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New Hampshire’s Next Budget Conversation: Spending and Revenues in 2010-2011

August 2008

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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.

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The Next Budget Conversation: 2010-2011

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Executive Summary

It will come as no surprise to those experienced with the state budget that New Hampshire is facing a potential budget deficit in the next – 2010 and 2011 – biennium. In the 1990's, the state's independent auditor declared that the state had a structural deficit – a situation in which natural growth in expenditures exceeded natural growth in state revenues. As a result of this 'biennial budget problem', every two years the legislature must carefully address spending growth and, in most biennia, find new revenue to balance the budget. The size of the 'biennial budget problem' has varied significantly over time due to variations in the economic situation, demand for state services, revenue growth, and changes in programs resulting in spending increases or reductions.

The upcoming biennium may be different, and in important respects, more problematic than in the past. As a result of a changing revenue picture, states across the country are adjusting both revenue and spending plans to account for the economic dislocation associated with the current economic downturn. New Hampshire's Commissioner of Revenue Administration recently presented revenue estimates to the legislature that fell \$100 million below those projected as part of the last budget. In the Center's current analysis of revenues for 2010-2011, the gap between historical growth in revenues, and what is anticipated given the economic situation, could be as much as \$286 million or more if the economy does not recover in the next two years.

In response to the changing revenue picture, the legislative and executive branches of government have already taken actions to reduce spending and adjust revenue. In the past 8 months, the Governor and the Legislature have enacted a variety of spending and revenue changes designed to balance the budget and position the state for the future.

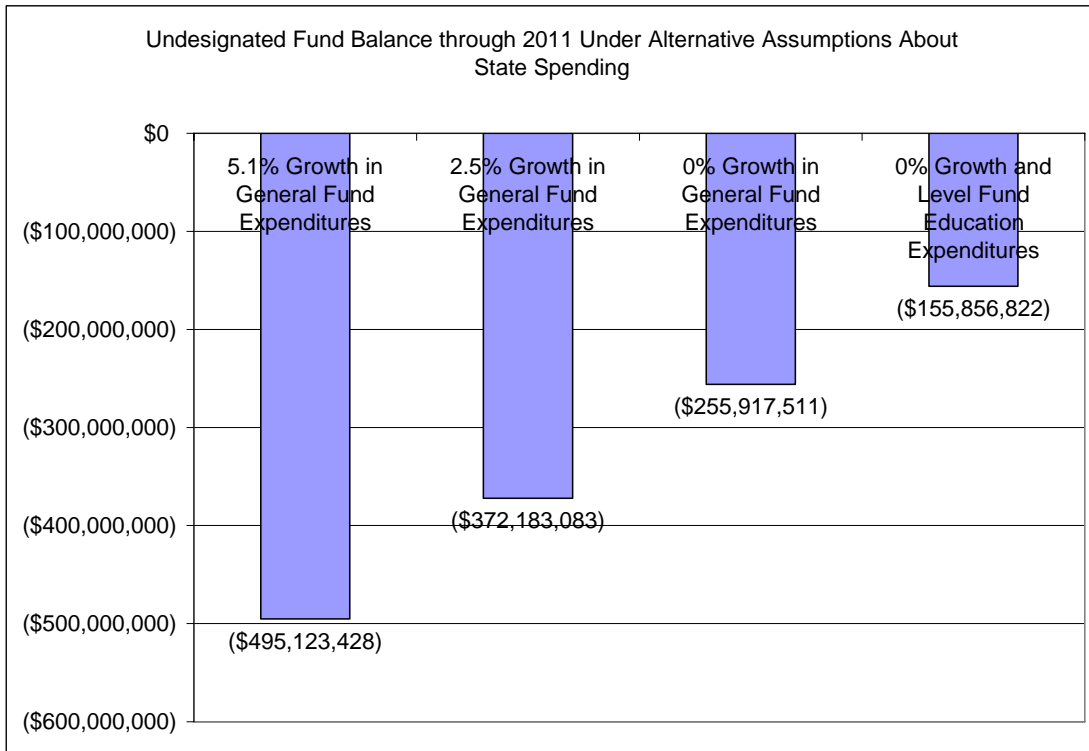
These changes, however, will not be sufficient to meet the budget challenges of the next biennium, absent a quick economic recovery. In this analysis we extrapolate recent trends in General and Education Trust Fund revenues and expenditures from 2008 – 2011 based on the Center's understanding of current law. The results suggest that the combination of declining trends in revenue (estimated \$286 million), potential increases in the state's financial participation in local education costs (\$100 million), and growth in the demand for state services will require the Governor and the Legislature to make changes in the state budget totaling between \$372 and \$495 million dollars over the next three years, beyond current state law.

Such a large problem is not without historical precedent. In 2000, the state faced a similarly sized budgetary problem. The NH Supreme Court's ruling on the state's role in financing education required a significant increase in revenues. The legislative response increased revenues by approximately \$400 million. While the root causes of the next biennium's budgetary gap are different, the size of the problem appears to be similar.

This paper is not meant to provide a precise estimate of what will happen in the future. Instead, this paper is designed to provide policymakers with a measurement of the scale of the types of changes that will have to be implemented to balance the budget in the next biennium in the absence of a strong economic recovery. Although spending reductions can narrow the projected gap in 2010 and 2011, such spending reductions will only reduce, not eliminate, the potential

problem. As shown in Figure 1 below, even if the State level funds expenditures at 2009 levels through 2010 and 2011, the budget could be out of balance by as much as \$156 million. Given that spending constraints and the existing revenue structure singly are insufficient to meet the budget obligations of the state in 2010 and 2011, any budget conversation will have to include discussions about both revenues and spending.

Figure 1



Estimating Budget Changes in 2010-2011

The future budget situation – and the constraints that the next Legislature will be working under – will depend critically on how revenues grow, how agencies respond to various legislative and executive efforts to control spending, and how the Legislature and Governor decide to use undesignated general fund surpluses and revenues from the state’s rainy day fund. In what follows, we provide an estimate of revenue changes and spending trends from 2008-2011 to use in our baseline assessment.

Revenue Estimates for 2008 - 2011

In this section, we provide revenue forecasts for New Hampshire general fund and education trust fund revenues. Recognizing that prediction is difficult, we provide two different revenue forecasts. The first scenario assumes that revenues recover after FY2009, and return to long term trends. The second scenario assumes that our economy is entering a recessionary period and that changes in general fund revenues in FY2010 and FY2011 will repeat a pattern seen in the earlier part of this decade, when the national economy entered a recession in 2001.

The starting point for these estimates is the preliminary accrual report on state revenues published by the Division of Administrative Services.¹ The major differences between the two forecasts are expected to be seen in four revenue streams: Business Taxes, Interest and Dividends Taxes, Meals and Rooms Taxes, and the Real Estate Transfer Tax. These revenue streams are those most affected by economic changes. For the purpose of this forecast the estimates of all other revenue sources do not vary from their historical trends.²

Our ‘recession’ scenario assumes that the four economically sensitive revenue sources describe the same historical patterns as were seen in the period 2001 to 2003. The national economy entered a recession in March 2001, which ended in November 2001. Each state revenue source followed a unique pattern, which is reflected in this estimate. It should be noted that the recession of 2001 has been characterized as a mild recession by historical standards, but saw more severe contraction in the financial investment sector of the economy.

Figure 2 shows the trend in revenues under the two different assumptions and Table 1 shows the revenues by each source. The cumulative difference between the two scenarios by 2011 is approximately \$286 million. Another way of thinking about this is that New Hampshire’s revenues are going to grow \$286 million less quickly than historic trends would suggest. This highlights the critical importance of economic activity on the state’s revenue expectations.

¹ <http://admin.state.nh.us/accounting/FY%2008/Monthly%20Rev%20June%20Prelim%20accr-08.pdf>

² For a discussion of these trends, see <http://www.nhpolicy.org/report.php?report=14>

Figure 2

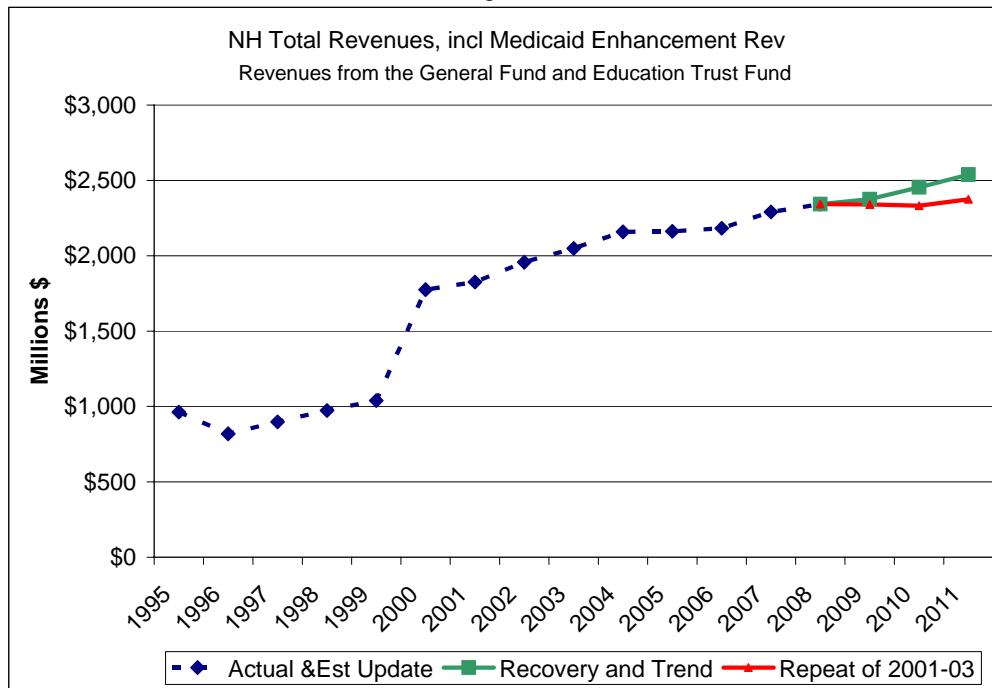


Table 1

Revenue Category	Prelim Accrual (13 month) 2008	Recovery and Trend			Repeat of 2011-2003		
		2009	2010	2011	2009	2010	2011
BET and BPT	611.4	634.8	654.8	684.8	606.0	575.7	587.2
Meals & Rooms	214.0	222.2	232.2	242.2	221.0	227.6	237.4
Tobacco	164.3	161.5	168.5	166.5	161.5	168.5	166.5
Liquor	133.1	136.8	142.8	149.8	136.8	142.8	149.8
Interest & Dividends	117.6	121.0	130.0	140.0	117.6	97.6	91.8
Insurance	95.9	96.0	98.0	100.0	96.0	98.0	100.0
Communications	79.8	85.2	84.8	89.8	85.2	84.8	89.8
Real Estate Transfer	116.3	117.1	127.1	139.1	115.0	120.0	126.0
Estate and Legacy	0.1	-	-	-	-	-	-
Transfers from Lottery Commission	77.0	78.0	78.0	78.0	78.0	78.0	78.0
Tobacco Settlement	48.4	47.7	47.7	47.7	47.7	47.7	47.7
Utility Property Tax	24.2	25.6	27.6	29.6	25.6	27.6	29.6
Property Tax Retained Locally	363.2	363.0	363.0	363.0	363.0	363.0	363.0
Court Fines & Fees	30.3	31.3	31.3	32.3	31.3	31.3	32.3
Securities Revenue	34.7	34.0	35.7	36.7	34.0	35.7	36.7
Utility Tax	6.3	6.6	6.5	6.7	6.6	6.5	6.7
Board and Care	19.8	18.0	20.4	21.0	18.0	20.4	21.0
Beer Tax	12.7	12.9	13.0	13.0	12.9	13.0	13.0
Racing	3.0	3.1	3.0	3.0	3.1	3.0	3.0
Other	79.2	75.1	84.2	89.2	75.1	84.2	89.2
Subtotal	2,231.3	2,269.9	2,348.6	2,432.4	2,234.4	2,225.4	2,268.7
Net Medicaid Enhancement							
Revenues (MER)	91.6	91.8	91.8	91.8	91.8	91.8	91.8
Recoveries	20.1	14.6	14.6	14.6	14.6	14.6	14.6
Total Unrestricted Revenue	2,343.0	2,376.3	2,455.0	2,538.8	2,340.8	2,331.8	2,375.1

Beyond these revenues, the Legislature will have ~~has~~ surpluses from both preceding fiscal years, the available balance in the state's rainy day fund, a variety of newly established revenue streams, and two new potential revenue streams (an increase in the tobacco tax and school building aid bonding) which have not yet been implemented.

Estimates of these revenue initiatives are included below in Table 2. These are necessarily imprecise as legislative action built in contingencies for implementation of these various revenue efforts. For example, Supplemental Session HB 1 mandated that the Treasurer bond school building aid only in the event that there were deficits in 2008 and 2009 and that the amount of that bonding be no greater than the existing deficit.

In order to accurately assess what might happen in the 2010-2011 biennium, these revenue changes, and the choices that the legislature makes must be accounted for. Based on our baseline projections of expenditures and revenues in 2008, our model assumes that the state will have to implement only a portion of the total revenue initiatives possible under existing law – bonding of approximately \$5 million in school building aid. Exactly how much, if any, of the school building aid would need to be bonded will be a function of how the state's accounts are closed at year end. Given declining revenues (and therefore an increase in the possibility of a deficit), in 2009 the full amount allowed under the law – \$40 million – would be bonded. The tobacco tax increase would go into effect only if certain thresholds in tobacco tax revenue were not reached. We assume that those thresholds will be met in 2009, and use the estimates of revenues provided as part of the legislative process for 2009-2011. These estimates would vary depending on when and how this change was implemented.

Table 2

Estimated Revenue Changes 2008 and 2009				
	2008	2009	2010	2011
Use of Undesignated Fund Balance	\$61,700,000	\$0	\$0	\$0
Tobacco Tax Increase (If Necessary)	\$0	\$18,374,000	\$18,374,000	\$18,374,000
School Building Aid Bonding (If Necessary)	\$4,460,790	\$40,000,000	\$40,000,000	\$40,000,000
Tax on Texas Hold 'em	\$0	\$675,000	\$1,350,000	\$1,350,000
Liquor Discount	\$0	\$7,600,000	\$7,600,000	\$7,600,000
Pease Development Authority	\$10,000,000	\$0	\$0	\$0
Total Revenue Changes	\$76,160,790	\$66,649,000	\$67,324,000	\$67,324,000

For the purposes of creating a baseline estimate of revenues for 2009-2011 it seems unlikely that given the current economic situation, we will see revenues return to historical trends. Fully recognizing that we could in fact be too optimistic in our assessment of the future, we use our estimate of revenues based on our recessionary trends, including those revenue changes that are included in various executive orders and legislative changes. Our full revenue estimate is included in Table 3 below.

Table 3
New Hampshire General Fund Revenues
Center Estimates for 2009, 2010 and 2011

	Preliminary Actual (Millions of \$)	Estimated Based on 2001-03 Experience (Millions of \$)			
		2008	2009	2010	2011
Revenues					
BET and BPT	611.4	606.0	575.7	587.2	
Meals & Rooms	214.0	221.0	227.6	237.4	
Tobacco	164.3	161.5	168.5	166.5	
Liquor	133.1	136.8	142.8	149.8	
Interest & Dividends	117.6	117.6	97.6	91.8	
Insurance	95.9	96.0	98.0	100.0	
Communications	79.8	85.2	84.8	89.8	
Real Estate Transfer	116.3	115.0	120.0	126.0	
Estate and Legacy	0.1	-	-	-	
Tobacco Settlement	48.4	47.7	47.7	47.7	
Court Fines & Fees	30.3	31.3	31.3	32.3	
Securities Revenue	34.7	34.0	35.7	36.7	
Utility Tax	6.3	6.6	6.5	6.7	
Board and Care	19.8	18.0	20.4	21.0	
Beer Tax	12.7	12.9	13.0	13.0	
Racing	3.0	3.1	3.0	3.0	
Other	79.2	75.1	84.2	89.2	
Net Medicaid Enhancement	-	-	-	-	
Revenues (MER)	91.6	91.8	91.8	91.8	
Recoveries	20.1	14.6	14.6	14.6	
Total Unrestricted Revenue	1,979.8	1,977.8	1,968.8	2,012.1	
Anticipated Revenue Adjustments					
Use of Undesignated Fund Balance	61.7	-			
Tobacco Tax Increase (If Necessary)	-	18.4	18.4	18.4	
Tax on Texas Hold 'em	-	0.7	1.4	1.4	
Liquor Discount	-	7.6	7.6	7.6	
Pease Development Authority	10.0	-			
Total Revenues	2,051.5	2,004.4	1,996.2	2,039.4	

Spending Estimates for 2008-2011

In 2007, the legislature passed a budget which included an estimated \$1.6 billion in spending. Since the time that budget was passed, the nation has experienced severe economic dislocation and state revenues have not grown as quickly as anticipated. As a result, the Legislature and Governor have taken a series of actions to reduce spending. In order to predict what spending will be in 2010 and 2011, we first must predict spending in 2008 and in 2009.

Since January of 2008, the Governor and the Legislature have introduced a series of changes to the budget which will result in some (at this point unknown) impact on spending in 2008 and 2009. In January, the Governor issued an executive order (2008-1) which froze spending on hiring, equipment purchases and out-of-state travel. In executive order 2008-2, the Governor required an estimated \$46 million in general fund savings for 2008 across a variety of different executive agencies (see appendix 1). In executive order 2008-9, the Governor mandated an additional \$30 million in general fund savings for 2009 (see Appendix 2). SB321 introduced a series of budget reductions to appropriations in the judicial branch and legislative branches and spending on nursing homes. In total, as shown in Table 4, reductions from gross budgeted spending were planned to total as much as \$130 million in FY 2008 and \$118 million in FY 2009. Estimates of the lapse (that portion of the appropriation which legislators' anticipated remaining unspent due to delays in hiring and providing services) were approximated to be \$38 million in 2008 and \$39 million in 2010.

Table 4

Estimated Budget Reductions					
		Estimate of Expenditure		NH Center for Public Policy	
		2008	2009	2008	2009
Executive Order Reductions					
	Governor's Executive Order: 2008-1	\$3,854,000	\$3,854,000	\$2,890,500	\$2,890,500
	Governor's Executive Order: 2008-2	\$46,366,437		\$34,774,828	
	Governor's Executive Order: 2008-9		\$30,081,810		\$22,561,358
Legislative Reductions (SB 321)					
	Judicial Branch Reduction	\$1,000,000	\$1,600,000	\$1,000,000	\$1,600,000
	Legislative Branch	\$1,000,000	\$500,000	\$1,000,000	\$500,000
	Nursing Home Lapse		\$2,217,000		\$2,217,000
	School Building Aid Bonding (If Necessary)	\$40,000,000	\$40,000,000	\$4,460,790	\$40,000,000
	Required Lapse	\$38,000,000	\$39,300,000	\$28,500,000	\$29,475,000
	Total Estimated Budget Reductions	\$130,220,437	\$117,552,810	\$72,626,118	\$99,243,858

Source: Expenditure reduction estimates for Governor's executive orders come from documents provided to the Legislature. Expenditure reductions for SB 321 are from the fiscal footnotes for that bill. The required lapse is taken from HB1 as passed in 2007.

These estimates of budgetary savings are likely over-estimated, for two reasons. First, the 2008 savings estimates of \$49 million in general fund expenditures were not implemented until more than half of the fiscal year had elapsed. Moreover, it is unclear how much of these savings estimates for 2008 and 2009 are already included in the state's estimate of a budget lapse. That is, it is unclear what share of these budget 'savings' have already been counted against state expenditures. Absent the actual lapse estimate, which will not be available until the end of September 2008, our analysis assumes that 75% of the savings estimates are realized in both 2008 and 2009 and that 75% of the state's lapse estimates are met. This is an aggressive

estimate of the reduction in savings. In addition, although SB 321 allowed for bonding of school aid – therefore reducing expenditures for school building aid – it will not be required at the allowed \$40 million amount until 2009.

We estimated baseline expenditures for 2010 and 2011 for both the general fund and the education trust fund. For the general fund, we use 5.1% as an estimated growth trend in the general fund. Historically, general funds have grown at an average of 5.1% per year (see Appendix 3). One can argue that in tough economic times, the legislature would constrain general fund expenditures to grow at a rate less than 5.1%. However, there are at least three reasons for thinking that the pressures on general fund expenditures will be at least that high. First, there are significant increases in personnel costs anticipated in the next biennium as previously-negotiated salary increases go into effect. Second, there are no plans in place to significantly change the major cost drivers of the state budget. These drivers include growth in expenditures for Health and Human Services (largely the Medicaid program), the NH retirement system and its medical subsidy program, and the corrections system. The final reason stems from the significant increases in energy and other costs the state will face in light of increases in oil and other commodity prices.

We estimated the state's obligation for financing local education expenditures for 2010 and 2011 based on SB539, legislation which codified the state's estimate of the expense of an adequate education. Grant amounts for 2008 and 2009 are based on the Department of Education's publication of state aid amounts. Grant estimates for 2010 and 2011 were developed by the Center, based on the set of inputs identified in SB539 and trended forward based on the assumptions about the universal cost of an adequate education and the various aspects of transition adjustments.

The Future: Putting it All Together

The future budget situation – and the constraints that the next legislature will be working under – will depend critically on three factors. The first factor is spending. How future spending must change will largely be a function of how effective the previous spending reductions ordered by Governor and Legislature turn out to be. In our simulation models, we have assumed that 75% of those savings will be realized. It is hard, at this point, to assess how accurate this is. Estimates of these savings for 2008 will not be available until late October of 2008.

The second factor is the economy and its impact on revenues. As documented in our discussion of revenues, an economic recession could reduce the amount of revenues available to the state for the next biennium by as much as \$280 million dollars. Should the economy recover, and revenues continue to grow at historical levels, revenues could keep pace with expenditure growth, making the legislature's task in the next budget session less difficult. This however, seems quite unlikely. We have assumed that the state will experience a path of economic recovery similar to that experienced in 2001-2003.

The third factor is how the legislature will respond with new revenue initiatives, additional spending constraints, and use of the state's rainy day fund which can be used at the end of a biennium to balance the state's budget if necessary. It is this third factor which makes predicting the future so difficult. We provide a number of different models to help size the

potential budget problems for policy-makers. In these models, we vary our assumptions about expenditure growth from no growth to the historical average of 5.1% per year.

In our baseline model, we have projected the budget situation under current law, assuming that no spending or additional revenue initiatives beyond those currently in law are taken. In this current law scenario, we assume that budget savings projections are 75 percent of what they are estimated to be, that revenues follow the pattern we experienced in the 2001-2003 period, that the state bonds \$40 million dollars in school building aid in 2009, the tobacco tax increase goes into effect in 2009 and that general fund expenditures continue to increase at their historical rates. This is our baseline model and provides an assessment of what could happen, if no additional action were taken by the Legislature, a scenario which is not likely.

In all three scenarios, we assume that the rainy day fund is not used. For political reasons, it may be difficult for the Legislature to tap resources from rainy day fund. For purposes of discussion we include a current year estimate of the potential budget deficit, the state's fund balance (called the undesignated fund balance) and total equity, which nets out the rainy day fund.

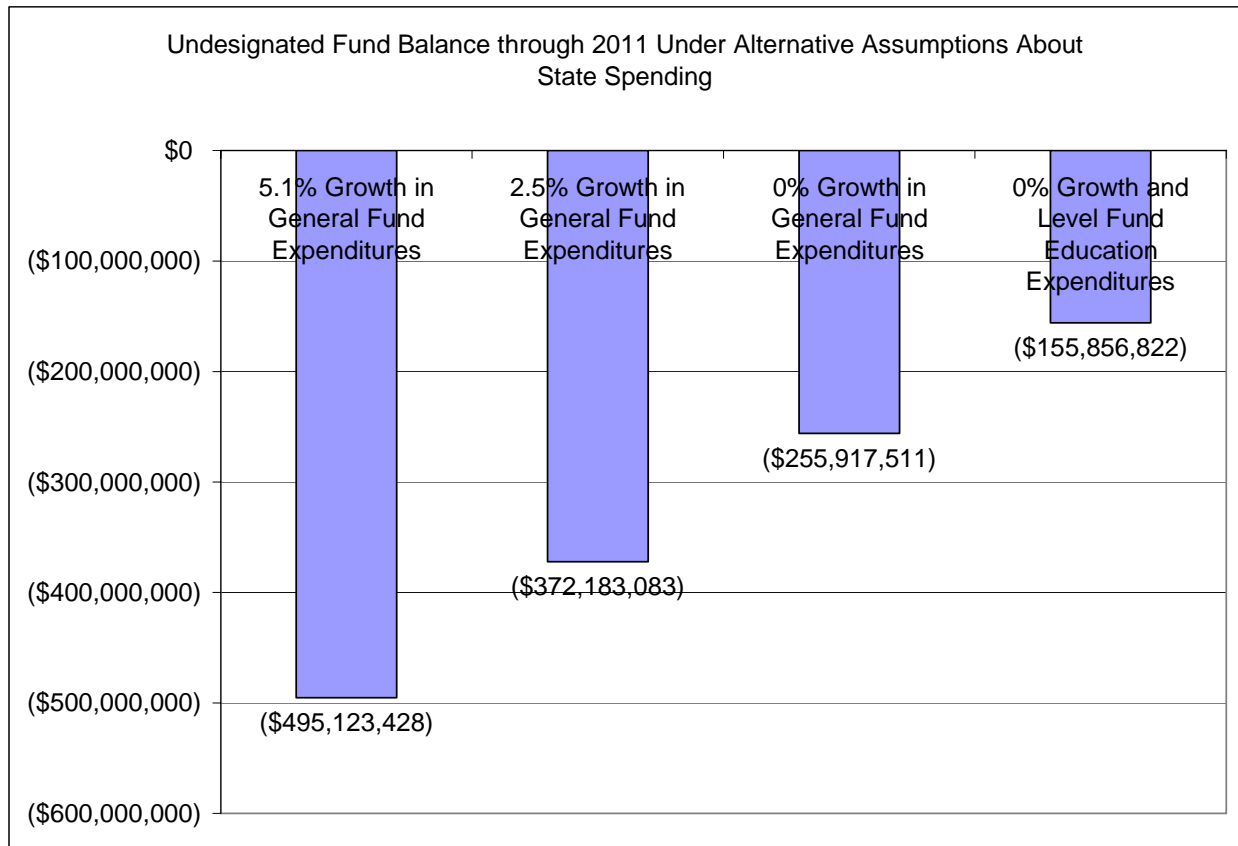
The baseline model is shown in Table 5 below. While the budget is anticipated to be in balance in 2008, given revenue and spending trends, the model predicts a deficit in 2009, 2010 and 2011 totaling almost \$500 million over the three years. The size of this deficit estimate is driven by a variety of different factors. Approximately 40% of this deficit is driven by the economic situation, where revenues growing at rates significantly below historical levels result in a declining revenue base. Another 20% is driven by growth in the state's obligation for local education costs. The remaining 40% is due to growth in spending.

Table 5

Estimated 2009 Budget Deficit with General Fund and Education Trust Fund: General Fund Spending Growth at 5.1% Per Year				
NH Center for Public Policy Studies Estimates				
	2008	2009	2010	2011
Undesignated Fund Balance	\$61,700,000	(\$0)	(\$84,032,878)	(\$268,925,873)
Appropriations (Spending)				
General Fund Appropriations (HB-1)	\$1,563,832,988	\$1,625,753,043	\$1,604,361,154	\$1,686,183,573
Education State AID (non-swept) Expenditures	\$527,360,565	\$ 527,360,567	\$576,018,841	\$578,762,982
Spending Additions				
Legislation Specials (and other Adjustments)	\$ 32,932,565	\$ 34,612,126	\$ 16,000,000	\$ 16,816,000
Spending Reductions	\$72,626,118	\$99,243,858	\$0	\$0
Executive Order Reductions				
Governor's Executive Order: 2008-1	\$2,890,500	\$2,890,500	\$0	\$0
Governor's Executive Order: 2008-2	\$34,774,828		\$0	\$0
Governor's Executive Order: 2008-9		\$22,561,358	\$0	\$0
Legislative Reductions (SB 321)				
Judicial Branch Reduction	\$1,000,000	\$1,600,000	\$0	\$0
Legislative Branch	\$1,000,000	\$500,000	\$0	\$0
Nursing Home Lapse		\$2,217,000	\$0	\$0
School Building Aid Bonding (If Necessary)	\$4,460,790	\$40,000,000	\$0	\$0
Required Lapse	\$28,500,000	\$29,475,000	\$0	\$0
Net Appropriations	\$2,051,500,000	\$2,088,481,878	\$2,180,379,995	\$2,264,946,555
Revenues				
Estimated Revenues (2001-2003) Model	\$1,979,800,000	\$1,977,800,000	\$1,968,838,000	\$2,012,100,000
Estimated Revenue Additions				
Tobacco Tax Increase (If Necessary)		\$18,374,000	\$18,374,000	\$18,374,000
Tax on Texas Hold 'em		\$675,000	\$675,000	\$675,000
Liquor Discount		\$7,600,000	\$7,600,000	\$7,600,000
Pease Payment	\$10,000,000			
Total Revenues	\$1,989,800,000	\$2,004,449,000	\$1,995,487,000	\$2,038,749,000
Current Year Balance	(\$0)	(\$84,032,878)	(\$184,892,995)	(\$226,197,555)
Undesignated Fund Balance	(\$0)	(\$84,032,878)	(\$268,925,873)	(\$495,123,428)
Rainy Day Fund	\$89,000,000	\$89,000,000	\$89,000,000	\$89,000,000
Total Equity	\$89,000,000	\$4,967,122	(\$179,925,873)	(\$406,123,428)
Revenue simulations assumes recession/recovery pattern of 2001-2003, with 2009 as the base year				
Undesignated Fund Balance from 2007 CAFR				
Legislative specials and other additions based on previous center work estimated at 2.1% of appropriations in in 08 and 09. Reductions in 2010 and 2011 to \$16 and \$16.8 million based on potential budget situation.				
Education Funding estimated based on Center's simulation of costing commission's work and existing law.				

Figure 3 provides an estimate of the undesignated fund balance through 2011 under different assumptions about growth in spending in the general fund and on education finance. Reducing growth in the general fund to ½ of historical levels would result in a deficit of almost \$372 million. Level funding general fund expenditures at the 2009 level through 2010 and 2011 would still result in a potential deficit of almost \$256 million. Even if the state level funded the general fund and the education trust fund at 2009 levels, the state can still anticipate a budget deficit of almost \$156 million.³ Of the four scenarios, the most likely range of potential issues is \$372 - \$495 million. It is reasonable to assume that general fund expenditures will not grow at historical rates given the increased constraints the Legislature and the Governor will face.

Figure 3



³ The data for these separate models are included in Appendix 4.

Discussion

This paper is not meant to predict what will happen in the future. Instead, it provides policymakers with an estimate of the scale of changes that will have to be implemented to balance the budget in the next biennium in the absence of a strong economic recovery. Economic changes are having a strong impact on the state's revenue streams, in turn putting pressure on the state to respond to a deficit. Many steps have already been taken including approximately \$100 million in estimated spending reductions and as much as \$50 million per year in additional revenues. These steps to date, however, are unlikely to meet the budgetary realities of 2010-2011.

How big this budget gap will be depends on a complicated set of interrelated trends and the actions of the legislature and the Governor. Understanding the budget situation in 2010 and 2011 requires an understanding of how the economy, and therefore revenues, is changing, how the Legislature's spending decisions will respond to those revenue changes, and how the state will use existing surpluses to offset any future budget deficits. In this analysis, we have used current law and current trends to provide a general sense of the budget situation in the coming biennium.

While this projection is only as precise as its assumptions, it does provide critical information on the relative magnitude of the problem. Under current law, the general and education trust fund deficit would rise to slightly more than \$495 million. This estimate assumes that we would experience an economic recovery similar to that experienced in 2001-2003. It also assumes that the legislature and governor do not respond to this situation, a scenario we know to be unlikely.

We also know that spending reductions alone are unlikely to resolve the problem. Even if the state budget were level funded at the 2009 level – that is, no growth in state spending on the broad set of services it provides and on financing local education – the state would still have a budget deficit of almost \$155 million.

What can be done? In many respects, the Center's projections of the budget problem in 2010-2011 are similar in size to the education funding problem the Legislature faced in 2000. At that time, the Legislature increased revenues by approximately \$400 million per year through a variety of new, and changes in old, taxes.

Conversations in the next legislative session about spending reductions – slowing growth rates in existing programs, deciding whether the state should privatize specific functions such as the lottery, liquor stores or the turnpike system as examples – will be an important part of any budget plan. The countercyclical nature of state budgets – the demand for state services increases while revenues to pay for those services decrease – and the size of the potential budgetary problem, however, will make it difficult to reduce spending sufficiently. The existing revenue structure is also insufficient to meet the budget obligations of the state in 2010 and 2011 unless there is a strong economic recovery. Any budgetary conversation will also, therefore, have to include discussions about revenues – further capitalization of the state's activities, increases in tax rates for unit taxes that have not grown with the economy, gambling, and the legacy tax as examples.

Appendix 1
Executive Order 2008-2: Governor's Budget Reductions

Department	Amount
Health and Human Services	\$22,489,000
Administrative Services	\$5,440,100
Education	\$3,295,000
Safety	\$3,266,034
Old Year Reserves	\$2,200,697
University System	\$2,000,000
Environmental Services	\$1,739,128
Community Technical College System	\$1,055,000
Corrections	\$976,102
Treasury Department	\$936,028
Revenue Administration	\$538,141
Adjutant General	\$445,000
Resources and Economic Development	\$399,500
Justice (AG)	\$320,000
Veterans Home	\$307,802
Judicial Council	\$150,987
Executive Office	\$150,365
Postsecondary Education Commission	\$145,000
Cultural Resources	\$143,500
Office of Information Technology	\$101,393
Secretary of State	\$70,000
Pari-Mutual Commission	\$65,000
Labor	\$40,003
Transportation	\$40,000
Christa McAuliffe Planetarium	\$21,394
Board of Tax and Land Appeals	\$11,724
Agriculture	\$5,635
Veterans Council	\$5,498
Commission on the Status of Women	\$4,544
Community Development Finance Authority	\$3,862
Total	\$46,366,437

Source: Executive Order 2008-2

Appendix 2
Executive Order 2008-9: Governor's Budget Reductions

Department	Amount
Health and Human Services	\$14,808,000
Education	\$4,035,000
Administrative Services	\$3,000,000
University System	\$2,500,000
Environmental Services	\$1,293,500
Corrections	\$1,233,133
Resources and Economic Development	\$578,500
Veterans Home	\$428,802
Treasury	\$410,033
Regional Community Tech College System	\$405,000
State Planning and Energy Program	\$332,977
Cultural Resources	\$182,000
Adjutant General	\$175,500
Revenue Administration	\$131,000
Liquor Commission	\$95,000
Executive Offices	\$71,740
Pari-Mutuel Commission	\$71,500
Safety	\$69,061
Labor	\$52,000
Transportation	\$45,500
Attorney General	\$44,180
Secretary of State	\$40,500
Christa McAuliffe Planetarium	\$25,991
Office of Information Technology	\$12,670
Commission on Disabilities	\$11,911
Agriculture	\$9,050
SOS - Attached Boards and Commission	\$6,892
Public Employers Labor Relations	\$5,260
CDFA	\$3,833
Manufactured Housing Board	\$1,027
Cosmetology and Barbers Board	\$1,000
Judicial Council	\$750
Tax and Land Appeals, Boards of	\$500
Total	\$30,081,810

Source: Executive Order 2008-9.

Appendix 3
Historic Growth Rates in General Fund Appropriations

State Budget Appropriations (1990 - 2009)			
Fund Source	Funds		% Change
	1990	2009	1990-2009
General Fund	\$628,895,885	\$1,625,753,043	5.1%
Federal Funds	\$355,850,576	\$1,507,005,507	7.9%
Other Funds	\$373,218,511	\$1,716,948,101	8.4%
Highway Funds	\$156,780,024	\$286,354,455	3.2%
Fish and Game Funds	\$5,972,319	\$12,562,280	4.0%
Sweepstakes Funds	\$3,585,601	\$8,810,152	4.8%
Turnpikes	\$36,074,999	\$78,579,342	4.2%
Total	\$1,560,377,915	\$5,236,012,880	6.6%

Source: HB1 from 1989 Through 2007

Appendix 4

Estimated 2009 Budget Deficit with General Fund and Education Trust Fund: General Fund Spending Growth at 2.5% Per Year				
NH Center for Public Policy Studies Estimates				
	2008	2009	2010	2011
Undesignated Fund Balance	\$61,700,000	(\$0)	(\$83,176,631)	(\$228,380,388)
Appropriations (Spending)				
General Fund Appropriations (HB-1)	\$1,563,832,988	\$1,625,753,043	\$1,564,671,915	\$1,603,788,713
Education State AID (non-swept) Expenditures	\$527,360,565	\$ 527,360,567	\$576,018,841	\$578,762,982
Spending Additions				
Legislation Specials (and other Adjustments)	\$ 32,932,565	\$ 33,755,879	\$ 16,000,000	\$ 16,400,000
Spending Reductions	\$72,626,118	\$99,243,858	\$0	\$0
Executive Order Reductions				
Governor's Executive Order: 2008-1	\$2,890,500	\$2,890,500	\$0	\$0
Governor's Executive Order: 2008-2	\$34,774,828		\$0	\$0
Governor's Executive Order: 2008-9		\$22,561,358	\$0	\$0
Legislative Reductions (SB 321)				
Judicial Branch Reduction	\$1,000,000	\$1,600,000	\$0	\$0
Legislative Branch	\$1,000,000	\$500,000	\$0	\$0
Nursing Home Lapse		\$2,217,000	\$0	\$0
School Building Aid Bonding (If Necessary)	\$4,460,790	\$40,000,000	\$0	\$0
Required Lapse	\$28,500,000	\$29,475,000	\$0	\$0
Net Appropriations	\$2,051,500,000	\$2,087,625,631	\$2,140,690,756	\$2,182,551,695
Revenues				
Estimated Revenues (2001-2003) Model	\$1,979,800,000	\$1,977,800,000	\$1,968,838,000	\$2,012,100,000
Estimated Revenue Additions				
Tobacco Tax Increase (If Necessary)		\$18,374,000	\$18,374,000	\$18,374,000
Tax on Texas Hold 'em		\$675,000	\$675,000	\$675,000
Liquor Discount		\$7,600,000	\$7,600,000	\$7,600,000
Pease Payment	\$10,000,000			
Total Revenues	\$1,989,800,000	\$2,004,449,000	\$1,995,487,000	\$2,038,749,000
Current Year Balance	(\$0)	(\$83,176,631)	(\$145,203,756)	(\$143,802,695)
Undesignated Fund Balance	(\$0)	(\$83,176,631)	(\$228,380,388)	(\$372,183,083)
Rainy Day Fund	\$89,000,000	\$89,000,000	\$89,000,000	\$89,000,000
Total Equity	\$89,000,000	\$5,823,369	(\$139,380,388)	(\$283,183,083)
Revenue simulations assumes recession/recovery pattern of 2001-2003, with 2009 as the base year				
Undesignated Fund Balance from 2007 CAFR				
Legislative specials and other additions based on previous center work estimated at 2.1% of appropriations in in 08 and 09. Reductions in 2010 and 2011 to \$16 and \$16.8 million based on potential budget situation.				
Education Funding estimated based on Center's simulation of costing commission's work and existing law.				

Estimated 2009 Budget Deficit with General Fund and Education Trust Fund: General Fund Spending Growth at 0% Per Year				
NH Center for Public Policy Studies Estimates				
	2008	2009	2010	2011
Undesignated Fund Balance	\$61,700,000	(\$0)	(\$82,353,317)	(\$189,394,344)
Appropriations (Spending)				
General Fund Appropriations (HB-1)	\$1,563,832,988	\$1,625,753,043	\$1,526,509,186	\$1,526,509,186
Education State AID (non-swept) Expenditures	\$527,360,565	\$ 527,360,567	\$576,018,841	\$578,762,982
Spending Additions				
Legislation Specials (and other Adjustments)	\$ 32,932,565	\$ 32,932,565	\$ 16,000,000	\$ 16,000,000
Spending Reductions	\$72,626,118	\$99,243,858	\$0	\$0
Executive Order Reductions				
Governor's Executive Order: 2008-1	\$2,890,500	\$2,890,500	\$0	\$0
Governor's Executive Order: 2008-2	\$34,774,828		\$0	\$0
Governor's Executive Order: 2008-9		\$22,561,358	\$0	\$0
Legislative Reductions (SB 321)				
Judicial Branch Reduction	\$1,000,000	\$1,600,000	\$0	\$0
Legislative Branch	\$1,000,000	\$500,000	\$0	\$0
Nursing Home Lapse		\$2,217,000	\$0	\$0
School Building Aid Bonding (If Necessary)	\$4,460,790	\$40,000,000	\$0	\$0
Required Lapse	\$28,500,000	\$29,475,000	\$0	\$0
Net Appropriations	\$2,051,500,000	\$2,086,802,317	\$2,102,528,027	\$2,105,272,168
Revenues				
Estimated Revenues (2001-2003) Model	\$1,979,800,000	\$1,977,800,000	\$1,968,838,000	\$2,012,100,000
Estimated Revenue Additions				
Tobacco Tax Increase (If Necessary)		\$18,374,000	\$18,374,000	\$18,374,000
Tax on Texas Hold 'em		\$675,000	\$675,000	\$675,000
Liquor Discount		\$7,600,000	\$7,600,000	\$7,600,000
Pease Payment	\$10,000,000			
Total Revenues	\$1,989,800,000	\$2,004,449,000	\$1,995,487,000	\$2,038,749,000
Current Year Balance	(\$0)	(\$82,353,317)	(\$107,041,027)	(\$66,523,168)
Undesignated Fund Balance	(\$0)	(\$82,353,317)	(\$189,394,344)	(\$255,917,511)
Rainy Day Fund	\$89,000,000	\$89,000,000	\$89,000,000	\$89,000,000
Total Equity	\$89,000,000	\$6,646,683	(\$100,394,344)	(\$166,917,511)
Revenue simulations assumes recession/recovery pattern of 2001-2003, with 2009 as the base year				
Undesignated Fund Balance from 2007 CAFR				
Legislative specials and other additions based on previous center work estimated at 2.1% of appropriations in in 08 and 09. Reductions in 2010 and 2011 to \$16 and \$16.8 million based on potential budget situation.				
Education Funding estimated based on Center's simulation of costing commission's work and existing law.				

Estimated 2009 Budget Deficit with General Fund and Education Trust Fund: General Fund Spending Growth at 0% Per Year and Level Funding Education Expenditures				
NH Center for Public Policy Studies Estimates				
	2008	2009	2010	2011
Undesignated Fund Balance	\$61,700,000	(\$0)	(\$82,353,317)	(\$140,736,070)
Appropriations (Spending)				
General Fund Appropriations (HB-1)	\$1,563,832,988	\$1,625,753,043	\$1,526,509,186	\$1,526,509,186
Education State AID (non-swept) Expenditures	\$527,360,565	\$ 527,360,567	\$ 527,360,567	\$ 527,360,567
Spending Additions				
Legislation Specials (and other Adjustments)	\$ 32,932,565	\$ 32,932,565	\$ 16,000,000	\$ 16,000,000
Spending Reductions	\$72,626,118	\$99,243,858	\$0	\$0
Executive Order Reductions				
Governor's Executive Order: 2008-1	\$2,890,500	\$2,890,500	\$0	\$0
Governor's Executive Order: 2008-2	\$34,774,828		\$0	\$0
Governor's Executive Order: 2008-9		\$22,561,358	\$0	\$0
Legislative Reductions (SB 321)				
Judicial Branch Reduction	\$1,000,000	\$1,600,000	\$0	\$0
Legislative Branch	\$1,000,000	\$500,000	\$0	\$0
Nursing Home Lapse		\$2,217,000	\$0	\$0
School Building Aid Bonding (If Necessary)	\$4,460,790	\$40,000,000	\$0	\$0
Required Lapse	\$28,500,000	\$29,475,000	\$0	\$0
Net Appropriations	\$2,051,500,000	\$2,086,802,317	\$2,053,869,753	\$2,053,869,753
Revenues				
Estimated Revenues (2001-2003) Model	\$1,979,800,000	\$1,977,800,000	\$1,968,838,000	\$2,012,100,000
Estimated Revenue Additions				
Tobacco Tax Increase (If Necessary)		\$18,374,000	\$18,374,000	\$18,374,000
Tax on Texas Hold 'em		\$675,000	\$675,000	\$675,000
Liquor Discount		\$7,600,000	\$7,600,000	\$7,600,000
Pease Payment	\$10,000,000			
Total Revenues	\$1,989,800,000	\$2,004,449,000	\$1,995,487,000	\$2,038,749,000
Current Year Balance	(\$0)	(\$82,353,317)	(\$58,382,753)	(\$15,120,753)
Undesignated Fund Balance	(\$0)	(\$82,353,317)	(\$140,736,070)	(\$155,856,822)
Rainy Day Fund	\$89,000,000	\$89,000,000	\$89,000,000	\$89,000,000
Total Equity	\$89,000,000	\$6,646,683	(\$51,736,070)	(\$66,856,822)
Revenue simulations assumes recession/recovery pattern of 2001-2003, with 2009 as the base year				
Undesignated Fund Balance from 2007 CAFR				
Legislative specials and other additions based on previous center work estimated at 2.1% of appropriations in in 08 and 09. Reductions in 2010 and 2011 to \$16 and \$16.8 million based on potential budget situation.				

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