

*“...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](http://www.nhpolicy.org)



**Board of Directors**

Martin L. Gross, Chair  
John B. Andrews  
Cotton M. Cleveland  
John D. Crosier  
Todd I. Selig  
Donna Sytek  
Betty Tamposi  
Georgie A. Thomas  
James E. Tibbetts  
Kimon S. Zachos

# The NH Budget: Trends Through 2003

**Author:**  
**Douglas E. Hall**  
**Co-Executive Director**

**Co-Executive Directors**

Douglas E. Hall  
(603) 798-5579  
[doughall@nhpolicy.org](mailto:doughall@nhpolicy.org)

Richard A. Minard, Jr.  
(603) 226-2500  
[rminard@nhpolicy.org](mailto:rminard@nhpolicy.org)

**February 2004**

# The NH Budget: Trends Through 2003

The last time the State of New Hampshire's General Fund and Education Trust Fund revenues exceeded expenses was FY 1999. At the end of that fiscal year, the state held more than \$188 million in reserve accounts. In each of the last four fiscal years, however, state government has spent more than it has raised. To compensate for that imbalance, the state has drawn down more than 90 percent of its cash reserves. By the end of FY 2003, the so-called Rainy Day Fund contained just \$17.3 million. The FY 2004-2005 biennial budget is built on hypothetical "savings" that have not yet been realized, creating the possibility that the legislature will have to reduce spending or increase revenues during the current fiscal year.

The NH Department of Administrative Services released the state's Comprehensive Annual Financial Report (CAFR) for fiscal year 2003 in very late December 2003. The following analysis uses financial data found in that report and in similar annual reports from 1983 through 2002.

## 1. General Fund Revenue

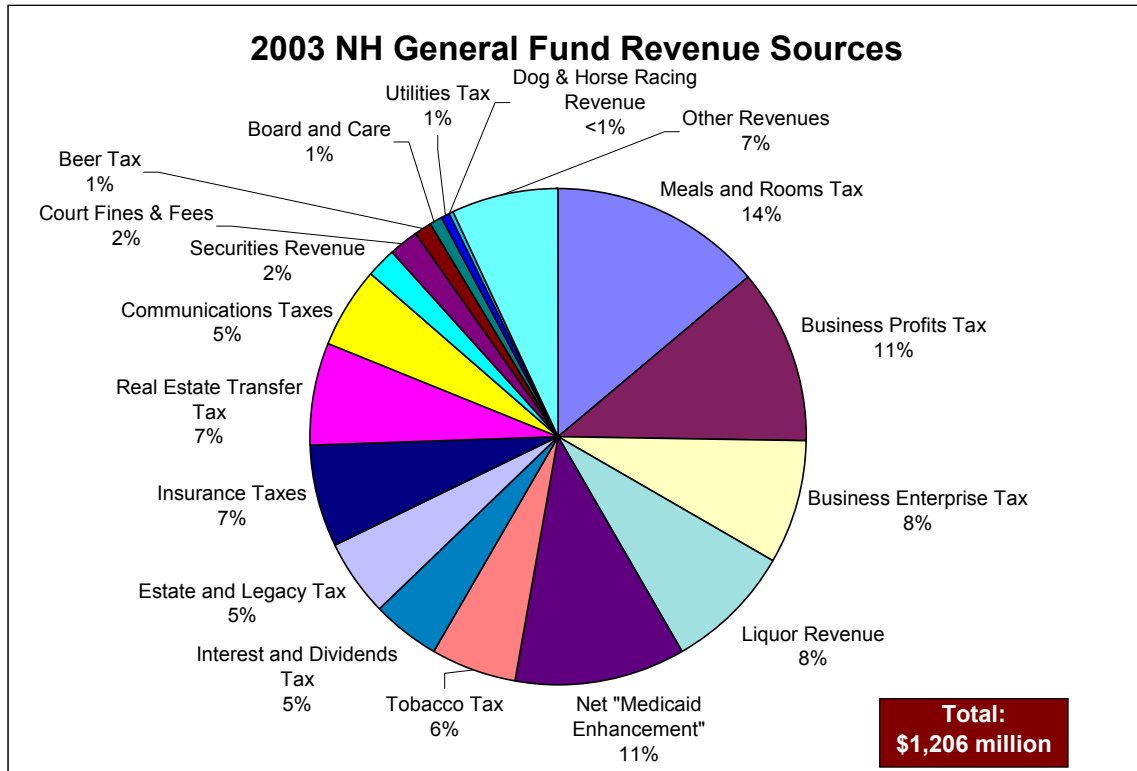
Taxes, fees, and other sources of revenue for the General Fund totaled \$1,206 million in 2003. The amount obtained from each source for each of the past five years is displayed in Table 1. The percentage of revenue from each source in 2003 is displayed in Figure 1.

Table 1  
(Dollars in millions—Not adjusted for inflation)

Revenue Source	1999	2000	2001	2002	2003	Change 1999-2003
Meals and Rooms Tax	\$137.3	\$149.8	\$157.2	\$164.0	\$168.7	\$31.4
Business Profits Tax	\$164.8	\$146.4	\$179.6	\$128.6	\$137.8	(\$27.0)
Business Enterprise Tax	\$93.0	\$94.4	\$122.2	\$121.0	\$96.7	\$3.7
Liquor Revenue	\$77.4	\$86.0	\$89.3	\$96.2	\$99.0	\$21.6
Net "Medicaid Enhancement"	\$86.3	\$87.1	\$98.1	\$114.4	\$133.6	\$47.3
Tobacco Tax	\$73.8	\$68.4	\$61.0	\$60.3	\$67.1	(\$6.7)
Interest and Dividends Tax	\$63.1	\$65.5	\$76.7	\$70.3	\$55.1	(\$8.0)
Estate and Legacy Tax	\$54.7	\$56.4	\$59.3	\$57.0	\$59.1	\$4.4
Insurance Taxes	\$62.9	\$59.3	\$66.4	\$76.1	\$82.2	\$19.3
Real Estate Transfer Tax	\$52.9	\$56.8	\$59.5	\$66.4	\$78.9	\$26.0
Communications Taxes	\$46.2	\$47.8	\$49.0	\$64.7	\$62.5	\$16.3
Securities Revenue	\$22.5	\$25.5	\$28.0	\$26.1	\$25.8	\$3.3
Court Fines & Fees	\$21.9	\$22.8	\$23.2	\$23.2	\$22.1	\$0.2
Beer Tax	\$11.8	\$12.1	\$11.7	\$12.2	\$12.3	\$0.5
Board and Care	\$11.2	\$12.0	\$13.3	\$10.7	\$11.2	\$0.0
Utilities Tax	\$10.4	\$10.0	\$9.7	\$5.6	\$7.1	(\$3.3)
Dog & Horse Racing Revenue	\$3.6	\$3.5	\$3.8	\$4.2	\$4.0	\$0.4
Federal Flexible Block Grant	-	-	-	-	\$25.0	\$25.0
Tobacco Lawsuit Settlement				\$6.0	\$6.0	\$6.0
Other Revenues	\$45.5	\$42.6	\$47.9	\$45.3	\$52.1	\$6.6
<b>Total</b>	<b>\$1,039.3</b>	<b>\$1,046.4</b>	<b>\$1,155.9</b>	<b>\$1,152.3</b>	<b>\$1,206.3</b>	<b>\$167.0</b>

The total revenue figures contain a number of sources that are not tax or fee revenue but are obtained from other sources that help support General Fund spending. The largest of these is Medicaid Enhancement revenue, funds Congress appropriates for Medicaid but which the state captures for general use. Others include the payments made to the state by tobacco companies as part of the national lawsuit settlement and a one-time federal “block grant” to the state.

Figure 1



The remaining items, the taxes and fees paid by individuals and businesses to the State of New Hampshire, totaled \$1,041 million in 2003. These sources are identified as “regular revenue” in Table 2.

Table 2  
(Dollars in millions—Not adjusted for inflation)

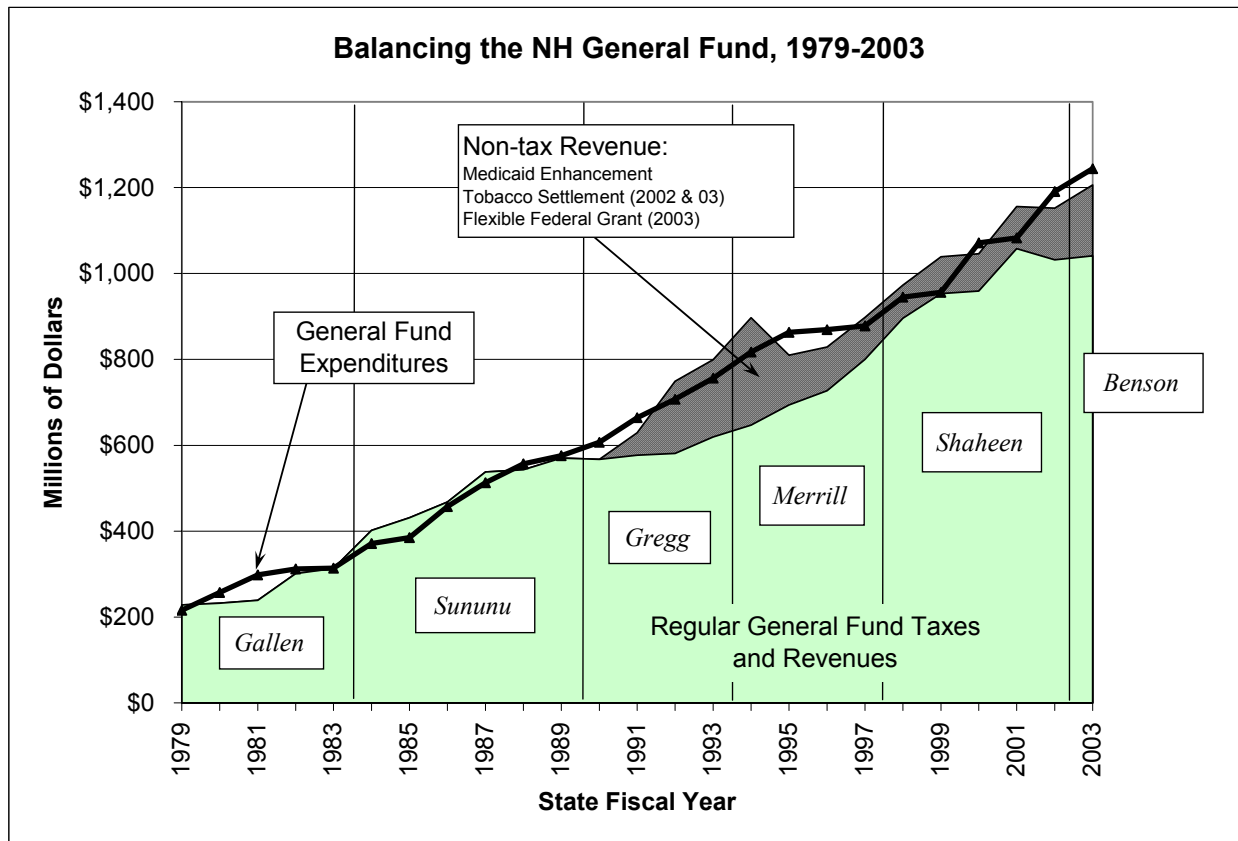
Revenue Source	1999	2000	2001	2002	2003	Compound rate of increase 1999-2003
Regular Revenues	\$953	\$959	\$1,058	\$1,032	\$1,041	2.2%
Medicaid Enhancement	\$86	\$87	\$98	\$114	\$134	
Tobacco Settlement				\$6	\$6	
Federal Flexible Block Grant					\$25	
<b>Total</b>	<b>\$1,039</b>	<b>\$1,046</b>	<b>\$1,156</b>	<b>\$1,152</b>	<b>\$1,206</b>	<b>3.8%</b>

While total General Fund revenue grew at a compound annual rate of 3.8 percent, much of that growth was due to the three special revenue sources. “Regular revenue” grew at only 2.2 percent annually.

## 2. Balancing the General Fund, 1979-2003

Figure 2 displays a number of time series that show how the General Fund has been balanced (and out of balance) over the past 25 years. The dark black line charts the expenditure from the General Fund each year. To be balanced, the revenues for any year should equal or exceed the expenditures.

Figure 2



The chart divides the budget years by the governors who were serving at the time each year ended. The lightly shaded portion of the chart plots the regular revenue received from taxes and fees each year for the General Fund. The other sources are shown as a more darkly shaded addition to the regular revenues beginning in 1991.

Following from left to right on the chart one can see the deficit that occurred in the middle of the Gallen years. That was closed by 1982. Gov. John Sununu increased revenue and froze local aid in his first term, generating surpluses for a few years. 1989 was the onset of the major recession, however, and regular revenues failed to grow for a number of years thereafter as can be seen by the flattening line. Judd Gregg became governor in the middle of the FY 1989 budget and faced a growing deficit. Regular revenues remained flat for a number of years but Gregg’s budgets were

rescued by the institution of a tax on hospitals and compensating payments to hospitals that allowed federal Medicaid money to be converted to general use by the state (known as Medicaid Enhancement Revenue). This change generated enough new federal money to create a surplus in the General Fund. In the FY 1994 budget, 28 percent of all General Fund revenue came from this source. (One use of the 1994 surplus was to set aside \$100 million into a new Health Care Fund with the initial intent of using that fund to provide health care services under the Clinton health-care plan that never passed Congress. In subsequent years, the legislature chose to use the assets of that fund to offset operating deficits. This past summer, the legislature agreed to transfer the final \$34 million back to the General Fund to close part of the FY 2003 deficit.)

During the Merrill years, rapid economic growth, coupled with the initiation of the Business Enterprise Tax, resulted in rapid growth of regular revenues. The year of transition between Gov. Stephen Merrill and Gov. Jeanne Shaheen, FY 1999, was the first year that regular revenues actually matched expenditures since 1989.

In 2001, regular revenue peaked as the most recent recession took hold. As in the 1989-1992 period, regular revenues stopped growing. In the FY 2002 and 2003 years, the total revenue, even including the Medicaid Enhancement revenue, tobacco settlement funds, and a one-time federal "flexible block grant," has been below the level of expenditure. Thus, in both years, the state has drawn down on previously accumulated surpluses and reserve funds.

In FY 2003, the gap between General Fund expenditures (\$1,244 million) and regular revenue (\$1,041 million) was \$203 million. This was partially filled by the \$165 million from the three revenue sources that are not taxes or fees: Medicaid Enhancement, the tobacco settlement, and the one-time federal block grant. To close the gap, the legislature added all that was left in the Health Care Transition Fund and much of the remaining "Rainy Day Fund," a fund that had been created for the purpose of meeting any revenue shortfalls.

The current budget, adopted by the legislature and signed by Gov. Craig Benson in September 2003, projects regular revenue as relatively flat for the biennium: \$1,048 million in FY 2004 and \$1,075 million in FY 2005.

Larger deficits may lie ahead. The current budget projects Medicaid Enhancement Revenue to grow from \$134 million in 2003 to \$184 million in 2004 and \$185 million in 2005, yet that growth depends on new and as-yet-uncertain ways of tapping federal Medicaid funds. Should the federal government choose to clamp down on the way New Hampshire (and other states) already access these Medicaid funds for general use, a huge gap between revenue and expenditures could open in future years.

The current budget is "balanced" on paper by "savings" that may or may not occur. Because immediate underlying trends are not positive, there is a real chance that before the end of FY 2004 the legislature will need to reduce General Fund expenditures in a major way or institute new revenue measures.

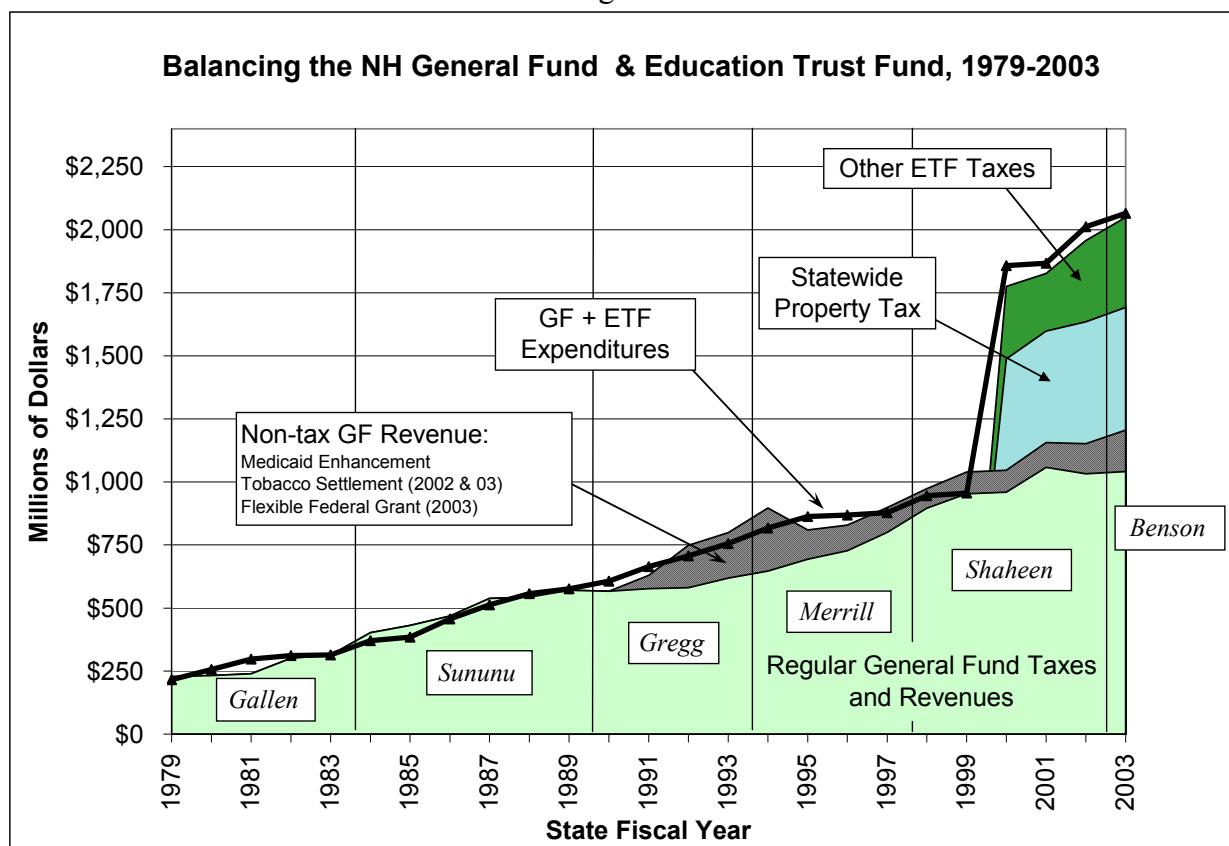
### 3. Adding the Education Trust Fund

In response to the 1997 *Claremont II* ruling of the NH Supreme Court, the legislature enacted a new school-aid system in 1999. Until FY 2000, school aid had been distributed from the General Fund (and from a separate Sweepstakes Fund). The new law created an Education Trust Fund from which state aid would be distributed. There had always been other funds such as the Highway Fund, Fish and Game Fund, and Sweepstakes Fund, but the new Education Trust Fund was large and was interrelated with the General Fund through the transfer of funds.

Table 3  
(Dollars in millions—Not adjusted for inflation)

	1999	2000	2001	2002	2003
General Fund Revenue	\$1,039	\$1,046	\$1,156	\$1,152	\$1,206
ETF - Statewide Property Tax		\$442	\$442	\$483	\$486
ETF - Other Taxes & Sources		\$287	\$228	\$322	\$357
Total GF+ETF Revenue	\$1,039	\$1,775	\$1,826	\$1,957	\$2,049
General Fund Expenditure	\$956	\$1,071	\$1,083	\$1,191	\$1,244
ETF Expenditures		\$787	\$784	\$821	\$821
Total GF+ETF Expenditure	\$956	\$1,858	\$1,867	\$2,012	\$2,065

Figure 3



While the school-aid system has changed in detail each year since it first took effect during FY 2000, the basic outline has remained the same. The state has imposed a statewide property tax for the purpose of education, most of which is raised and retained locally. Some of the property tax from the most property-wealthy towns is sent to the Education Trust Fund for redistribution to other towns. The legislature also instituted or raised other taxes and located other sources of revenue to fund the remainder of what it had defined as the limits of its responsibility, the cost of an “adequate education.”

This change made a major difference in the overall state budget and budget process.

Table 3 and Figure 3 add the Education Trust Fund expenditure and revenues on top of those of the General Fund.<sup>1</sup>

#### 4. Depletion of Reserves and Fund Balances

As shown in the tables and charts above, FY 2000 through FY 2003 were all years in which total revenues were less than total expenditures in the combined General and Education Trust Funds. These annual deficits resulted in drawing down previously accumulated surpluses. Table 4 displays the amount of money remaining in designated funds at the end of each of the last five fiscal years. Figure 4 presents the same information for each reserve fund and Figure 5 displays the total for each year.

Table 4  
(Dollars in millions—Not adjusted for inflation)

Fund Balance of June 30	1999	2000	2001	2002	2003
General Fund	\$0.0	\$4.0	\$0.0	\$-37.9	\$0.0
Education Betterment Fund	\$124.8	-	-	-	-
Education Trust Fund	\$0.0	\$66.3	\$0.0	\$0.0	\$0.0
Health Care Fund	\$43.5	\$45.0	\$45.8	\$33.9	\$0.0
"Rainy Day" Fund	\$20.0	\$20.0	\$55.2	\$55.2	\$17.3
Total Reserves	\$188.3	\$135.3	\$101.0	\$51.2	\$17.3

From a total of \$188.3 million in 1999, more than 90 percent of these resources have since been depleted. Only \$17.3 million remains. The state has been drawing down on its reserve funds at an average rate of more than \$40 million per year for the past four years.

<sup>1</sup> Care has been taken in creating Table 3 and Figure 3 to avoid double-counting the revenue that is raised by the General Fund but transferred to the Education Trust Fund for expenditure. These funds are counted as revenue and expenditure in the General Fund only. The amount so transferred was \$40 million in FY 2000, \$41 million in FY 2001, \$67 million in FY 2002, and \$83 million in FY 2003.

Figure 4

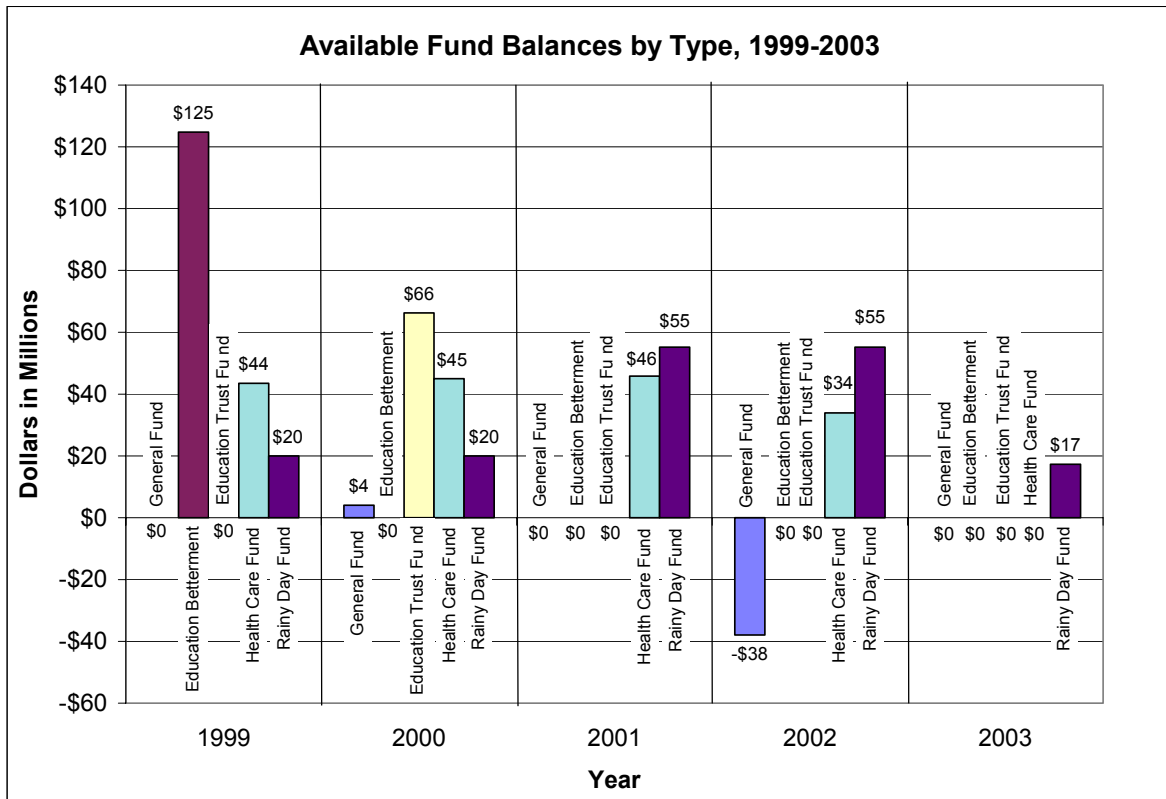
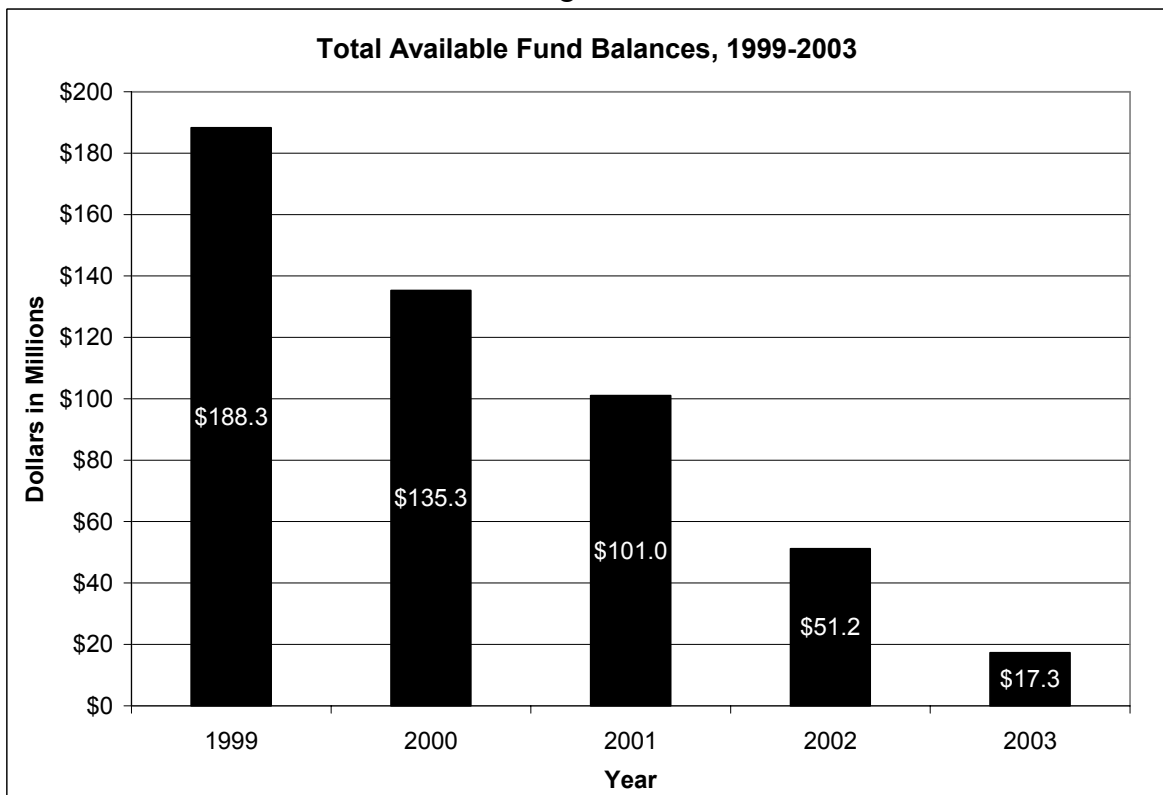


Figure 5



In short, the State of New Hampshire has very little cash reserve available for the future, revenue that annually falls short of expenditure, and a FY 2004-05 biennial budget built on hypothetical “savings” that have not yet been realized.

Wall Street bond rating firms, Standard & Poor and Fitch, completed analysis of New Hampshire’s state finances in early December 2003. While they noted positive factors (such as good debt management practices, a healthy diversified economy and a relatively well educated, healthy and wealthy population compared to other states), this depletion of reserve funds was cited as one reason for their lowering of the state’s bond rating.

# Want to know more?

## – Become a subscriber.

### **The NH Center for Public Policy Studies needs you.**

**For eight years** the Center has delivered to New Hampshire’s policy makers, news organizations, and citizens objective analysis that has become the foundation for better public policy. The Center gets no state or federal appropriation. We have survived and flourished because of the extraordinary generosity of the New Hampshire Charitable Foundation and a handful of private donors. To maintain our independence, we need to broaden our base of contributors.

**Our goal:** 100 new contributors, each donating \$1,000 for an annual subscription to our research reports and an invitation to our policy forums. To see a list of our contributors, please visit the section of our website—[www.nhpolicy.org](http://www.nhpolicy.org)—labeled “Become a Supporter.”

**Our guarantee:** Even if you don’t subscribe, you can get our reports for free. You can download them from our website or call and we’ll mail you copies. For free. That’s our mission: “to raise new ideas and improve policy debates through quality information and analysis on issues shaping New Hampshire’s future,” and to do so in ways that make the information available to *everyone*: legislators, school boards, small-business owners, voters. *As long as we can raise enough unrestricted money to support our inquiry into problems that matter to New Hampshire, we will keep making that information available at no cost to people who will use it.*

**Our independence:** The Center is a private, nonpartisan, not-for-profit organization. Our board of directors sets our research agenda. Unrestricted donations allow the Center to pursue topics that grant-makers typically won’t support: local governance, school funding, corrections. *This report exists and is in your hand only because of the generosity of our donors.*

**To subscribe:** Send a check to:

The NH Center for Public Policy Studies  
One Eagle Square, Suite 510  
Concord NH 03301

Please include your mailing address and your name as you would like it to appear in our list of donors. Your donation is 100 percent tax deductible. For more information about the Center and its work, e-mail Co-Executive Director Richard Minard at [rminard@nhpolicy.org](mailto:rminard@nhpolicy.org).