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In New Hampshire, a budget gap that never goes away

By Rob Gurwitt, Special to Stateline

As the New Hampshire legislature wound up a one-day special session earlier this month to pass a budget-balancing compromise, there was a sense on both sides of the aisle that lawmakers were merely buying time before the next round of difficult decisions.

“I hope no one leaves this room happy, because there’s nothing to be happy about,” state Representative Marjorie Smith, a Democrat who chairs the House Finance Committee, told the assembled lawmakers. The ranking Republican on the committee, Neal Kurk, put it this way: “We borrowed a few dollars, patched some holes in the roof, then we left and let someone else deal with the next storm.”

Democratic Governor John Lynch had called the special session because legislators couldn’t agree on how to close a deficit of \$295 million — a number that may sound small in other states, but amounts to 9 percent of the \$3.2 billion in spending supported by general state tax revenues. The Democrat-controlled Senate wanted to fill the gap by expanding legalized gambling to include video slots. The House, also controlled by Democrats, refused to go along with that plan. So did Governor Lynch.

By the time of the special session, lawmakers had agreed to separate gambling from the deficit-reduction package. Although they cut some programs and passed a few small tax hikes, they balanced the budget mostly through the use of budget gimmicks and one-time cash infusions. The package raids funds that had been set aside for other purposes, such as energy efficiency; refinances about \$40 million in state debt; borrows \$25 million from the state university system by bonding a set of its maintenance expenses; and counts on both federal bailout money and about \$60 million in revenue from selling or leasing unspecified state assets. Steve Norton, executive director of the nonpartisan New Hampshire Center for Public Policy Studies, characterizes these choices as “sacrificing the future for the present.”

While the deal allowed the legislature to go home for the year, it didn’t come close to addressing the underlying problem that makes budgeting difficult in New Hampshire even when economic times are better than they are now. New Hampshire has no income tax and no sales tax, and its revenues are rarely sufficient to fund its programs fully. What’s more, there’s nothing in the state’s governing structure or political habits to encourage its leaders to change this. “Every state out there today is saying, ‘This budget stinks,’” says James Pindell, who



Photo by Jim Cole, the Associated Press

Marjorie Smith, House Finance Committee chairman, listens as legislators try to fix the budget in N.H. “I hope no one leaves this room happy, because there’s nothing to be happy about,” Smith told lawmakers.

runs *NH Political Report*, a Web site covering state politics. “But in New Hampshire every budget stinks, because it runs a structural deficit.”

Two of New Hampshire's neighbors, Rhode Island and Maine, have tried addressing similar underlying fiscal weaknesses. Earlier this month, Rhode Island passed a plan that reduces income taxes for most residents but changes deductions and tax breaks in an attempt to keep revenues stable. Last year, Maine [passed a law](#) that reduced income taxes while broadening the sales tax base to include previously exempt services such as dry cleaning, jewelry repair and limousine rentals. Although Governor John Baldacci hailed that plan as a “tax structure for the 21st century” and the *Wall Street Journal* called it the “Maine Miracle,” voters repealed the law by ballot initiative a few weeks ago.

The Maine case shows what can happen when complex fiscal restructuring runs into populist anger. But what has been playing out in New Hampshire — or not playing out in New Hampshire — is far more typical. In theory, the current fiscal crisis represents an opportunity for states to reexamine their revenue structures and retool for an economy that may take a while to get back to where it once was. In practice, states are not doing much of this at all. New Hampshire offers a few explanations for why that is.

Small spenders

To start with, New Hampshire has always run a good bit leaner than its New England neighbors — and most other states, for that matter. In 2007, according to the Tax Foundation, New Hampshire ranked 37th in per-capita spending. At \$4,739, New Hampshire keeps company with Idaho and Kansas, and spends far less than Maine (\$6,030) and Rhode Island (\$6,673). New Hampshire had the second-lowest state tax collections per capita in the nation last year (after South Carolina), according to the U.S. Census Bureau’s annual survey of state tax collections. “It’s a state with very small ambitions, structurally,” says Pindell, “because it doesn’t tax, therefore it can’t spend, therefore it doesn’t do big things, therefore there’s no big lobby structure, and therefore the legislature doesn’t have much power.”

But then, neither does the governor. In New Hampshire, governors must face the voters every two years, making it difficult to launch politically risky tax overhauls. What's more, New Hampshire's governors have their hands tied more than most. Even to make major appointments, New Hampshire's governors must work through a separately elected Executive Council. “The state was designed to make things move very slowly and to not allow any one or two or three groups or individuals to direct the ship,” says Norton. “That means you have to have enormous consensus in order to move forward with big change.”

Moreover, New Hampshire has generally looked askance at governors who are determined to shake things up — although Republican Meldrim Thomson in the 1970s and, to some degree, Republican John H. Sununu a decade later, broke the mold. Still, says Dante Scala, a political scientist at the University of New Hampshire, “This generally isn’t a state that welcomes crusading governors. It’s much more kind to incrementalists.”

This is, in fact, what Lynch has proven himself to be. He is a centrist who prefers to work behind the scenes, avoiding big pronouncements in favor of quiet negotiation. Even this year, as the Democratic Senate and the Democratic House headed for a collision over gambling — with tensions rising at the statehouse and elections looming — Lynch kept a low public profile on the issue long after Republicans started taking aim at him for failing to exert leadership. Only toward the end did he say publicly that he would not support expanding gambling without further study, although Marjorie Smith, the House Finance Committee chair, says that he took that stand privately much earlier. “He said it publicly when it was appropriate for a governor to involve himself in the legislative process,” she says.

To be sure, there were lawmakers and others pushing to go beyond simply muddling through this year's budget deficit. Republicans proposed an additional \$70 million in social-service cuts to replace the anticipated — but ultimately speculative — revenue from selling state assets. Although Lynch and the Democratic leadership were willing to entertain some cuts, they were leery of alienating their base in an election year. “Cutbacks in education, the services we provide for senior citizens, AIDS funding, health and human services — you can only cut those things so much before you have to put a ‘For Sale’ sign on state government,” says veteran Democratic state Representative Jim Splaine.

At the same time, progressive Democrats have been expressing growing frustration with political leaders' refusal to entertain broad-based income or sales taxes. But the last Democratic gubernatorial candidate to base his campaign on the issue was soundly defeated. And as Scala says, “Just because our budget problems are severe, it's not as if voters have given the governor a mandate to do what he wants with the state's fiscal structure.”

A “new normal”

With elections in the offing and Republicans hungry for a comeback after four years out of power in the legislature, Lynch and the Democratic leadership were not about to make any dramatic move toward putting New Hampshire on a steadier fiscal footing. The budget bill does, however, include two new panels, one to study the state's business taxes, the other to take a general look at how it raises revenues.

Their work is only going to get more important over the next year. Dennis Delay, an economist and consultant to the Center for Public Policy Studies, thinks that as the state emerges from the recession, it will need to adjust its expectations downward from the pre-recession norm. “We may in fact be in a new normal, a four-percent world, where we get four percent returns on investments, not eight percent,” he says. “What that means is that revenues will grow slower than people would expect them to grow. We've had a long history of expenditures increasing faster than revenue sources, and if we're in a four-percent world, then that means that's not going to change in the near term.”

It also means that with future federal stimulus funds uncertain at best, federal help in dealing with increased demands on Medicaid up in the air, and this year's deficit-reduction measure essentially designed as a stop-gap, life in Concord promises to be just as fraught at this time next year. “The next budget's going to be hell,” says Donna Sytek, a Republican and former speaker of the state House. “I keep telling my Republican friends to be careful what they wish for in November.”

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