



The Continuing Budget Conversation

**FINANCE JOINT WITH PUBLIC WORKS AND
HIGHWAYS AND WAYS AND MEANS,
Rooms 210-211, LOB**

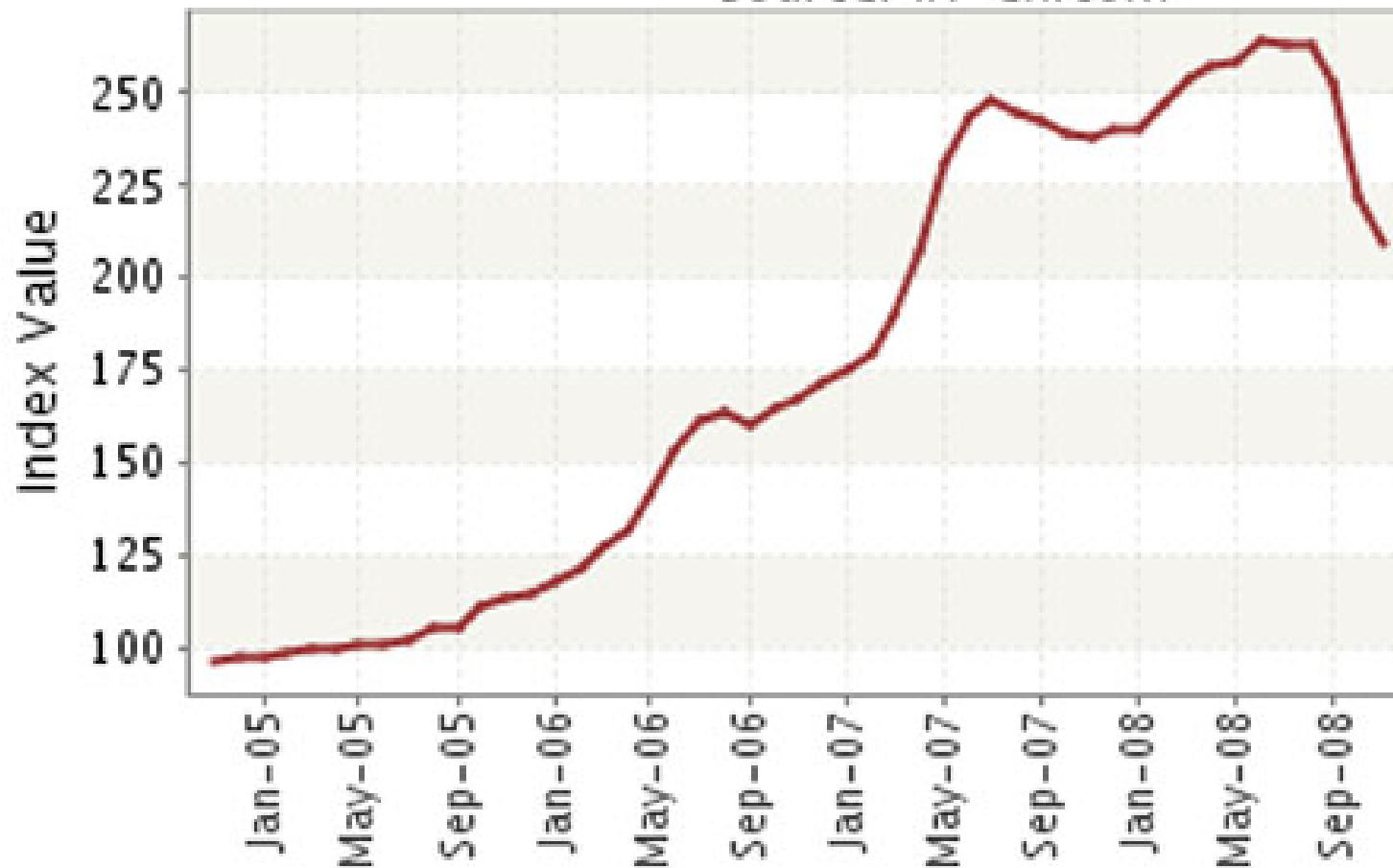
**Steve Norton
Director, NHCPPS**

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

Everybody is looking for the 'Leading Indicator'

Liv-ex 100 Fine Wine Index

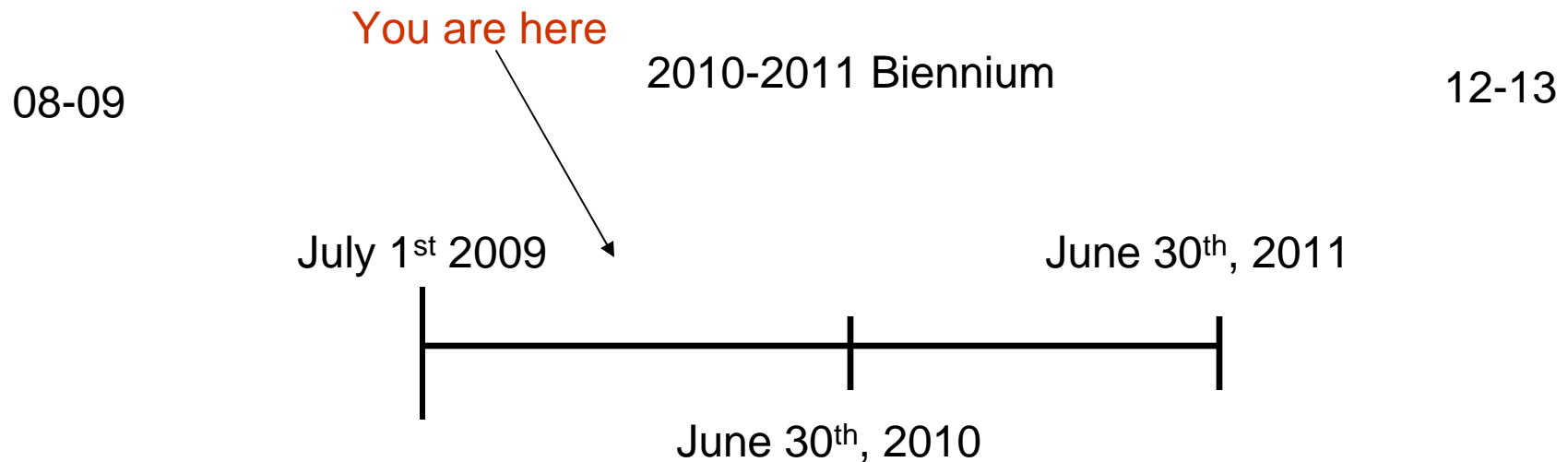
source: liv-ex.com



Predictions

- In the fall of 2008 the Center released a paper indicating a \$500 million dollar biennial problem in 2010-2011 due to
 - Precipitously declining revenues
 - Increases in spending
- What's next? Downside risk is high, but remain uncertain.
- Why?
 - We don't really know where we are in the inflection point
 - Lots of unknowns

Uncertainty: The 2010-2011 Budget Process and Biennium



Joint Underwriting Association?

Federal stimulus dollars in 2011?

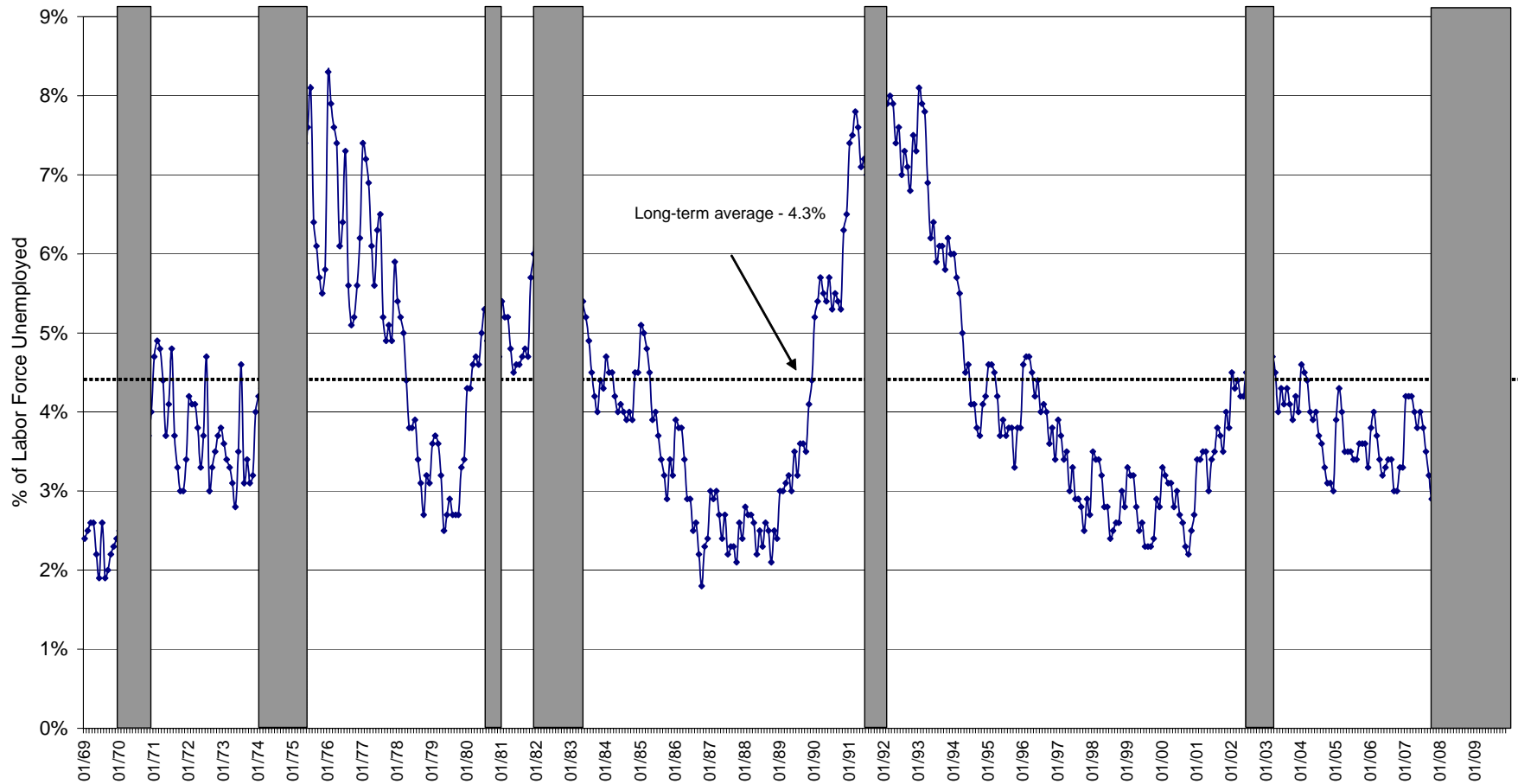
Economic recovery?

State spending?

Recessions and Unemployment

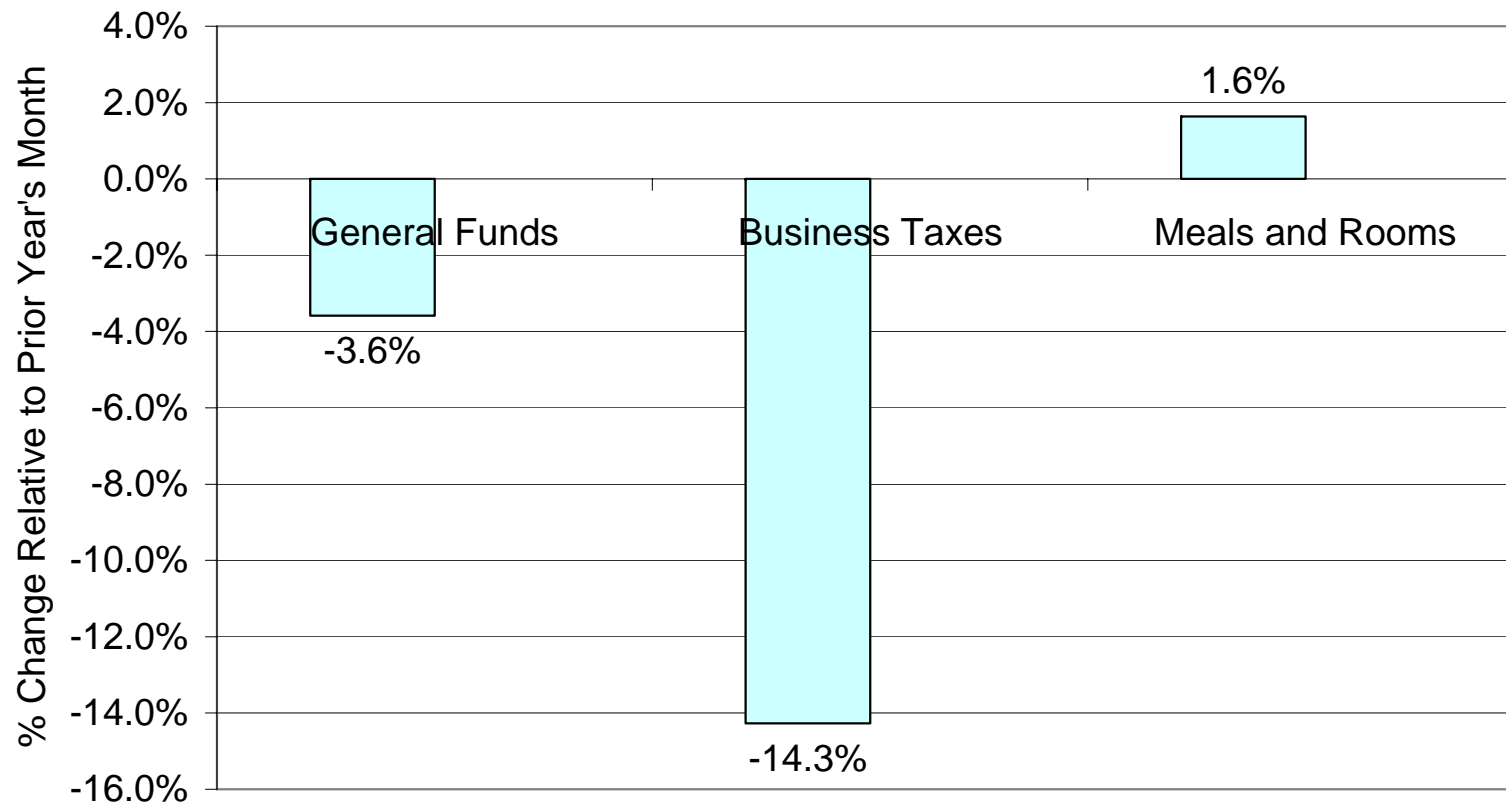
Monthly NH Unemployment Rate, January 1969 - June 2009

Grey boxes represent recessionary periods



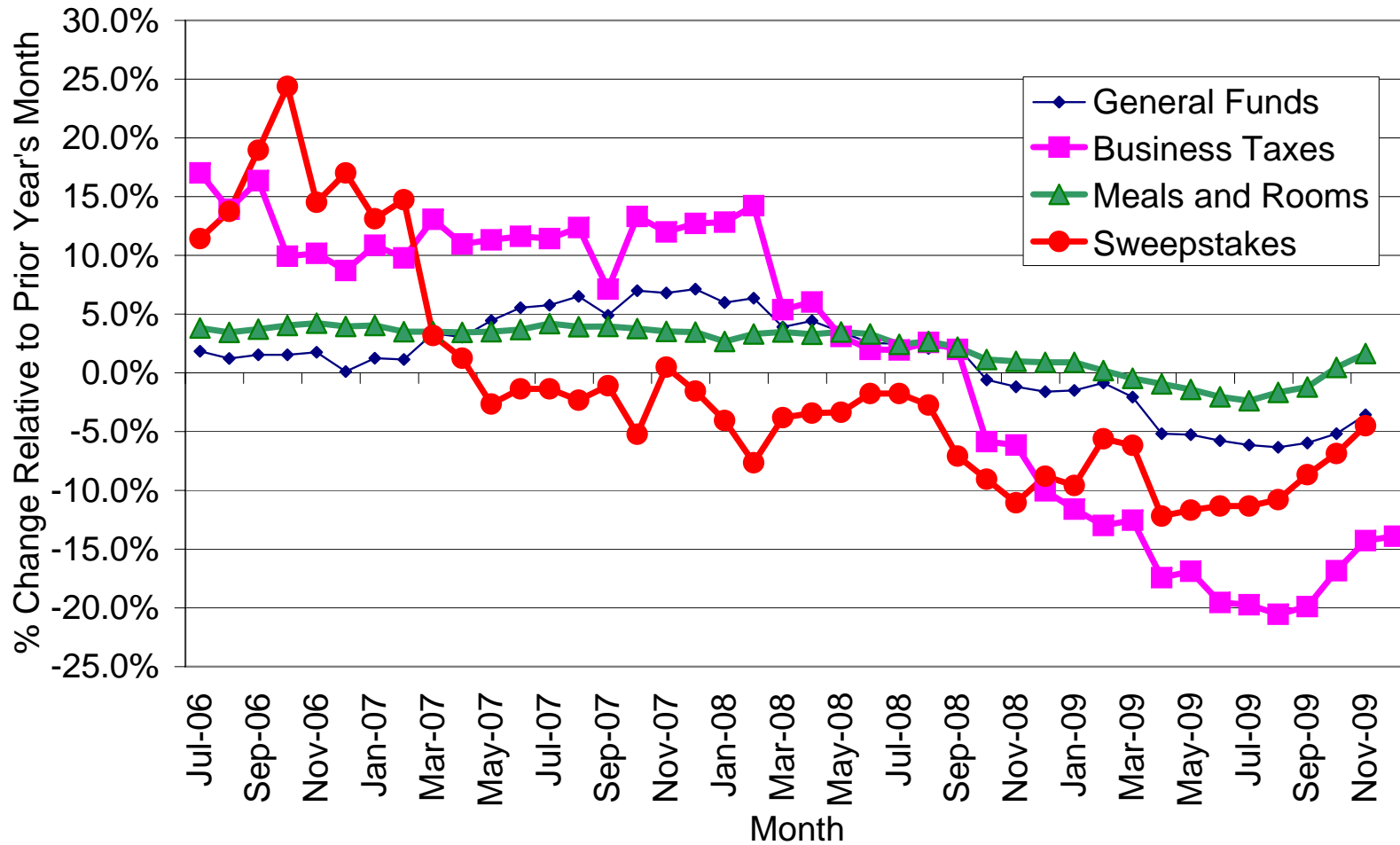
Revenues Have Plummeted

New Hampshire State Revenue
Year Over Year Change in Revenue Sources (Dec 08 to Nov 09)



Declines abating?

New Hampshire State Revenue
 Year Over Year Change in Revenue Sources (By Month)

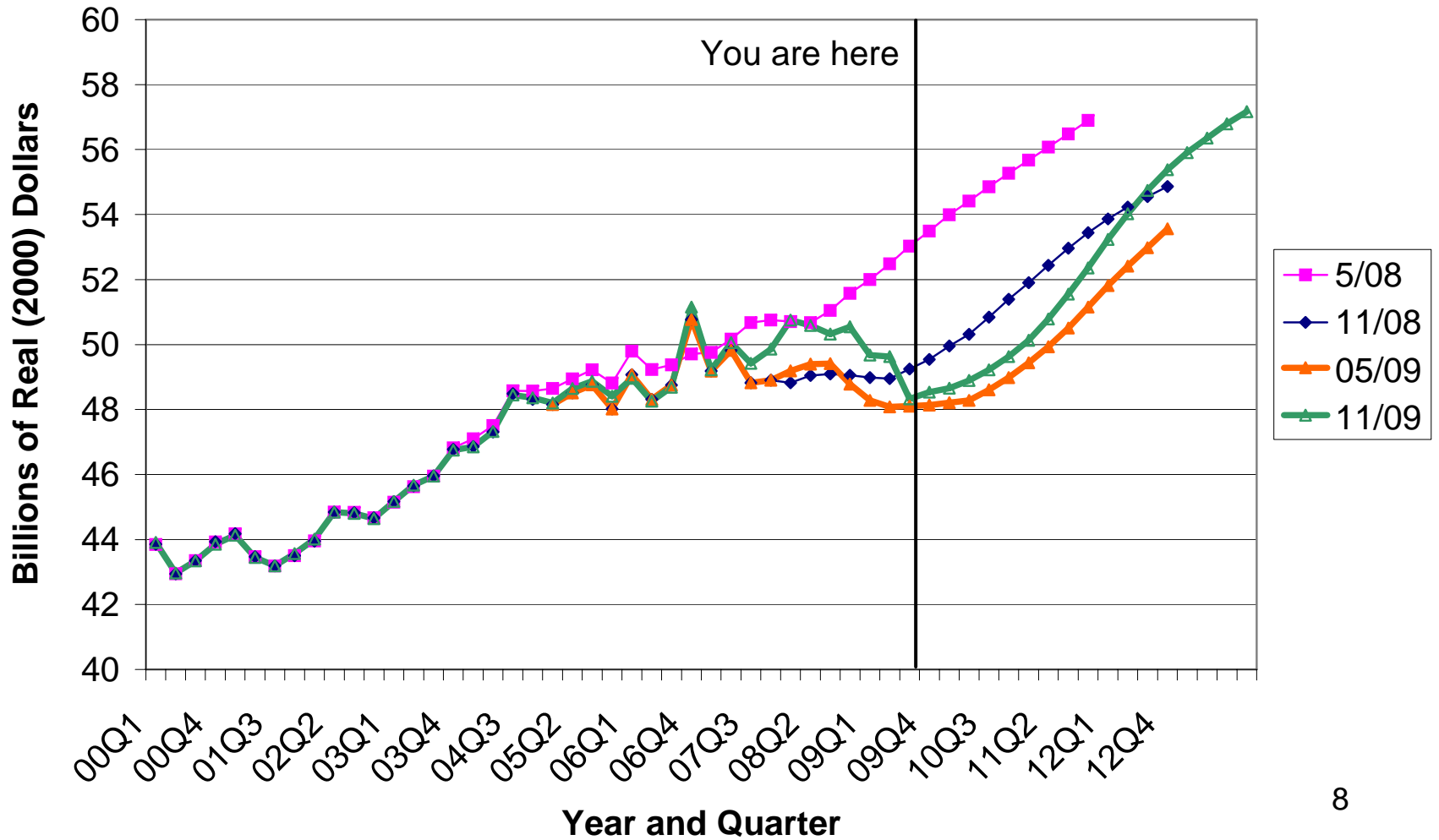


What do the Economists Say?

“We’re on the way back up.”

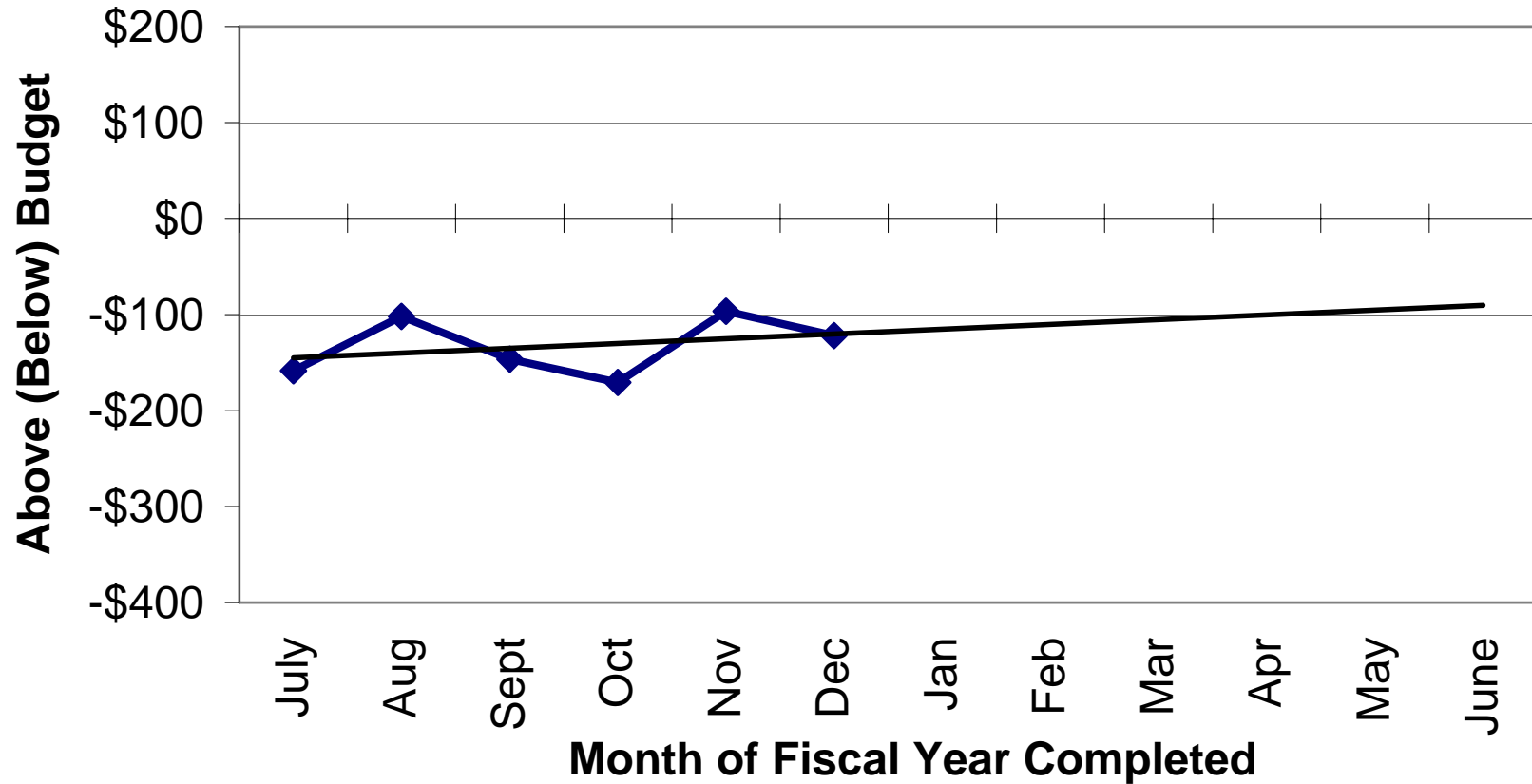
Gross State Product-NH

NEEP Forecast Comparison for New Hampshire



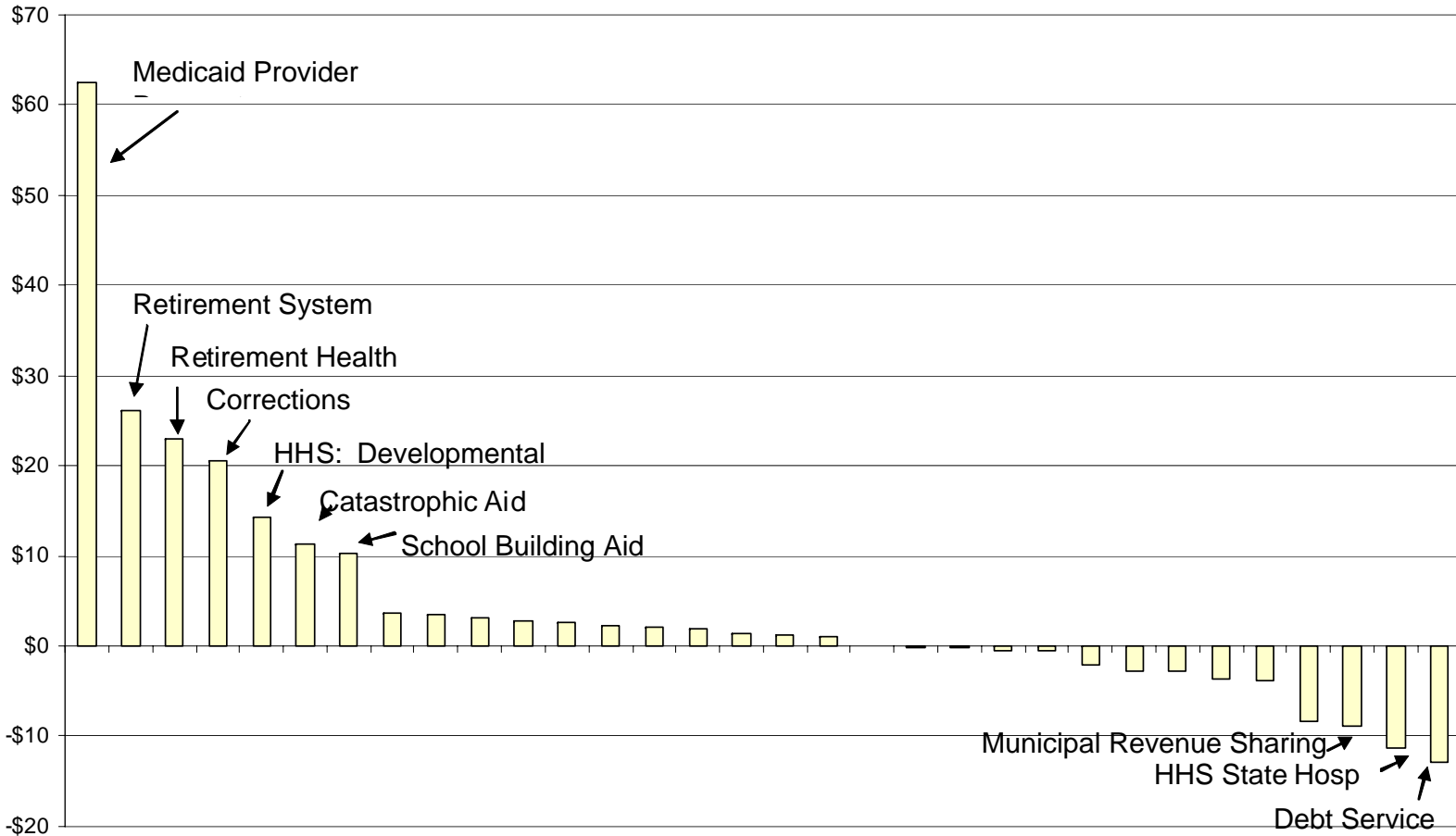
Revenue Shortfall?

**NHCPPS Projection of 2010 Combined General Fund
 & Education Trust Fund Revenues
 (in millions of \$)**



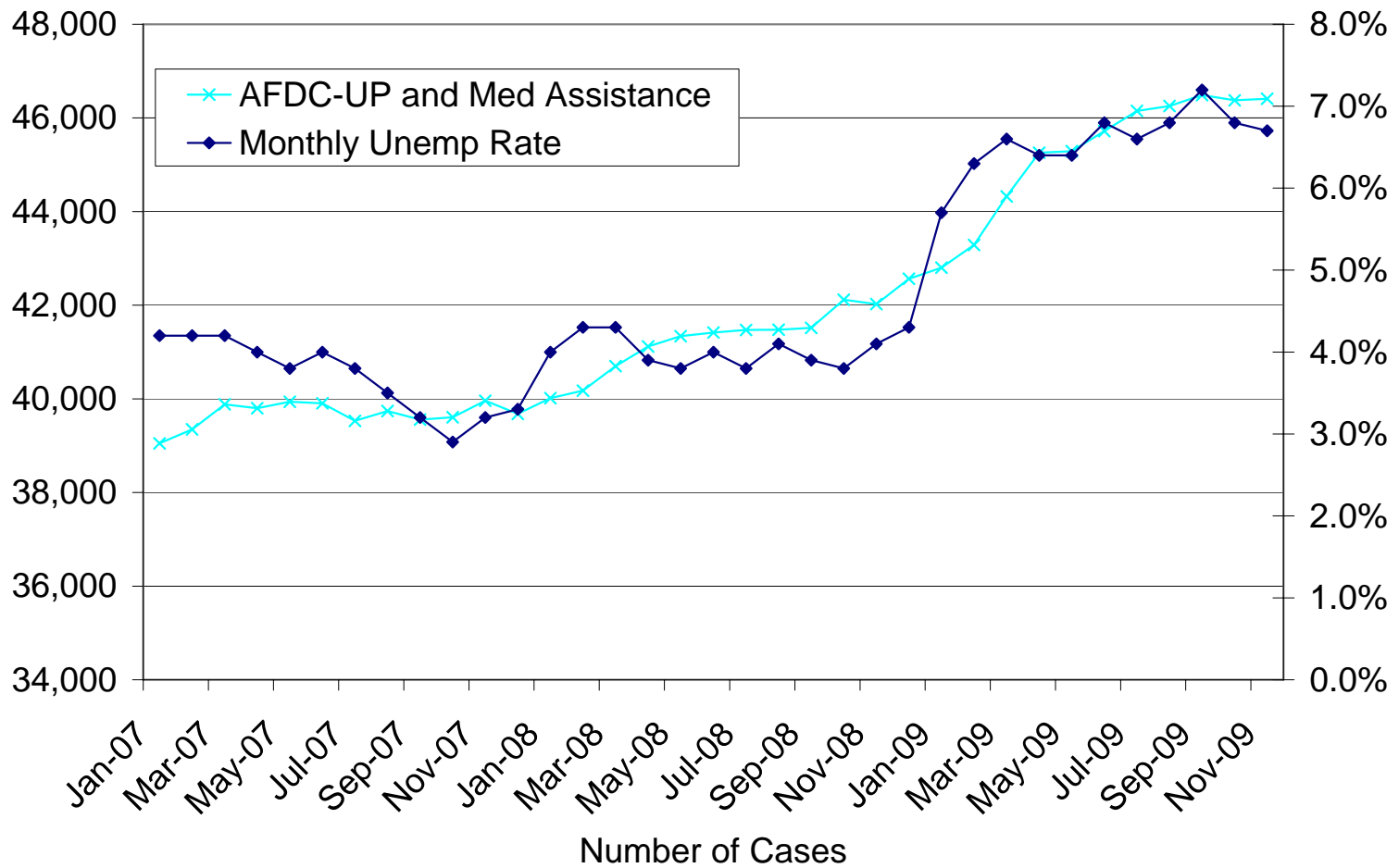
General Fund Spending Drivers

Change in Per Capita,
 Inflation Adjusted Expenditures by Major Budget Line Items
 1999-2009



Caseloads Abating? Growth in Medicaid Caseload June to November: 2.9%

Unemployment Rate and AFDC-UP and Medical Assistance



How Big a Hole? 2010-2011

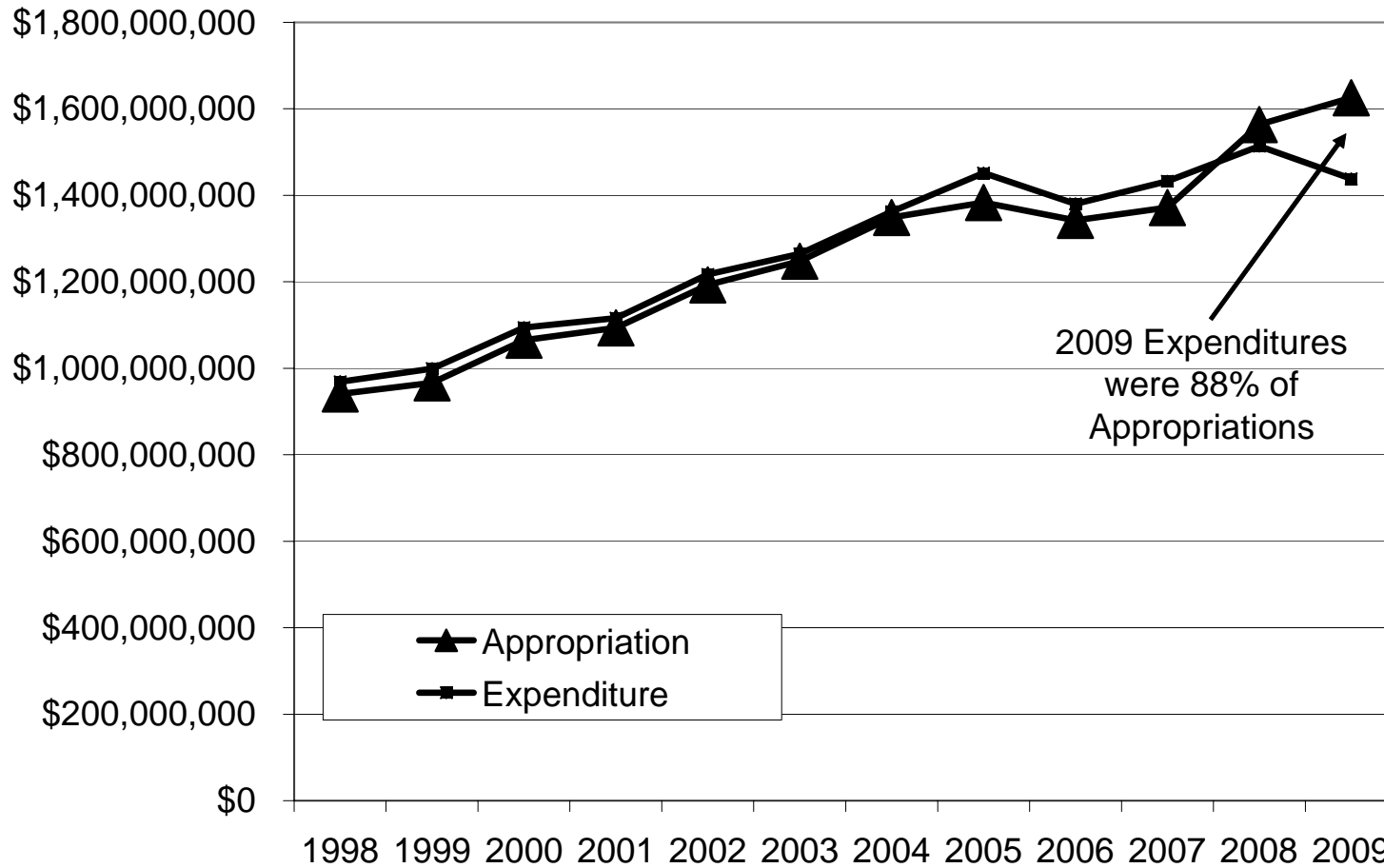
- 2009's impact on 2010: Positive → What does the increase in 2009 lapse numbers mean for 2010?
- Revenues: **Neutral to Negative** (assuming no double dip recession)
 - Downside risk on revenue (\$?)
 - JUA (\$45 million)
 - ARRA Funding shift (\$18 million)
- State Spending → **Negative to Neutral**
 - + Caseloads abating?
 - + Ongoing executive order impact (hiring, purchasing, etc..)
- Federal response → Positive **OR Negative**
 - + \$30 to 60m: Health reform legislation contains language continuing enhanced matching dollars for 2010-2011 budget period.
 - \$75m: Federal Health legislation contains language that could cost the state \$100 million (even if the DSH program is changed.)
- **Bottom line → Best guess is a \$50 to \$100 million shortfall in 2010-2011 assuming Supreme Court follows Superior, no additional federal support to states and no change in DSH program rules.**

What will the Federal Government Do?

“ Because revenues have fallen short of projections, mid-year shortfalls have opened up in 39 states — some of which have already addressed them — totaling \$34 billion or 6 percent of these budgets.” - Center on Budget Policy and Priorities

Are there further savings in 2010-2011?

General Appropriations Versus Actual Expenditures
 1998 through 2008 (CAFR), 2009 (unaudited)

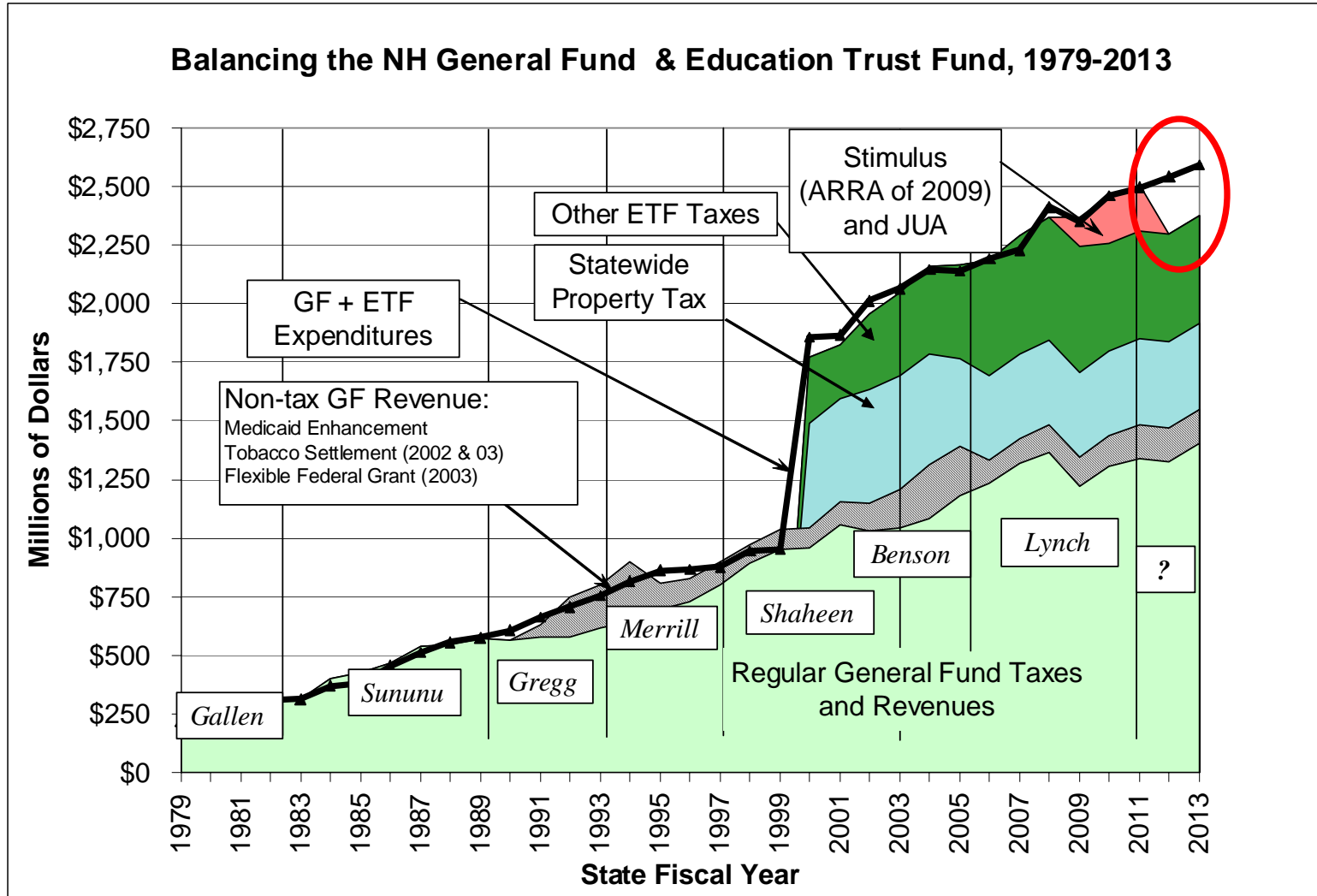




Additional 2009 Lapse?

Lapse Analysis After Executive Order Savings (in 2009)			
Agency	Total Lapse	Agency	Total Lapse
Administrative Services	\$18,024,714	Department of Labor	\$351,073
HHS Commissioners Office	\$10,244,545	Executive Branch	\$319,286
Corrections	\$5,243,277	Cultural Resources	\$280,679
Secretary of State	\$5,165,095	Judicial Council	\$168,704
New Hampshire Hospital	\$4,719,460	Children and Family	\$138,217
DES Environmental Services	\$2,608,504	Department of Agriculture	\$132,409
State Treasury	\$2,375,808	Board of Accountancy	\$88,755
Revenue Administration	\$2,336,904	Department of Insurance	\$77,084
Department of Justice	\$2,097,745	Tax and Land Appeals	\$49,276
Health Management	\$2,053,285	Public Employee	\$44,456
Elderly and Adult	\$2,044,494	Boards and Commission	\$37,264
NH Retirement System	\$1,973,611	Veterans Council	\$36,535
Department of Education	\$1,535,732	Joint Board of Licensure	\$6,122
Judicial Branch	\$1,283,778	Developmental Disability Council	\$958
Liquor Commission	\$1,257,880	University of NH	\$0
Juvenile Justice System	\$1,121,704	Public Utilities	\$0
Adjutant General	\$1,012,467	Real Estate Commission	\$0
Transportation	\$916,994	Regional Commission	\$0
Legislative Branch	\$700,184	Police Standards and Training	\$0
Resource and Economic Development	\$626,656	Employment Security	-\$1
HHS Admin Attached	\$622,872	Post Secondary Education	-\$51,982
Racing and Charitable	\$480,996	Christa McAuliffe	-\$280,459
Developmental Disabilities	\$473,284	Department of Safety	-\$350,806
Glenclyff Home	\$457,334	Behavioral Health	-\$1,271,473
Transitional Housing	\$430,958	NH Veterans Home	-\$1,504,483
Pease Development Authority	\$423,499	Dept of Information Management	-\$2,400,339

2012-2013: How much of a Problem?



How Big a hole in 2012?

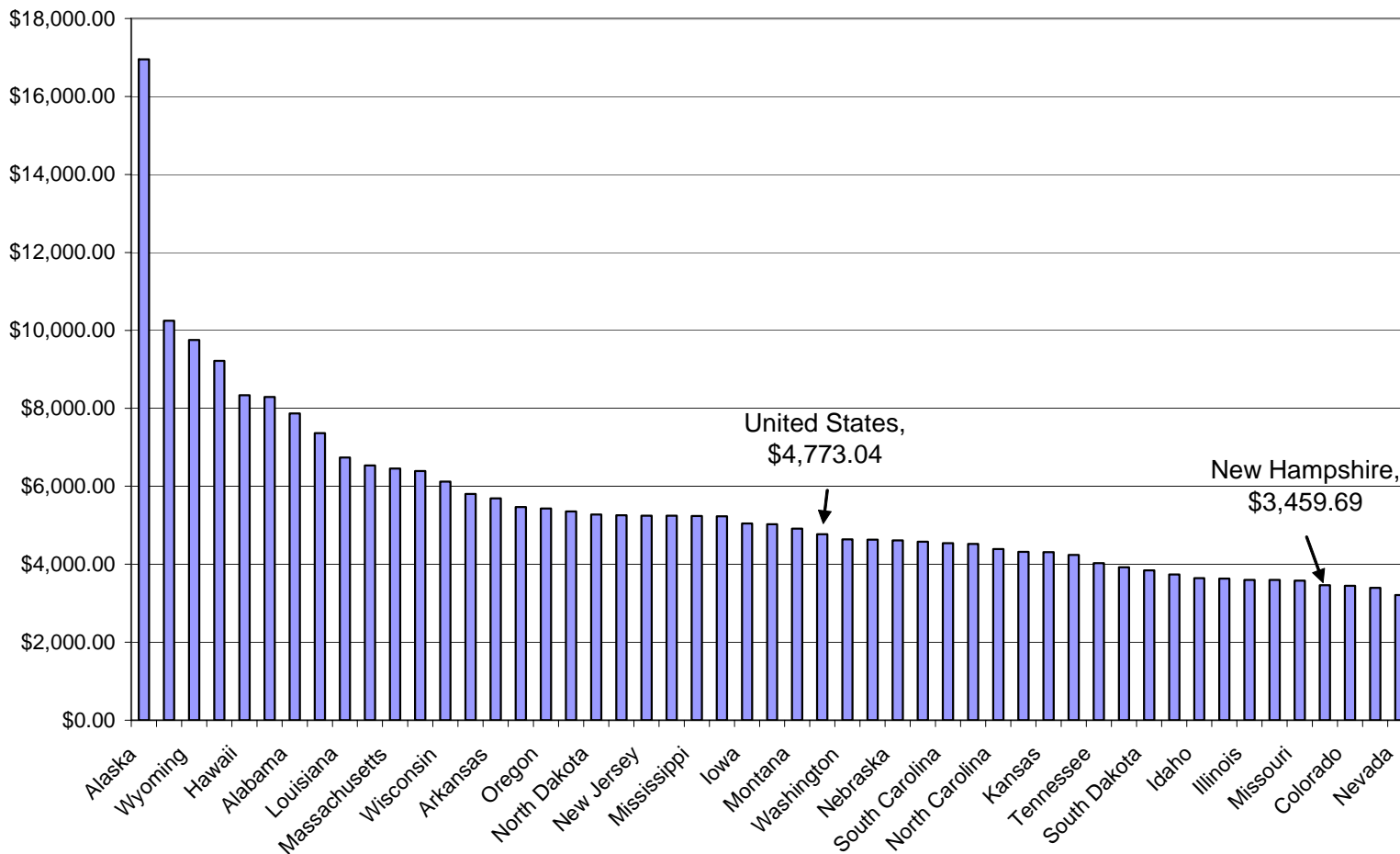
- Depends → Absent an economic recovery, assuming historic growth in state spending, and no additional \$ from the feds, no changes in existing laws?
- Three high risk spending areas
 - Exposure to \$240 million in new education expenditures (\$123 million in adequacy payments, plus \$80 million in school-building aid, \$30m resulting from elimination of the collar; plus school-building aid bond payments) for the Biennium.
 - 25% (?) increase in general fund requirements for retirement system (due to market reductions and timing)
 - Continued increase in demand (medicaid caseloads) for and utilization (medicaid service use) of safety net services



State Spending

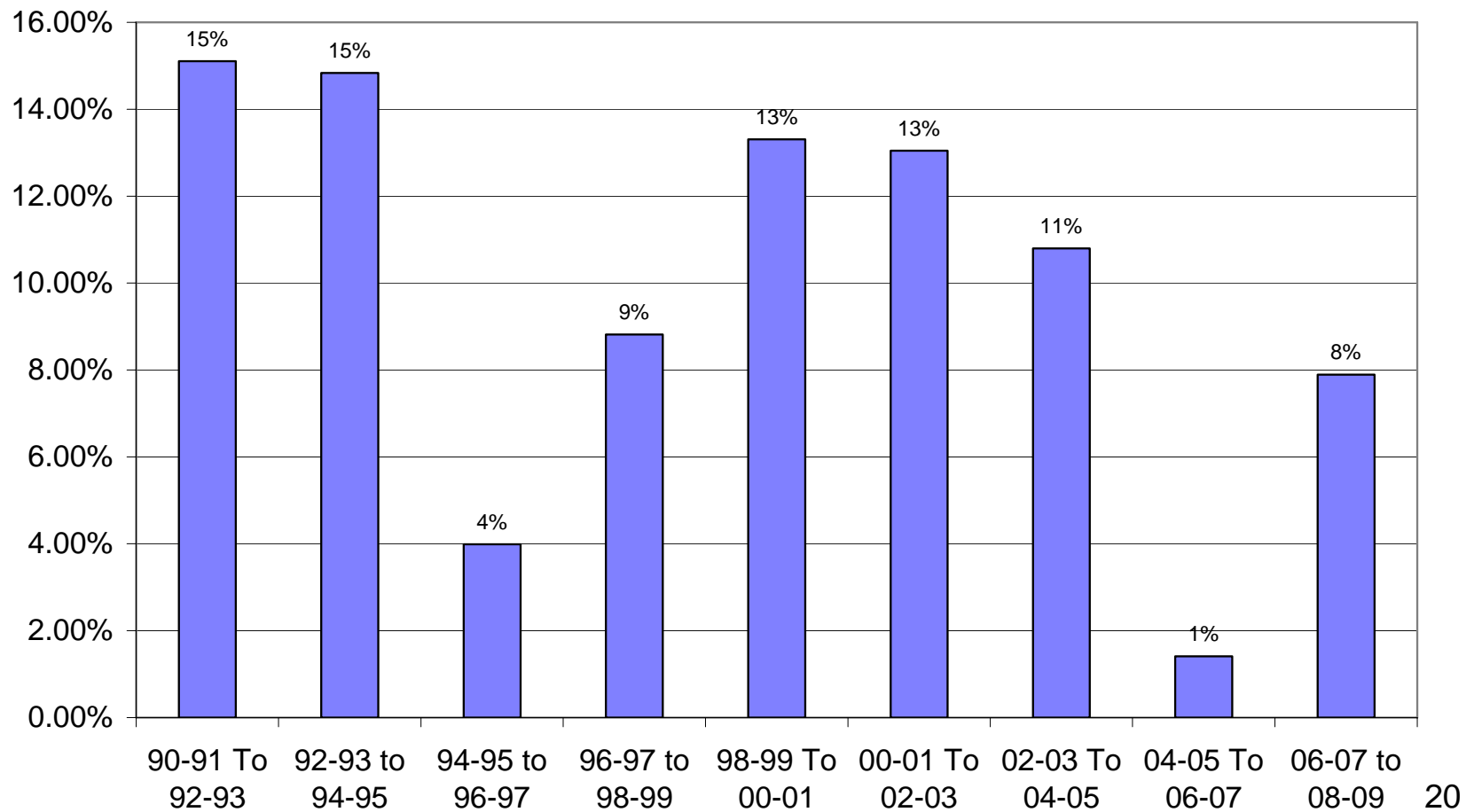
Size of State Government (Spending)

Total State Expenditures per Capita, SFY2007



Actual Changes in GF Spending

Biennial Percent Change in Actual General Fund Expenditures
 (1990 - 2008 CAFR; 2009 Unaudited)





Intent to Spend: Change in General Fund Appropriations as Passed in HB1

Biennium	Total General Funds	
	Total	% Change
1990-1991	\$1,308,716,157	
1992-1993	\$1,420,944,015	8.6%
1994-1995	\$1,858,304,390	30.8%
1996-1997	\$1,823,831,871	-1.9%
1998-1999	\$1,907,540,590	4.6%
2000-2001	\$2,158,306,501	13.1%
2002-2003	\$2,440,271,465	13.1%
2004-2005	\$2,732,014,547	12.0%
2006-2007	\$2,714,048,216	-0.7%
2008-2009	\$3,189,586,031	17.5%
2010-2011	\$3,155,159,886	-1.1%
Average Compound		9.2%

Data are from HB1 as passed by the Legislature.

These do not reflect actual expenditures which can be higher or lower.

These figures make no adjustments for back of the budget changes, one time monies, changes in accounting methods, DSH payments, or foundation aid changes.

Intent to Spend: Total Funds

Biennium	Total Funds		% Change from Previous Biennium
	Total		
1990-1991	\$3,241,416,227		
1992-1993	\$3,875,303,225		20%
1994-1995	\$4,942,998,832		28%
1996-1997	\$5,142,648,273		4%
1998-1999	\$5,589,662,183		9%
2000-2001	\$5,498,717,018		-2%
2002-2003	\$7,801,747,846		42%
2004-2005	\$8,914,499,078		14%
2006-2007	\$9,338,396,518		5%
2008-2009	\$10,347,177,822		11%
2010-2011	\$11,549,504,230		12%
Average Compound			14%

Data are from HB1 as passed by the Legislature.

These do not reflect actual expenditures which can be higher or lower.

These figures make no adjustments for back of the budget changes, one time monies, changes in accounting methods, DSH payments, or foundation aid changes.

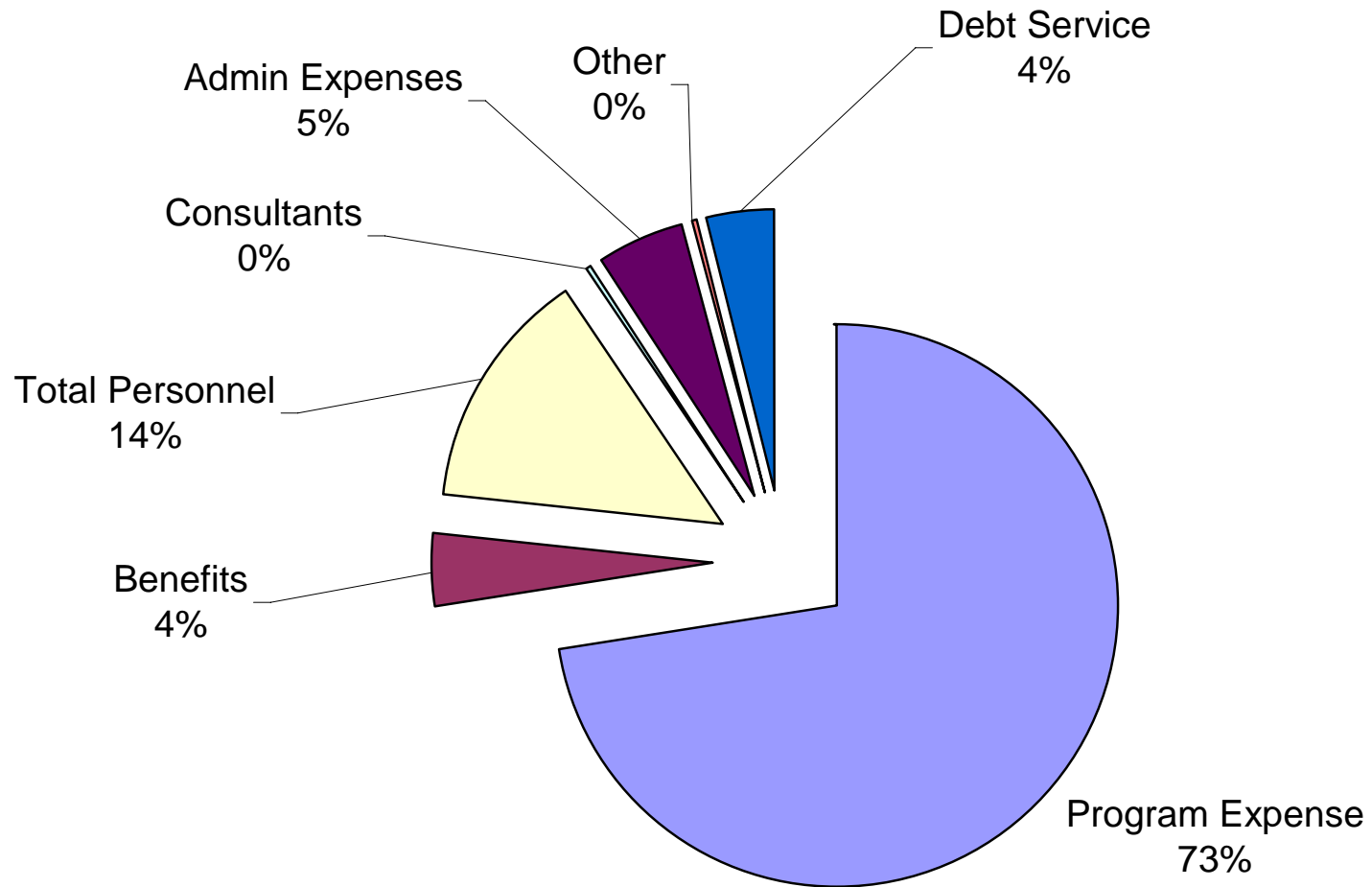


General Fund
Appropriations in '11
Compared to Actual '08

Change in Appropriations 2008 Through 2011 (in Thousands)					
Department	Actual 2008	Budget 2010	Budget 2011	Absolute Change	Annualized Percent Change
Department of Health and Human Services	\$654,209	\$747,085	\$779,456	\$125,247	6%
Dept of Administrative Services	\$51,669	\$63,842	\$67,661	\$15,992	9%
Department of Corrections	\$99,537	\$105,178	\$108,611	\$9,074	3%
Judicial Branch	\$64,675	\$70,894	\$71,798	\$7,123	4%
University System	\$96,000	\$97,000	\$100,000	\$4,000	1%
Dept of Revenue Administration	\$16,447	\$18,814	\$19,396	\$2,949	6%
Legislative Branch	\$13,697	\$15,914	\$15,914	\$2,217	5%
Resources and Economic Development	\$12,517	\$14,368	\$14,734	\$2,217	6%
Judicial Council	\$24,382	\$25,401	\$25,911	\$1,529	2%
Veterans Home	\$11,600	\$13,867	\$12,868	\$1,268	4%
HHS Admin Attached Boards	\$3,022	\$4,022	\$4,156	\$1,134	11%
Regional Community Tech Colleges	\$36,459	\$36,360	\$37,555	\$1,096	1%
Adjutant General Department	\$3,333	\$4,146	\$4,274	\$941	9%
Agriculture	\$2,637	\$3,174	\$3,375	\$738	9%
Executive Office	\$3,435	\$3,956	\$4,098	\$663	6%
Department of Justice	\$10,076	\$10,211	\$10,533	\$457	1%
Post Secondary Education Comm	\$4,255	\$4,434	\$4,575	\$320	2%
Christa McAuliffe Planetarium	\$365	\$590	\$608	\$243	19%
Board of Tax and Land Appeals	\$762	\$934	\$970	\$208	8%
Department of State	\$1,673	\$1,873	\$1,872	\$199	4%
Joint Board of Licensure and Cert	\$513	\$673	\$701	\$188	11%
Human Rights Commission	\$499	\$584	\$613	\$114	7%
Department of Labor	\$1,236	\$1,314	\$1,349	\$113	3%
Office of Information Technology	\$277	\$364	\$380	\$103	11%
Regulatory Boards and Commission	\$372	\$451	\$466	\$94	8%
Veterans Council	\$393	\$443	\$472	\$79	6%
Board of Accountancy	\$233	\$290	\$299	\$66	9%
Fish and Game Department	\$0	\$50	\$50	\$50	NA
Developmental Disabilities Council	\$15	\$34	\$35	\$20	33%
Boards and Commissions	\$411	\$469	\$415	\$4	0%
Real Estate Commission	\$506	\$518	\$508	\$2	0%
Community Development Finance	\$182	\$180	\$180	-\$2	0%
Department of Transportation	\$1,155	\$1,111	\$1,146	-\$9	0%
Dept of Cultural Resources	\$4,164	\$3,931	\$4,054	-\$110	-1%
Racing and Charitable Gaming Commission	\$1,721	\$1,376	\$1,007	-\$714	-16%
NH Retirement System	\$48,277	\$53,785	\$46,838	-\$1,439	-1%
Department of Safety	\$2,225	\$4,024	\$286	-\$1,939	-50%
Department of Environmental Services	\$28,882	\$26,167	\$23,980	-\$4,902	-6%
State Treasury	\$169,360	\$158,311	\$162,706	-\$6,654	-1%
Liquor Commission	\$33,849	\$0	\$0	-\$33,849	-100%
Department of Education	\$101,976	\$63,483	\$61,687	-\$40,289	-15%
Source: Legislative Budget Office Budget Documents					
2008 Totals may not sum to CAFR due to rounding and year end adjustments					
2011 totals may not sum to HB1 as passed due to rounding					

Where Do We spend?

Distribution of Appropriations (Total Funds) by Type of Expenditure (2009)



The Questions

- How to Control Spending?
 - What factors are driving costs forward?
 - Is the state doing things that it shouldn't be doing?
 - Is the state doing things inefficiently?
 - How do we know if we're spending too much/too little or just the right amount?
 - Outcome measures are non-existent
 - Comparisons across states are difficult due to reporting differences.
- Look at four areas as examples: Corrections, Medicaid, Education and Retirement
- Unless otherwise noted, state by state financial comparison data are from the U. S. Census Bureau, Annual Survey of Government Finances²⁵



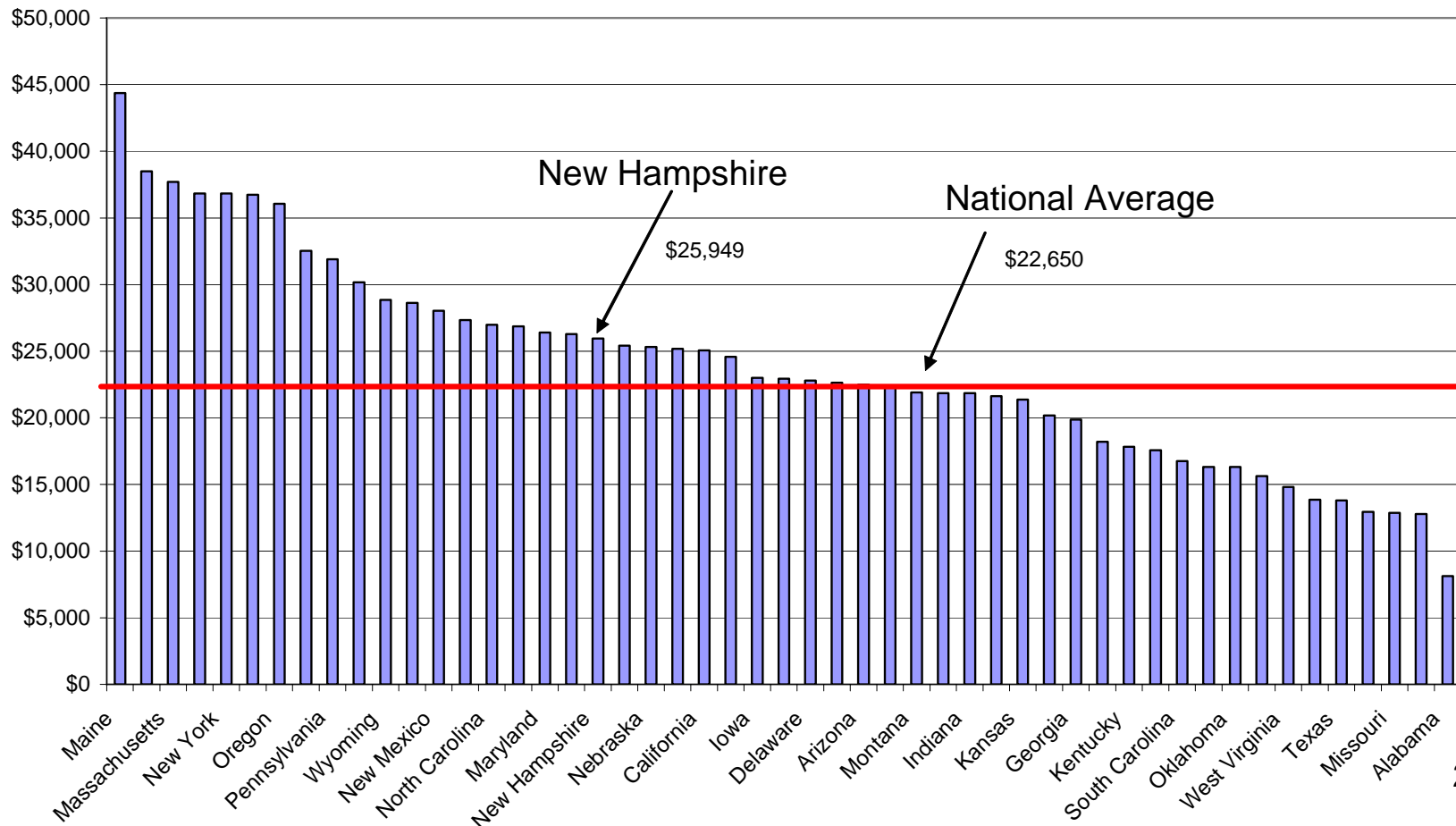
If you really want to control spending

- Education (adequacy, school building aid, catastrophic aid)
- Local aid – (e.g. meals and room distribution)
- The Medicaid Program
- The Corrections System
- The Retirement System
- Constraints on hiring, travel, purchasing (e.g. Governor's Executive Order)

Prison Operating Costs

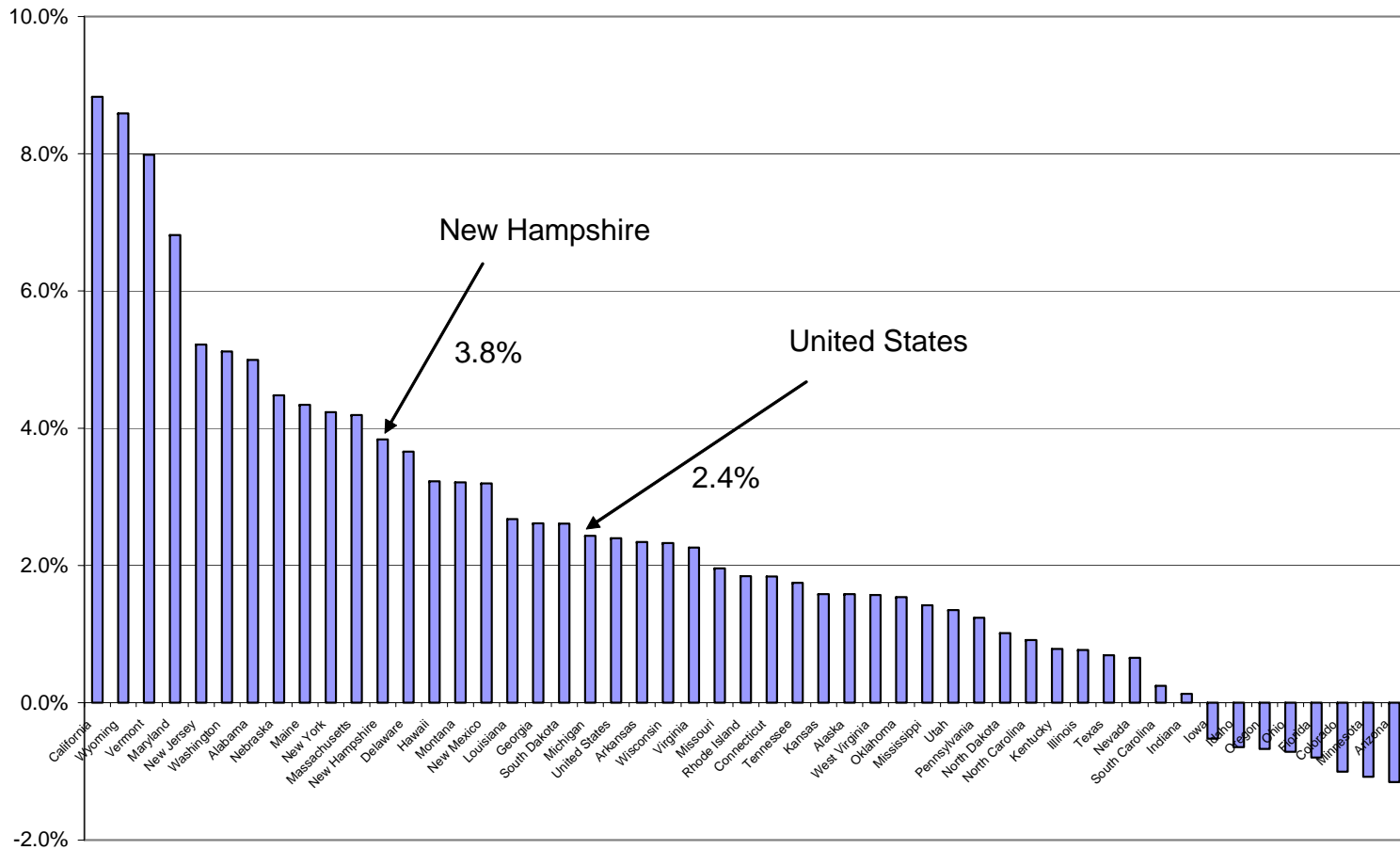
Prison Operating Costs Expenditures Per Inmate (2001)

There are many possible reasons why prison operating costs are higher in NH including wages, energy, age of plant, employee counts, etc...



Change in Spending

Average Annualized Change in Corrections Spending Per Inmate 1998-2007
 NH CPPS Analysis of Census Data on State Spending



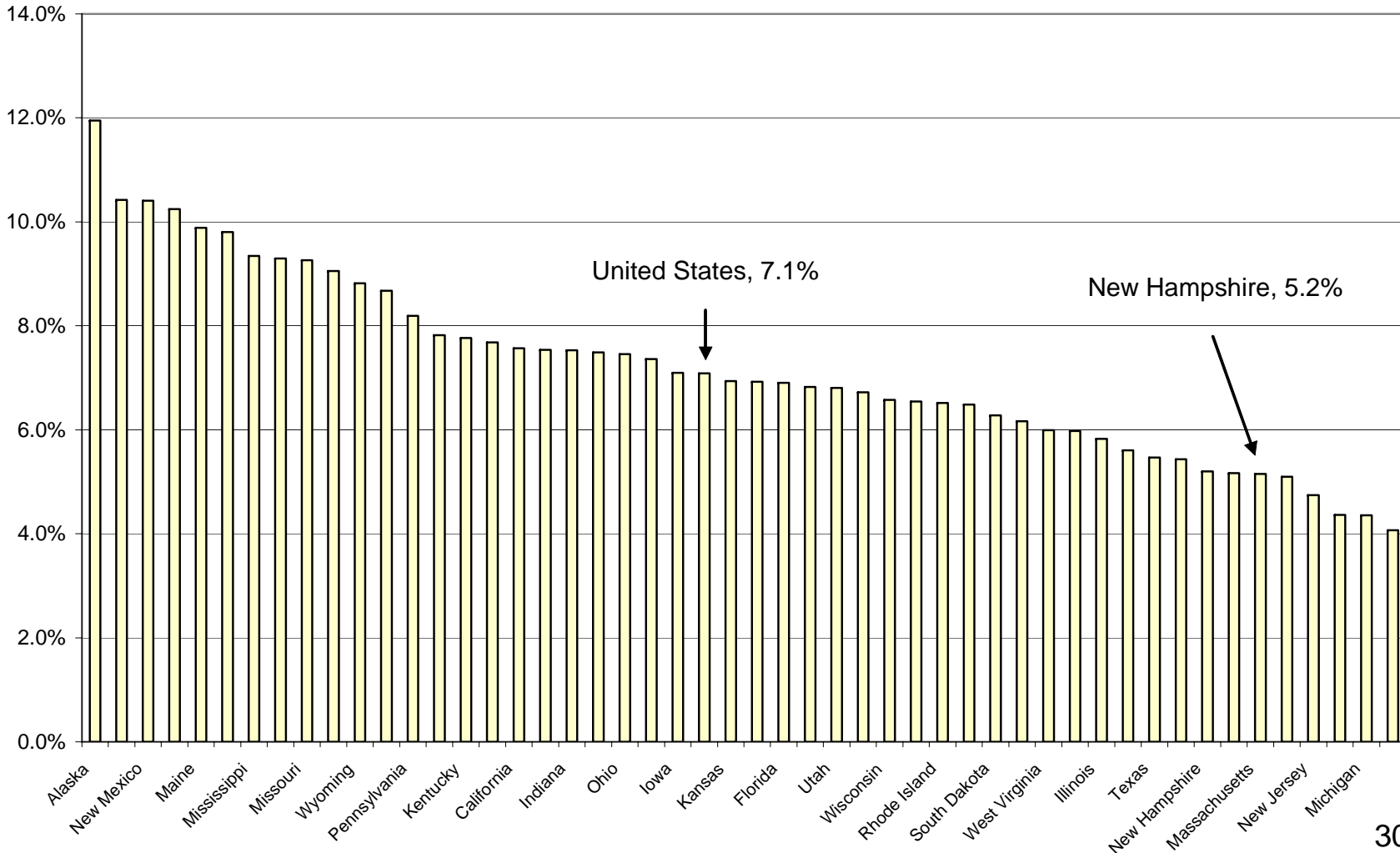


We are not without options

- Understand the issues associated with recidivism (Pew and the Justice Reinvestment Project).
- Review the state criminal justice code to ensure that the state has struck the right balance between public safety and incarceration.
- Continue to review and analyze the implementation of alternatives to traditional jail and prison sentences.
- Increase the focus on re-entry support, including substance abuse and job training for inmates, as well as community supports more broadly.

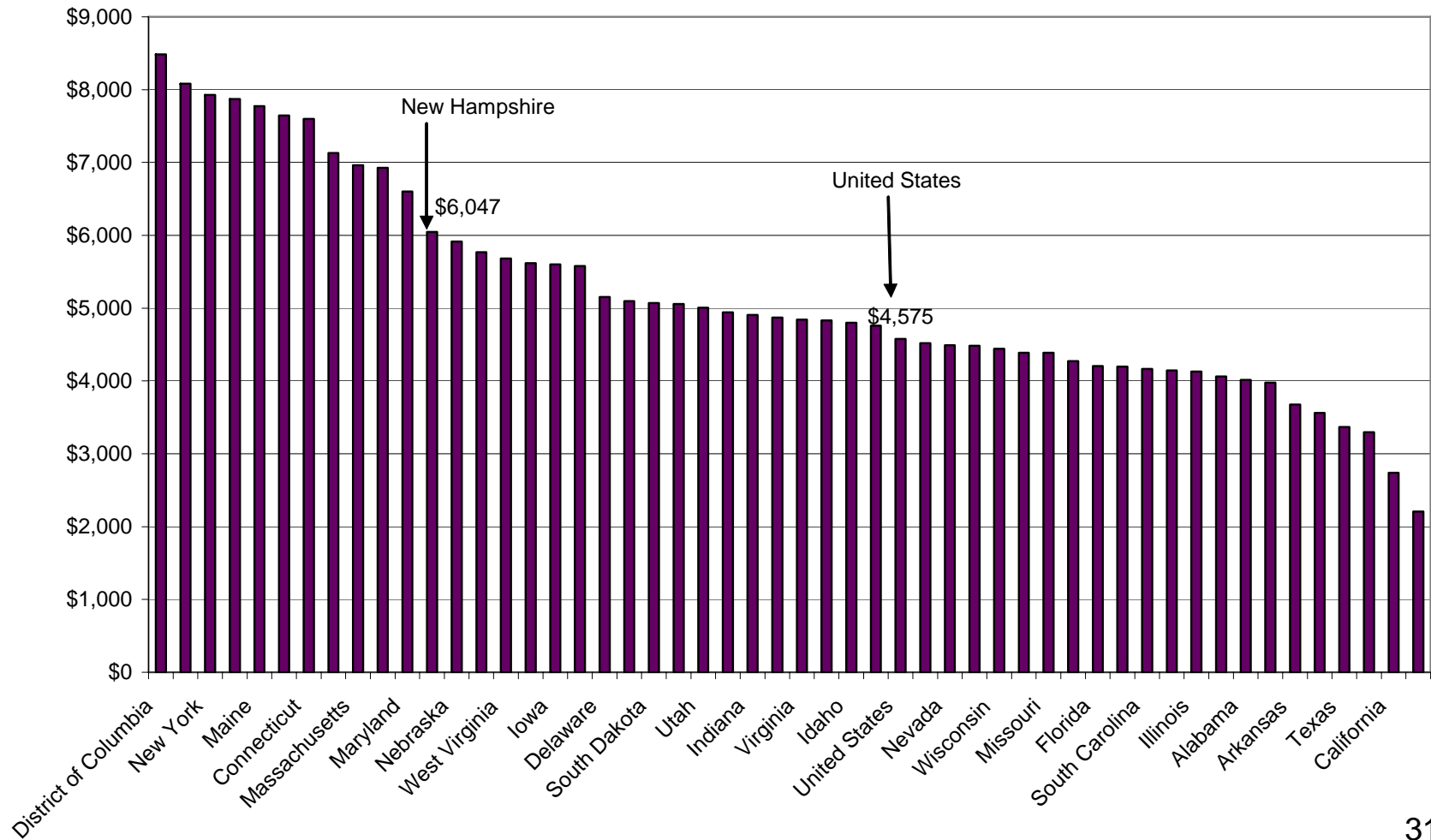
Growth in Medicaid

Annual Growth in Per Capita Medicaid Expenditures (1995-2004)



Medicaid Benefits and Utilization?

Total Medicaid Payments Per Enrollee (FY 2006)
 (Benefit X Utilization)



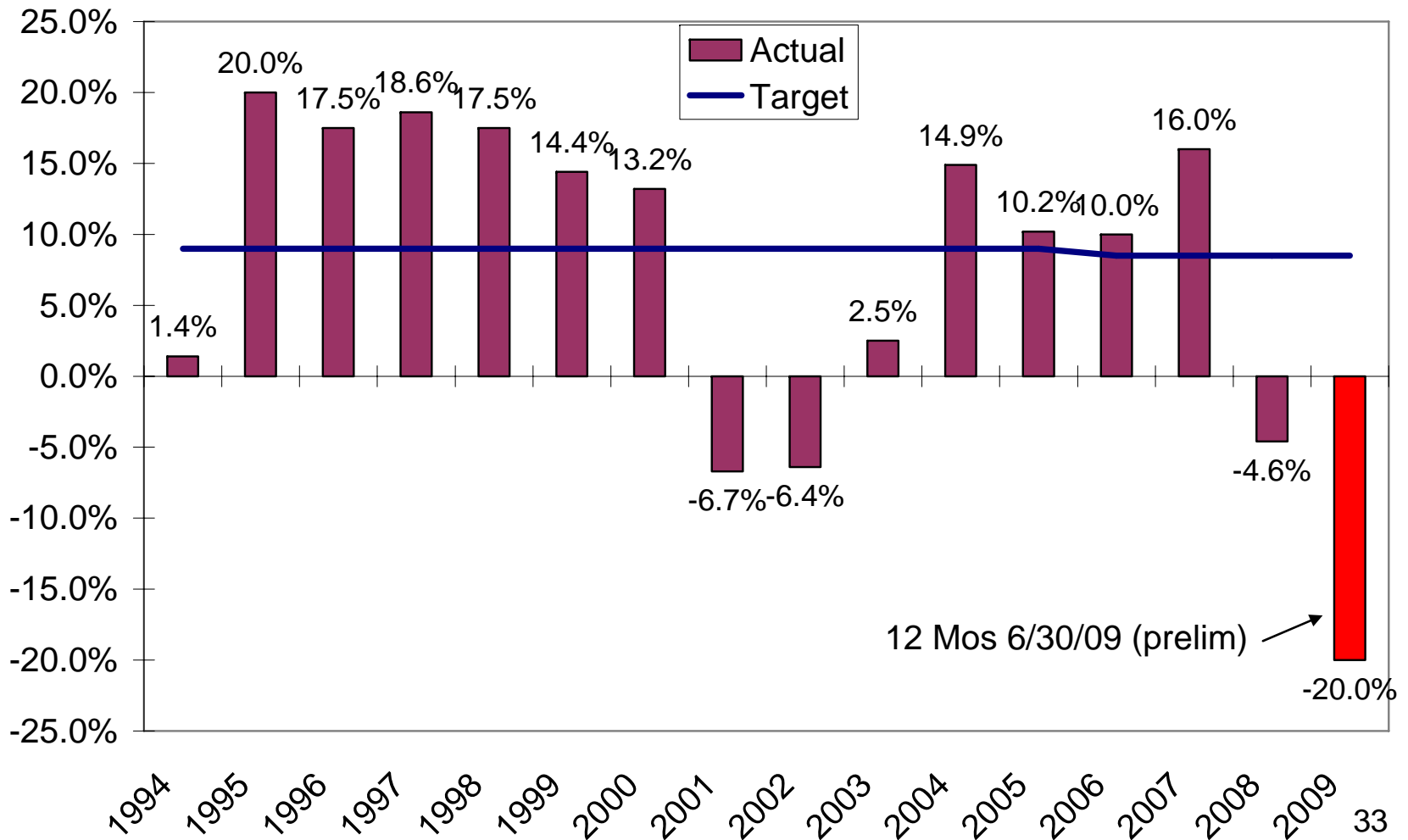
Source: www.statehealthfacts.org

Options?

- Further benefits changes?
 - (Chiropractic is out, Podiatry is in?)
 - Prior authorization expansions (Currently occupational therapy, ambulance, wheel chair van?)
- Further reimbursement rate changes?
 - Reductions?
 - Prospective outpatient hospital payment?
- More intensive management of the utilization of services?
 - Accountable Care Organizations
 - Further intense disease management opportunities (low hanging fruit has been taken)
- Medicaid Eligibility (Dec 2011, ARRA ends. Or does it?)
- Reform (if it happens) may simplify Medicaid but will cost more
- Primary drivers in the future → the aging of the population.

NH Retirement System Hit Hard by Stock Market Losses

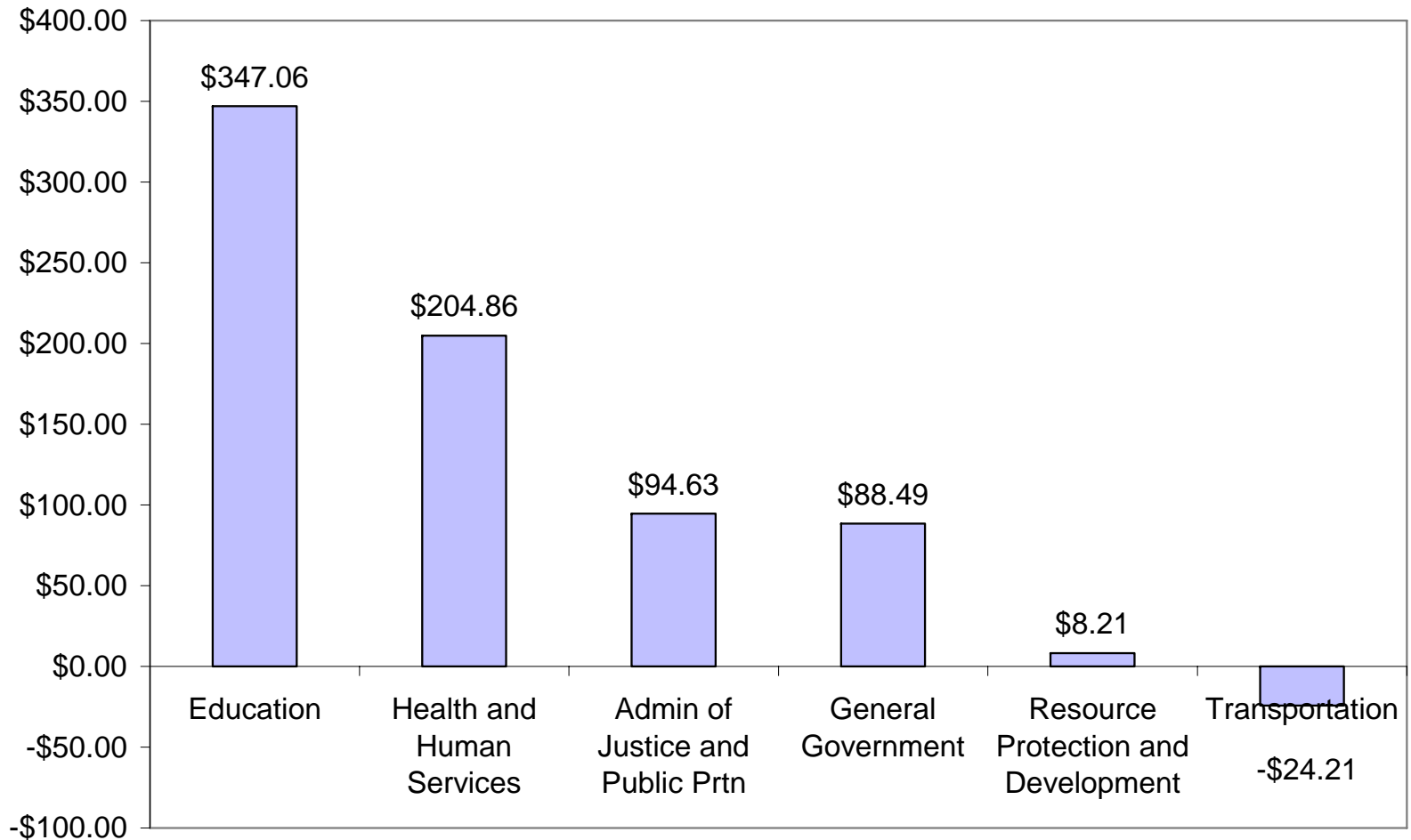
NH Retirement System Annualized Investment Returns



Source: NHRS CAFR

What is Driving Total Fund Spending?

Change in Per Capita, Inflation Adjusted Total Fund Appropriations from 1999 - 2009



Summary

- Budget hole? Too early to tell, but risk is there for a sizeable problem. The size depends on:
 - Supreme Court and the JUA
 - Fed decision-making (DSH and Stimulus)
 - Economic recovery and revenues in NH
 - Spending changes likely in the mix
 - Local Aid
 - Education adequacy and school building aid
 - Medicaid transformation
 - Corrections policy
 - Retirement system

Spending Summary

- Reflecting our low tax burden, spending is low relative to the rest of the nation (4th lowest, overall)
- Only in a few instances are we above the national average in level of spending or growth over time (on a per capita basis)
 - Corrections
 - Medicaid unit cost
- Opportunities for spending reductions exist, but will take political will and legislative action.
 - Constraining purchase, hiring, and other admin
 - What shouldn't we be doing?
 - Transformational opportunities?



Transformational Policy Opportunities

- Medicaid Care Management – Significantly broaden management of care (utilization)
- Medicaid payment reform (prospective payment for outpatient?)
- Retirement
 - Tiered system (new vs. old employees)
 - Change contribution amounts
- Corrections
 - Re-entry
 - Home-confinement
 - County vs. State management of the system
 - Reimplementation of good time
- Education?

What Process Issues Can We Resolve?

- Have a conversation about outcomes instead of simply spending. What value do we receive for our expenditures?
- You can't manage what you don't measure. Pew gave the state a failing grade for our state management and we deserve it. We do not have monthly expenditure reports.
- Budget process/documents do not link up outcomes, with assumptions
 - Program efficiencies (aka reducing recidivism, implementing care management) may be available but will be politically difficult.
 - Bigger savings are available if the political will is there to make the legislative changes necessary to change what government offers.



Board of Directors

Donna Sytek, Chair

John B. Andrews

John D. Crosier

William H. Dunlap

Shelia T. Francoeur

Chuck Morse

Todd Selig

Stuart Smith

James Tibbetts

Brian Walsh

Kimon S. Zachos

Martin Gross

Staff

Steve Norton

Dennis Delay

Ryan Tappin

New Hampshire Center for Public Policy Studies

All of our reports
are available on the web:

www.nhpolicy.org

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