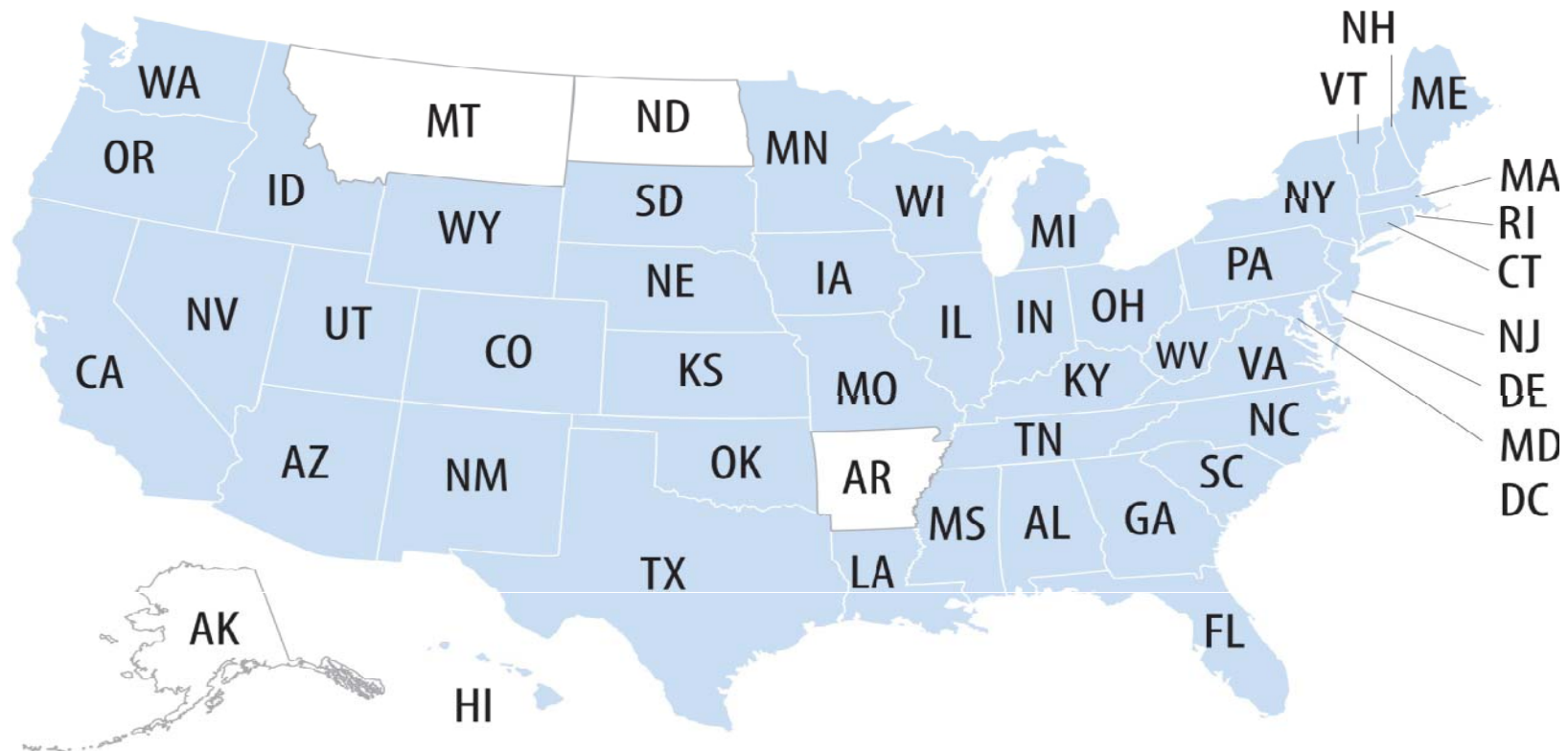
*Estimated Total General and Education Fund Revenue & Expenditures  
(Constant SWEPT revenue, SB 539-specified changes in aid; 3% growth elsewhere)*



Source: NHFPI calculations

# New Hampshire is Not Alone

Virtually Every State in the Union Experienced a Budget Deficit in FY 2011



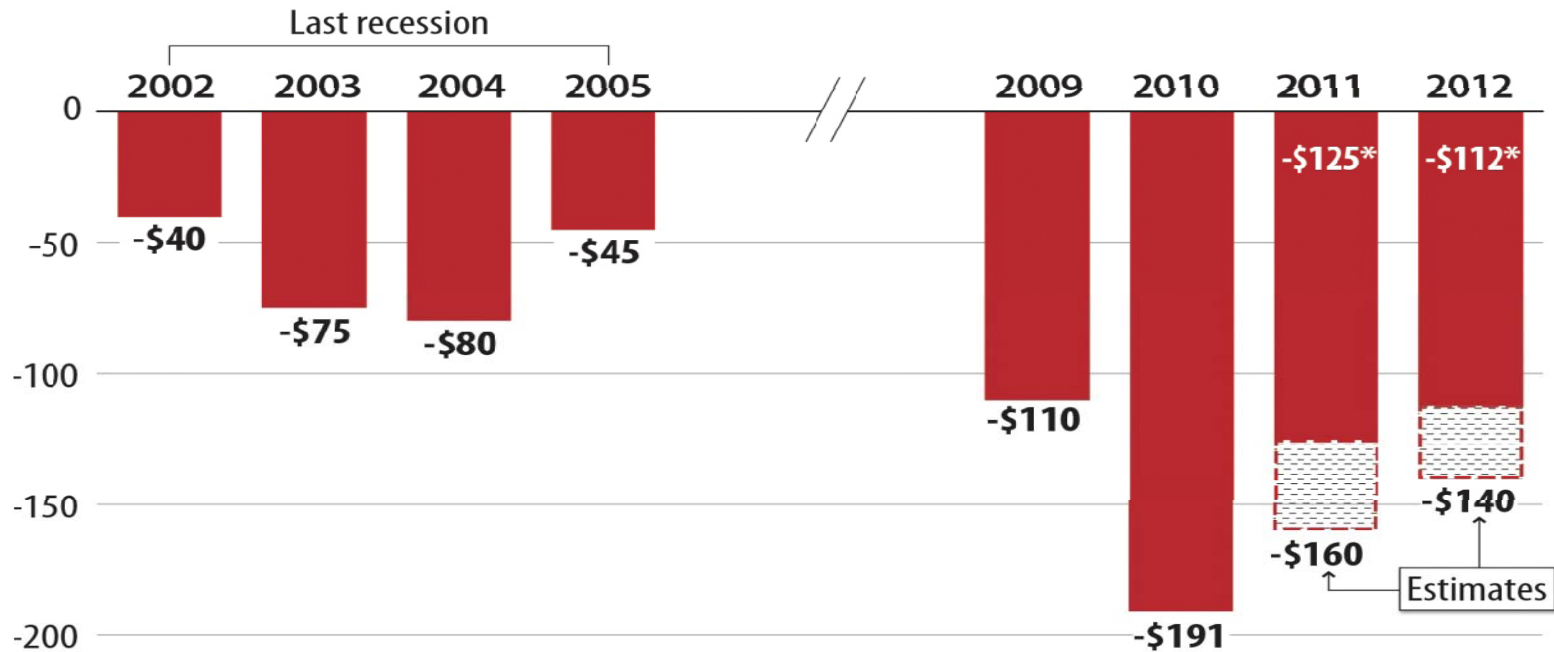
Source: Center on Budget and Policy Priorities

# New Hampshire is Not Alone

Substantial Budget Deficits Likely to Continue into FY 2012

*39 States Have Already Projected Shortfalls for the Coming Fiscal Year*

Total state budget shortfall in each fiscal year, in billions

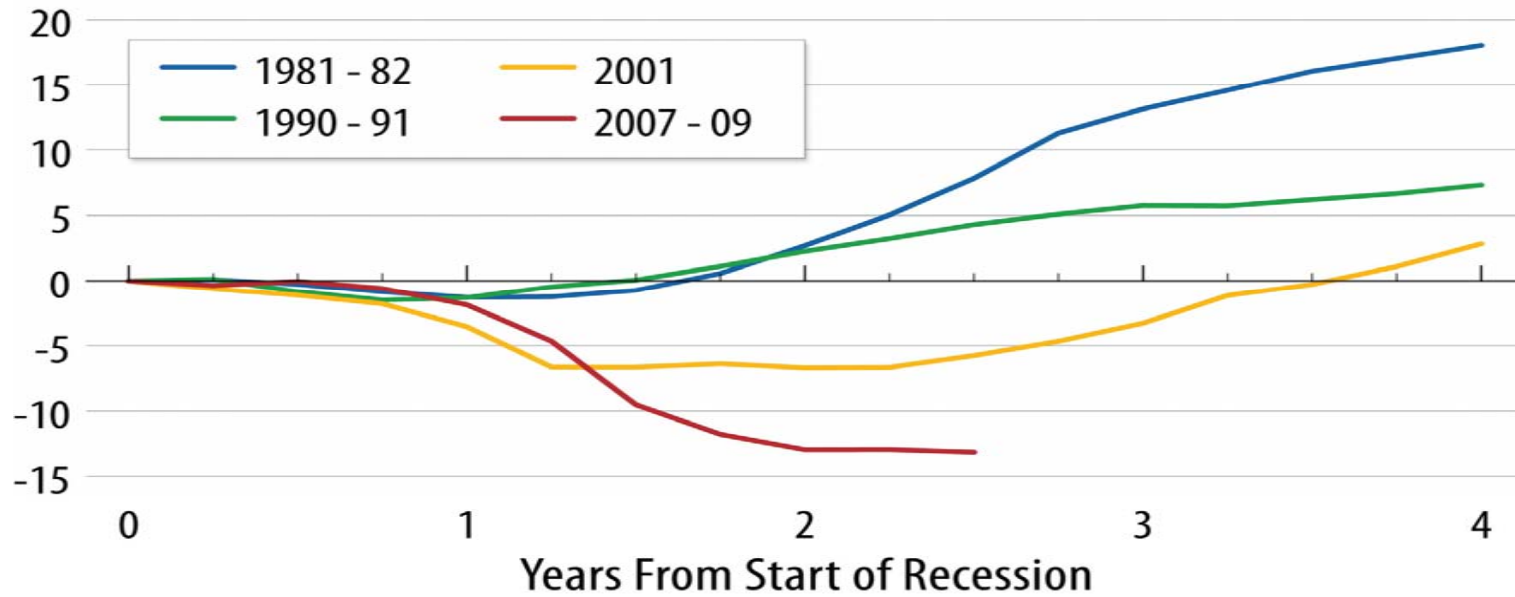


Source: Center on Budget and Policy Priorities

# National Recession Has Battered State Tax Revenue

## State Revenue Losses Far Exceed Other Recent Recessions

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

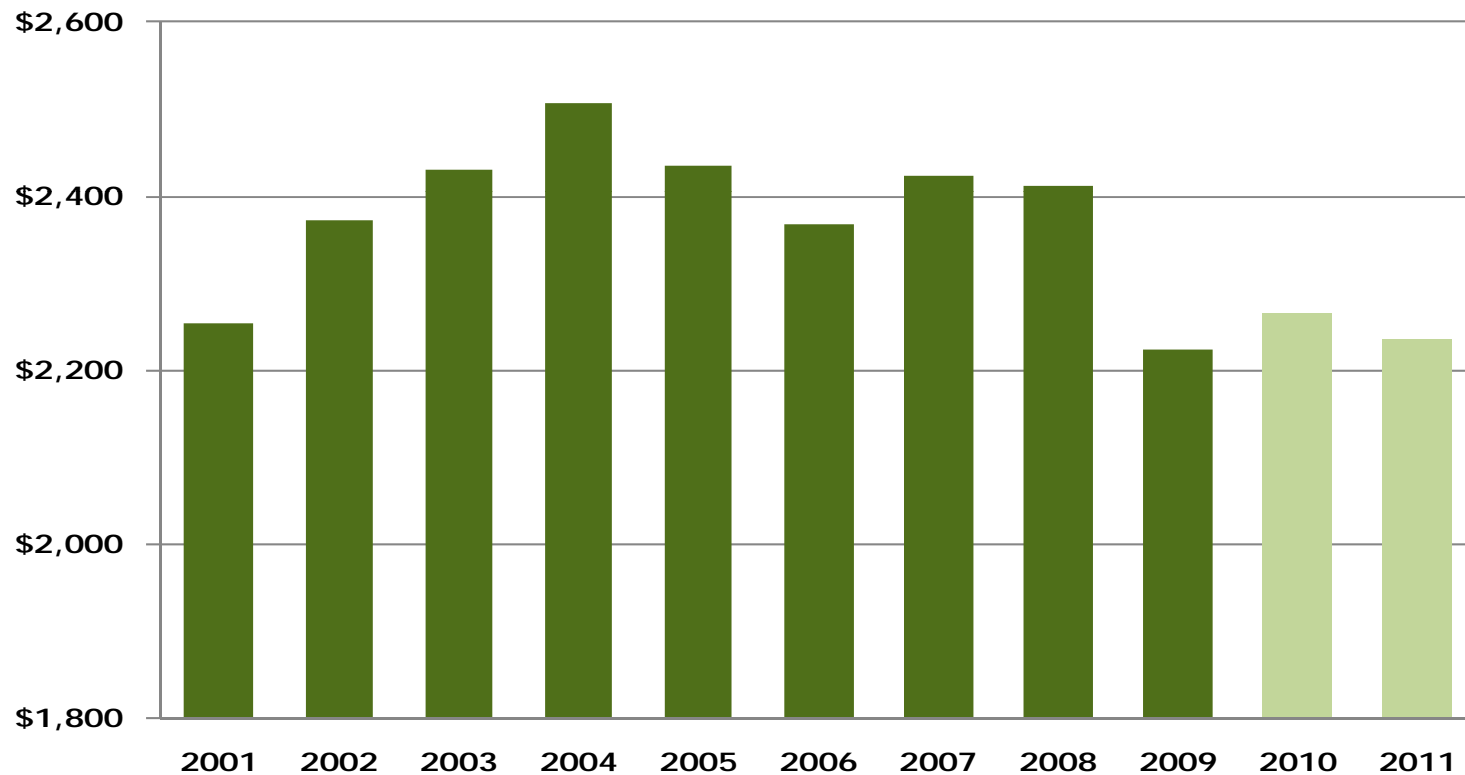


Figures represent four-quarter rolling averages.

Source: Center on Budget and Policy Priorities, September 2010

# NH Revenue Substantially Below Prior Levels

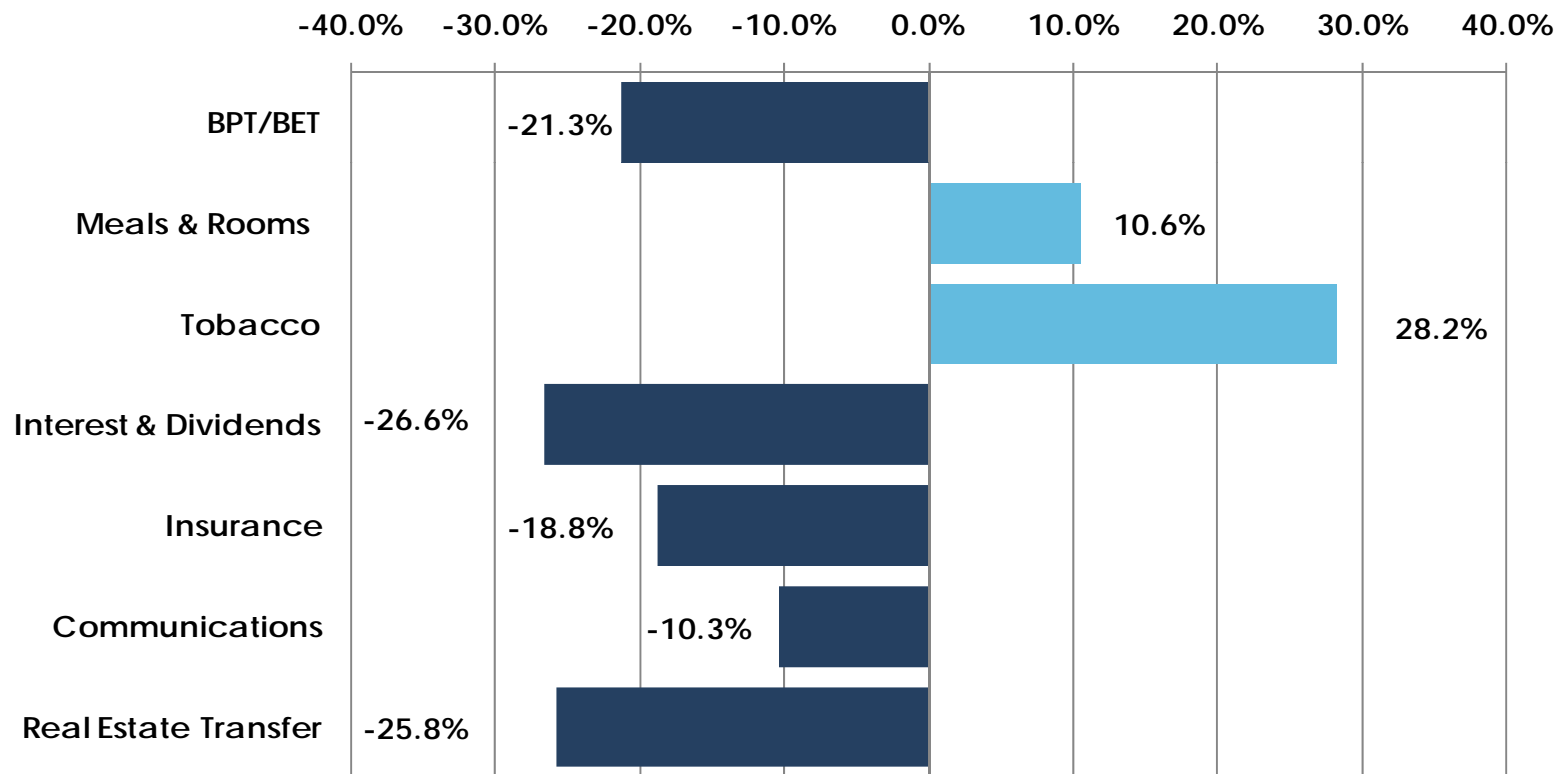
*PRELIMINARY – General and Education Fund Collections  
in Millions of Constant FY 11 Dollars, FY 2001-2011*



Source: NHFPI calculations based on NHDAS, NHLC, and US Bureau of Labor Statistics data

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

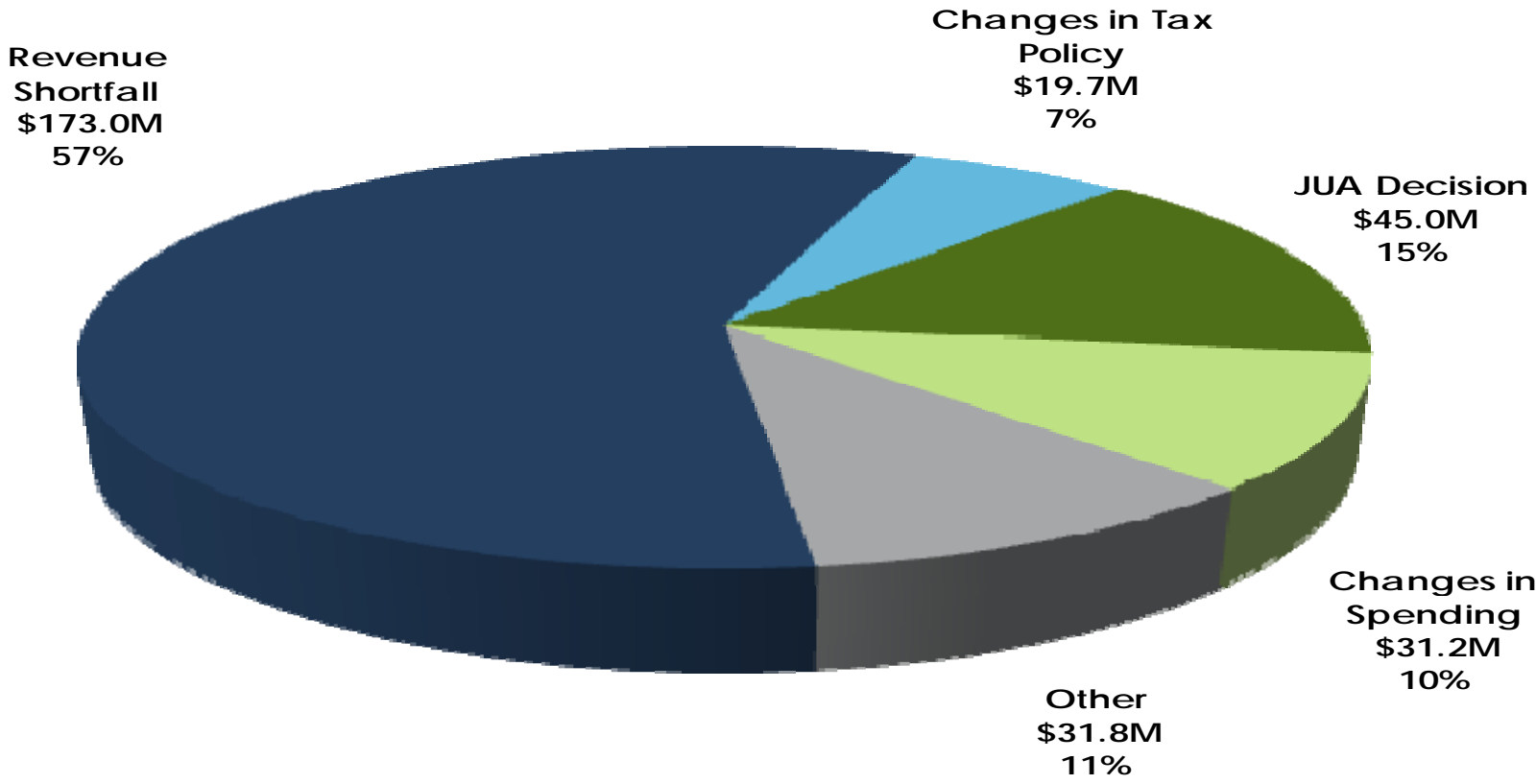
*Projected Real Aggregate Change in Select NH Taxes, FY 2008 - FY 2011*



Source: NHFPI calculations based on NH Department of Administrative Services & US Bureau of Labor Statistics data

# Recent Budget Deficit Largely Due to Revenue Trends

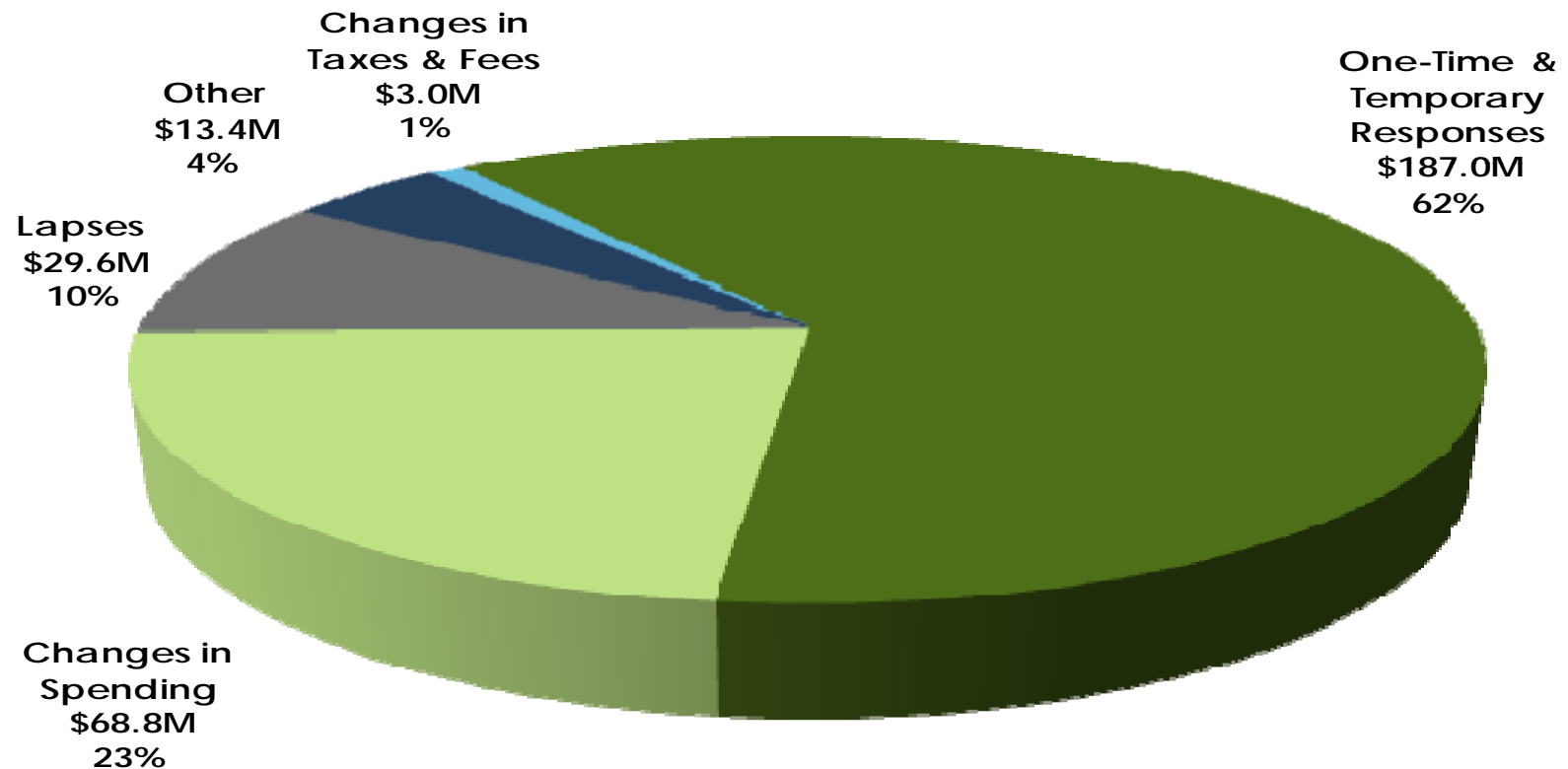
*Sources of FY10-FY11 Mid-Biennium Budget Deficit*



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

# Responses to Mid-Biennium Deficit Include Temporary Solutions & Cuts to Vital Public Services

*Executive Order, Special Session, and Other Budget-Related Actions since June 2009*



# State Budget Crisis Has Real Consequences



Cases that require juries soon will take much longer to hear — especially civil cases — because of state budget cuts, including a one-third reduction in the number of jury trial days courts are allowed ... The change is part of an effort to cut \$3.1 million from the state judicial branch's budget for 2010 to 2011.

*Citizen of Laconia, July 25, 2010*

Budget cuts have forced the New Hampshire Hospital to begin deferring emergency admissions for mentally ill patients in crisis, forcing local hospitals and even jails to house these sometimes-volatile patients ... The hospital once had 200 beds for these emergency patients but now has 150 ... because of cuts to the agency's budget

*Concord Monitor, June 20, 2010*



# State Budget Crisis Has Real Consequences

...state aid has declined to only 13.9 percent of UNH's total operating budget ... state funding budgeted for the 2008-2009 academic year was cut by \$7 million ... meanwhile, the cost of attending the university continues to rise [experiencing] a 20 percent increase in three years.

*Nashua Telegraph, June 24, 2010*



Citing a need to meet an increased demand 'in the face of diminished state resources', the board of trustees of the state's community college system yesterday approved a 6.5 percent increase in tuition for the 2010-2011 school year.

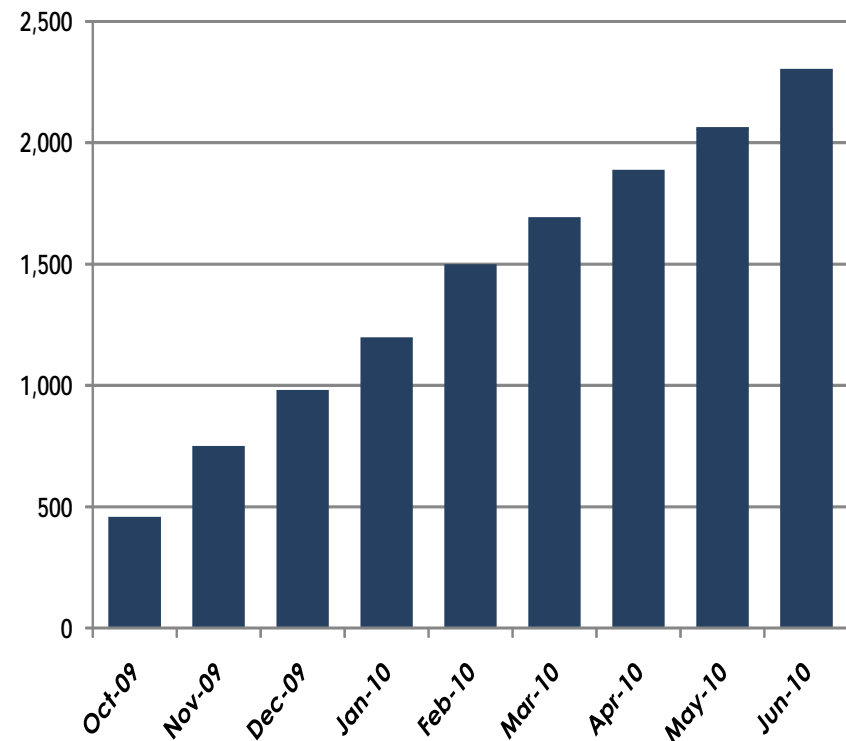
*New Hampshire Union Leader, June 23, 2010*

# State Budget Crisis Has Real Consequences

As the American social safety net absorbs its greatest challenge since the Great Depression, state budget cuts are weakening crucial components. Subsidized child care ... is a conspicuous example ... at least nine other states, including Arizona, Michigan, Massachusetts and North Carolina, have cut access to subsidized child care programs or the amounts they pay. New Hampshire, Nevada and New Mexico resorted to waiting lists.

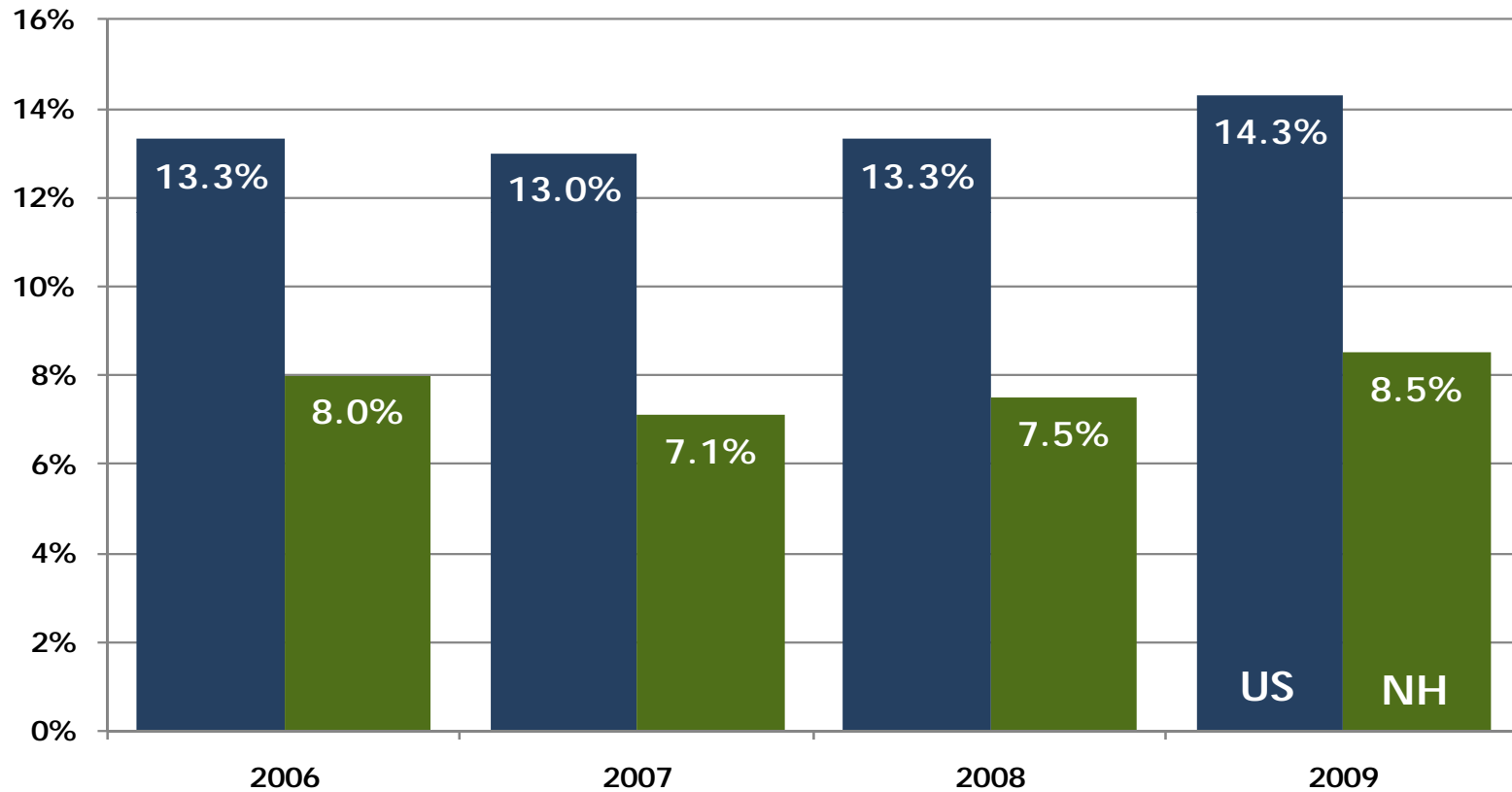
*New York Times, May 23, 2010*

Child Care Wait List has Grown Sharply Since Inception  
*Number of Children on Wait List, by Month*



# Poverty is on the rise in New Hampshire...

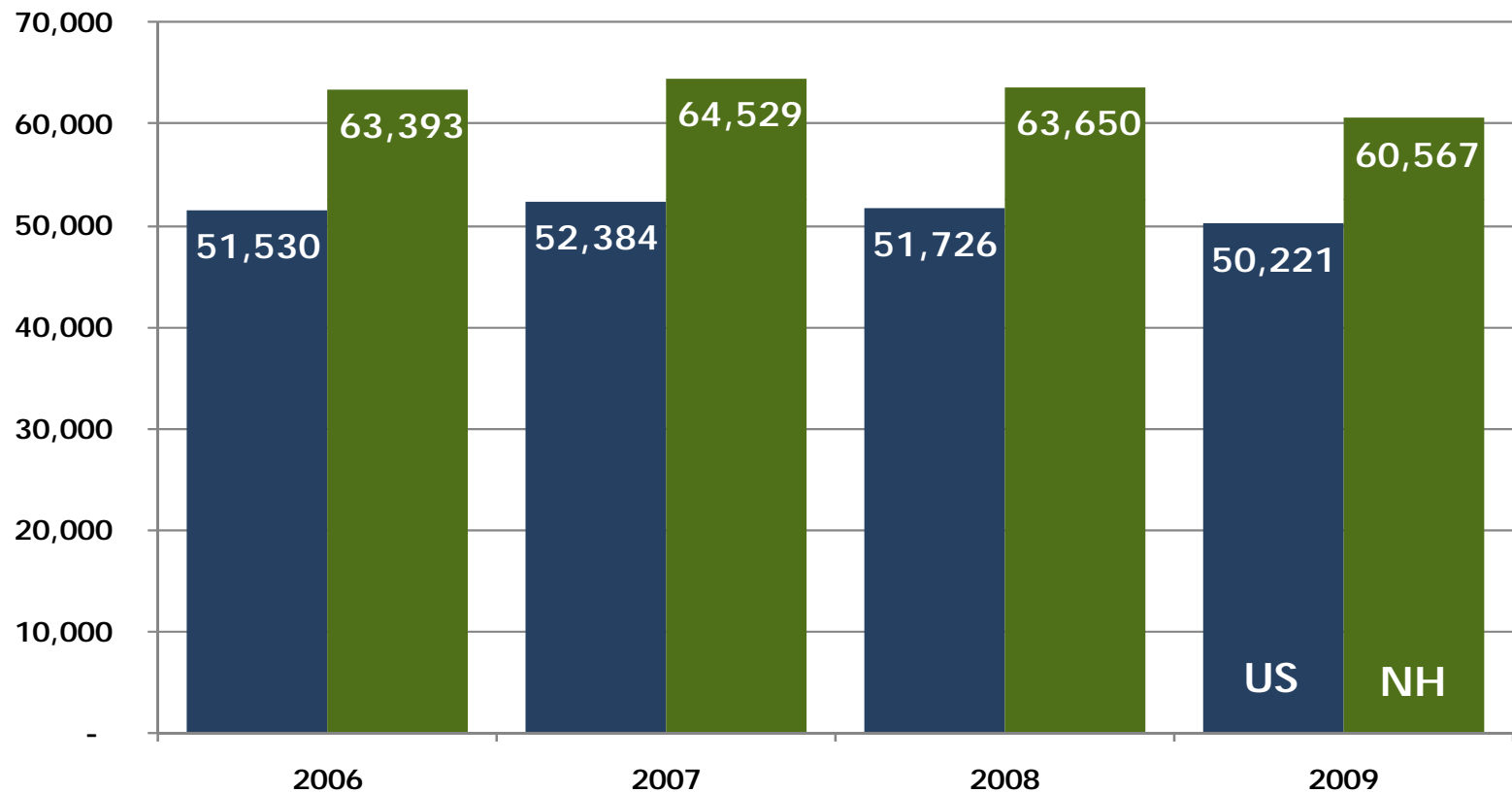
*Total Poverty Rates, US and NH, 2006-2009*



Source: US Census Bureau, American Community Survey

# ...while household incomes are falling.

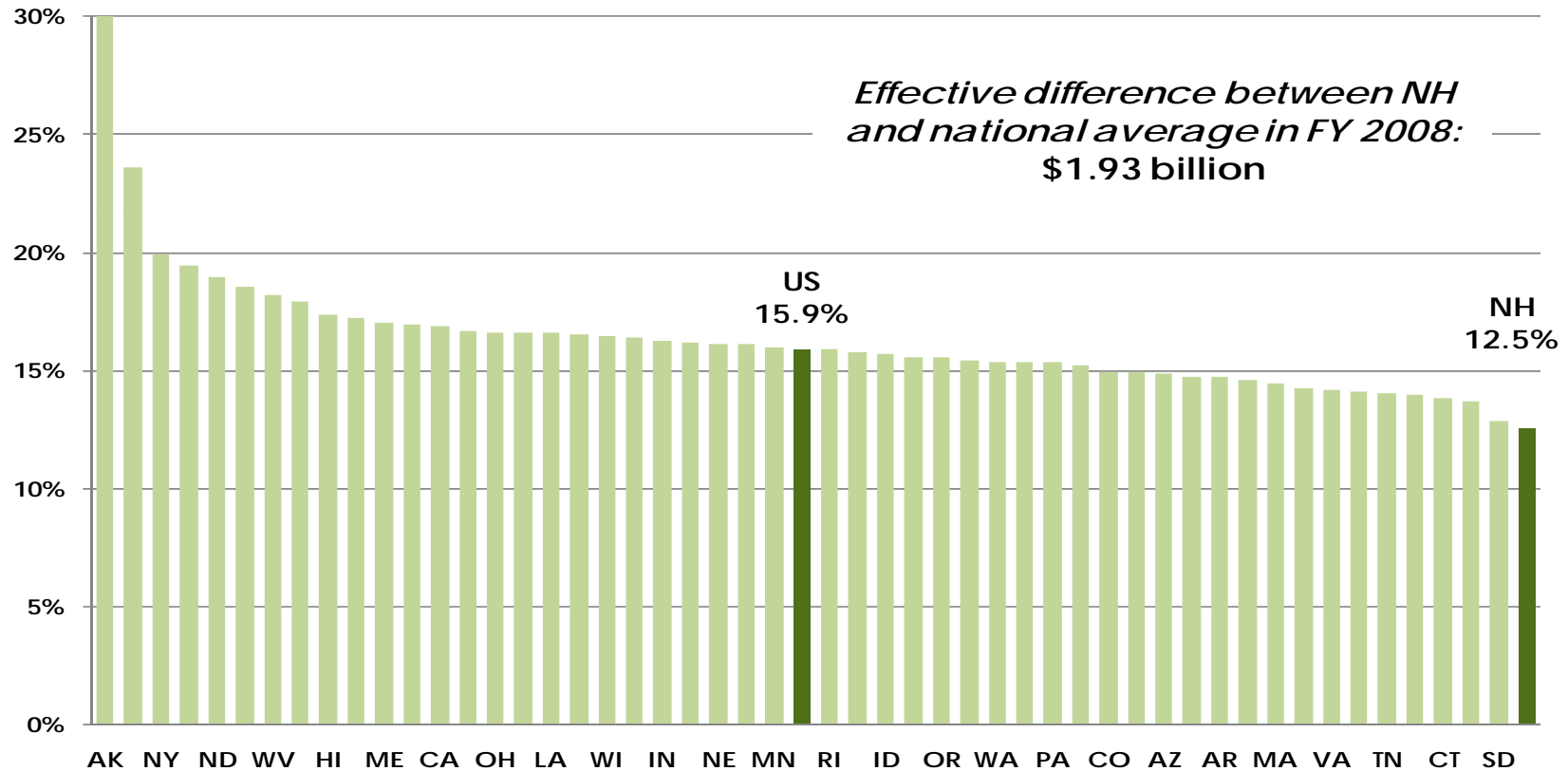
*Median Household Income (Constant \$2009), US and NH, 2006-2009*



Source: US Census Bureau, American Community Survey

# NH Revenues Lowest in the Nation

*Total State and Local Own-Source Revenue as a Share of Personal Income, FY 2008*

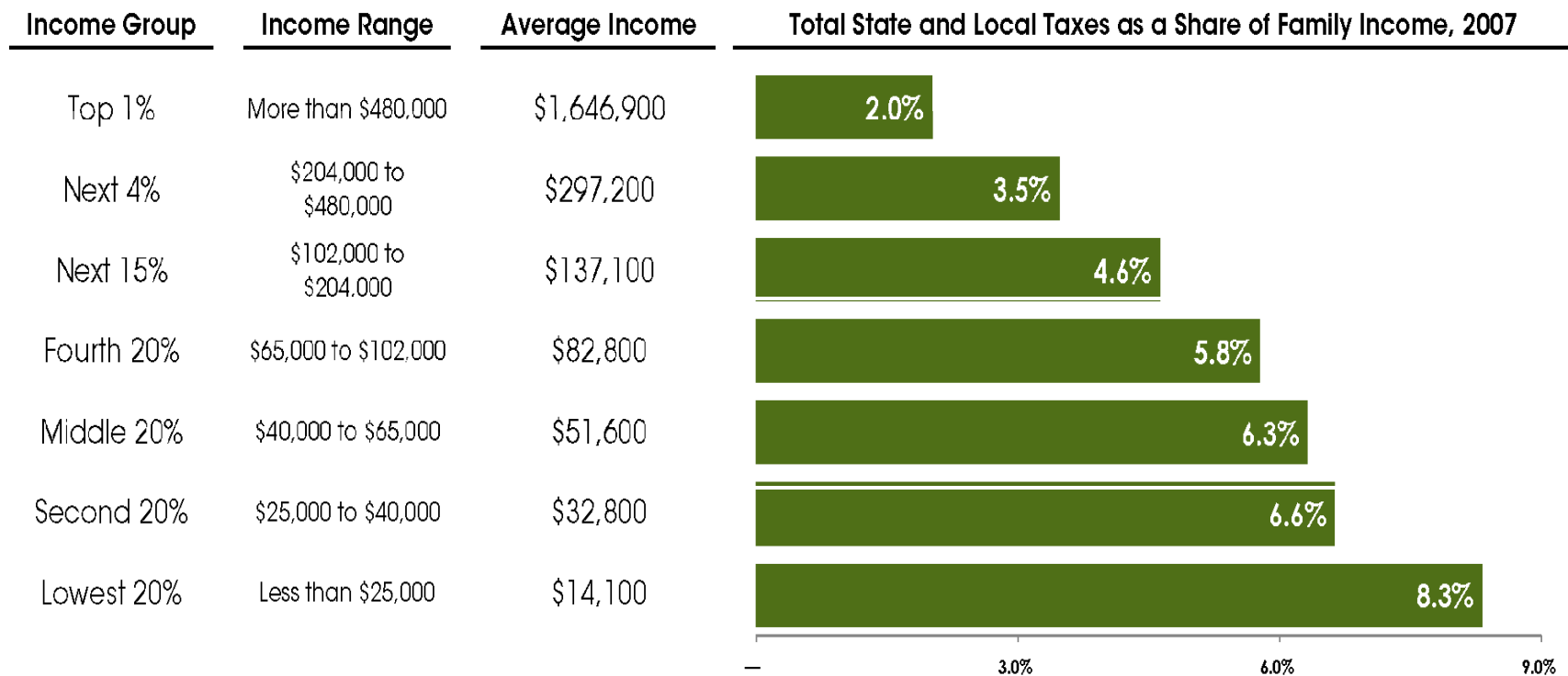


Source: NHFPI calculations based on US Census Bureau, US Bureau of Economic Analysis data

# New Hampshire's Tax System is Regressive

*Low-income Granite Staters have an effective tax rate that is four times that of the most well-off.*

## **Total State and Local Taxes in New Hampshire, Non-Elderly Taxpayers**

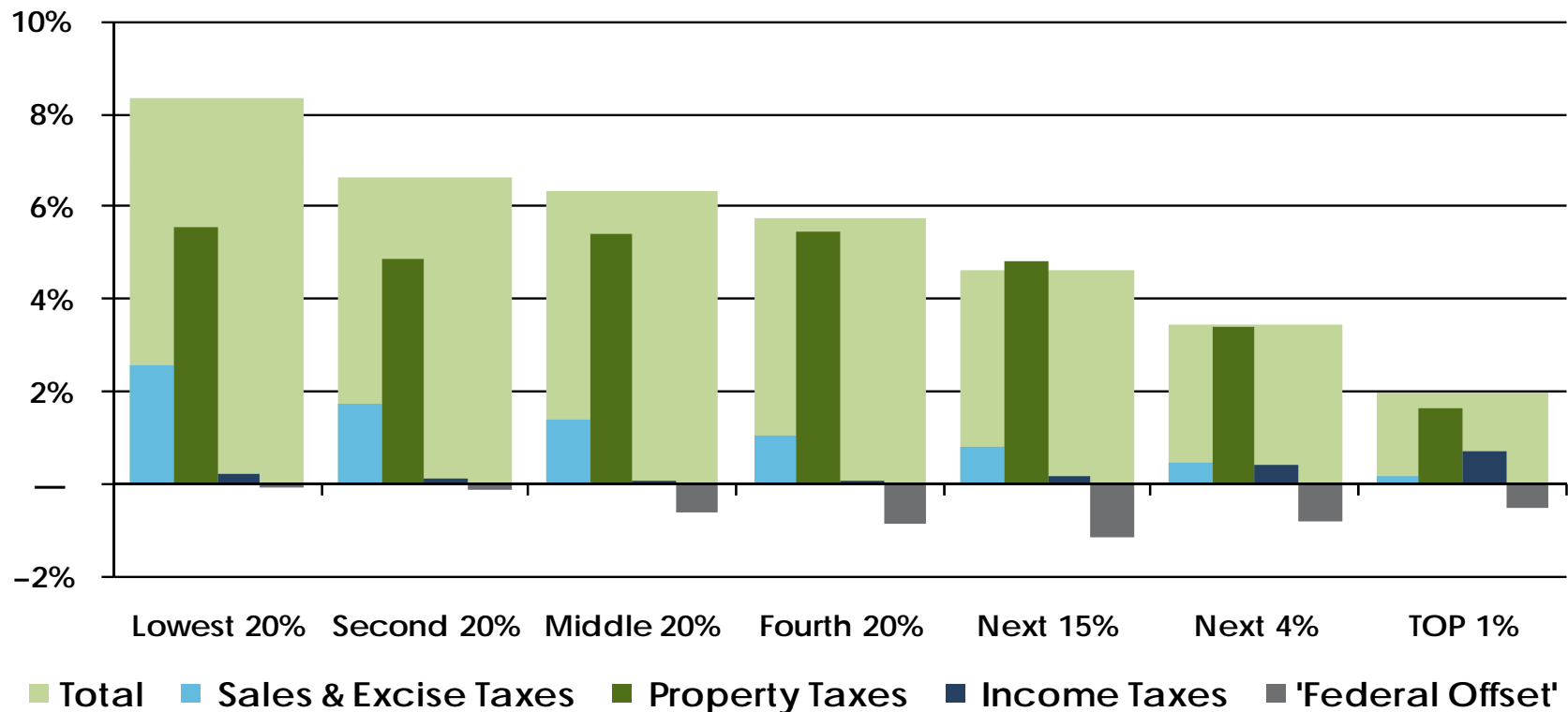


Source: Institute on Taxation and Economic Policy

# New Hampshire's Tax System is Regressive

*Incidence Driven by Composition of Tax System & Structure of Specific Taxes*

*State and Local Taxes as a Share of Family Income among Non-Elderly Taxpayers, 2007*



Source: Institute on Taxation and Economic Policy

# What Revenue Options Could Be Used To Help Address NH's Current Fiscal Crisis?

## ❖ **Modify Existing Taxes**

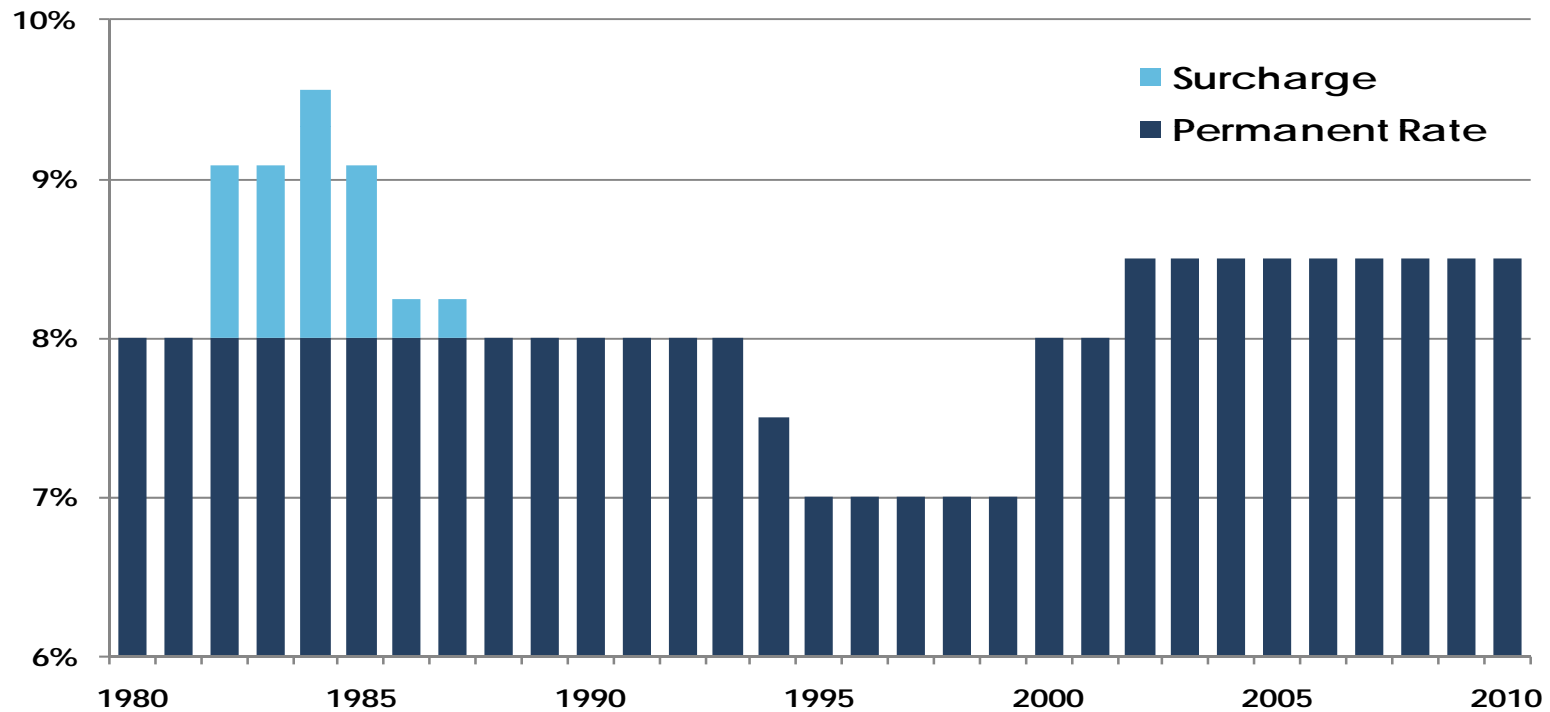
- Adopt a Business Profits Tax surcharge  
*POTENTIAL IMPACT:                      uncertain, up to \$30 million annually*
- Expand the Interest & Dividends Tax to include capital gains  
*POTENTIAL IMPACT:                      \$90 million annually*
- Adjust excise taxes (e.g. beer and/or motor fuels)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

## ❖ **Reinstate Prior Taxes**

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

# Temporarily Higher Business Profits Tax (BPT) Rate Could Generate Additional Revenue

*NH BPT Rates, FY 1980 - FY 2010*

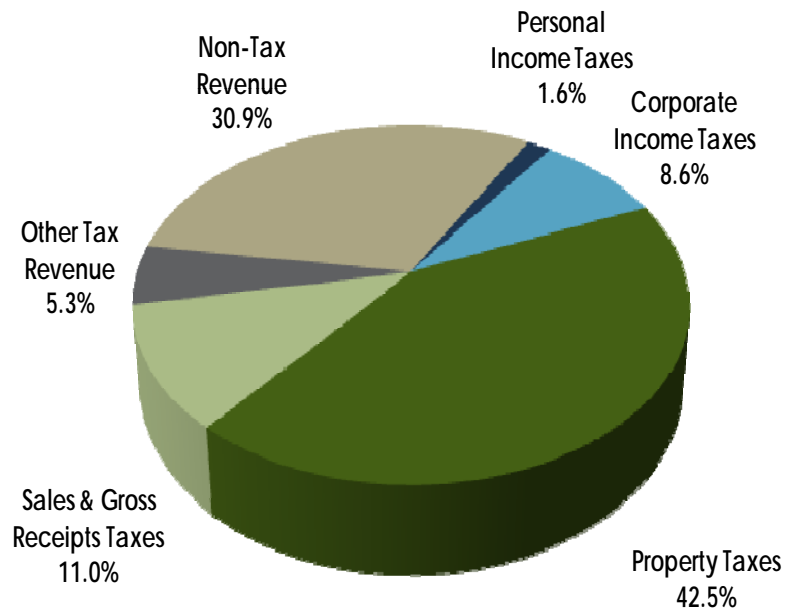


Source: Office of the Legislative Budget Assistant

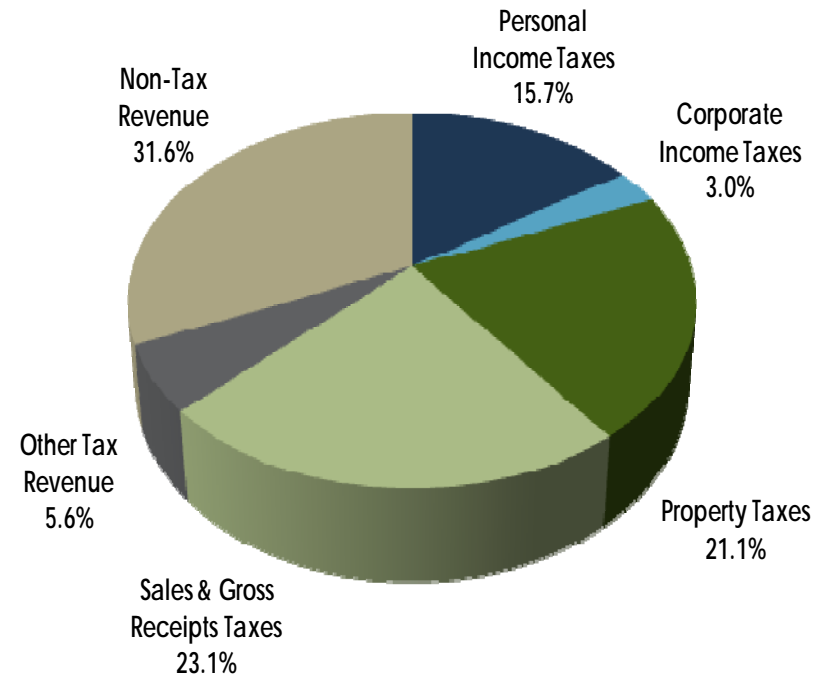
# New Hampshire Depends on Business Taxes More than Most States...

*Composition of Total State & Local Own Source Revenue, FY 2008*

*New Hampshire*



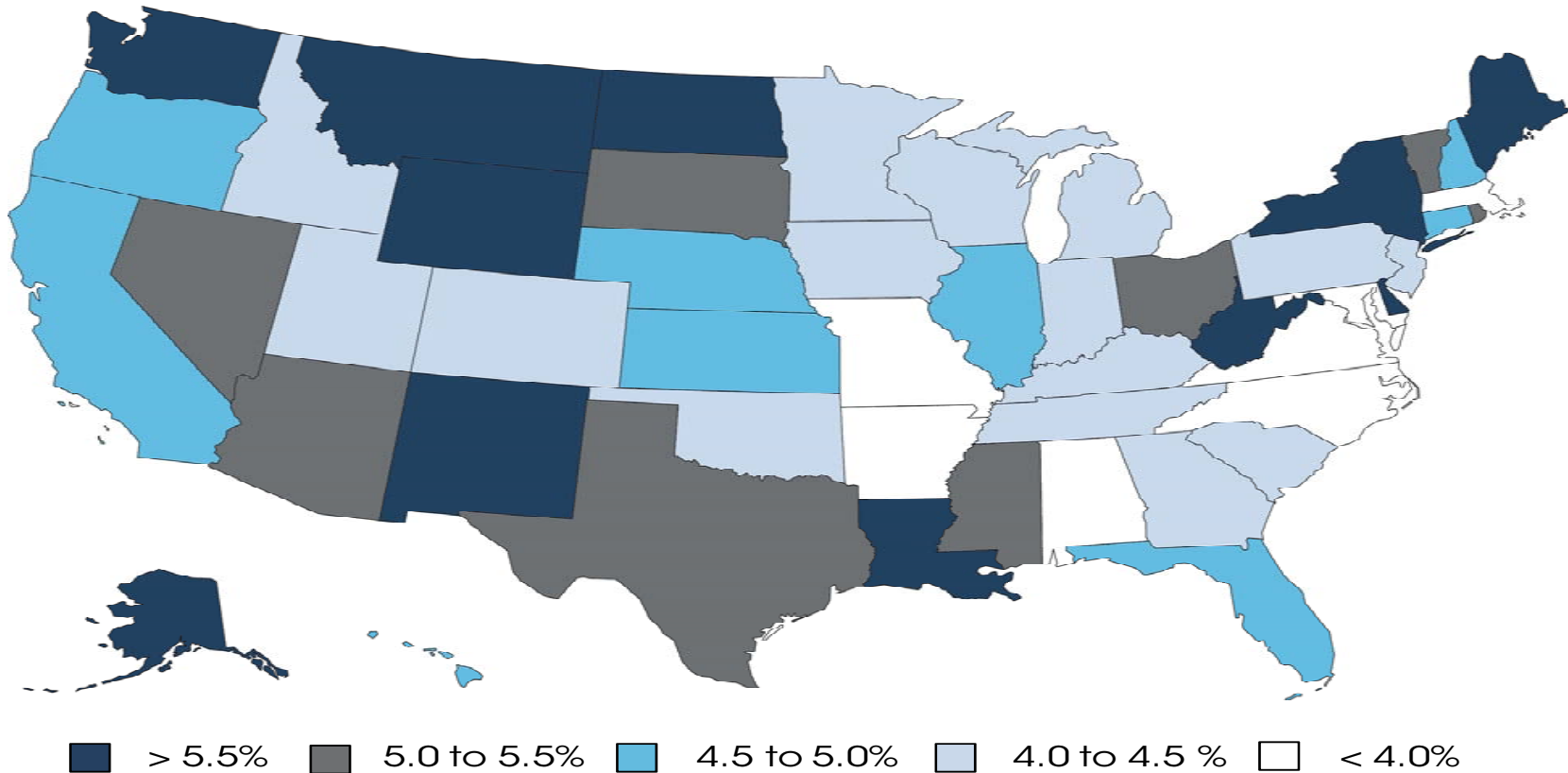
*United States*



Source: US Census Bureau

## ...Yet, Business Taxes Relative to the State's Economy are About Average

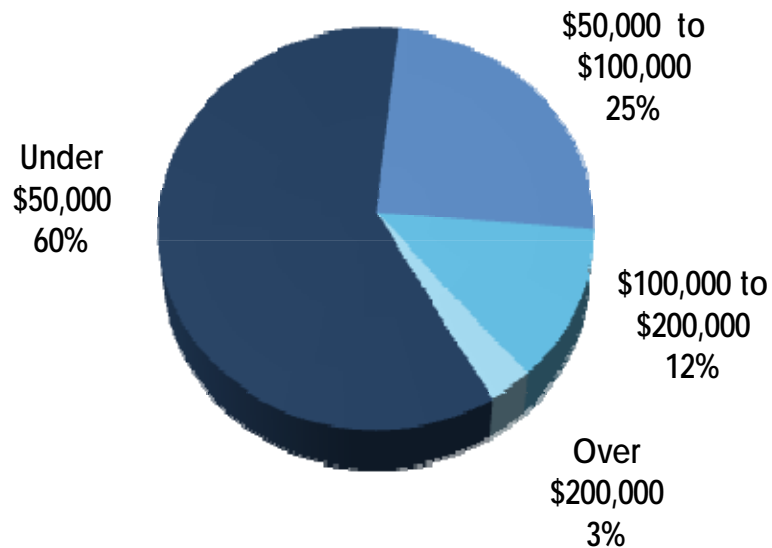
*Total Business Taxes as a Share of Personal Income, by State, FY 2000*



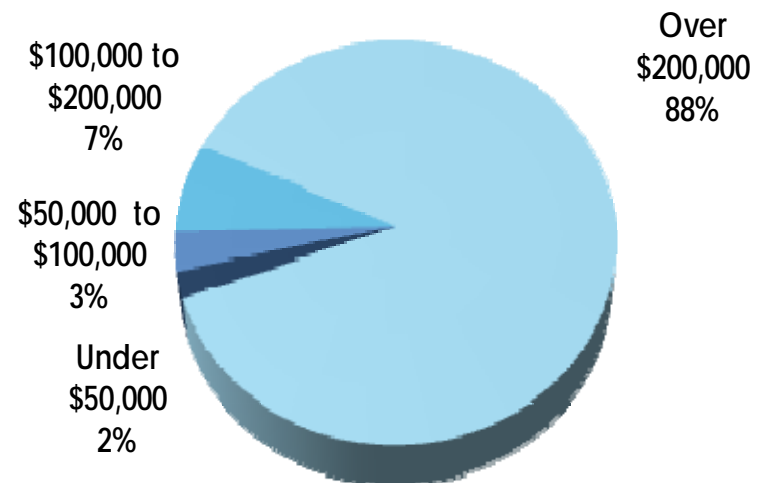
Source: Federal Reserve Bank of Boston, August 2004

# Capital Gains Income Concentrated Among the Very Wealthiest Granite Staters

Composition of Federal Tax Returns Among  
NH Residents  
*by range of Federal AGI, 2008*



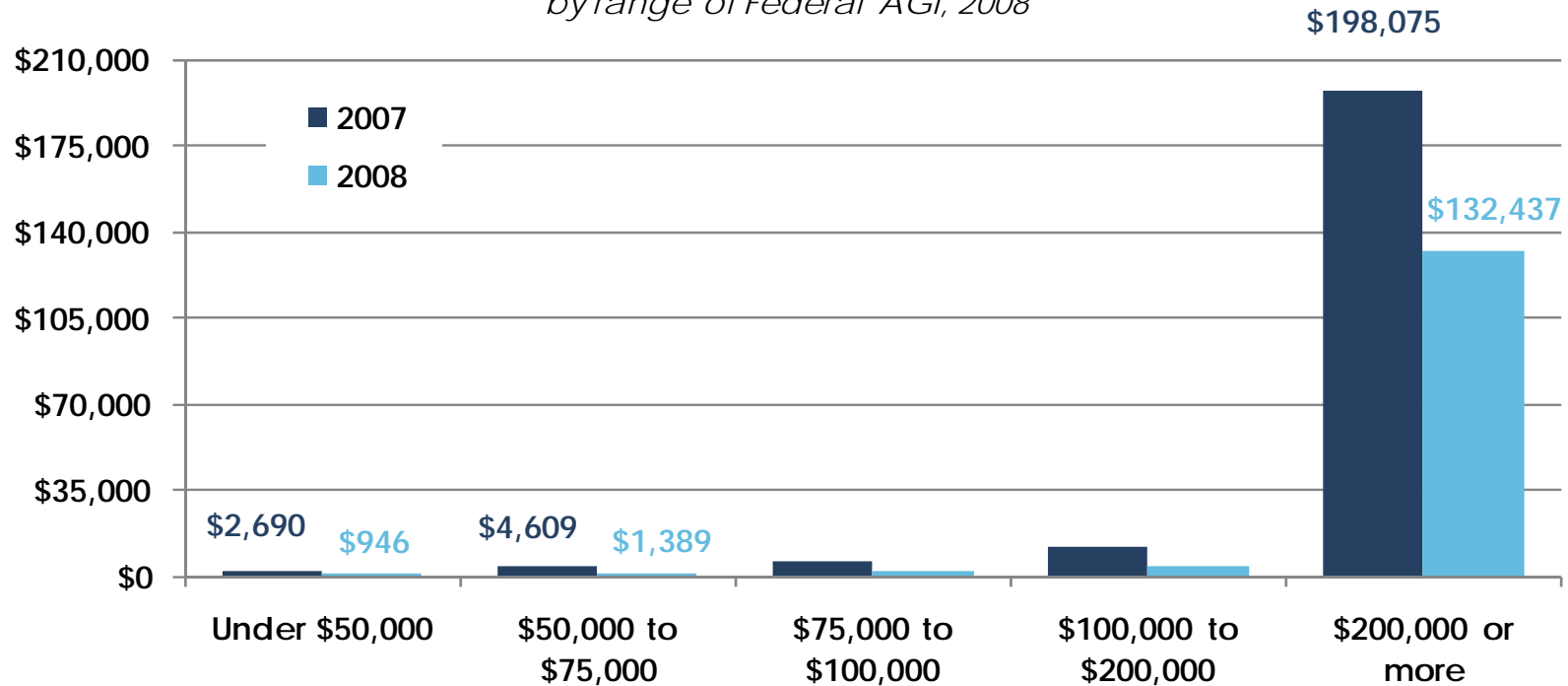
Composition of Total Capital Gains Income  
Among NH Residents  
*by range of Federal AGI, 2008*



Source: IRS Statistics of Income, 2008

# A Capital Gains Tax Would Fall Almost Exclusively on the Very Wealthiest Granite Staters

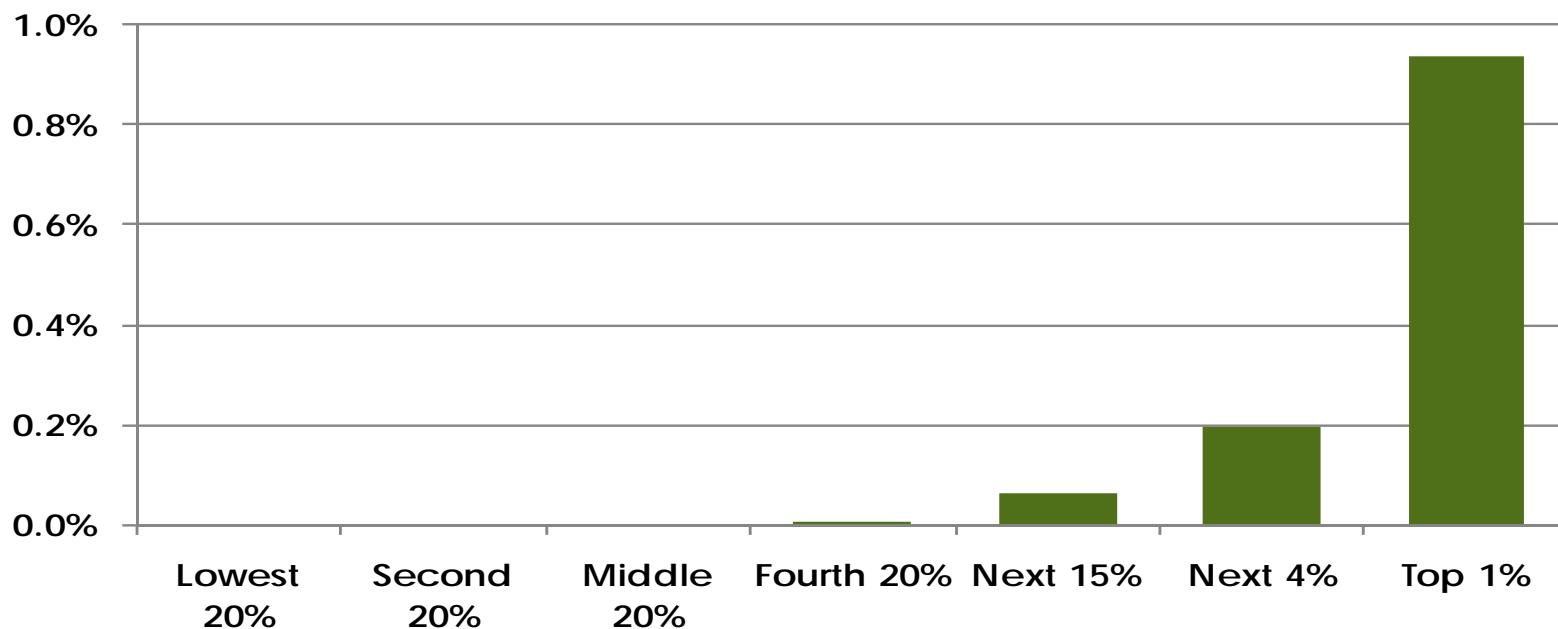
**Average Amount of Capital Gains Income  
Among NH Residents with Such Income**  
*by range of Federal AGI, 2008*



Source: IRS Statistics of Income, 2008

# A Capital Gains Tax Would Fall Almost Exclusively on the Very Wealthiest Granite Staters

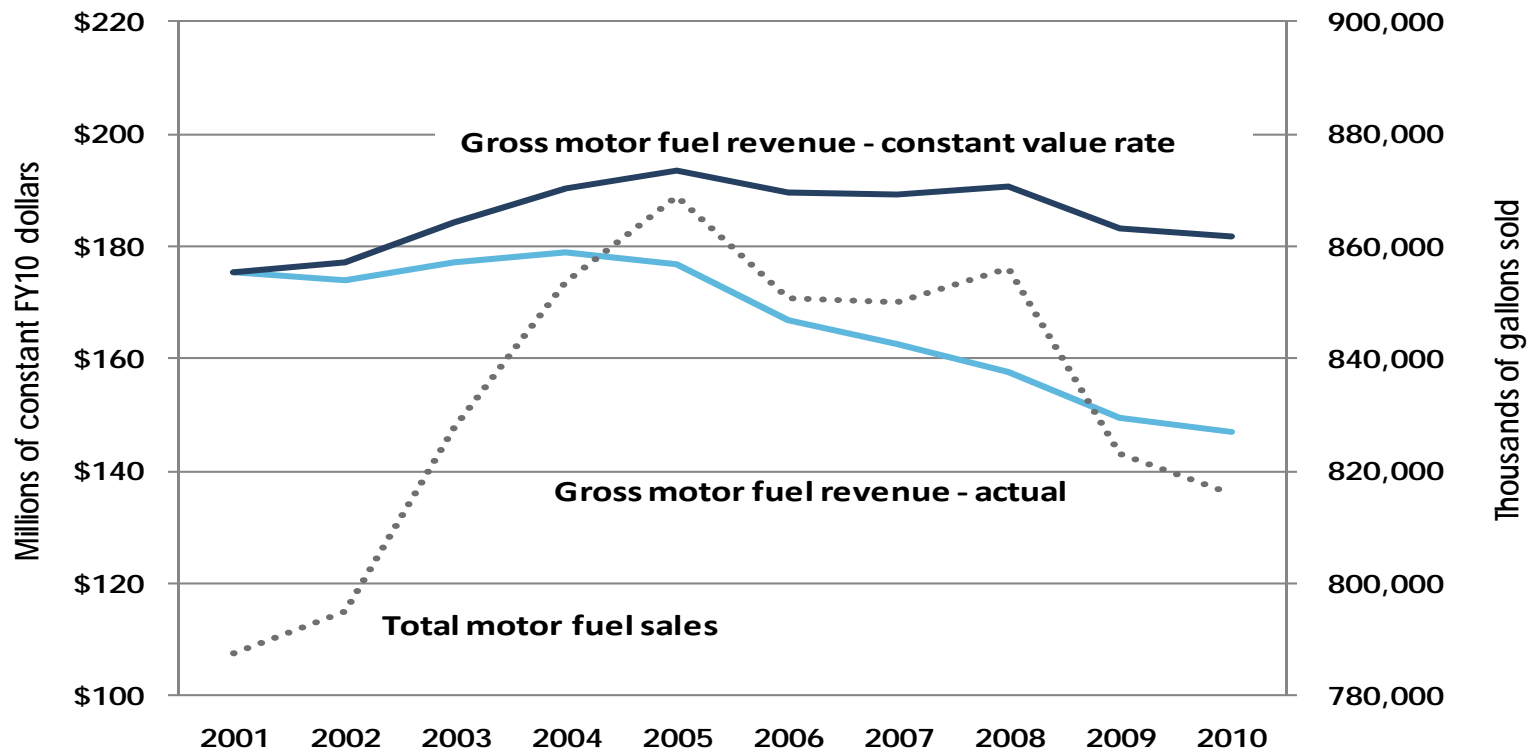
**Impact of Proposed Capital Gains Tax (HB2, 2009)**  
*Tax Change as a Share of Income by Income Group, 2011*



Source: Institute on Taxation and Economic Policy

# Without Regular Changes, Excise Taxes Fail to Keep Pace with Inflation

*NH Motor Fuel Sales and Revenue Collections, FY 2001 – FY 2010*



Source: NHFPI calculations based on NH Road Toll Bureau data

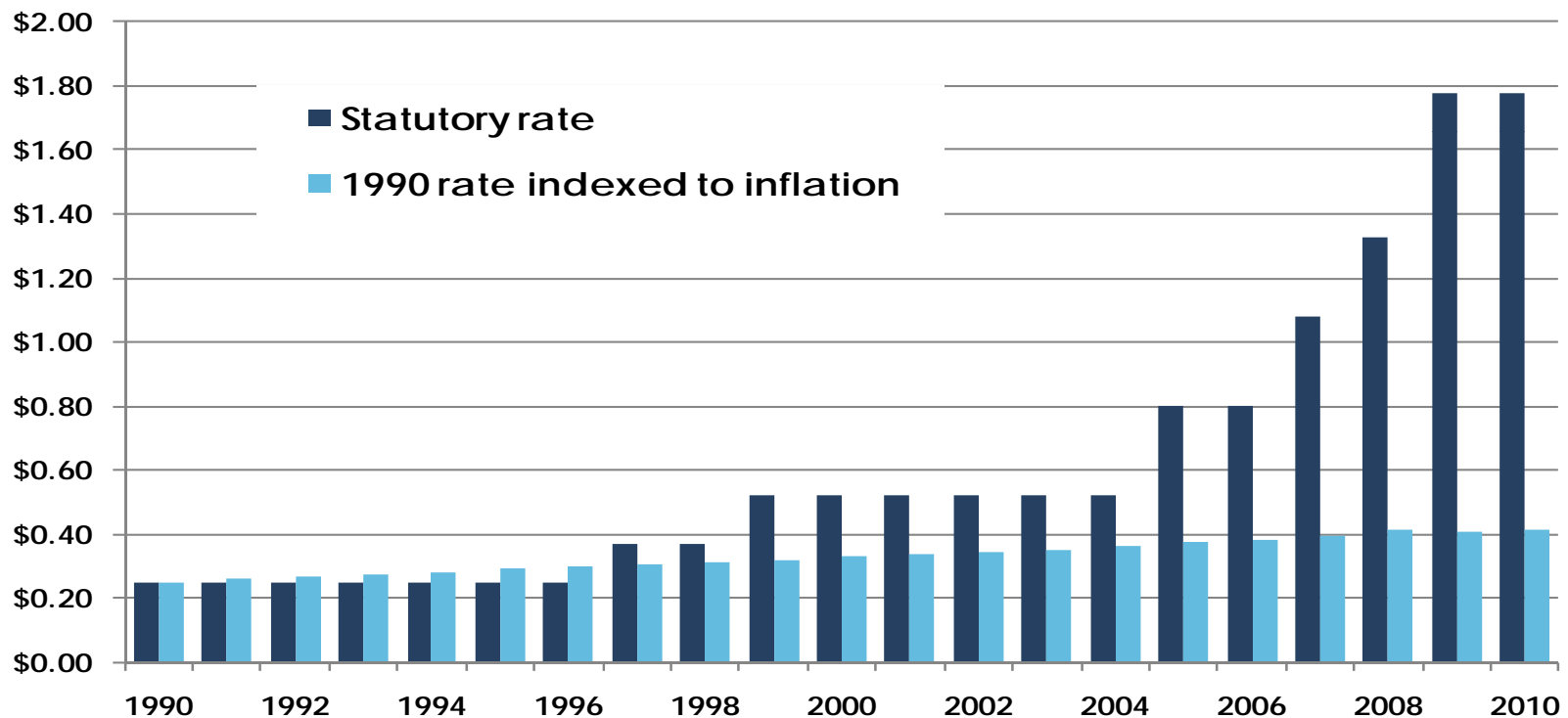
# Updating NH Excise Taxes Could Also Generate Additional Revenue

	Motor fuels tax	Beer tax
<b>Current Rate</b>	18 cents / gallon	30 cents / gallon
<b>Year of Last Permanent Increase</b>	1991	1983
<b>Rate if Indexed to Inflation Since Last Increase</b>	29 cents / gallon	66 cents / gallon
<b>Current Revenue (FY10)</b>	\$124 million	\$13.1 million
<b>Revenue if Rate Indexed to Inflation Since Last Increase (<i>estimated</i>)</b>	\$197 million	\$28.8 million
<b>Difference (<i>estimated</i>)</b>	\$73 million	\$15.7 million

Source: NHFPI calculations based on DAS, RTB data

# An Exception to Every Rule: New Hampshire's Cigarette Tax

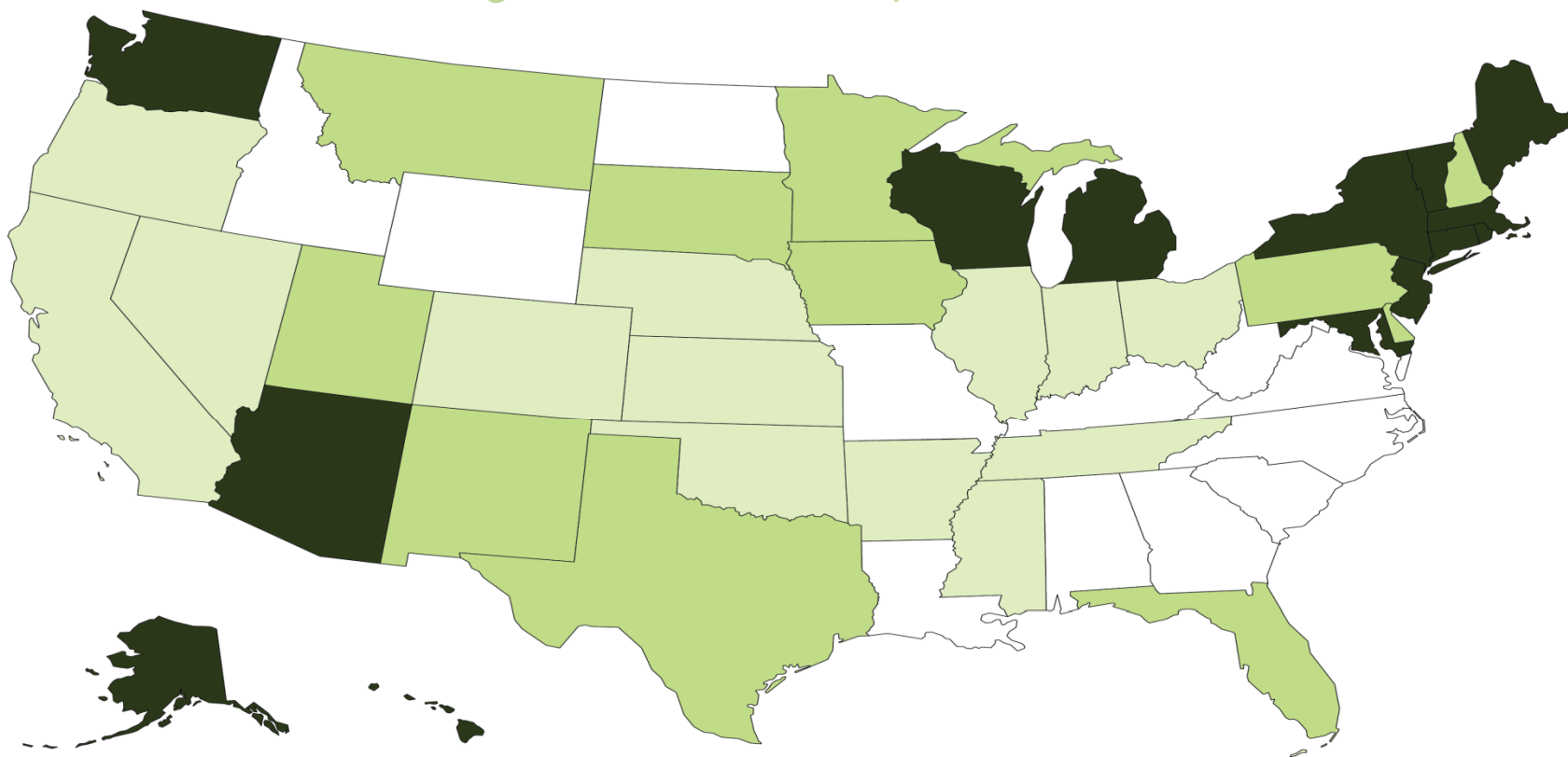
*NH Cigarette Tax Rate (per pack), 1990-2010*



Source: NHFPI calculations based on OLBA data

# New Hampshire Cigarette Tax Rate is the Lowest in New England

*Cigarette Tax Rates by State, 2010*

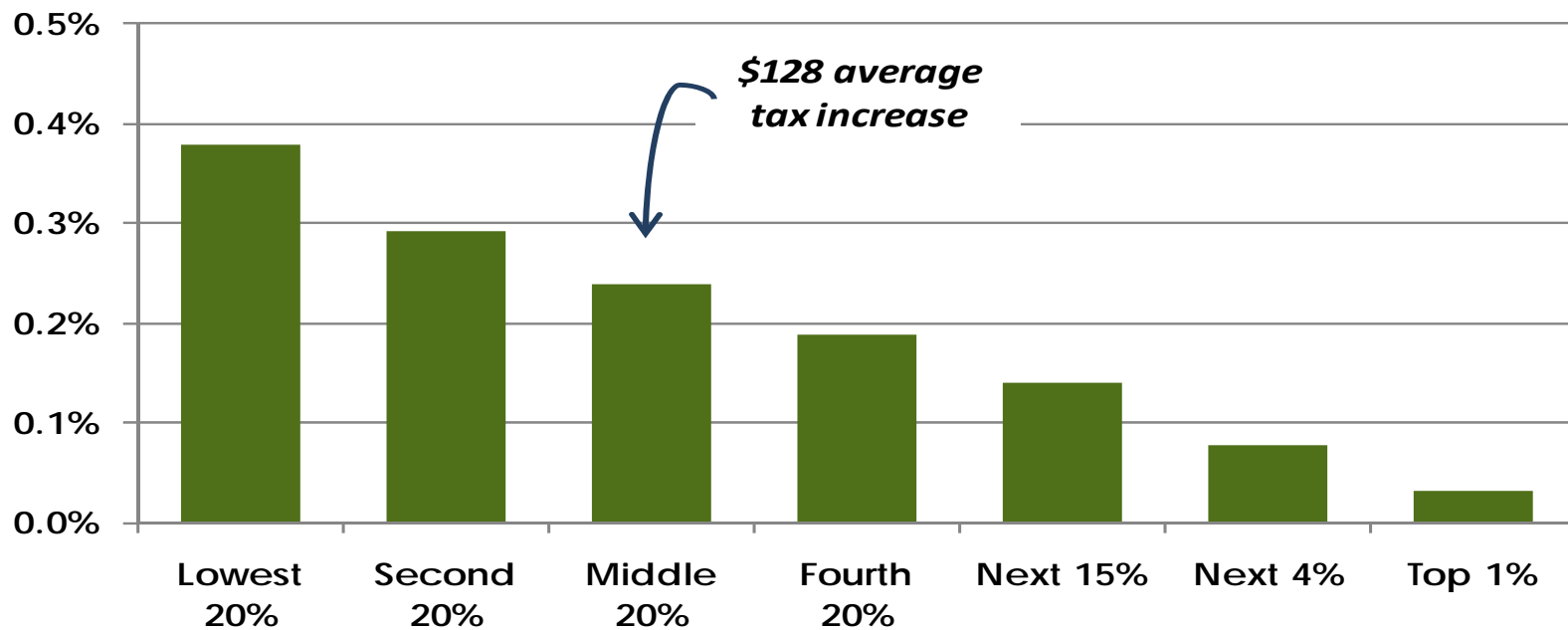


■ Over \$2/pack ■ \$1.25 to \$2.00 □ \$0.60 to \$1.25 □ Less than \$0.60

Source: Campaign for Tobacco Free Kids

# Excise Tax Changes Would Fall Most Heavily on Low- and Moderate Income New Hampshireites

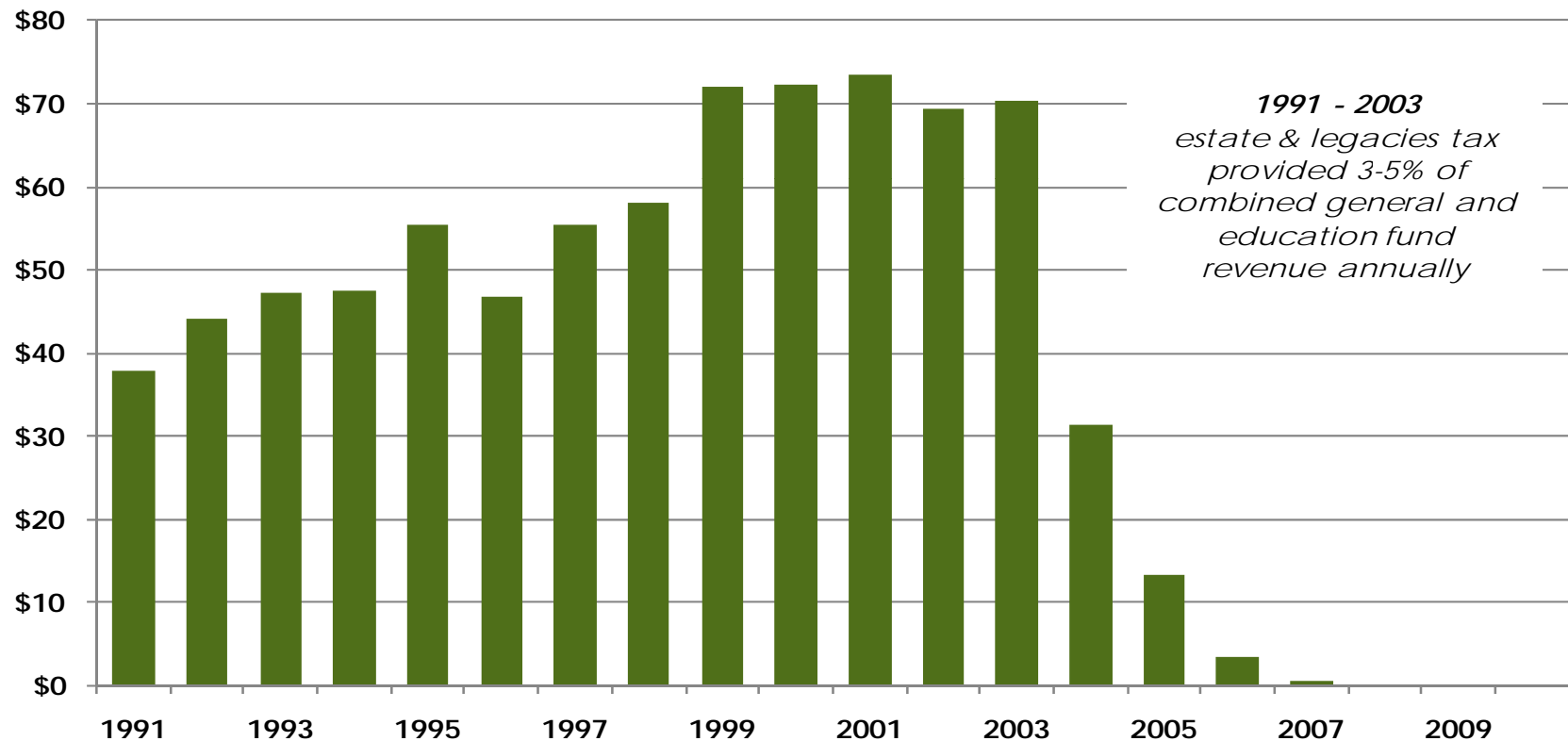
**Impact of Raising Gas, Cigarette, and Beer Taxes**  
*Tax Change as a Share of Income by income Group, 2010*



Source: Institute on Taxation and Economic Policy

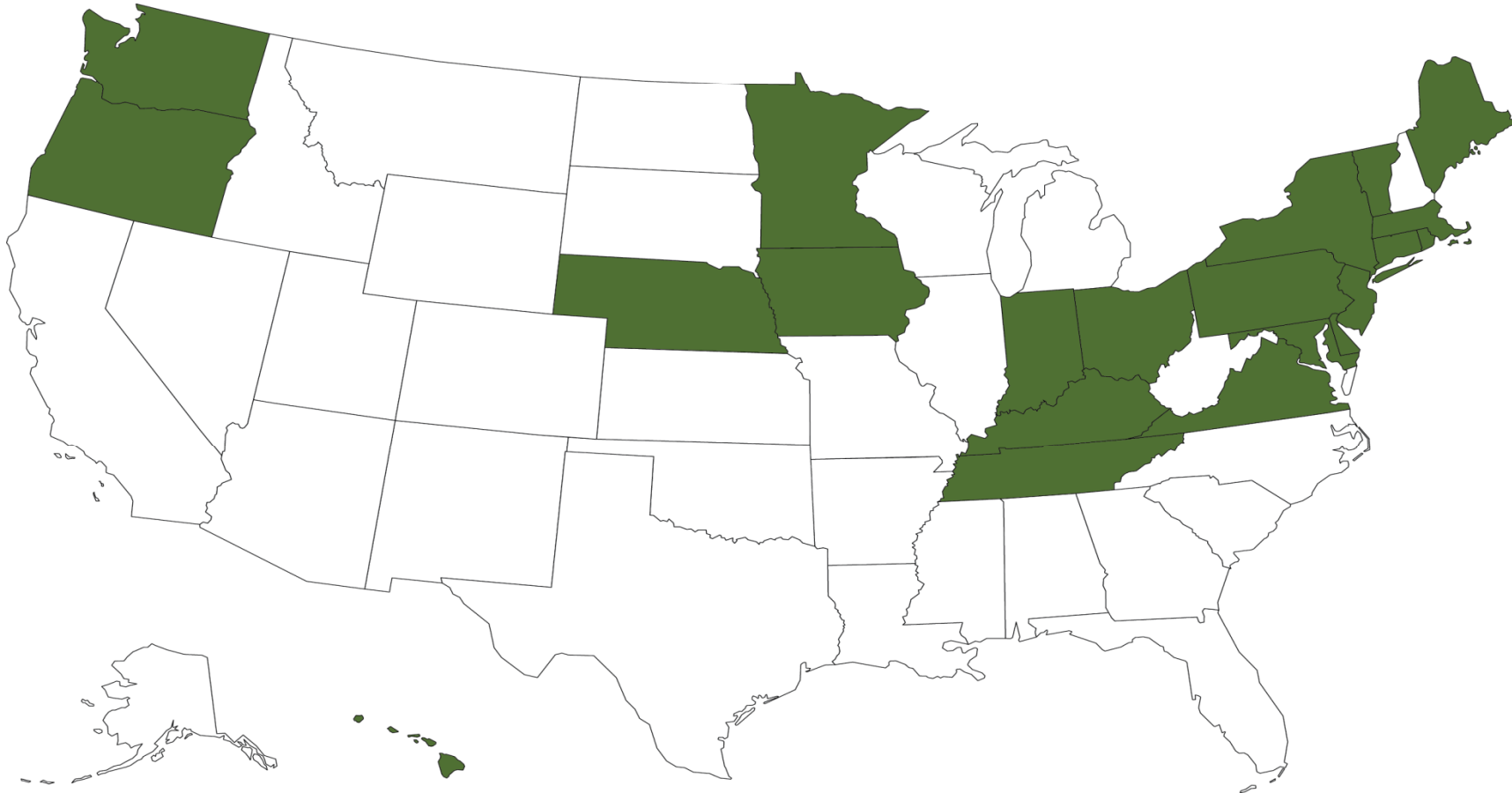
# Estate & Legacy Taxation Formerly a Significant Source of Revenue for New Hampshire

*Estate & legacy collections in millions of constant FY10 dollars, FY 1991-2010*



Source: NHFPI calculations based on Department of Administrative Services, Bureau of Labor Statistics data

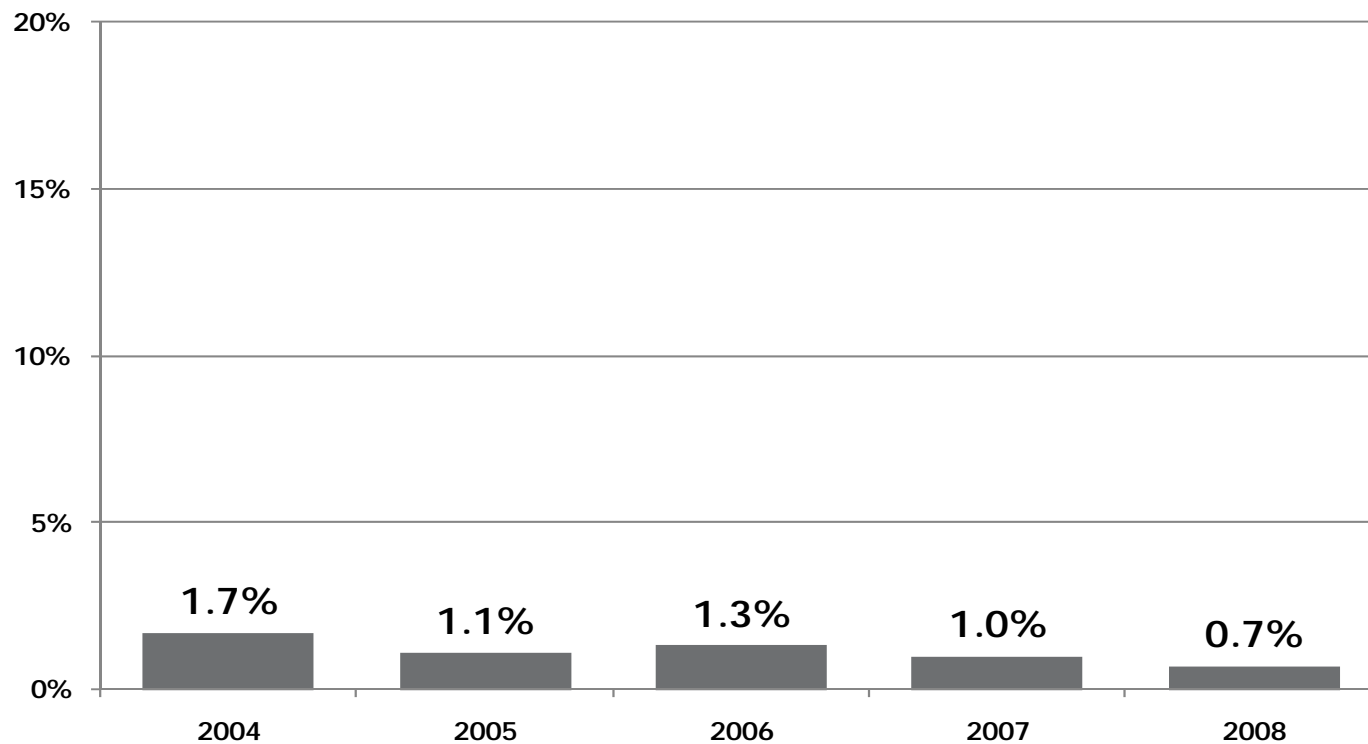
## Many States Continue to Use Taxes on Inherited Wealth



Source: Center on Budget & Policy Priorities, 2010

# Reinstating an Estate Tax Would Affect Very Few Granite Staters

*Percent of Deaths in New Hampshire Resulting in a Federal Estate Tax Liability, 2004-2008*



Source: Citizens for Tax Justice, 2009

# Developing a Balanced Approach to the FY12-13 Budget - *Review*

- ❖ What is the scope of NH's budget crisis?

*Still unclear, but likely on the order of several hundred million dollars*

- ❖ What is the source of NH's budget crisis?

*Ongoing national recession has suppressed state revenue, creating a cyclical deficit on top of state's long-standing structural deficit*

- ❖ What other factors ought to be considered in addressing the budget crisis?

*Rising poverty rates; falling incomes; NH's relative tax levels; regressivity of NH's tax system*

- ❖ What are some of the potential solutions to NH's fiscal crisis?

*Instituting a capital gains tax, reinstating some form of estate tax, or revitalizing excise taxes would all generate much needed revenue*



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

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