



# **New Hampshire State Spending in A National Context**

## **Summit on Spending 10/27/2009**

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Director, NHCPPS

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



## 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

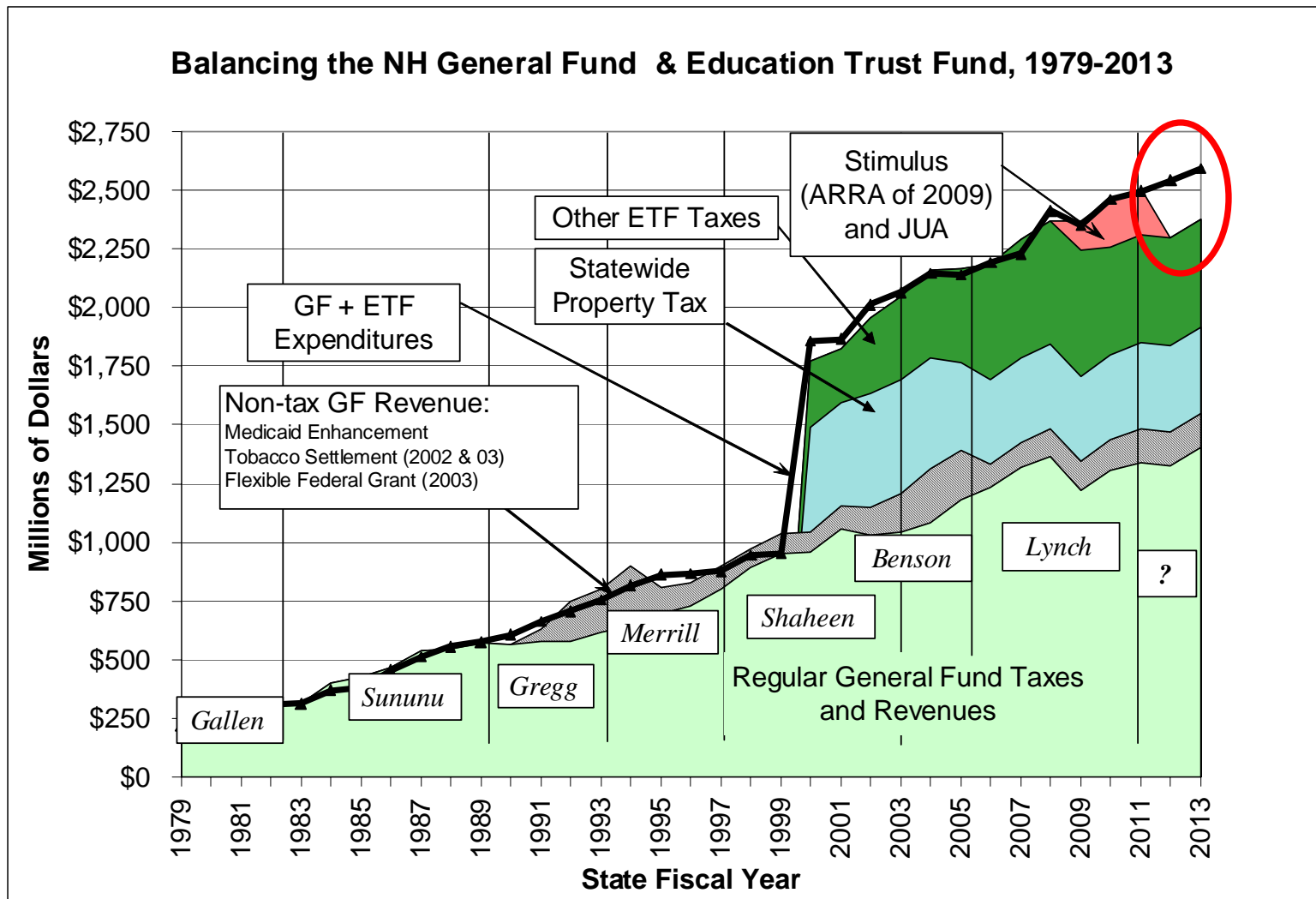
Biennium	Total Funds		% Change from Previous Biennium
	Total		
1990-1991	\$3,241,416,227		
1992-1993	\$3,875,303,225		20%
1994-1995	\$4,942,998,832		28%
1996-1997	\$5,142,648,273		4%
1998-1999	\$5,589,662,183		9%
2000-2001	\$5,498,717,018		-2%
2002-2003	\$7,801,747,846		42%
2004-2005	\$8,914,499,078		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.

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# Education Funding

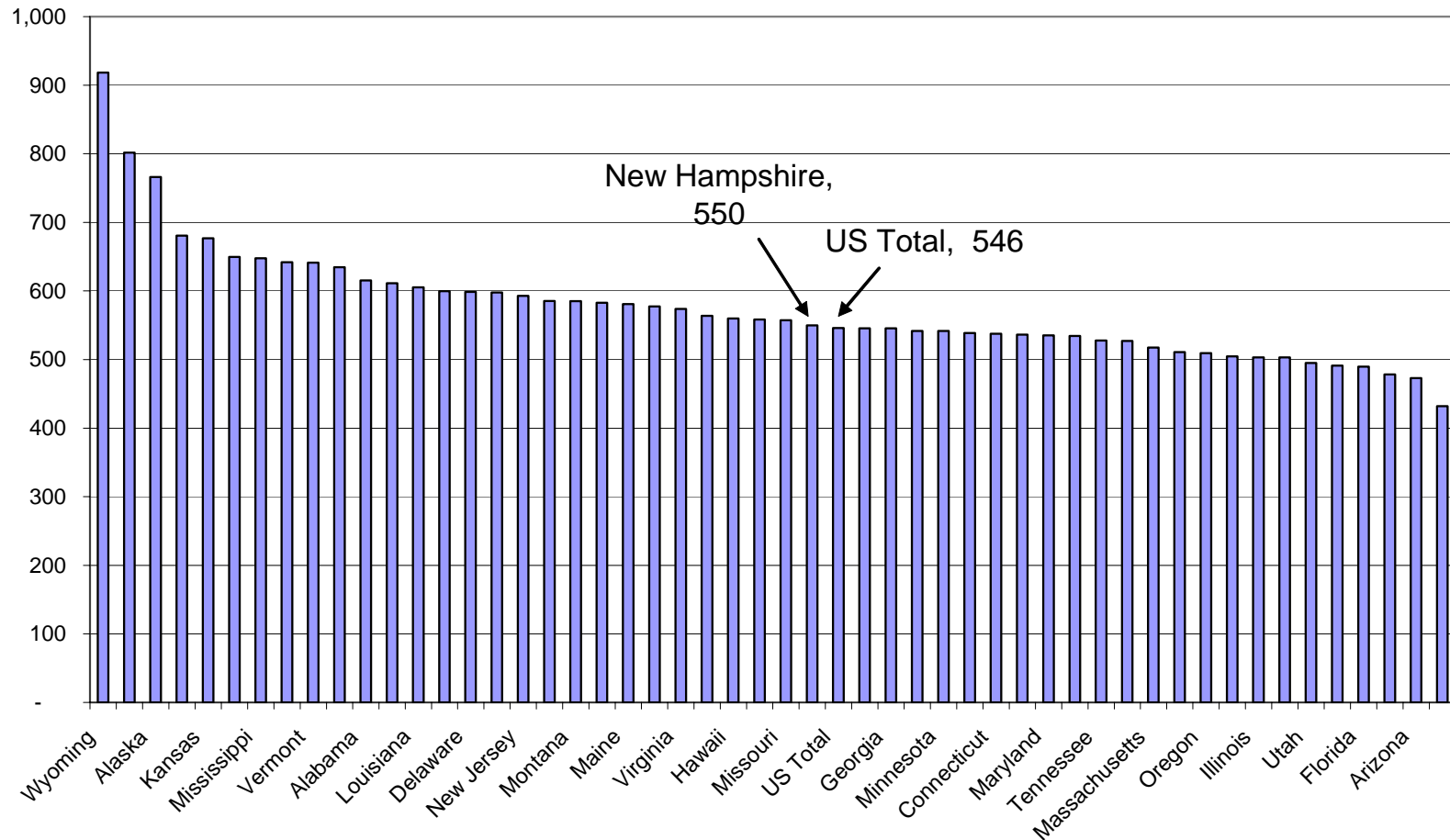


# Why Engage in These Summits?

- Revenues have declined considerably and spending has increased, though at slightly less than historic rates.
- Potential budget hole (this) next biennium will likely require hard choices.
- Size of the budget hole (and steps necessary) a function of
  - JUA decisions
  - Continuation of enhanced FMAP
  - Economic recovery
  - Existing efforts at controlling spending

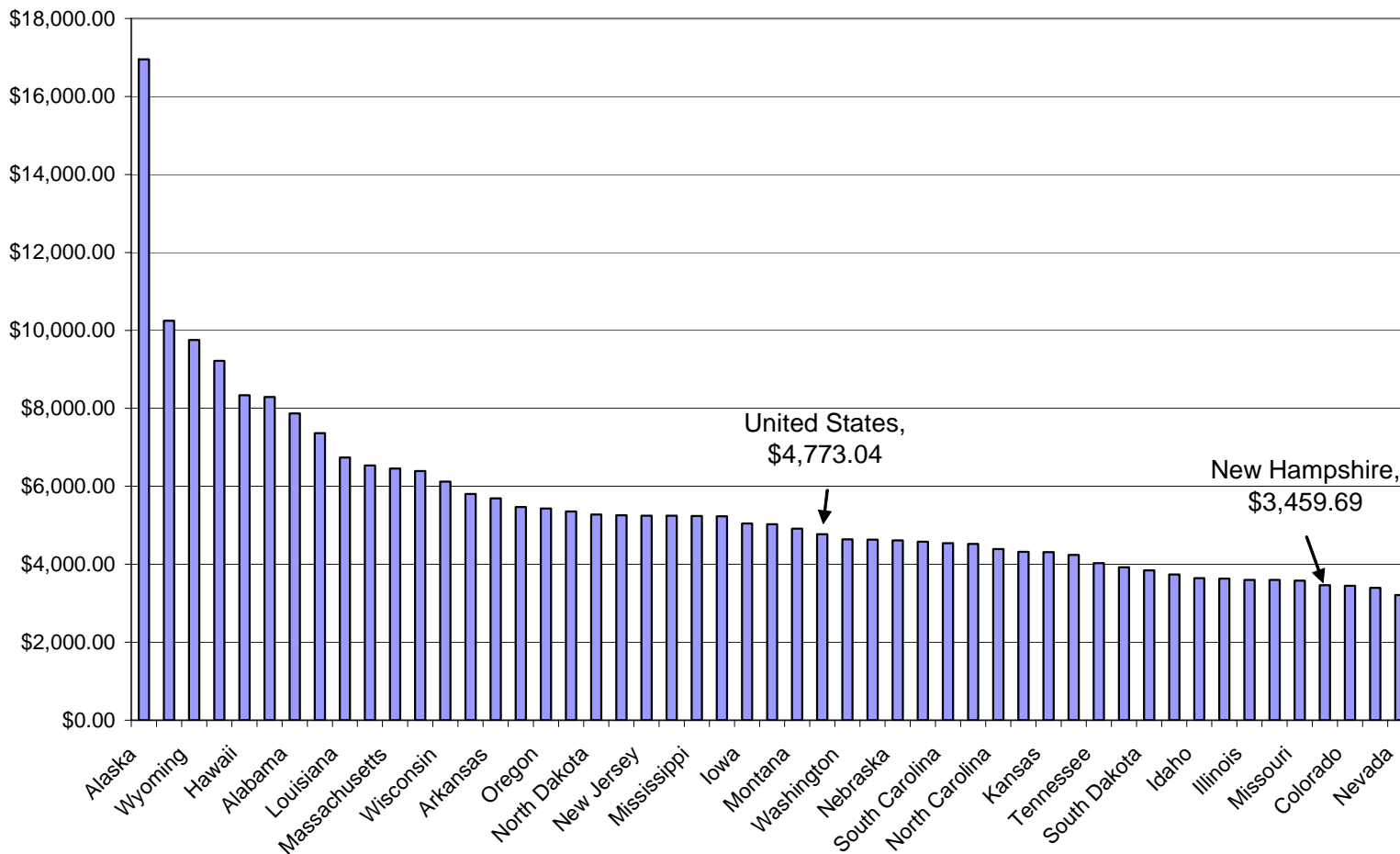
# The Size of Government (Employees) -- 2007

State and Local Employees FTEs per 10,000 Residents  
 (Source: Tax Foundation)



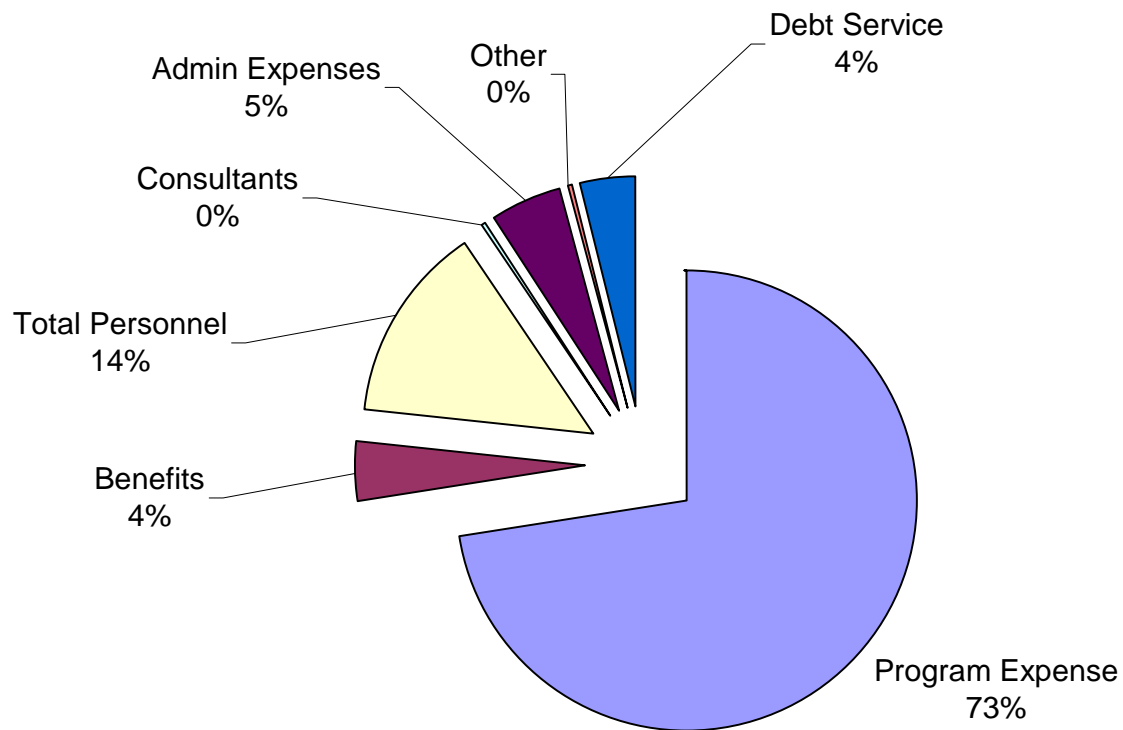
# Size of State Government (Spending)

Total State Expenditures per Capita, SFY2007



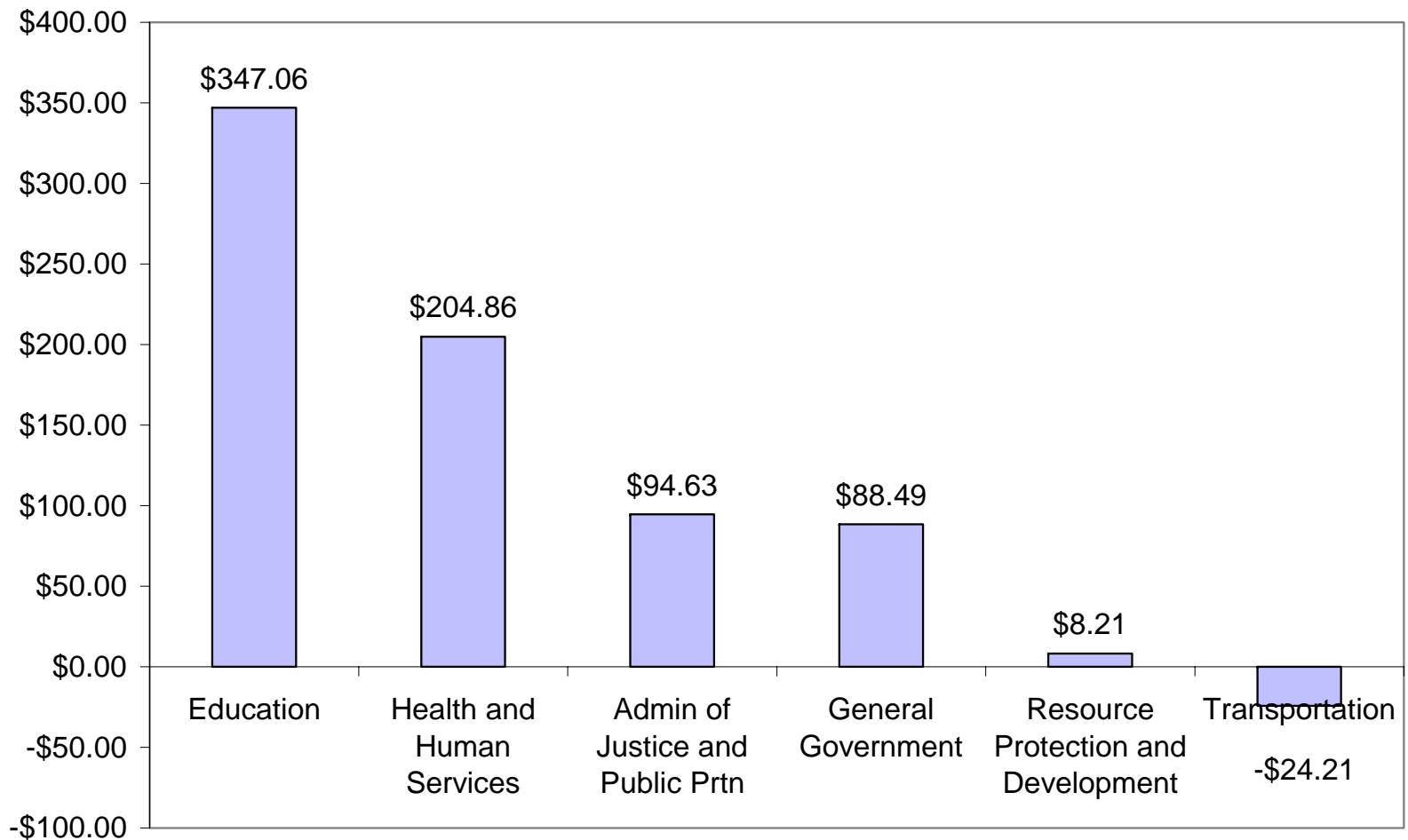
# Where Do We spend?

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



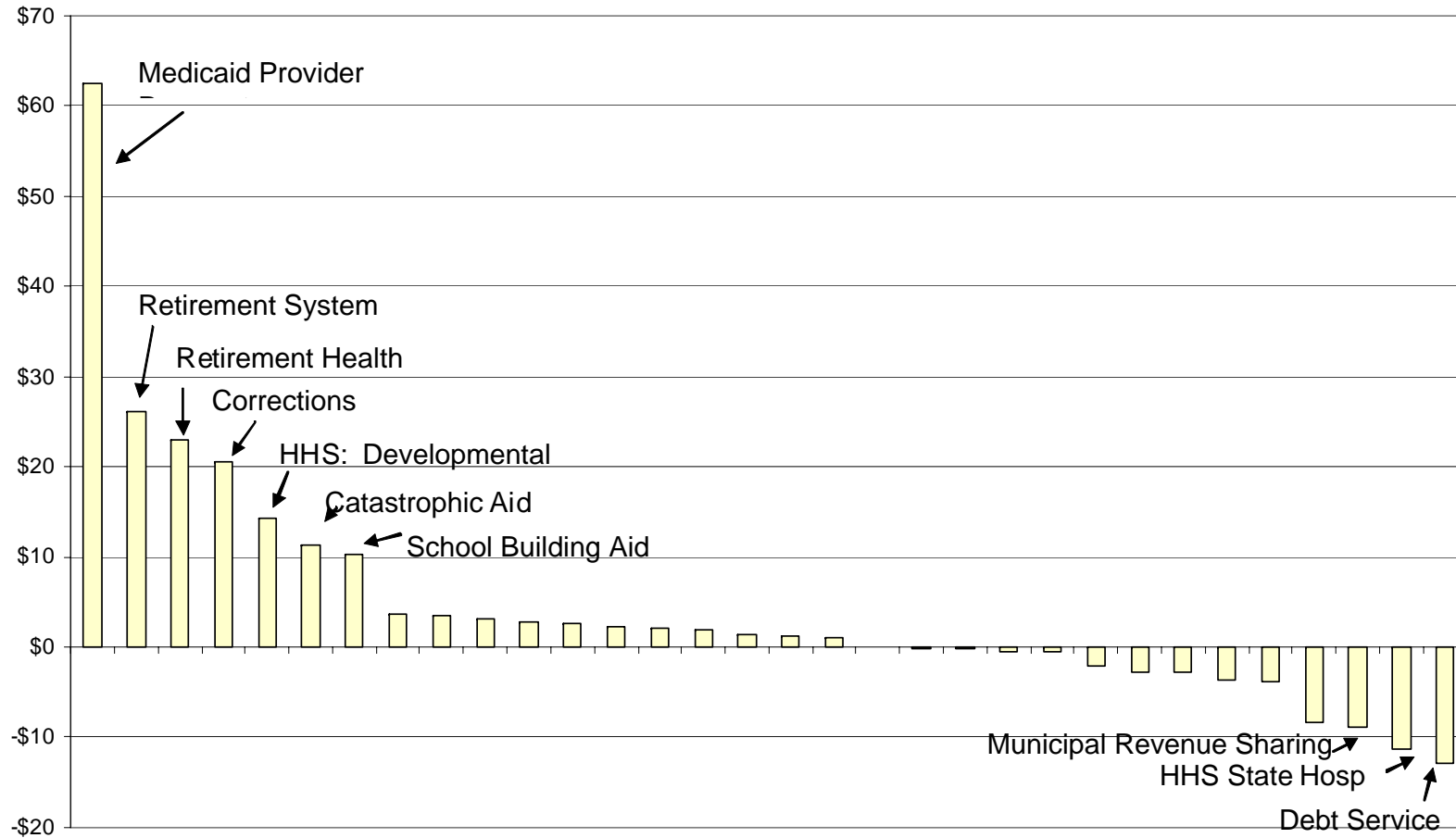
# What is Driving Total Fund Spending?

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



# And General Fund Spending Only?

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



## In other words

- If you really want to control spending (and demand for taxes) you must focus on
  - Education (adequacy, school building aid, catastrophic aid)
  - The Medicaid Program
  - The Corrections System
  - The Retirement System
  - Constraints on hiring, travel, purchasing (e.g. Governor's Executive Order)

# Levels of budget compulsion and discretion

Most

- **Federal constitution**
  - (e.g., elections for federal offices)
- **State constitution**
  - (e.g., indigent defense, Secretary of State, adequate education)
- **Federal law or regulation – mandate on all**
  - (e.g., special education)
- **Federal law or regulation - quid pro quo**
  - (e.g., Medicaid, child care, vocational rehabilitation)
- **Court order against the State**
  - (e.g., state prison system, community developmental services, juvenile services)
- **State law mandating the activity**
  - (e.g., vital records, parole board hearings, dam inspections)
- **Revenue-producing and deficit-neutral activities**
  - (e.g., DRA auditors, child support enforcement, liquor stores)
- **State or federal law authorizing activity**
  - (e.g., school building aid, hunter education program)
- **Agency regulation authorizing activity**
  - (e.g., complaint investigations at the Veteran's Home)
- **Historic practice without specific authority in law or regulation**
  - (e.g., National Governor's Association & NCSL dues and meetings)

Least

# What's a Reduction in Spending?

- Real Spending Reductions
  - Transform a system (lower the per unit cost of the delivery system)
  - Reduce controllable line items (aka Gov Lynch's Executive Orders)
  - Eliminate programs (e.g., cancer program, MOP, Brain Injury Unit at NH Hospital) and associated expenditures.
  - Reduce eligibility (e.g., disability definition), payments or reimbursements
  - Nickle-and-dime suggestions good, but not large, and mainly for sound-bites (e.g., reduce number of liquor commissioners, out of state travel)
- Partially real
  - Shift start date for program (e.g., change in definition of disability for APTD)
  - Plan to withhold payment of bills at end of the year (e.g., Medicaid payments to hospitals and other providers)
- Not so real ways of reducing spending
  - Reduce appropriations in areas where spending will occur anyway (e.g. indigent defense, youth "settlement" services, nursing homes, entitlement programs such as the Medicaid benefit for mental health)
- Is eliminating the distribution of local aid, changing state contributions to retirement, or changes in school-building aid a reduction in spending?



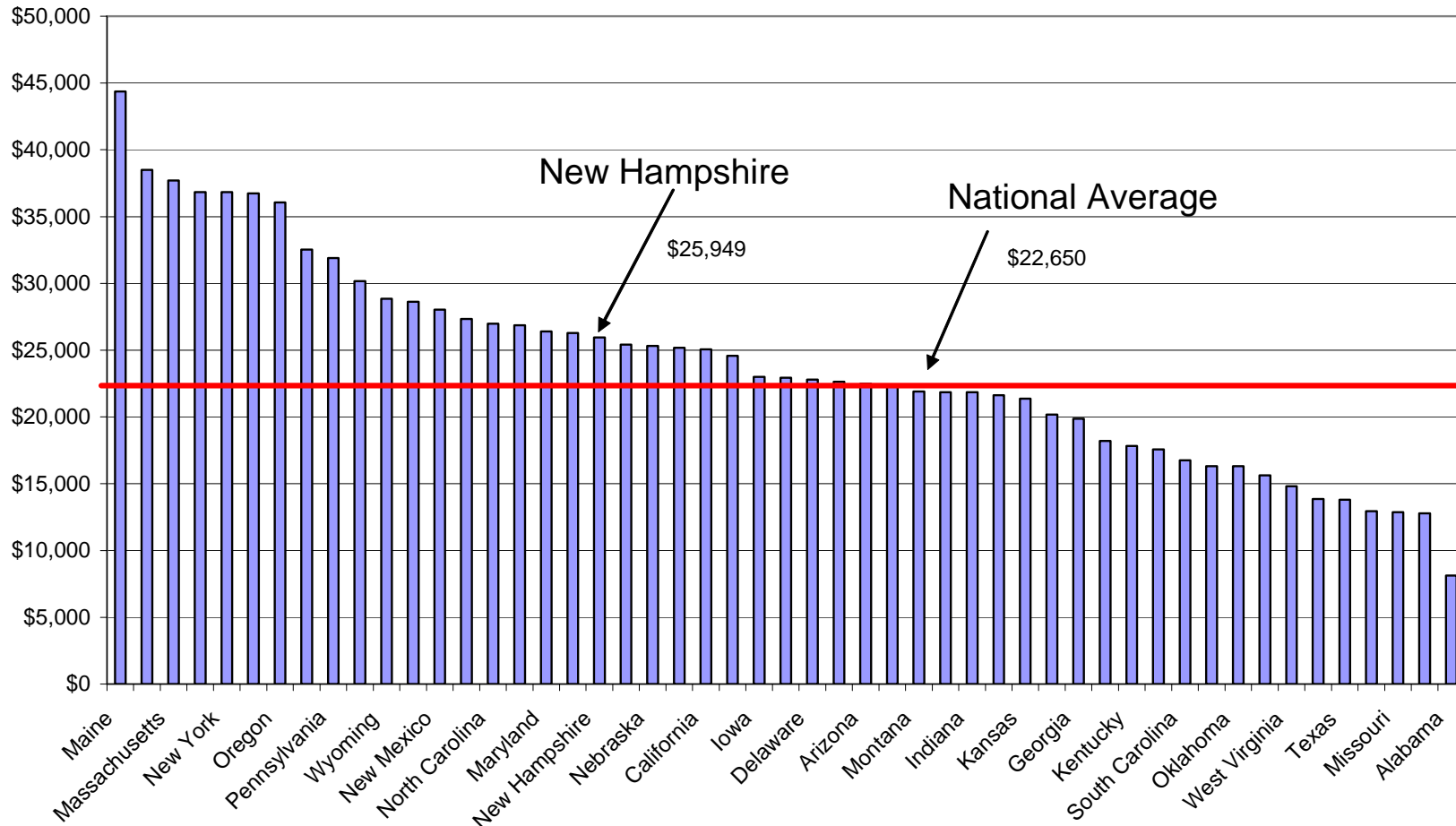
# The Questions

- 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 Finances<sup>4</sup>

# Prison Operating Costs

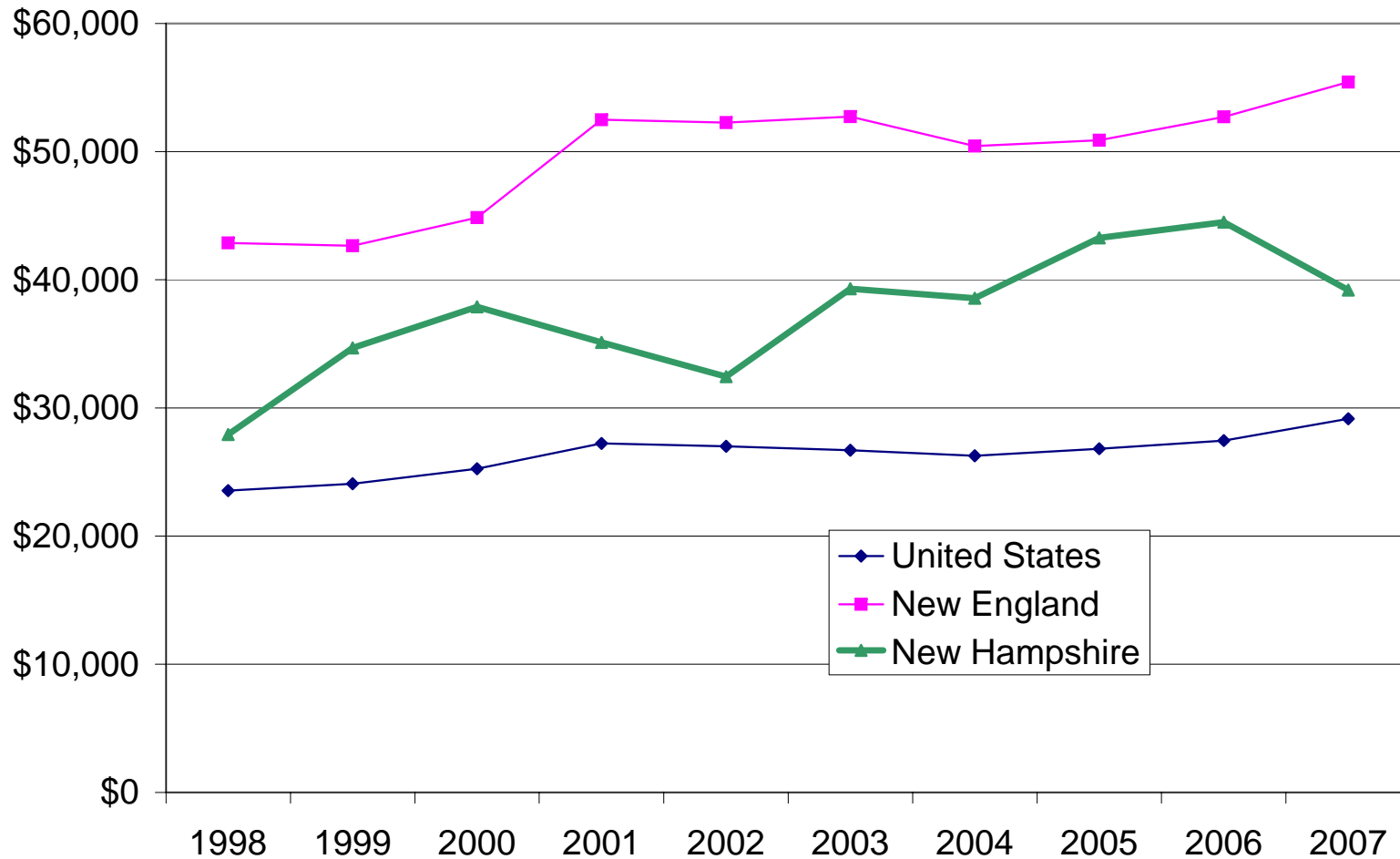
## Prison Operating Costs Expenditures Per Inmate (2001)

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



# State Corrections System

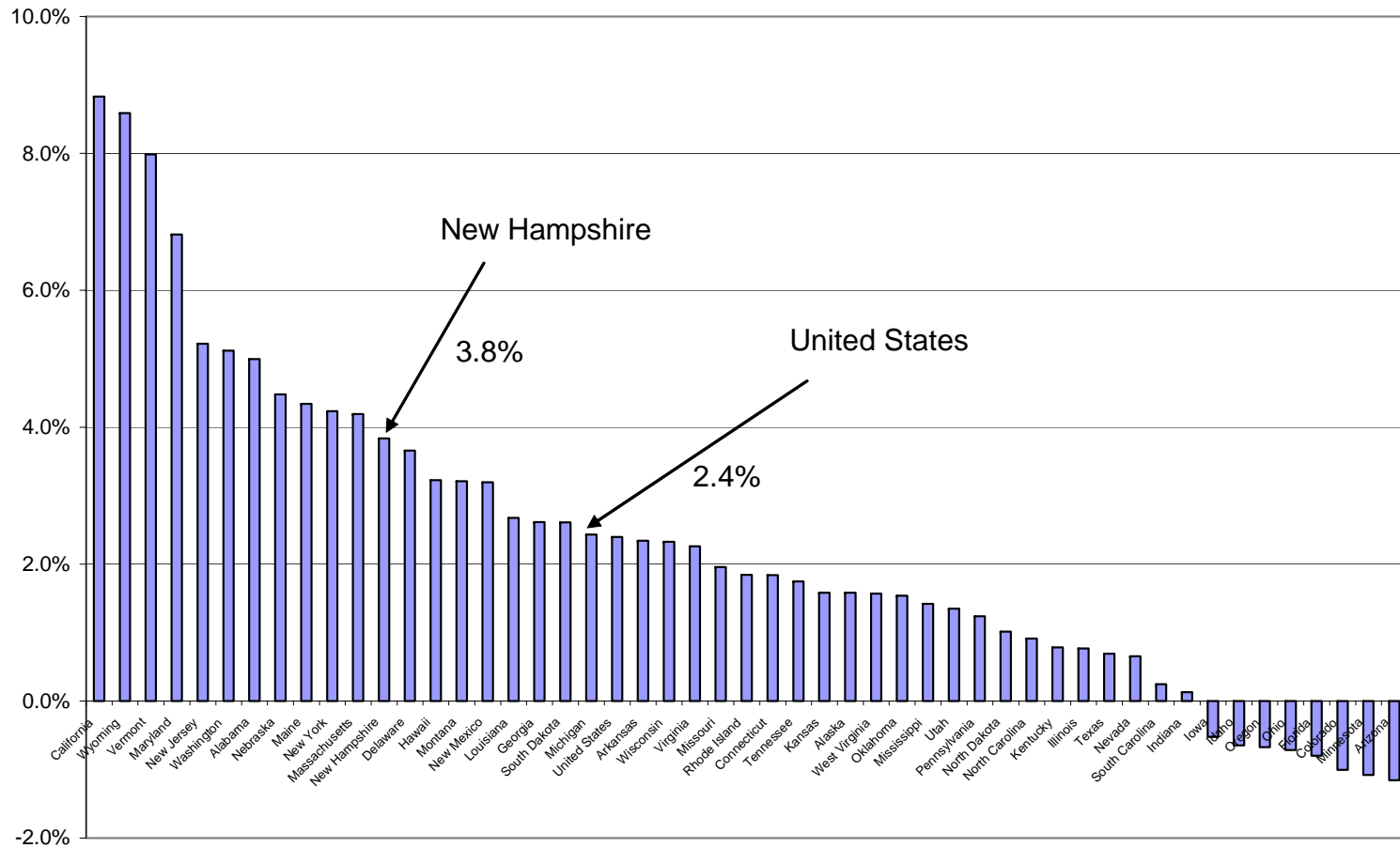
State Corrections Expenditures per Inmate



Source: NHCPPS Analysis of Census data on Government Finance

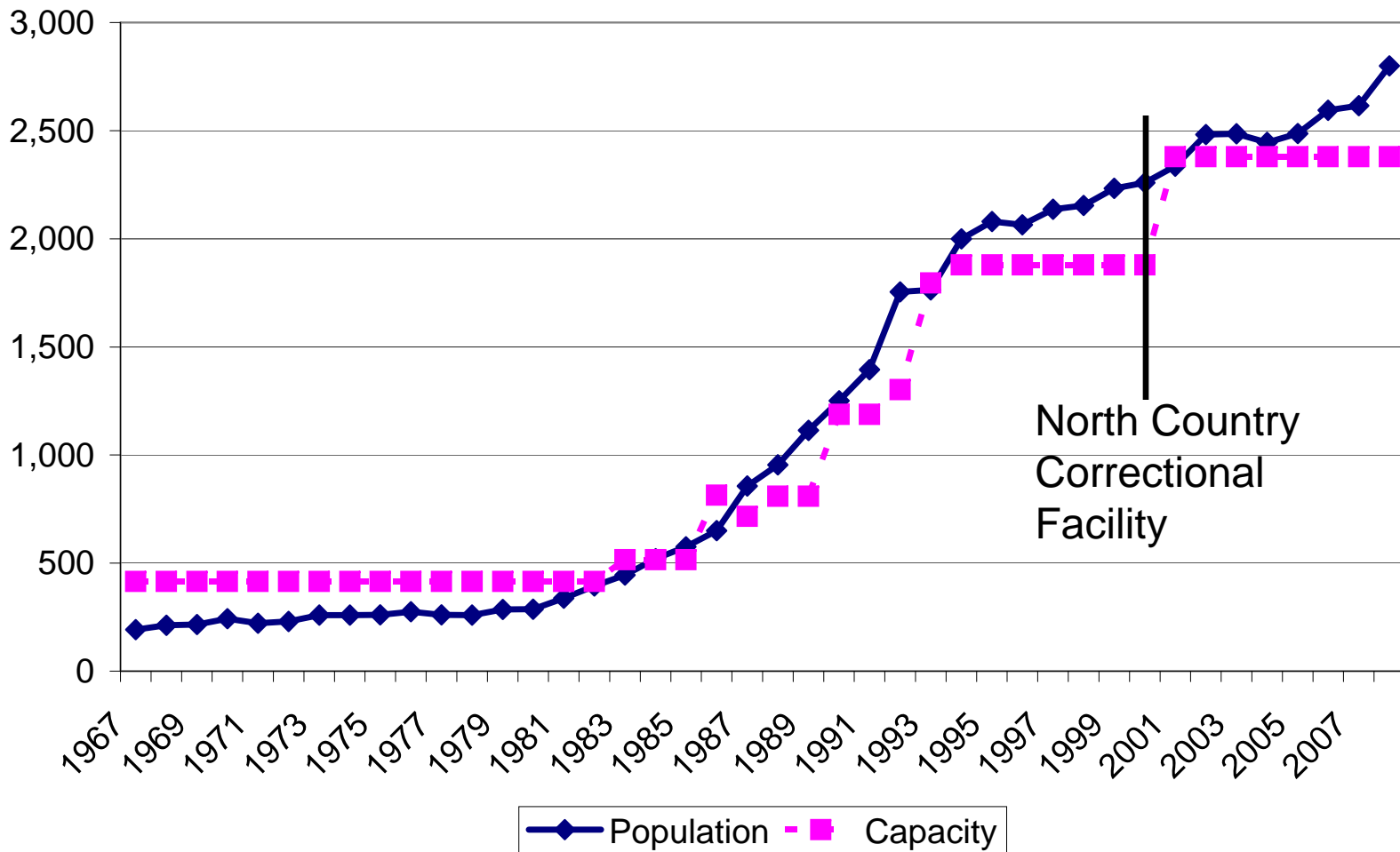
# Change in Spending

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



# Are We at a 3 Biennium Decision Point. Build a New Prison?

NH State Prison System

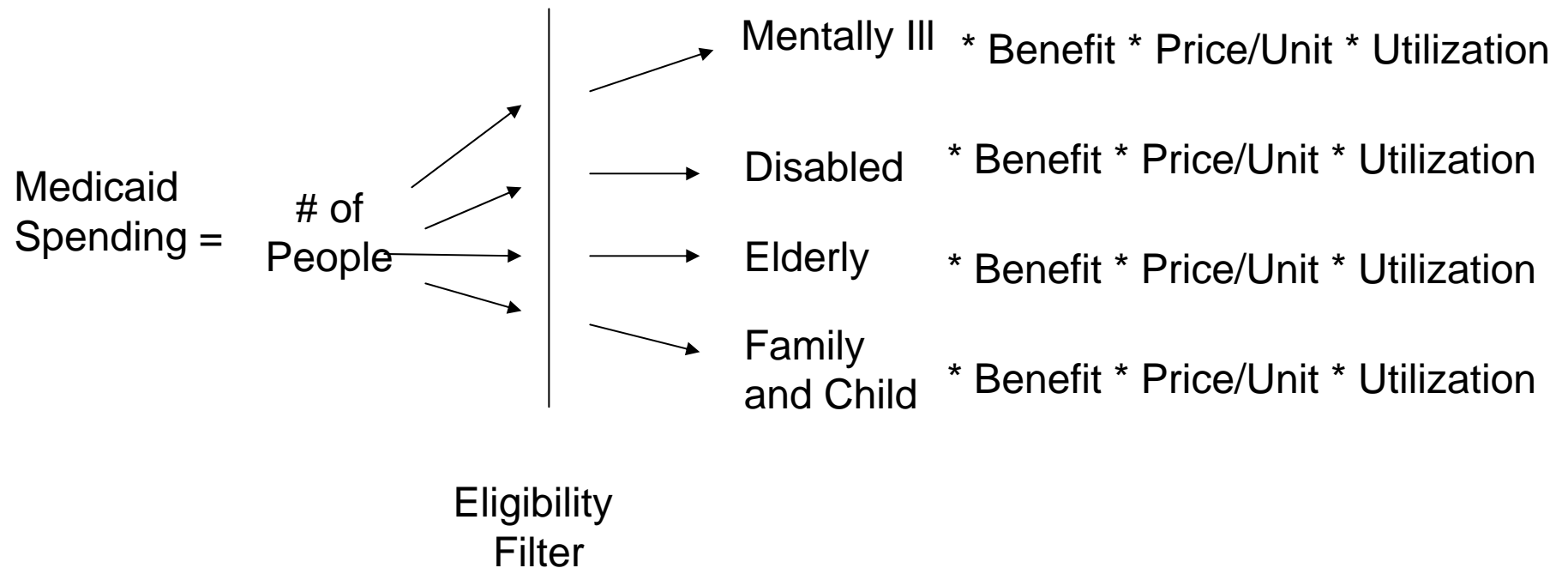




# We are not without options

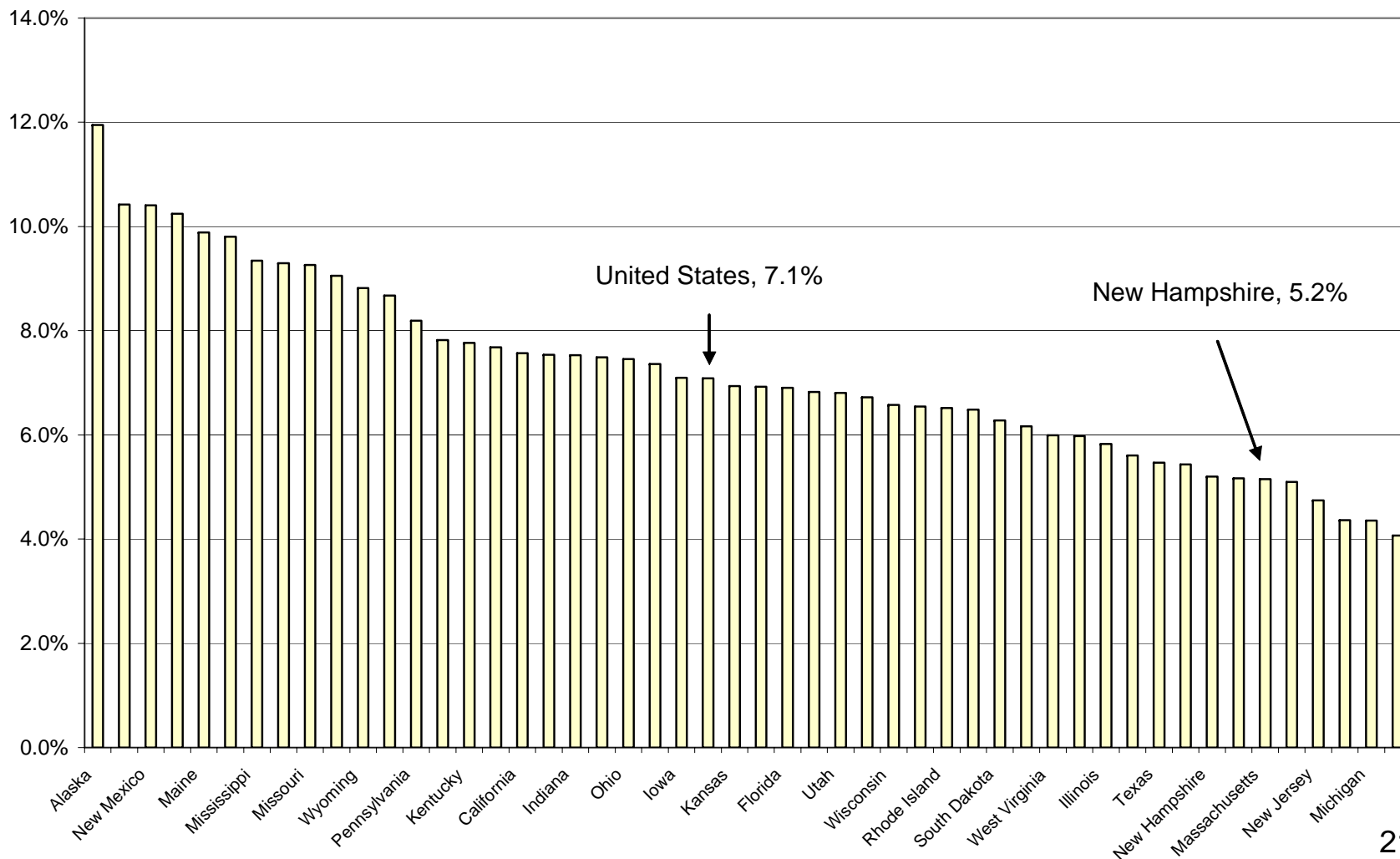
- Understand the issues associated with recidivism (Pew and the Justice Reinvestment Project).
- Review the state criminal justice code to ensure that the state has struck the right balance between public safety and incarceration.
- Continue to review and analyze the implementation of alternatives to 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.

# How Does Medicaid Work?



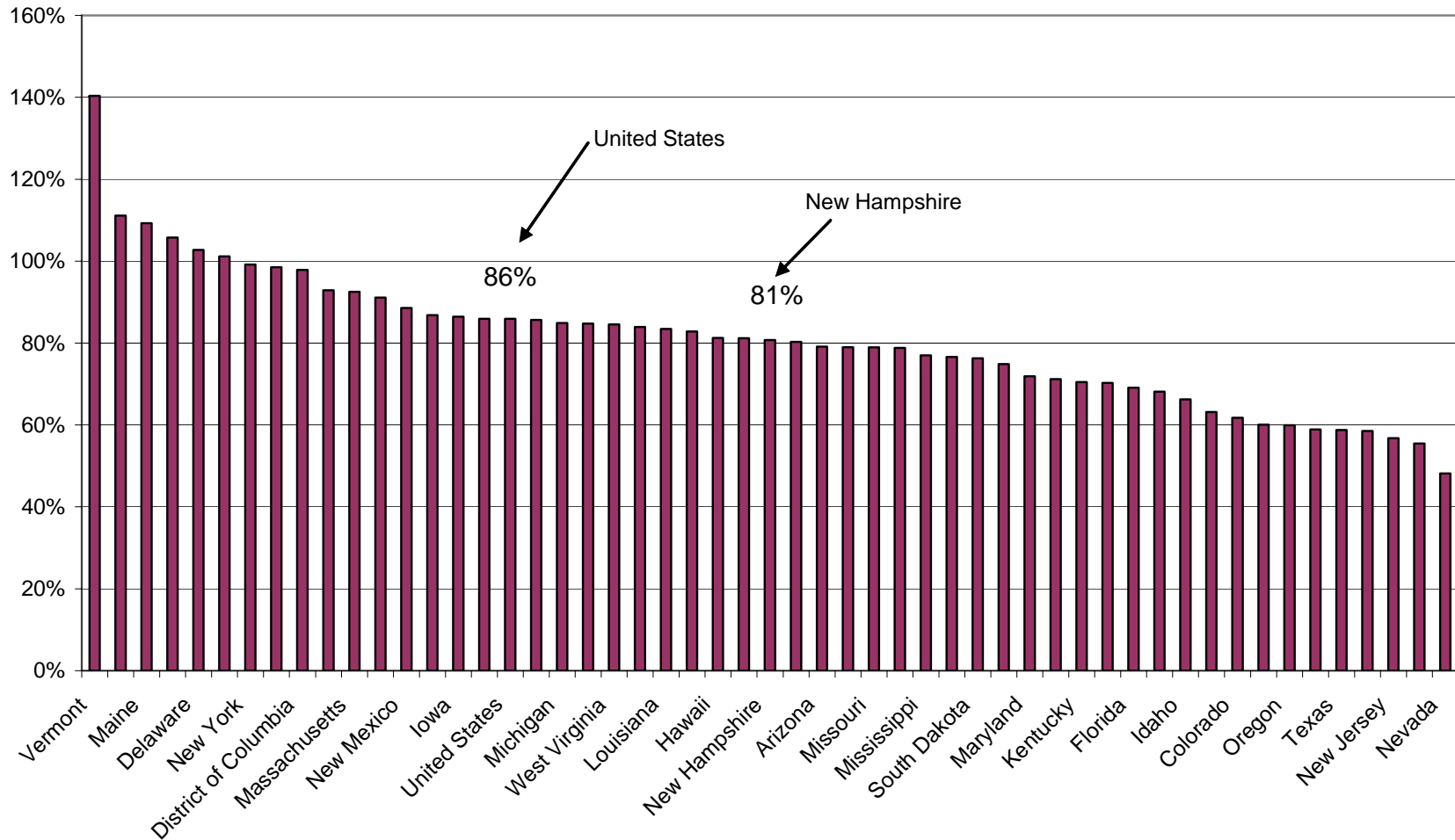
# Growth in Medicaid

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



# Eligibility Generosity?

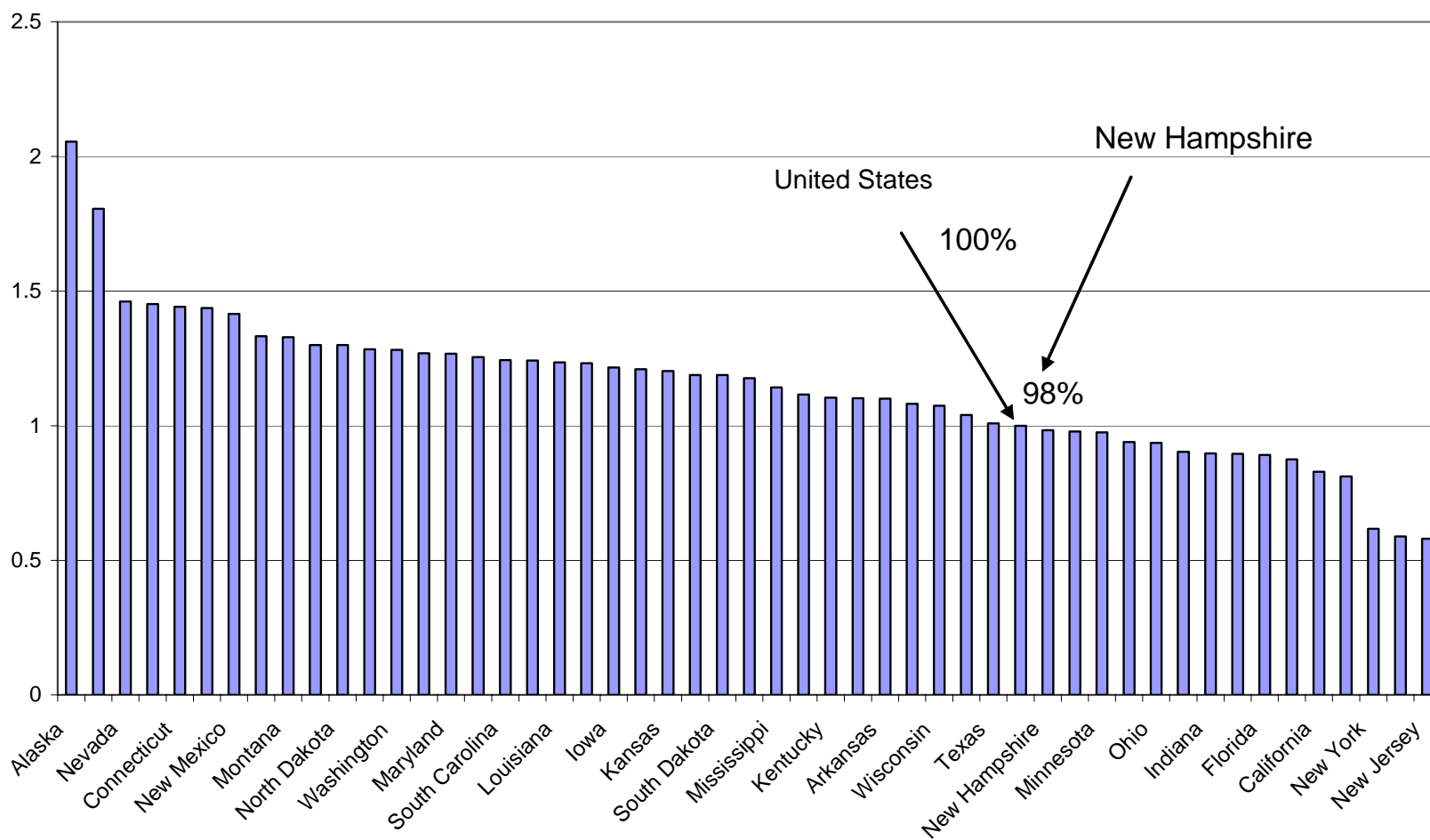
Medicaid Enrollees Per Person in Poverty  
 (Income <133% of Federal Poverty Level)



Source: NH Center for Public Policy Analysis of Medicaid Enrollment Data from [www.statehealthfacts.org](http://www.statehealthfacts.org)

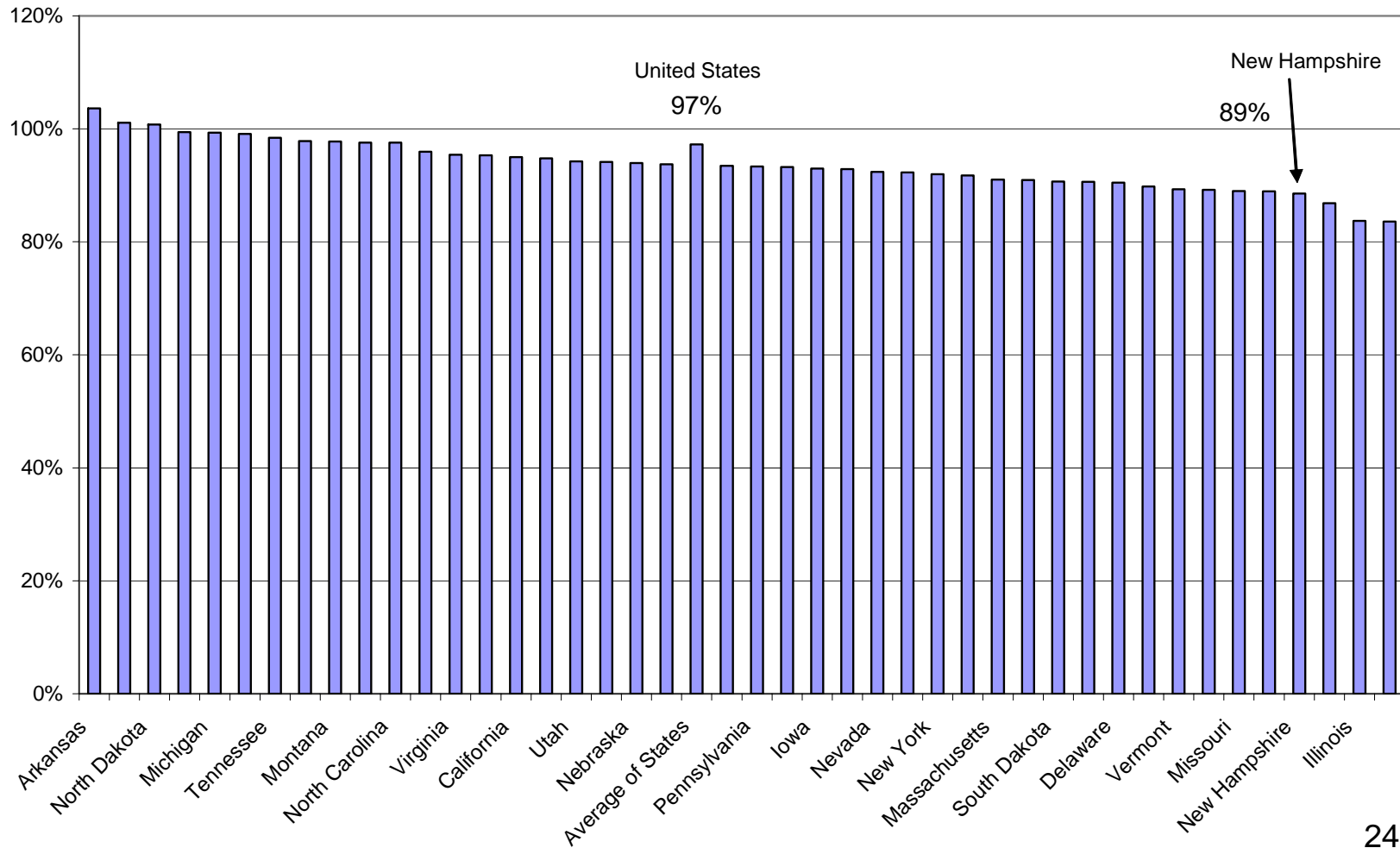
# Reimbursement (Physicians)

**Medicaid Physician Payment Index  
 Percent of National Average**



# 2008 Reimbursement (Nursing Homes)

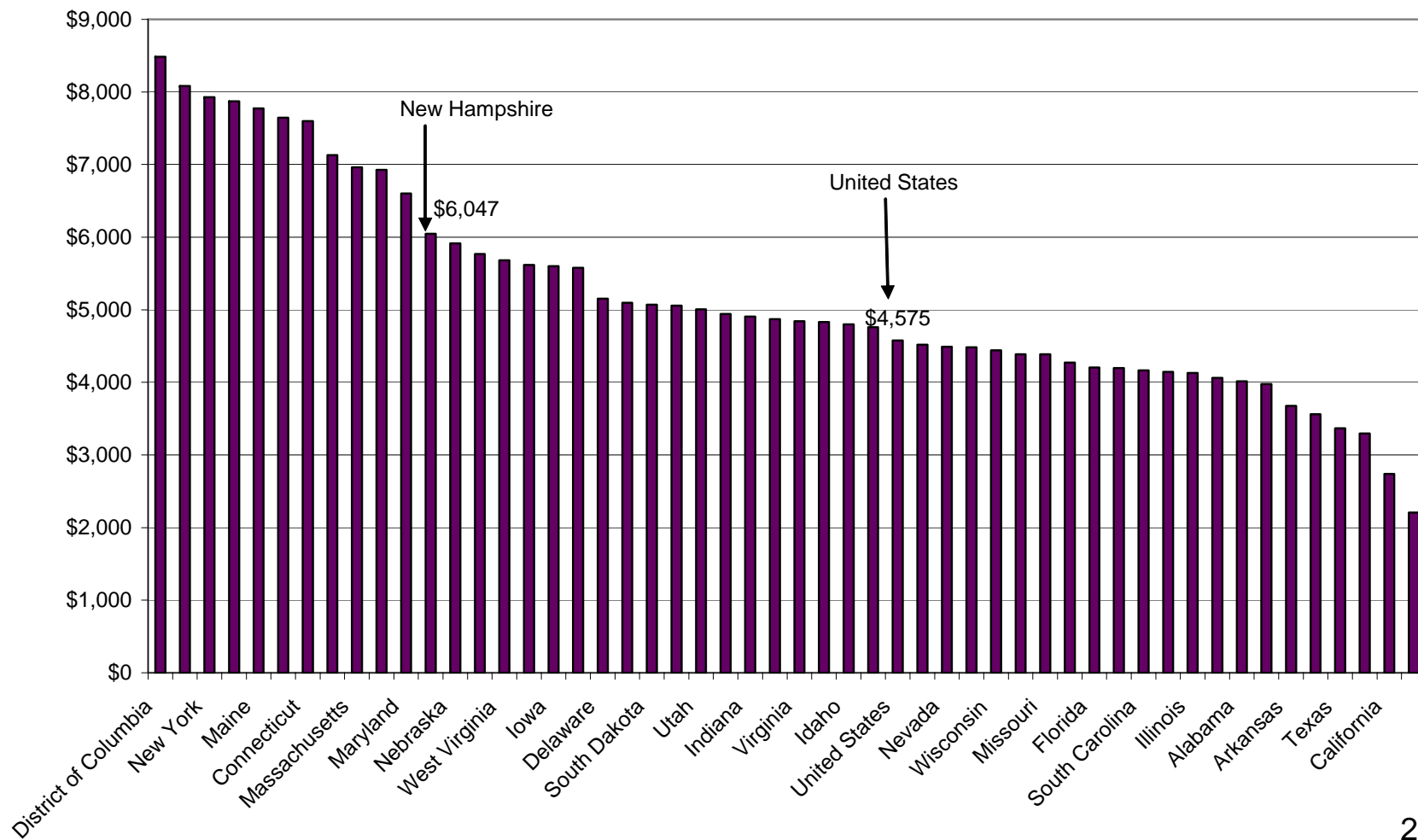
Medicaid Nursing Home Reimbursement as Percent of Costs



NHCPPS Calculations of Data from "A Report on Shortfalls in Medicaid Funding for Nursing Home Care," ELJAY, LLC

# Medicaid Benefits and Utilization?

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



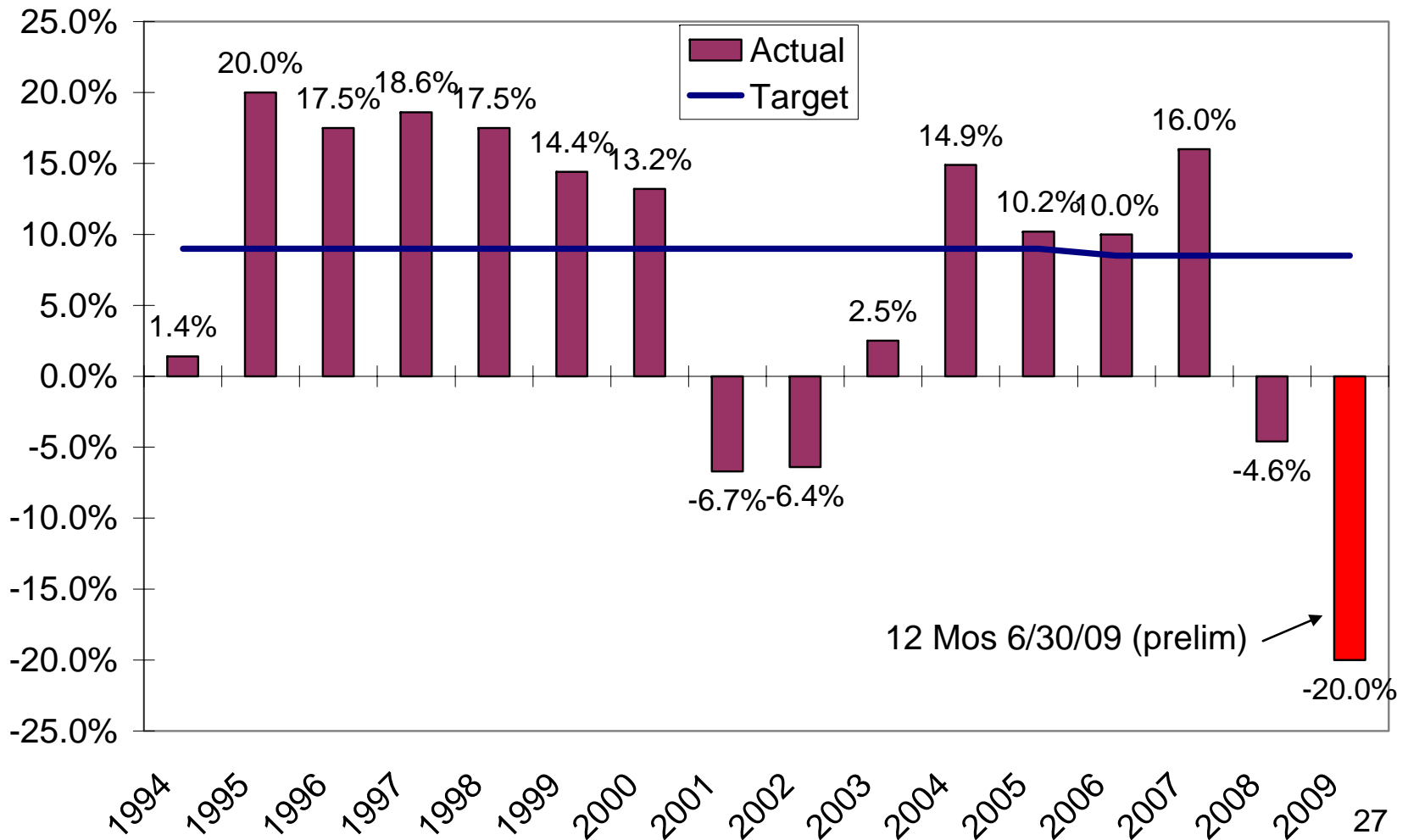
Source: [www.statehealthfacts.org](http://www.statehealthfacts.org)

# 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

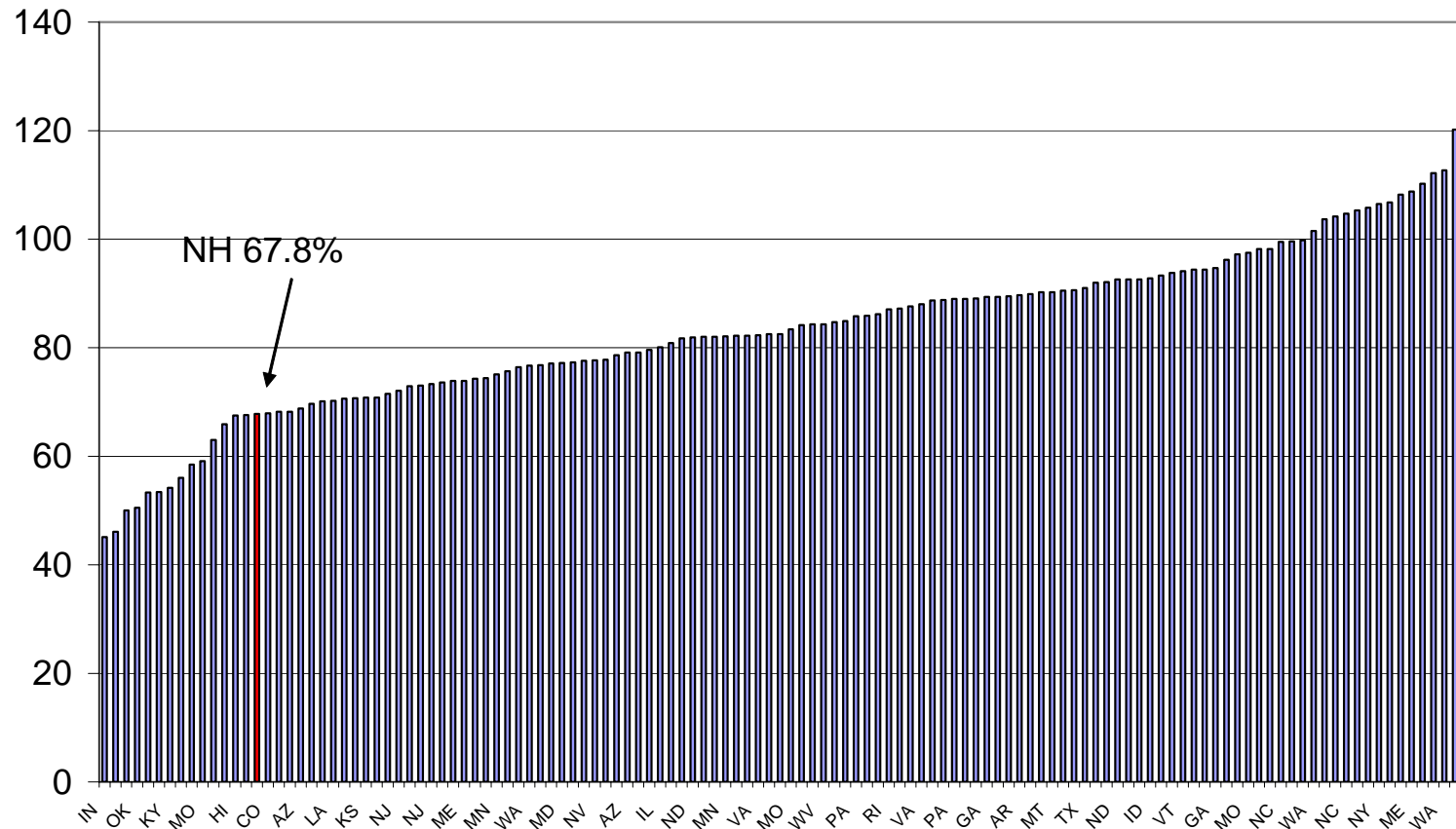


Source: NHRS CAFR

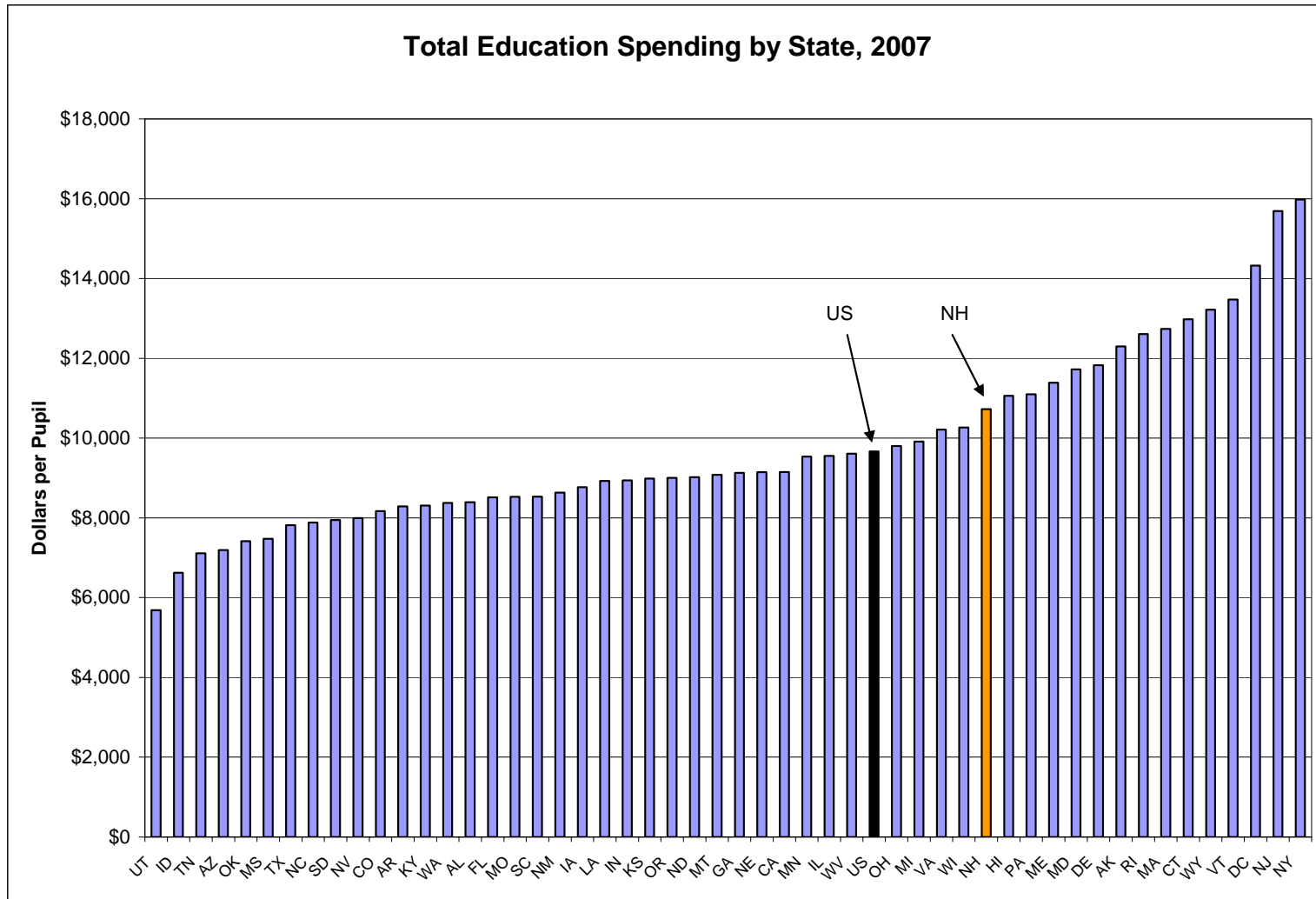
# Change funding requirements for retirement?

Actuarial Funding Ratios -125 Pubic Pensions FY 2008

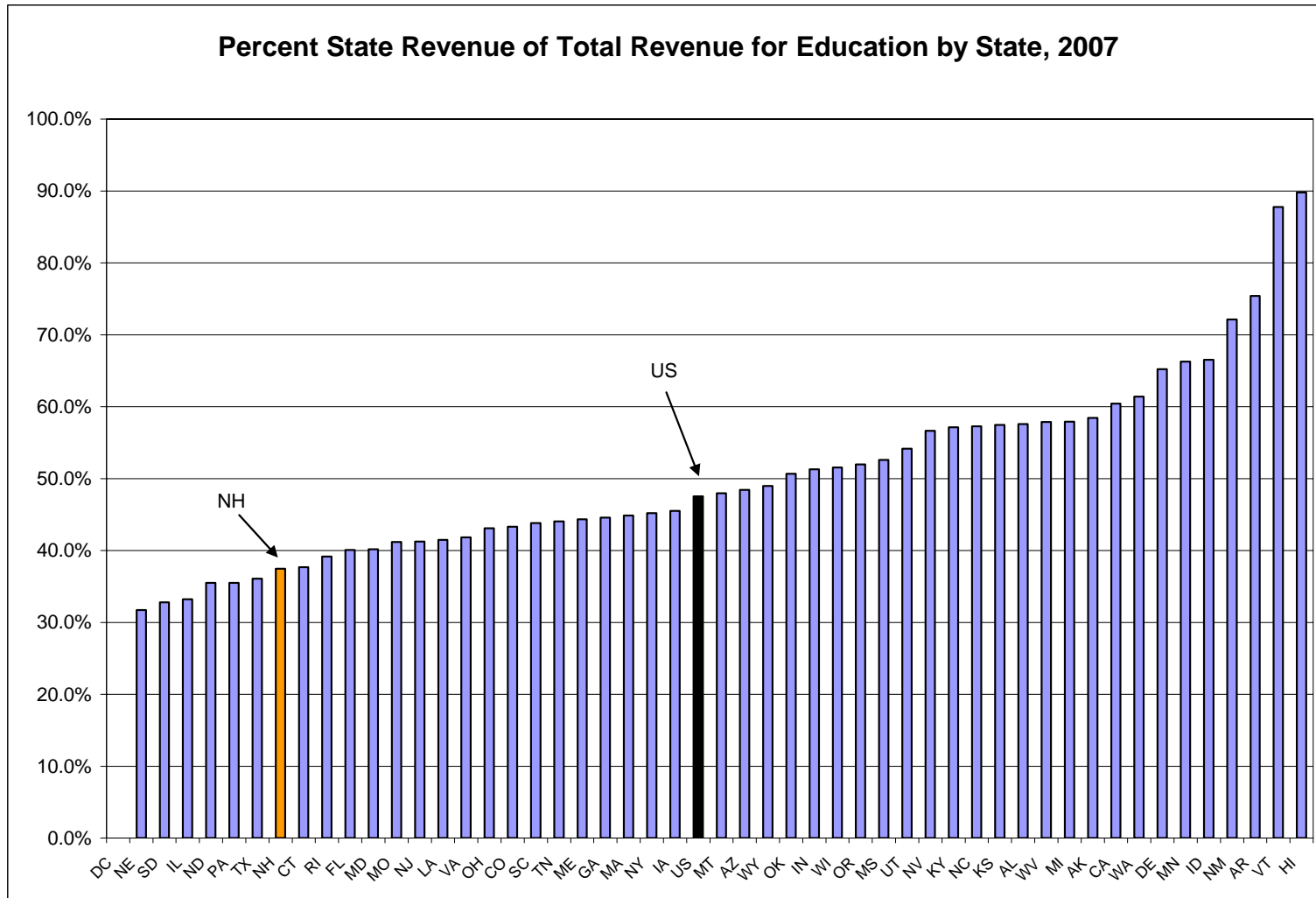
Source: [www.publicfundsurvey.org](http://www.publicfundsurvey.org), 9/09



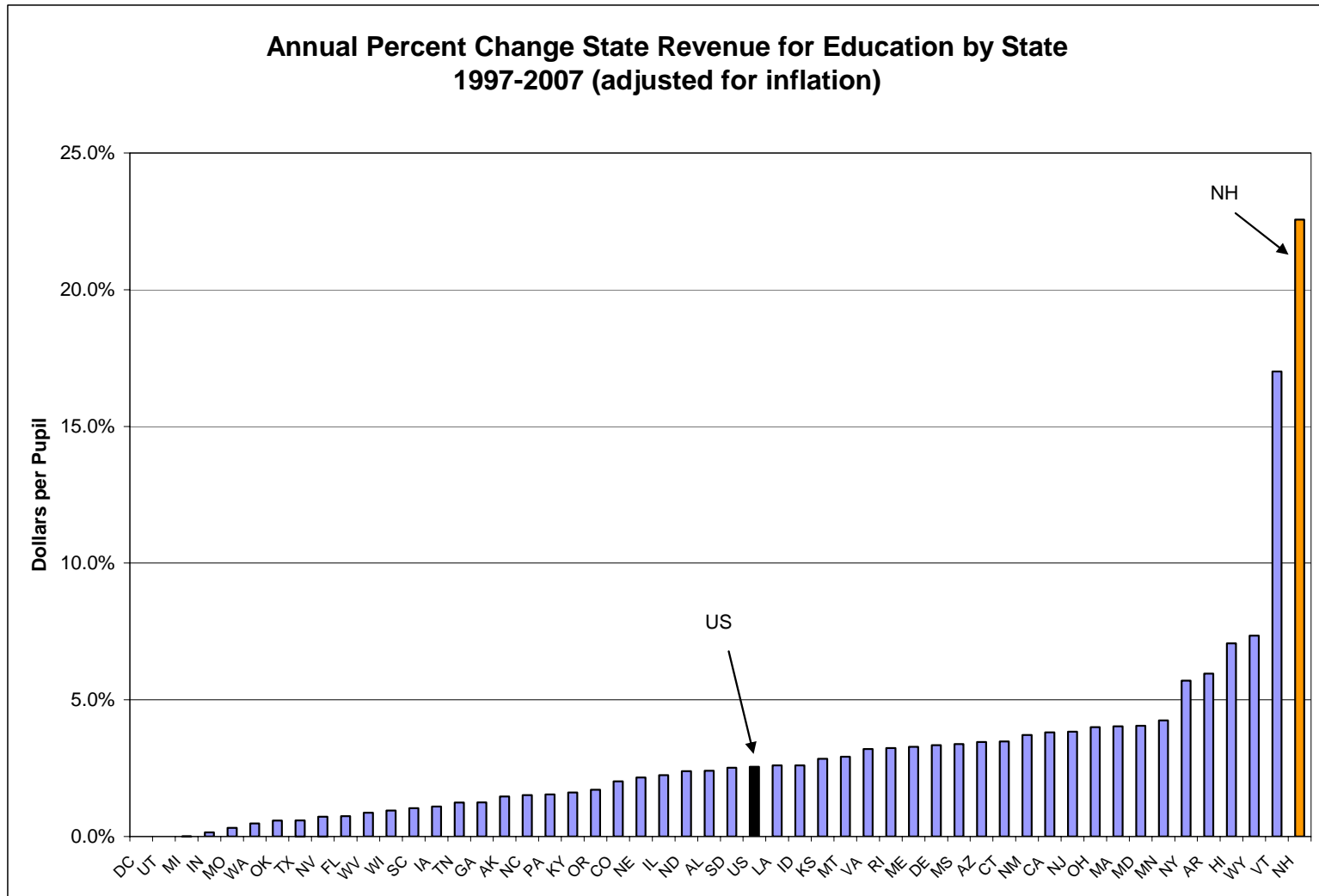
# NH Spends Slightly More On Average Per Student



# State of NH Contribution to aid low relative to the rest of the country.



But state aid has grown the most quickly in NH (due to reforms of 1990)



# To Control Spending

- Follow the executive orders (hiring freeze, purchasing freeze).
- Primary drivers
  - Medicaid
  - Retirement
  - Corrections
  - Local Revenue 'Sharing'
- Education Finance
  - Adequacy defined and will cost \$123 million in new dollars unless new stimulus money available. Catastrophic Aid, Building Aid also large contributors.



# 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.

# Summary

- Reflecting our low tax burden, spending is low relative to the rest of the nation (4<sup>th</sup> 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?



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