

“...to raise new ideas
and improve policy
debates through quality
information and analysis
on issues shaping New
Hampshire’s future.”

One Eagle Square
Suite 510
Concord, NH 03301-4903

(603) 226-2500
Fax: (603) 226-3676

www.nhpolicy.org



Board of Directors

Donna Sytek, Chair
John B. Andrews
John D. Crosier, Sr.
William H. Dunlap
Sheila T. Francoeur
Chuck Morse
Todd I. Selig
Stuart V. Smith, Jr.
James E. Tibbetts
Brian F. Walsh
Kimon S. Zachos
Martin L. Gross,
Chair Emeritus

Executive Director

Stephen A. Norton
sorton@nhpolicy.org

Deputy Director

Dennis C. Delay
ddelay@nhpolicy.org

Research Associate

Ryan J. Tappin
rjtappin@nhpolicy.org

Office Manager

Cathleen K. Arredondo
carredondo@nhpolicy.org

Executive Director

Emeritus

Douglas E. Hall
doughall@nhpolicy.org

Dealing with New Hampshire’s Budget Busters: The Budget Conversation Continued

November 2008

Table of Contents

Executive Summary	1
The State’s Various ‘Bank Accounts’	2
Total Fund Appropriations.....	3
Appropriations by Type of Public Service.....	3
Appropriations by Functional Expense – All Funds.....	6
The General Fund: 1999-2009	9
General Fund Drivers 1999-2009	11
Controlling Spending	13
The Medicaid Program	14
Corrections	15
Budget Opportunity Costs.....	15
Appendix 1: Total Fund Appropriations by Functional Expense (1999-2009)	17

Author

Steve Norton
Executive Director

About this paper

One of the Center’s projects since its inception in 1996 has been to address issues regarding the state budget. This paper is the latest in our series of reports that illuminate state budget issues.

This paper, as with all of the Center’s published work, is in the public domain and may be reproduced without permission. Indeed, the Center welcomes individuals’ and groups’ efforts to expand the paper’s circulation.

Contact the Center at info@nhpolicy.org or call 603-226-2500.
Write to: NHCPPS, One Eagle Square, Suite 510, Concord, NH 03301

Executive Summary

This report provides a description of how the state appropriates financial resources and how the state's priorities – as measured by state appropriations – have changed over time. As the state faces a potential budget deficit, there will be significant discussion regarding approaches to curbing spending on the primary drivers of state appropriations. This analysis is also designed to highlight what the state is not spending resources on.

During budget debates it is common practice to argue that the budget is being driven by the underlying costs of state government – including personnel and administrative costs. With respect to appropriations associated with staffing, this analysis makes it clear that current New Hampshire state employee and retiree benefits are a primary driver of state government as is the growth in appropriations for consultants. Wages and salaries and administrative costs, however, represent a small share of total appropriations. While administrative costs are growing, they are growing at a lower rate than many other state government appropriations, particularly direct program expenditures – which account for 72% of state appropriations.

Among those direct program expenditures, six programs have driven state appropriations over the last 10 years: Medicaid provider payments, retiree benefits (including pension and health), corrections, developmental services, and state building aid and catastrophic aid to local schools. Five of these drivers have been the primary drivers of state services since the Center began looking at the state budget in 1993. If the state is interested in controlling expenditures, the legislature will not only have to focus on the budget process itself, but also through direct legislative policy action which controls expenditure changes.

Because expenditure growth – and therefore the appropriations we are analyzing – are tied to laws that dictate expenditure growth, if the legislature does not make changes in those laws prior to the next budget biennium – or at least begin discussing options – the legislature will not be able to control spending for the next budget biennium. Some policy changes which would reduce state expenditures also could have unintended consequences for other levels of government, including counties, towns and municipalities, and the private sector. For example, reductions in Medicaid reimbursement for hospitals could ultimately be borne by individual consumers through the phenomenon of cost-shifting.

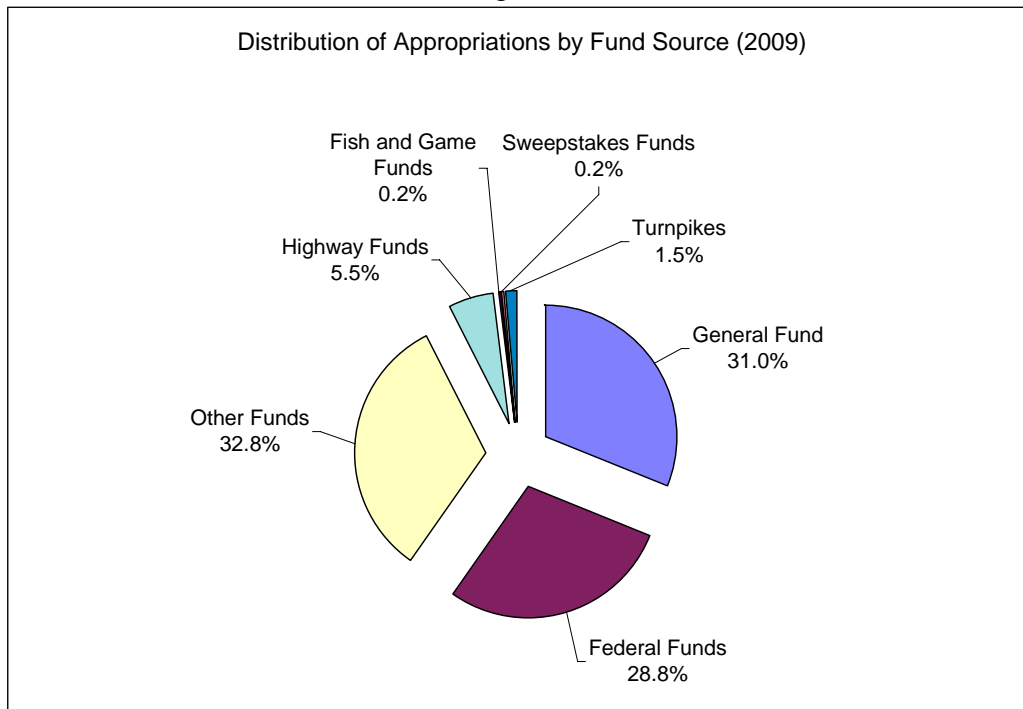
While the legislature will have to focus on policy changes to control program expenditures in the next budget biennium, this analysis also raises important questions about those areas of spending that are declining. Program expenses have been increasing, but debt service has been declining in real terms, as has the state's investment in transportation. With respect to general funded program expenses only, those areas that saw the deepest decline were debt service, the state hospital, municipal revenue sharing, and the university system. In addition to the question about primary growth drivers, legislators and others will have to address the question of what a shrinking commitment in each of these areas means for the future of the state.

The State's Various 'Bank Accounts'

In 2009, the state appropriated \$5.2 billion to provide state services across a wide variety of services. This \$5.2 billion in appropriations was funded by a variety of different revenue sources and distinct 'funds.' Among those funds are the Fish and Game Fund, the Highway Fund and the Education Trust Fund. Figure 1 shows the various fund sources for state appropriations in 2009.

The single largest source of funds is 'Other.' Revenues for this fund are generated by a variety of different sources, but are primarily driven by the statewide education property tax and by various business taxes. This group of revenues funds the state's obligation for K-12 education. The general fund is the second largest fund. Federal funds are the third largest source of funding.

Figure 1



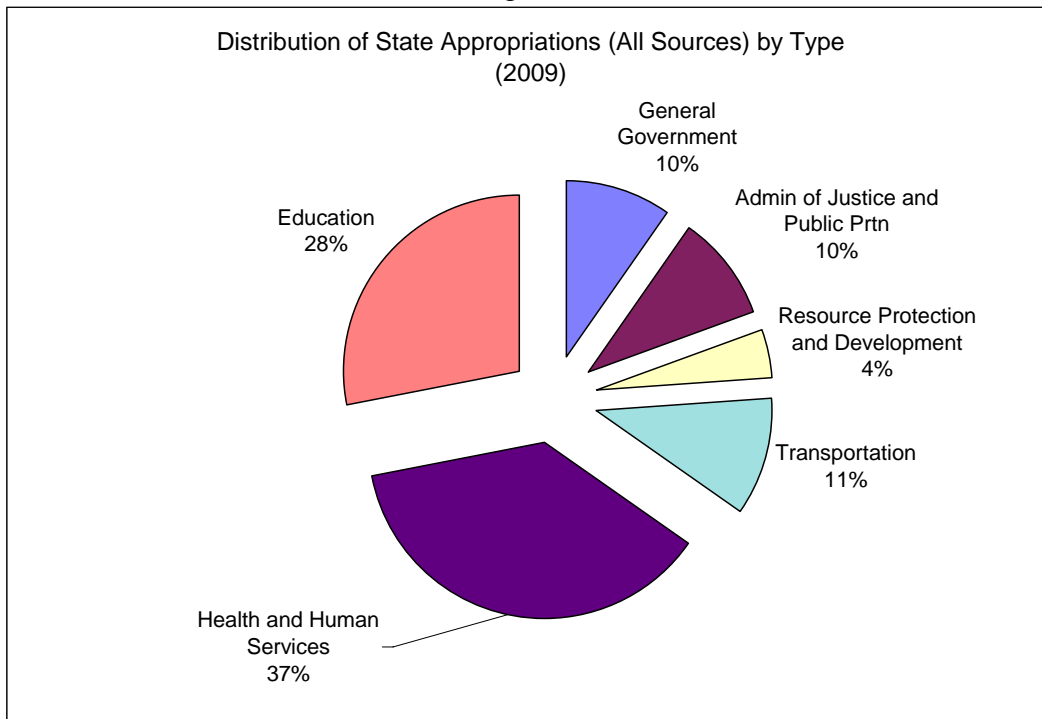
These funds can be thought of as bank accounts that fund state activities. In subsequent sections, we take two different approaches to describing state appropriations. In the first, we look at appropriations across all the various funding sources. This provides the broadest assessment of how the state prioritizes and uses resources and how it is changing over time. In the second section, we provide a more specific analysis of general fund appropriations. The general fund is primarily funded by state tax activities and is the subject of most of the attention during budget times.

Total Fund Appropriations

Appropriations by Type of Public Service

Figure 2 graphically portrays how the state allocates its resources towards the provision of public services. Health and Human Services, Education, and the Justice System account for 75% of the appropriations in the state. Appropriations for resource protection (4%) and transportation (11%) accounted for 15% and appropriations for the general operation of state government accounted for approximately 10% of all appropriations. For context, this is similar to the picture in most states across the country, though direct comparisons of state budgets are difficult.

Figure 2



Between 1999 and 2009, total appropriations in the state grew from \$2.8 billion to \$5.2 billion, or 6.3 percent per year as shown in Table 1. Appropriations for education services grew the most quickly across the time period due to the significant change in education finance in 2001. Appropriations for transportation grew the most slowly.

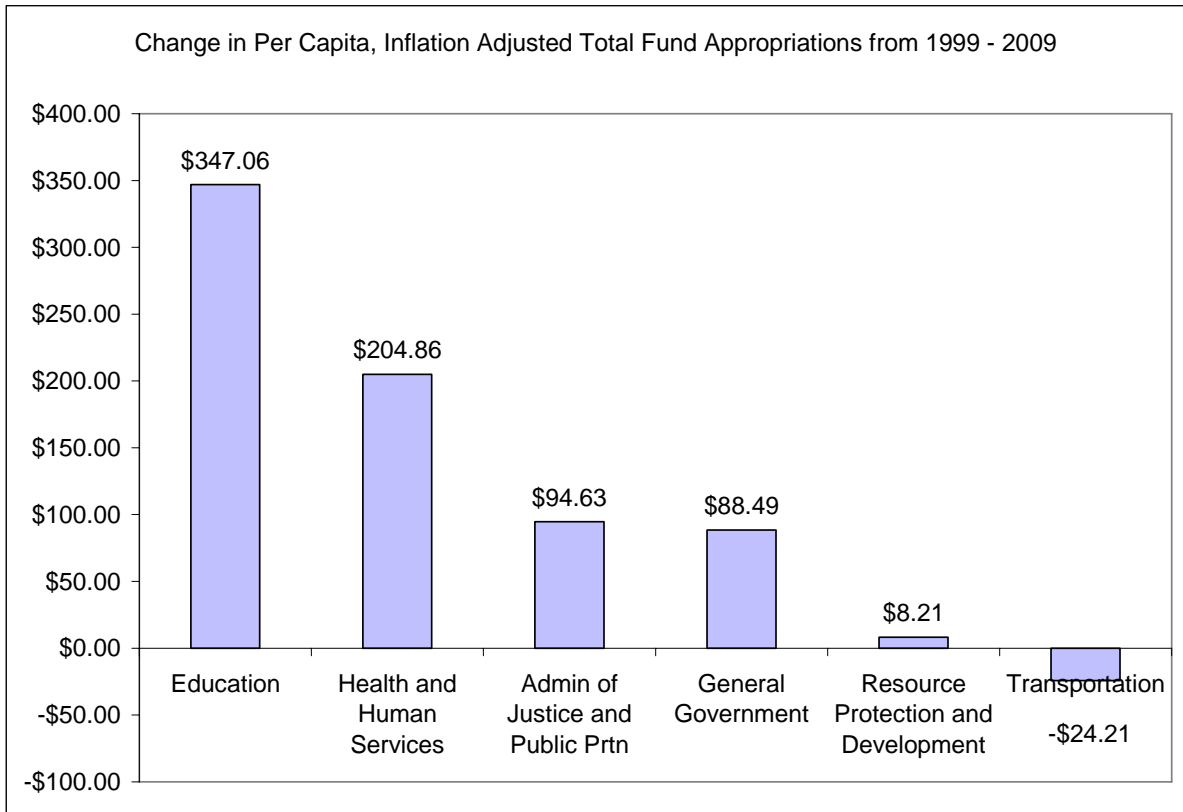
While aggregate appropriations provide information on the magnitude of the state's service provision, both the demand for services and the cost of providing those services have grown over time. To account for these changes, we also provide information on appropriations by major service areas on a per capita basis, adjusting for inflation over the time period. This generally accounts for growth in the size of the state and the costs of doing business.

Table 1: Appropriations (Total Funds)

Change in Total Fund Appropriations (1999-2009)							
	Total Funds			Per Capita Inflation Adjusted		Change (1999-2009)	
	1999	2009	Change 1999-2009	1999 (in 2009 \$)	2009	Aggregate Change	Average Compound Annual Change
Education	\$663,050,551	\$1,470,180,444	8.29%	\$747.39	\$1,094.45	\$347.06	3.9%
Health and Human Services	\$1,108,089,781	\$1,953,022,702	5.83%	\$1,249.03	\$1,453.89	\$204.86	1.5%
Admin of Justice and Public Prtn	\$251,268,914	\$507,586,534	7.28%	\$283.23	\$377.86	\$94.63	2.9%
General Government	\$257,558,943	\$508,859,280	7.05%	\$290.32	\$378.81	\$88.49	2.7%
Resource Protection and Development	\$143,435,161	\$228,209,069	4.75%	\$161.68	\$169.89	\$8.21	0.5%
Transportation	\$396,702,946	\$568,154,851	3.66%	\$447.16	\$422.95	-\$24.21	-0.6%
Total Appropriations	\$2,820,106,296	\$5,236,012,880	6.38%	\$3,178.81	\$3,897.85	\$719.04	2.1%

Figure 3 graphs the data on the change in per-capita inflation-adjusted appropriations over the time period studied. The single largest source of growth in expenditures was for education expenditures. The second largest source of growth was in Health and Human Services, driven primarily by the state Medicaid program. Administration of Justice and Public Protection – driven largely by the corrections system – and general government costs – driven primarily by the retirement system – grew at about the same amount over this time period. Interestingly, state appropriations in resource protection and development (including the Department of Environmental Services) were essentially flat. Appropriations for transportation actually declined.

Figure 3

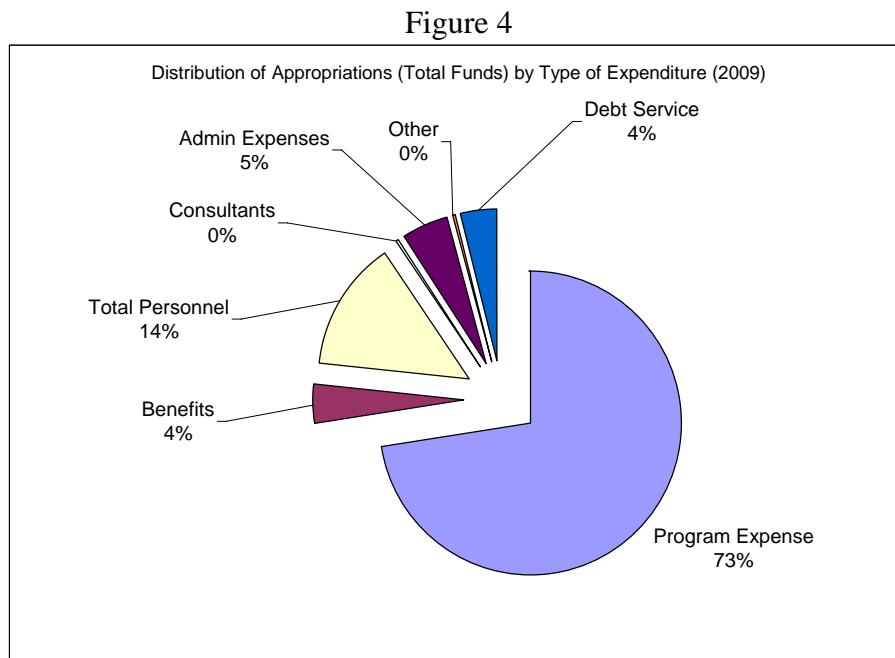


Appropriations by Functional Expense – All Funds

Figure 4 provides information on how the state plans to spend the money that it appropriates. That is, it includes information on the various types of functional expenses – staff, payments to providers, administrative costs – funded by state appropriations in 2009.¹ Seventy two percent of expenditures are included in program expenses – primarily driven by direct payments to organizations that are providing services on behalf of the state². This includes Medicaid payments made to hospitals and physicians, payments to local communities for school aid, and payments to local communities as part of the state's municipal revenue sharing activities.

Personnel costs account for approximately 20% of appropriations. 13% of appropriations are for wages and salaries for full, part-time and state temporary employees. A total of 6% of appropriations cover the costs of benefits, including health insurance, dental insurance and other benefits. Only 1% of appropriations were classified as consultants hired to do projects for the state.

Five percent of appropriations were for administrative expenses. These expenses include heating, audit costs, rents and leases, maintenance of grounds, the purchase of equipment, state travel and other current expenses necessary for keeping the state operating. Table 2 breaks these functional expenditures into their component parts.



¹ Figure 4 excludes transfers within state government. For example, executive agencies are required to have an appropriation which transfers funds to administrative services and the office of information technology for the support services provided to each agency. Including these would result in an over-inflated estimate of appropriations. Table 2 shows these expenditures as transfers.

² Direct program expenditures, or class 90 accounts, should not, but occasionally do include consultant expenditures, wages and salaries and other administrative costs. Unfortunately, the budget system does not currently allow for more in depth analysis.

Table 2

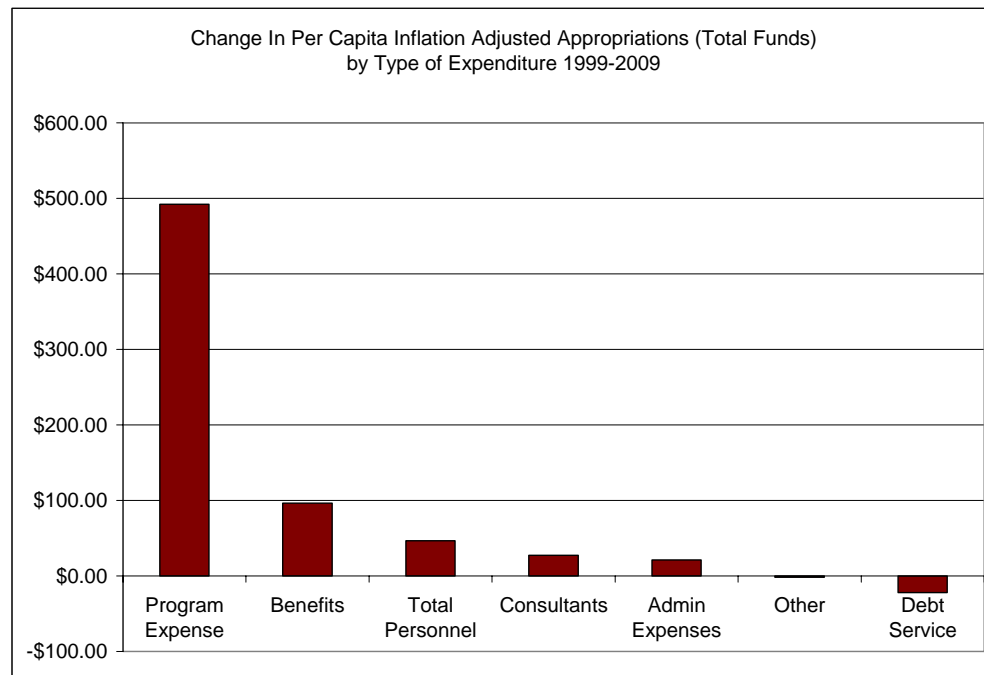
Distribution of Appropriations by Functional Expense		
	2009	Share of Total Appropriations (2009)
Total Personnel	\$955,837,155	18.3%
<u>Salary and Wages</u>		
Classes 10-17	\$575,159,001	11.0%
Holiday/Overtime	\$22,128,486	0.4%
Non-Benefited Personnel	\$1,735,782	0.0%
Personnel Services (Temps)	\$43,839,060	0.8%
Personnel Services (Full-Time Temps)	\$7,712,321	0.1%
<u>Benefits</u>		
Benefits (Class 60)	\$294,781,298	5.6%
Additional Fringe (42)	\$10,481,207	0.2%
Consultants		
Consultants (Benefited and Non-Benefited)	\$43,643,768	0.8%
Admin Expenses		
Current Expenses	\$71,408,361	1.4%
Indirect Costs	\$10,228,283	0.2%
Audit Set Aside	\$1,537,261	0.0%
Rents and Leases	\$28,793,418	0.6%
Heat, Electricity and Water	\$36,025,151	0.7%
Maintenance	\$18,521,099	0.4%
Equipment (own, bonded, leased)	\$45,884,692	0.9%
In-State Travel	\$12,457,785	0.2%
Out-of-State Travel	\$26,752,903	0.5%
Debt Service		
Debt Service (treasury)	\$77,645,294	1.5%
Debt Service (Other Agencies)	\$58,768,523	1.1%
Transfers		
Transfers to OIT	\$63,638,022	1.2%
Transfers to General Services	\$12,431,455	0.2%
Transfers to Other State Agencies	\$39,778,188	0.8%
Program Expenses	\$3,723,935,424	71.2%
Other	\$6,491,412	0.1%
Total	\$5,233,778,194	100.0%
Source: Legislative Budget Office		

Table 3 illustrates how total appropriations changed both in aggregate terms and on a per capita inflation adjusted basis by major functional expense area. Appropriations for consultants grew the most quickly, followed by appropriations for state employee benefits. The fastest growing area of functional expense was for consultants – 20.3% increase over the time period – and for benefits of state employees (which grew at 5.7% per year). Debt service declined over the time period. Figure 5 shows this graphically, clearly showing that the primary source of changes in appropriations was program expenses as opposed to other functional expenses.³

Table 3

Change in Per Capita, Inflation Adjusted Expenditures by Functional Expense							
	Aggregate			Per Capita Inflation Adjusted			
	1999	2009	Average Compound Annual Change (1999-2009)	1999 (in 2009 \$)	2009 Per Capita	Aggregate Change 1999-2009	Average Compound Annual Change (1999-2009)
Program Expense	\$2,022,875,817	\$3,723,935,424	6.3%	\$2,280.17	\$2,772.21	\$492.04	2.0%
Benefits	\$116,180,367	\$305,262,505	10.1%	\$130.96	\$227.25	\$96.29	5.7%
Total Personnel	\$388,311,802	\$650,574,650	5.3%	\$437.70	\$484.31	\$46.60	1.0%
Consultants	\$4,523,338	\$43,643,768	25.4%	\$5.10	\$32.49	\$27.39	20.3%
Admin Expenses	\$139,605,689	\$239,843,409	5.6%	\$157.36	\$178.55	\$21.18	1.3%
Other	\$5,684,357	\$6,491,412	1.3%	\$6.41	\$4.83	-\$1.57	-2.8%
Debt Service	\$109,604,202	\$136,413,817	2.2%	\$123.55	\$101.55	-\$21.99	-1.9%
Total	\$2,786,785,572	\$5,106,164,985	6.2%	\$3,141.25	\$3,801.18	\$659.94	1.9%
Excludes Transfers to other agencies and OIT							

Figure 5



³ Appendix 1 includes a more detailed breakout of these expenditures for those that are interested.

The General Fund: 1999-2009

In this section, we detail changes in general fund spending for the major components of the state budget. While not the only important fund supporting state activities, it is the one that the legislature focuses much of its attention on during the budget process. This is due to the fact that general fund revenues are the most visible manifestation of the state's taxation policies. As Figure 5 shows, general fund appropriations increased by \$673 million or approximately 71% between 1999 and 2009. This growth was the equivalent of a compound annual rate of increase of 5.5 percent.

To put this change in context, Figure 5 displays the relative growth of general fund and total fund appropriations to growth in personal income, gross state product and population and inflation. During this time period, both general fund and total fund appropriations grew faster than the combined rate of CPI and population growth, gross state product and personal income. If general fund appropriations had grown at a rate consistent with the growth in the population and the prices of goods, total appropriations would have been approximately \$183 million less than the actual figure.

Figure 5

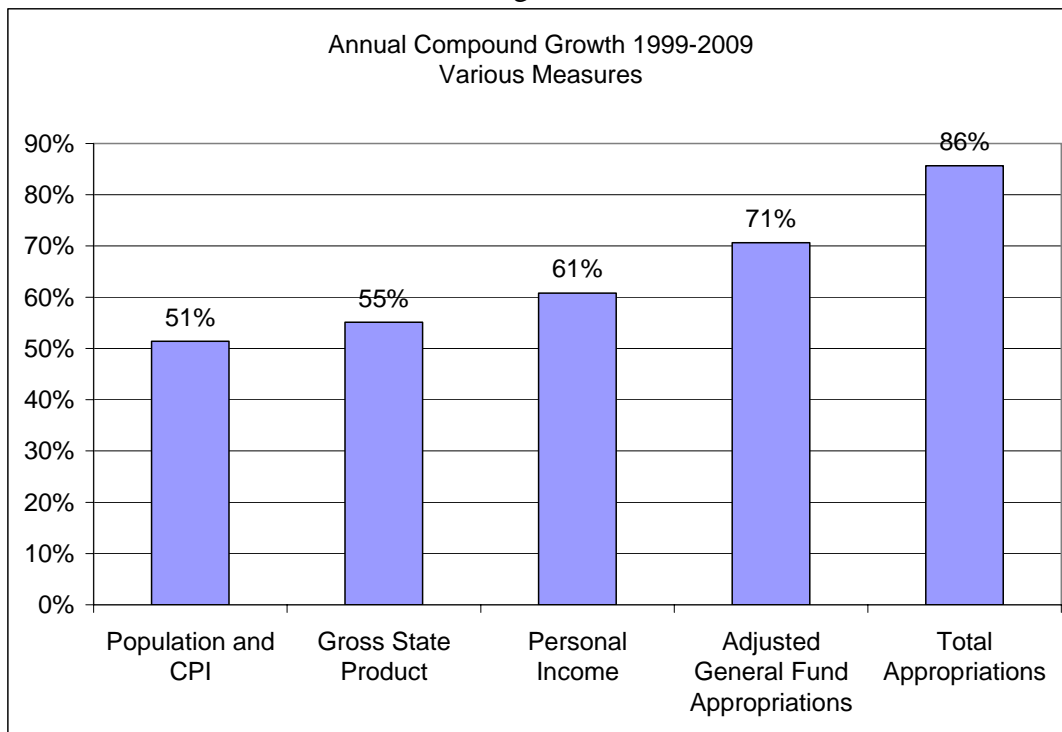
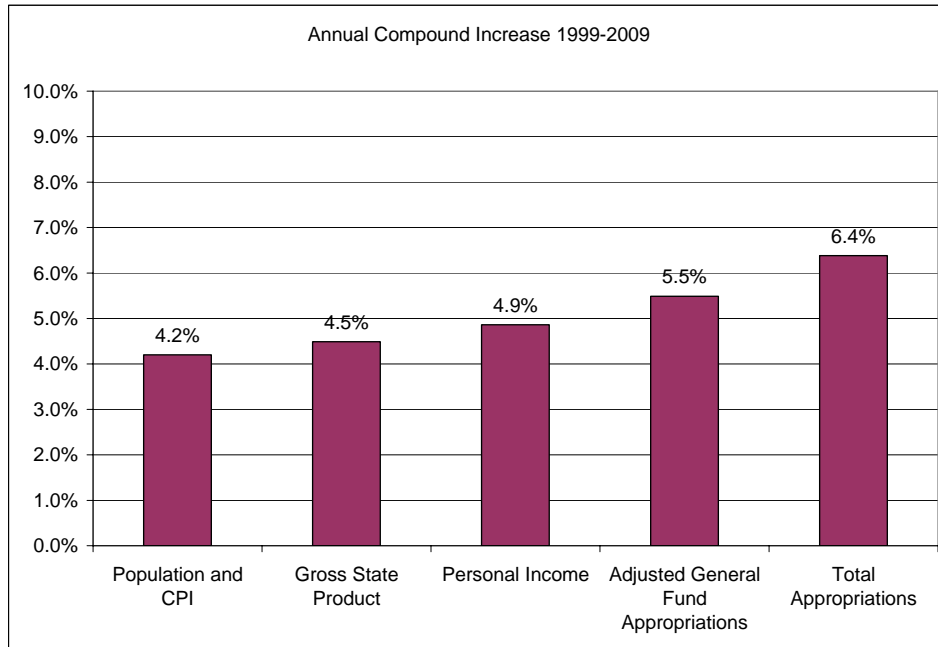
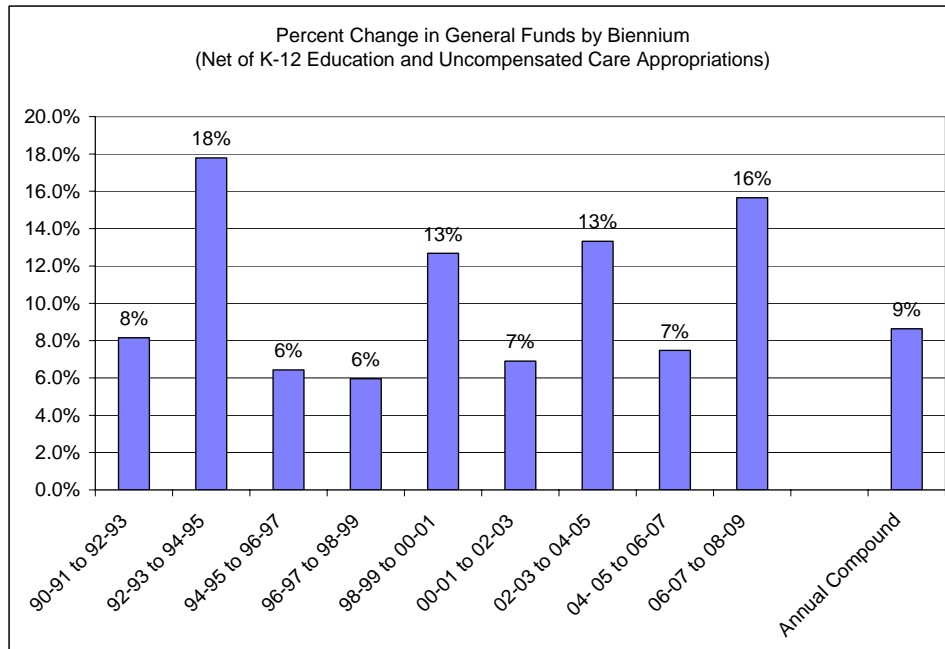


Figure 6



As shown in Figure 6, general fund appropriations grew at approximately 5.5% per year between 1999 and 2009. This aggregate measure, however, hides significant biennium to biennium variation in growth in general fund expenditures. Figure 7 shows biennial changes in general fund appropriations. Over the last 19 years, general fund expenditures have grown approximately 9% per biennium. The single largest biennium to biennium increase occurred between 1992/93 and 1994/95 – 18%. The second largest increase – 16% – occurred between 2006/07 and the current biennium.

Figure 7



General Fund Drivers 1999-2009

For simplicity's sake, we begin with an analysis of the budget as described by the state budget system. Table 4 shows appropriations by major budget line-items for 1999 and 2009, the amount by which the appropriation increased across that time period, and the annual compound percentage increase across the time period.

Table 4: General Fund Expenditures by Executive Agencies

	General Fund Expenditures		Change Between 1999 - 2009		
	1999	2009	Aggregate Change	Average Annual Compound Change	Share of Total Aggregate Change
01 DEPT OF HEALTH AND HUMAN SVCS	\$410,007,619	\$713,040,337	\$303,032,718	6%	45.3%
10 NH RETIREMENT SYSTEM (Including Health)	\$25,069,897	\$99,539,921	\$74,470,024	15%	11.1%
16 DEPARTMENT OF CORRECTIONS	\$50,898,890	\$104,588,817	\$53,689,927	7%	8.0%
03 DEPARTMENT OF EDUCATION	\$58,439,192	\$106,185,085	\$47,745,893	6%	7.1%
02 VETERANS HOME	\$1,589,416	\$11,292,175	\$9,702,759	22%	1.5%
18 JUDICIAL COUNCIL	\$13,173,656	\$24,834,811	\$11,661,155	7%	1.7%
04 NH COMMUNITY TECH COLLEGE SYS	\$19,744,312	\$34,625,817	\$14,881,505	6%	2.2%
13 LIQUOR COMMISSION	\$21,820,945	\$36,113,304	\$14,292,359	5%	2.1%
07 DEPT OF REVENUE ADMINISTRATION	\$9,830,179	\$17,540,874	\$7,710,695	6%	1.2%
04 DEPT ADMINISTRATIVE SERVICES (Excluding Health Benefit)	\$10,807,974	\$18,864,725	\$8,056,751	6%	1.2%
01 POSTSECONDARY EDUCATION COMM	\$1,593,593	\$4,540,387	\$2,946,794	11%	0.4%
02 ADJUTANT GENERAL DEPARTMENT	\$1,848,404	\$4,327,532	\$2,479,128	9%	0.4%
04 DEPARTMENT OF JUSTICE	\$5,973,268	\$10,191,635	\$4,218,367	5%	0.6%
11 SOS-ATTACHED BOARDS & COMMS	\$403,408	\$1,630,261	\$1,226,853	15%	0.2%
05 HHS-ADMIN ATTACHED BOARDS	\$1,787,164	\$3,658,488	\$1,871,324	7%	0.3%
03 RESOURCES & ECONOMIC DEVELOP'T	\$8,823,234	\$14,429,202	\$5,605,968	5%	0.8%
06 DEPT OF CULTURAL RESOURCES	\$2,556,301	\$4,575,074	\$2,018,773	6%	0.3%
02 LEGISLATIVE BRANCH	\$9,147,228	\$14,472,444	\$5,325,216	5%	0.8%
03 AGRICULTURE	\$1,644,063	\$2,795,139	\$1,151,076	5%	0.2%
08 PARI-MUTUEL COMMISSION	\$1,281,283	\$2,092,804	\$811,521	5%	0.1%
12 DEPARTMENT OF LABOR	\$809,418	\$1,337,542	\$528,124	5%	0.1%
05 DEPARTMENT OF STATE	\$1,281,179	\$1,998,424	\$717,245	5%	0.1%
03 EXECUTIVE OFFICE	\$3,874,553	\$4,765,026	\$890,473	2%	0.1%
04 TRANSPORTATION	\$2,725,079	\$1,214,882	(\$1,510,197)	-8%	-0.2%
15 DEPARTMENT OF SAFETY	\$3,914,381	\$2,764,954	(\$1,149,427)	-3%	-0.2%
01 JUDICIAL BRANCH	\$46,515,934	\$66,699,989	\$20,184,055	4%	3.0%
06 UNIVERSITY SYSTEM	\$68,539,999	\$100,000,000	\$31,460,001	4%	4.7%
04 DEPT OF ENVIRONMENTAL SERVICES	\$29,387,298	\$32,298,334	\$2,911,036	1%	0.4%
08 TREASURY DEPARTMENT	\$137,085,184	\$178,526,155	\$41,440,971	3%	6.2%
Other	\$2,163,053	\$2,408,219	\$245,166	1%	0.0%
Total	\$952,736,104	\$1,621,352,357	\$668,616,253	5.5%	100.0%

Across this time period, growth in state government services was dominated by 4 parts of state government: the Department of Health and Human Services, the NH Retirement System, the Department of Corrections and the Department of Education. Together, these four parts of state government accounted for 72% of the growth in appropriations.

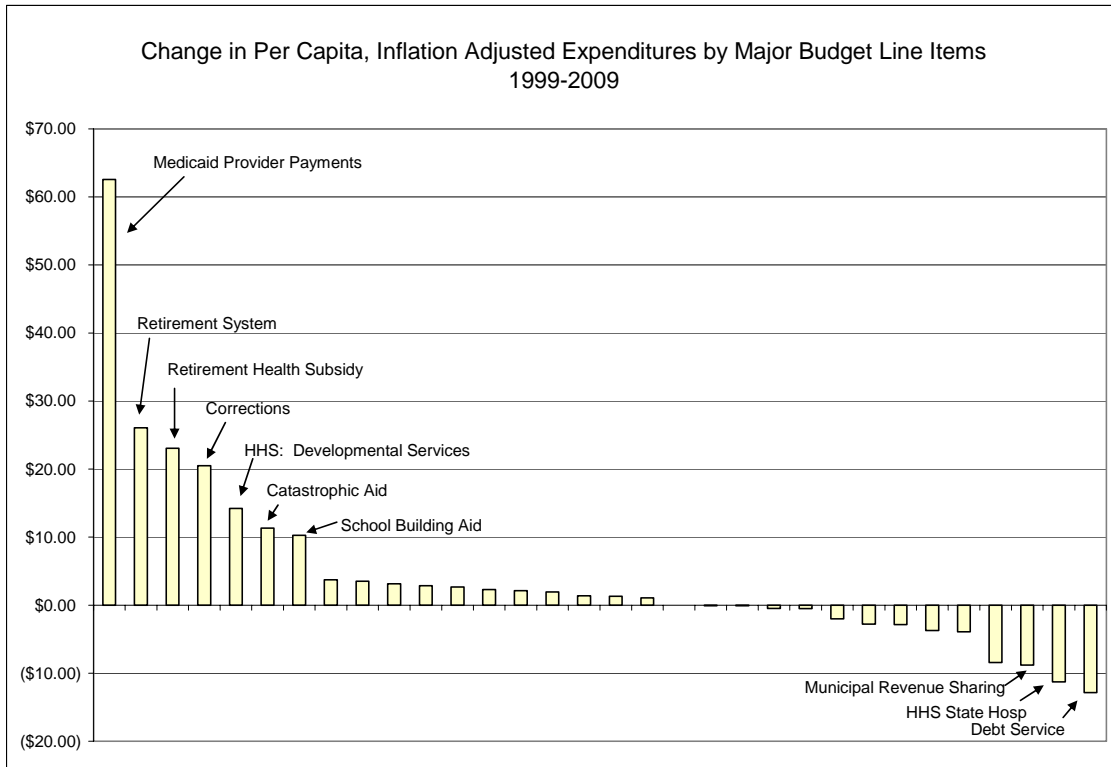
Table 5 provides information on expenditures on a per capita basis, adjusting for inflation over the time period. In total, over this time period, state general fund appropriations grew at 1.2% per year, after controlling for inflation and growth in population. The New Hampshire Retirement System grew the most quickly, with appropriations for retirees increasing by 10.5% per year and appropriations for the health insurance subsidy increasing at 10.8% per year. Although health and human services expenditures grew at only 1.4% per year, certain portions increased much more quickly, including appropriations for Medicaid provider payments, for the cancer prevention plan, substance abuse services, and Medicaid administrative contracts.

Table 5

State General Fund Expenditures by Major State Drivers				
		Per Capita (Inflation Adjusted) General Fund Expenditures		
		1999	2009	Average Compound Annual Change
01 DEPT OF HEALTH AND HUMAN SVCS		\$462.16	\$530.81	1.4%
	Provider Payments	\$103.54	\$166.10	4.8%
	Developmental Services	\$57.87	\$72.09	2.2%
	Behavioral Health Services	\$41.23	\$37.52	-0.9%
	State Hospital	\$47.02	\$35.75	-2.7%
	Glenclyff Home	\$8.20	\$9.51	1.5%
	Financial Grants (TANF, ANB, OAA)	\$20.61	\$21.98	0.6%
	Comprehensive Cancer Plan	\$0.23	\$3.10	29.5%
	DCYF/DJJS Settlement Services	\$32.69	\$30.69	-0.6%
	Substance Abuse Services	\$2.37	\$5.50	8.8%
	Medicaid Administrative Contracts (Fiscal Agent)	\$1.69	\$3.64	8.0%
	Other Public Health Services	\$9.94	\$12.07	2.0%
	Other Services	\$136.77	\$132.87	-0.3%
10 NH RETIREMENT SYSTEM (Including Health)		\$28.26	\$77.38	10.6%
	Health Subsidy	\$12.96	\$36.02	10.8%
	Retirement System	\$15.30	\$41.36	10.5%
16 DEPARTMENT OF CORRECTIONS		\$57.37	\$77.86	3.1%
03 DEPARTMENT OF EDUCATION		\$65.87	\$79.05	1.8%
	School Building Aid	\$22.54	\$32.81	3.8%
	Catastrophic Aid	\$14.20	\$25.52	6.0%
	Other	\$29.13	\$20.72	-3.3%
08 TREASURY DEPARTMENT		\$154.52	\$132.90	-1.5%
	Debt Service	\$80.83	\$68.00	-1.7%
	Revenue Sharing (Municipal)	\$72.90	\$64.11	-1.3%
	Meals and Rooms Distribution	\$19.59	\$45.34	8.8%
	State Revenue Sharing	\$53.32	\$18.77	-9.9%
	Other Department of Treasury	\$0.79	\$0.80	0.1%
06 UNIVERSITY SYSTEM		\$77.26	\$74.44	-0.4%
	UNH Durham	\$42.74	\$39.88	-0.7%
	Keene State	\$10.36	\$9.88	-0.5%
	Plymouth State College	\$10.36	\$9.88	-0.5%
	UNH Manchester	\$1.54	\$1.47	-0.5%
	Other	\$12.25	\$13.33	0.8%
01 JUDICIAL BRANCH		\$52.43	\$49.65	-0.5%
04 NH COMMUNITY TECH COLLEGE SYS		\$22.26	\$25.78	1.5%
13 LIQUOR COMMISSION		\$24.60	\$26.88	0.9%
18 JUDICIAL COUNCIL		\$14.85	\$18.49	2.2%
	Public Defender Program	\$9.61	\$13.35	3.3%
	Other	\$5.24	\$5.14	-0.2%
All Other State Government		\$114.34	\$117.02	0.2%
Total State Government		\$1,073.92	\$1,210.26	1.2%

Figure 8 displays the change in per capita inflation-adjusted expenditures by the major budget items described in Table 5. Consistent with the Center's work in the past, Medicaid provider payments, the corrections system, and education expenditures such as catastrophic aid and school building aid are primary drivers of state general fund appropriations. The retirement system plays an ever larger role in driving state expenditures. Largely due to changes in policy around the state's developmental services waitlist in the last biennium, developmental service appropriations are also a significant contributor to growth in the state budget.

Figure 8



Controlling Spending

In the Center's recent analysis of the next budget conversation in SFY 2010-2011, we documented a potential deficit in light of recent economic trends and the impact of those trends on state revenues, which will require the legislature to take some action to either increase revenues or decrease expenditures. This analysis identifies the primary drivers of the state budget and identifies where the legislature will have to focus to effectively control state spending.

Of the six major drivers of state expenditures, five – Medicaid provider payments, the retirement system, corrections, catastrophic aid and school building aid – will continue to increase at similar rates unless the legislature acts to change state laws governing those programs and growth in those programs. However, to do that requires technical resources and some investment, but more importantly, political will.

In the past, the Center has provided a list of possible methods to control state spending, including;

- Changing the law governing the sharing of meals-and-rooms tax revenue with municipalities to reduce the state's obligations;
- Constraining reimbursement rates to providers of health care, including nursing homes;
- Changing the law regarding retirement benefits for state employees, police officers, firefighters, and teachers, either to reduce the state's contributions toward their future retirement, to reduce health-insurance coverage among current retirees, or eliminate the subsidy for health care for future retirees.

Rather than revisiting this list of potential approaches to controlling spending, below we provide two examples of potential approaches to controlling the growth in demand for future state services. Growth in state services is driven in part by increases in the number of individuals requiring services. Below we discuss two of the primary drivers of state government and potential approaches to controlling growth in the number of people needing state subsidized services: Medicaid and corrections. The purpose of this discussion is not to draw a roadmap for budget reductions, but rather to demonstrate how appropriations are linked to laws that drive expenditure growth, and how controlling that growth will require changes in law and investment approaches.

The Medicaid Program

In the Medicaid program, expenditures are driven by the number of people served, the services provided, and the payments the state makes to providers for those services. The number of people served is driven by the eligibility rules established by the state, as well as general population changes and the economic status of New Hampshire citizens, because eligibility for much of the state's program is linked to financial well-being. With the population of New Hampshire growing and the economic situation deteriorating, controlling the number of individuals enrolling in the Medicaid program would require reductions in eligibility rules.

The Center takes no position about the political feasibility, financing implications, or cost-shifting implications to towns and other levels of government of various policy alternatives. However, one approach to reducing Medicaid eligibility would be to reduce those programs that were most recently expanded. For example, the following is a list of the last 3 coverage expansions within the Medicaid program:

- The Medicaid for Employed Adults with disabilities (MEAD) program – established 2/1/2002
- Coverage for women diagnosed with breast or cervical cancer – established 3/1/2001
- Extended medical coverage for those individuals losing coverage through the loss of Temporary Assistance for Needy Families (TANF).

Eliminating these programs would be one way of reducing state expenditures. An alternative approach would be to reduce income eligibility levels from the current levels

to the levels in place 10 years ago.⁴ While each of these is technically possible, the implications are uncertain for citizens, the state's receipt of federal funds, and increases in local municipalities' financial burdens as a result of their welfare responsibilities. The political feasibility of such change is also uncertain.

Corrections

In the corrections system, expenditures are driven largely by the number of prisoners that require supervision. Over the last 20 years, prison populations have increased dramatically. Most agree that there are primarily two reasons for this growth. The first is the implementation of "truth in sentencing" begun in 1984, which significantly increased the lengths of time people spend in prison. According to the Interim Report from the legislative committee established to study methods of safely reducing the prison population in the State this cost the state \$183 million over the 13 years between 1990 and 2003, when the report was generated.⁵ A second cause of growth in the number of people in state prison can be found in recidivism. In FY 08, the Department of Corrections and Parole Board admitted 514 people to the state prisons for parole violations. This represented one third of the total admissions to the state prison system in FY08.

There are many options available to policy makers attempting to counteract the growth in the prison population. These include:

- Increase use of the Academy Program, an alternative sentencing program for people with substance abuse issues, and limit use to prison bound offenders;
- Expand the use of administrative home confinement;
- Expand the use of alternative sentencing and treatment programs for non-violent offenses such as drug and alcohol, habitual offender and property crimes;
- Eliminate mandatory sentencing to provide judges with discretion in sentencing.

Again, while technically feasible, each of these has implications for public safety and state and local expenditures.

Budget Opportunity Costs

As mentioned previously, between 1999 and 2009 six government functions took up virtually all of the growth in state resources over the time period. The concentration of growth in these areas has some important opportunity costs. That is, in a world of constrained fiscal capacity, growth in certain areas of the budget crowd-out expenditures for other parts of the budget.

While upcoming budget conversations are likely to focus on approaches to controlling spending in areas that are growing quickly, this analysis raises the question of what the state's shrinking commitment to various services means for the future of the state. In real terms – adjusting appropriations for changes in inflation and population growth – we

⁴ A full list of Medicaid changes can be found at <http://www.dhhs.nh.gov/DHHS/OMB/LIBRARY/Data-Statistical+Report/report2007.htm>

⁵ Interim Report. HB 825, establishing a committee to study methods of safely reducing the prison population in the State.

have shown that there are a number of functional areas where the state's expenditures are declining. The state's investment in transportation has declined in real terms between 1999-2009, as has debt service. With respect to individual general funded program expenses, those areas that saw the deepest decline were debt service, the state hospital, municipal revenue sharing, and the university system.

Appendix 1: Total Fund Appropriations by Functional Expense (1999-2009)

Distribution of Appropriations by Functional Expense			Per Capita Inflation Adjusted			
	2009	Share of Total Appropriations (2009)	1999 (in 2009 \$)	2009	Aggregate Change (1999-2009)	Average Annual Compound Change (1999-2009)
Total Personnel	\$955,837,155	18.3%	\$568.66	\$711.55	\$142.89	2.3%
<u>Salary and Wages</u>						
Classes 10-17	\$575,159,001	11.0%	\$385.37	\$428.17	\$42.80	1.1%
Holiday/Overtime	\$22,128,486	0.4%	\$14.52	\$16.47	\$1.95	1.3%
Non-Benefited Personnel	\$1,735,782	0.0%	\$1.32	\$1.29	-\$0.02	-0.2%
Personnel Services (Temps)	\$43,839,060	0.8%	\$24.21	\$32.64	\$8.43	3.0%
Personnel Services (Full-Time Temps)	\$7,712,321	0.1%	\$12.29	\$5.74	-\$6.55	-7.3%
<u>Benefits</u>						
Benefits (Class 60)	\$294,781,298	5.6%	\$128.59	\$219.44	\$90.85	5.5%
Additional Fringe (42)	\$10,481,207	0.2%	\$2.37	\$7.80	\$5.44	12.7%
Consultants						
Consultants (Benefited and Non-Benefited)	\$43,643,768	0.8%	\$5.10	\$32.49	\$27.39	20.3%
Admin Expenses						
Current Expenses	\$71,408,361	1.4%	\$61.46	\$53.16	-\$8.30	-1.4%
Indirect Costs	\$10,228,283	0.2%	\$7.40	\$7.61	\$0.21	0.3%
Audit Set Aside	\$1,537,261	0.0%	\$0.89	\$1.14	\$0.25	2.5%
Rents and Leases	\$28,793,418	0.6%	\$24.23	\$21.43	-\$2.79	-1.2%
Heat, Electricity and Water	\$36,025,151	0.7%	\$19.97	\$26.82	\$6.85	3.0%
Maintenance	\$18,521,099	0.4%	\$10.71	\$13.79	\$3.08	2.6%
Equipment (own, bonded, leased)	\$45,884,692	0.9%	\$29.97	\$34.16	\$4.19	1.3%
In-State Travel	\$12,457,785	0.2%	\$8.37	\$9.27	\$0.91	1.0%
Out-of-State Travel	\$26,752,903	0.5%	\$2.65	\$19.92	\$17.26	22.3%
Debt Service						
Debt Service (treasury)	\$77,645,294	1.5%	\$72.67	\$57.80	-\$14.87	-2.3%
Debt Service (Other Agencies)	\$58,768,523	1.1%	\$50.87	\$43.75	-\$7.12	-1.5%
Transfers						
Transfers to OIT	\$63,638,022	1.2%	\$0.00	\$47.37	\$47.37	NA
Transfers to General Services	\$12,431,455	0.2%	\$4.78	\$9.25	\$4.47	6.8%
Transfers to Other State Agencies	\$39,778,188	0.8%	\$20.45	\$29.61	\$9.16	3.8%
Program Expenses	\$3,723,935,424	71.2%	\$2,280.17	\$2,772.21	\$492.04	2.0%
Other	\$6,491,412	0.1%	\$6.41	\$4.83	-\$1.57	-2.8%
Total	\$5,233,778,194	100.0%	\$3,174.78	\$3,896.18	\$721.40	2.1%

Source: Legislative Budget Office

Become a Subscriber!

The Center's essential independence and objectivity are made possible by philanthropic donations. Donors, through the support of our operations and our independent projects, ensure our non-partisan credibility. The Center's continued independent voice is only possible because of the generosity of donors like *you*.

Your generosity will help the Center continue its work to inform and improve public policy in New Hampshire. A three year pledge would greatly help the Center to maintain the flexibility and independence necessary to help New Hampshire make better policy decisions. Unrestricted donations from supporters like you make it possible for the Center to conduct analyses on a broad range of issues such as health care, education, corrections, and state budget trends. Multi-year commitments allow us to plan for longer term projects that yield information with the potential for great impact.

Annual donation amount	Donor level
\$1,000	Subscriber
Up to \$5,000	Donor
Up to \$20,000	Major Donor
More than \$20,000	Sustaining Benefactor

Today's date: _____

My pledge total: \$_____ will be fulfilled as follows:

Year 1: \$ _____

Year 2: \$ _____

Year 3: \$ _____

I have enclosed a donation of \$_____

Signature: _____

In the Center's listing of supporters, please acknowledge this donation as follows:

I wish to remain anonymous

(name) _____

(address) _____

My e-mail address: _____

As a sponsor of the Center's work, I would like:

- E-mail notices on the Center's work
- E-mail notification when the Center releases a new report
- Mailed copy of each report when published
- Invitations to Center- sponsored presentations & events

Please make checks payable to New Hampshire Center for Public Policy Studies and mail them to: One Eagle Square, Suite 510, Concord NH 03301. All contributions are 100 percent tax deductible. Contact us if you have any questions, special requests, or suggestions.

Our Supporters

The Center's continued service to New Hampshire is possible because the following individuals, organizations, and corporations have made generous unrestricted donations to the Center 2004-2006. The Center's supporters do not necessarily endorse, nor has the Center asked them to endorse, any of the findings or recommendations in our reports.

Corporate Donors

Anthem Blue Cross/Blue Shield	Lincoln Financial Foundation
Dartmouth Hitchcock Medical Center*	New England Life Care, Inc.
First Colebrook Bank*	New England Wire Technology Corp.
Granite State Electric dba National Grid	NH Hospital Association
Harvard Pilgrim Health Care of NE	New London Hospital
High Point Communications Group, Inc.	Northeast Delta Dental
Hitchiner Manufacturing Co., Inc.*	Northland Forest Products, Inc.
J.A. Wright & Co.	Ocean Bank*
Jameson French- Northland Forest Products Inc.	Public Service of NH*
Laconia Savings Bank	Southern NH University
Lavallee/Brensinger Architects Fund of NHCF-Manchester*	Story Land/Heritage NH
Ledyard National Bank	Unitil*

Sustaining Partners *(gifts of \$100,000 or more since 1996)*

The NH Charitable Foundation	The Putnam Foundation*
Harold Janeway*	

Sustaining Benefactors *(gifts totaling \$25,000 or more in any three-year period)*

Whit & Closey Dickey	John Morison
Endowment for Health	William Welsh

Major Donors *(annual gifts of \$5,000 to \$25,000)*

Anonymous	Lovett-Woodsum Family Charitable Foundation
Bruce & Jane Keough*	Betty Tamposi

Donors *(annual gifts of \$2,000 to \$5,000)*

Harvey & Christina Hill

Subscribers *(annual gifts of \$1,000)*

James & Ellen Adams Bassett	Walter & Dorothy Peterson*
Cotton Cleveland & John Garvey*	Joseph & Augusta Petrone
Geoffrey E. Clark & Martha Fuller Clark Fund of NHCF- Piscataqua Region	James Putnam*
James A. Coburn	Mike & Judith Smith
Feldstein Family Fund of NHCF	John & Marjory Swope*
Gov. Wesley Powell Fund of NHCF- Northern Region	Georgie & John Thomas
Martin L. Gross*	John F. Jr. & Patricia Weeks Fund*
Andrew E. Lietz	Beverly & Dan Wolf*
John & Susan Lynch*	Kimon & Anne Zachos*

Friends of the Center *(annual gifts up to \$1,000)*

Anonymous* (two donors)	Ann McLane Kuster & Brad Kuster
Paul & Mary Avery Charitable Fund of the Greater Piscataqua Community Foundation	Joseph & Theresa Marcille
John & Pam Blackford	Douglas & Nancy McIninch*
Thomas & Emilie Burack	Mt. Washington Valley Chamber of Commerce
Alice L. DeSouza*	NH Farm Bureau Federation
Child and Family Services	John & Alice Pepper
John & Judith Crosier*	Mary & John Rauh*
Charles A. DeGrandpre	Jay & Barbara Rosenfield
First Parish Church	David & Mary Ruedig
Morton E. Goulder Foundation*	Frederic K. Upton
William G. & Erika Johnson	Brian Walsh & Linda Patchett

* indicates a pledge to repeat a gift over three or more years