

House Finance Committee

Division Briefing New Hampshire State Operating Budget

January 2017

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The Operating Budget Process

Fiscal Issue Brief

November 2016

The State's Operating Budget Process begins during an even-numbered year, and ends during an odd-numbered year

AGENCY PHASE

March - October

Commonly referred to as "Agency Budget Requests", RSA 9:4 requires State agencies to prepare a budget for the upcoming biennium based on expenditure targets provided by the Governor. These targets are based on revenue and economic forecasts, and the forecasted financial condition of the State.

GOVERNOR PHASE

November - February

In November, the Governor conducts public hearings for State agencies to explain their Agency Budget Request. The Governor is required to submit a recommended budget to the Legislature for their consideration by February 15th. Historically, this budget is introduced as House Bills 1 and 2.

HOUSE PHASE

February - April

The budget bills, HB1 (operating budget) and HB2 ("trailer bill"), are referred to the House Finance Committee. The Committee splits into three "divisions", each with assigned budget categories, to ultimately craft amendments to HB1 and HB2 for the full Committee and the House to consider and act upon.

SENATE PHASE

April - June

Once the House has acted upon HB1 and HB2, the bills are referred to the Senate Finance Committee. The Committee considers changes to the House passed versions of HB1 and HB2 and proposes its final recommendation on the two bills to the full Senate for action.

COMMITTEE OF CONFERENCE AND SUBMISSION TO THE GOVERNOR

June

Typically, the House will request and the Senate will accede to a Committee of Conference on HB1 and HB2. These Committees, usually comprised of members of House and Senate Ways and Means and Finance Committees, will ultimately negotiate the final versions of HB1 and HB2 (including revenue estimates). If the House and Senate adopt the recommendations from the Committees of Conference on HB1 and HB2, the bill is then submitted to the Governor for action.

List of Helpful Websites

gencourt.state.nh.us/lba/

Office of Legislative Budget Assistant

- Operating Budget Documents
- Capital Budget Documents
- Audit Reports

das.nh.gov/accounting/

Department of Administrative Services -Division of Accounting Services – Bureau of Financial Management

- Comprehensive Annual Financial Reports (CAFR)
- Revenue Reports
- Dedicated Funds Report

das.nh.gov/budget/

Department of Administrative Services – Budget Office

- Agency Budget Submissions
- Governor’s Operating Budget

nh.gov/transparentnh/

Department of Administrative Services

- State Expenditure Register
- State Employee Pay Search
- State Authorized Positions

Fiscal Year 2016 Actual Expenditures and Fiscal Year 2017 Adjusted Authorized Appropriations

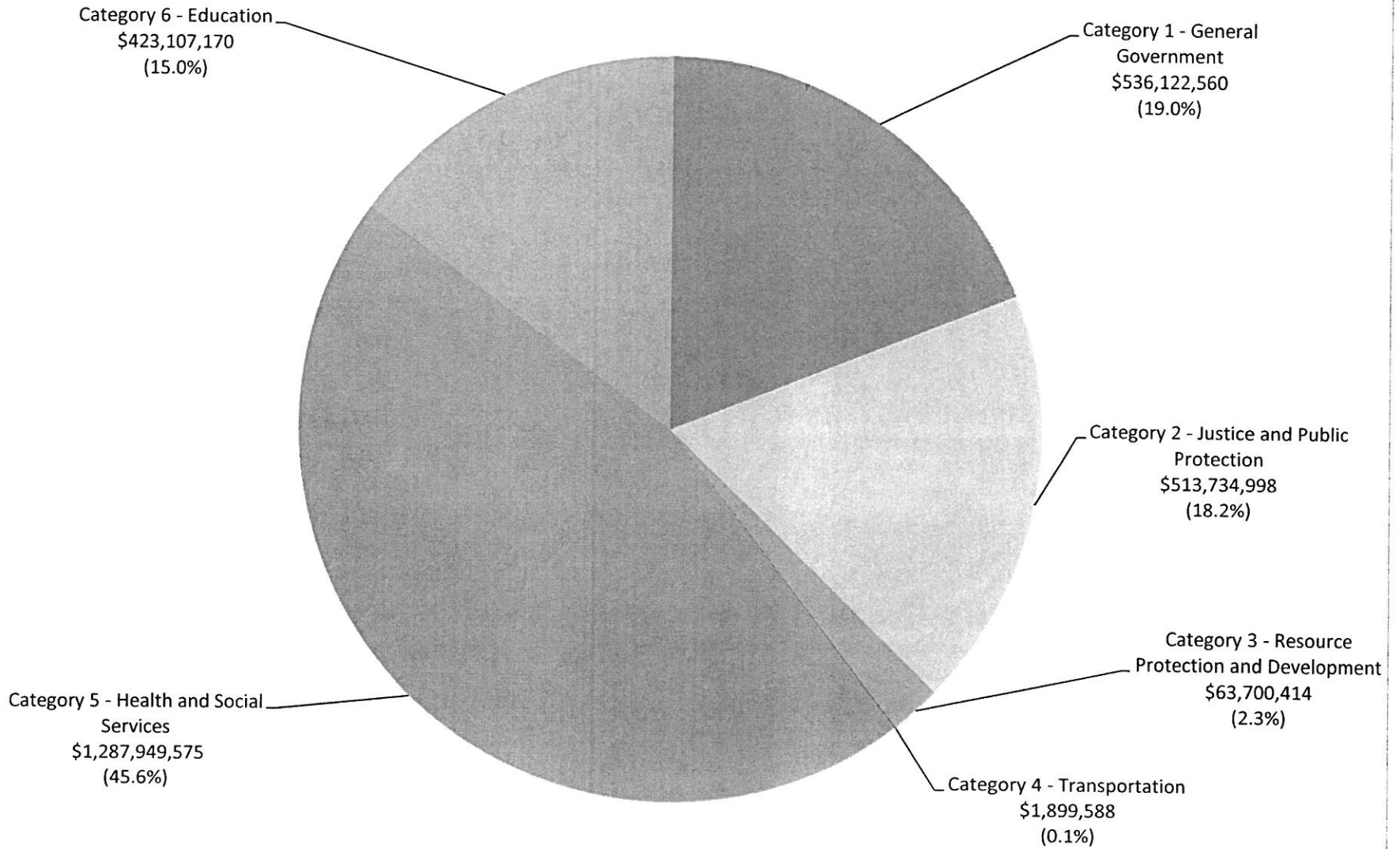
Totals by Category - General Funds

CATEGORY	FY 2016 (Actuals)	FY 2017 (Adjusted Authorized)	BIENNIUM TOTAL	% OF TOTAL
Category 1 - General Government	\$ 260,869,849	\$ 275,252,711	\$ 536,122,560	19.0%
Category 2 - Justice and Public Protection	\$ 247,328,309	\$ 266,406,689	\$ 513,734,998	18.2%
Category 3 - Resource Protection and Development	\$ 30,122,122	\$ 33,578,292	\$ 63,700,414	2.3%
Category 4 - Transportation	\$ 875,923	\$ 1,023,665	\$ 1,899,588	0.1%
Category 5 - Health and Social Services	\$ 640,969,632	\$ 646,979,943	\$ 1,287,949,575	45.6%
Category 6 - Education	\$ 211,263,549	\$ 211,843,621	\$ 423,107,170	15.0%
Total	\$ 1,391,429,384	\$ 1,435,084,921	\$ 2,826,514,305	100.0%

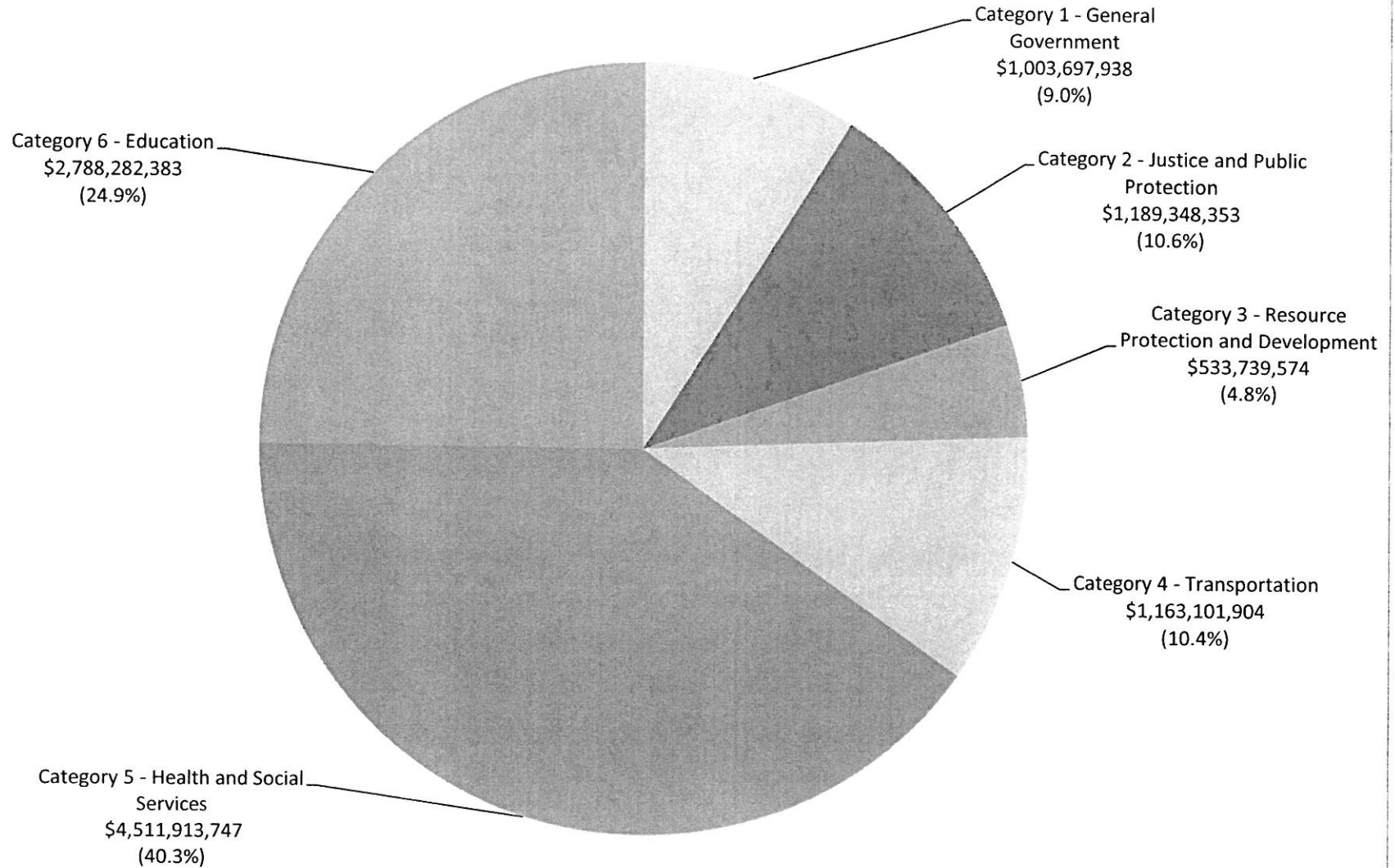
Totals by Category - All Funds

CATEGORY	FY 2016 (Actuals)	FY 2017 (Adjusted Authorized)	BIENNIUM TOTAL	% OF TOTAL
Category 1 - General Government	\$ 477,312,835	\$ 526,385,103	\$ 1,003,697,938	9.0%
Category 2 - Justice and Public Protection	\$ 559,069,780	\$ 630,278,573	\$ 1,189,348,353	10.6%
Category 3 - Resource Protection and Development	\$ 221,685,653	\$ 312,053,921	\$ 533,739,574	4.8%
Category 4 - Transportation	\$ 559,328,719	\$ 603,773,185	\$ 1,163,101,904	10.4%
Category 5 - Health and Social Services	\$ 2,224,247,242	\$ 2,287,666,505	\$ 4,511,913,747	40.3%
Category 6 - Education	\$ 1,363,412,922	\$ 1,424,869,461	\$ 2,788,282,383	24.9%
Total	\$ 5,405,057,151	\$ 5,785,026,748	\$ 11,190,083,899	100.00%

**FY 2016 ACTUAL EXPENDITURES AND
FY 2017 ADJUSTED AUTHORIZED APPROPRIATIONS**
(GENERAL FUNDS, BY CATEGORY - \$2,826,514,305)



**FY 2016 ACTUAL EXPENDITURES AND
FY 2017 ADJUSTED AUTHORIZED APPROPRIATIONS**
(ALL FUNDS, BY CATEGORY - \$11,190,083,899)



Fiscal Year 2016 Actual Expenditures and Fiscal Year 2017 Adjusted Authorized Appropriations

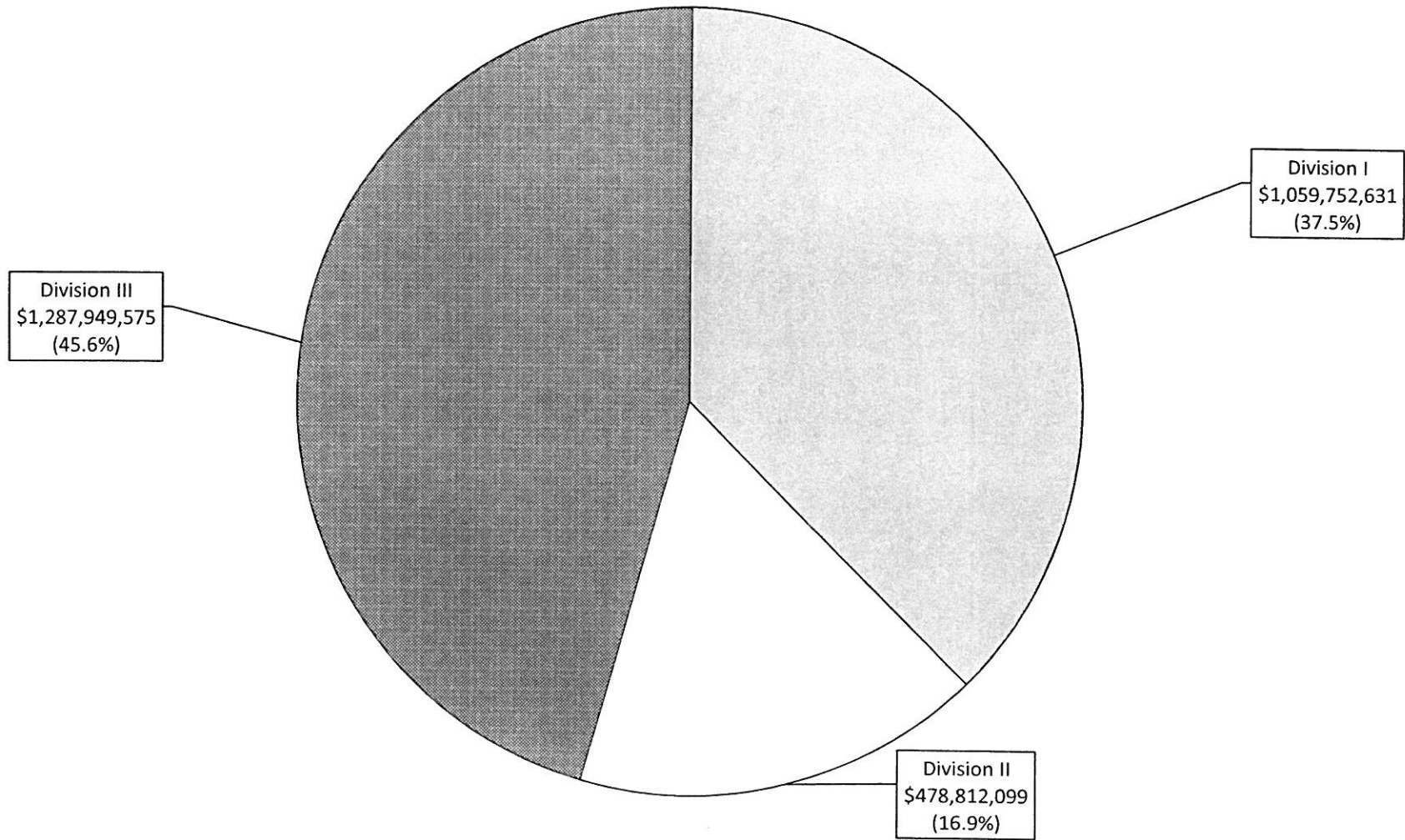
Totals by Division - General Funds

DIVISION / CATEGORY	FY 2016 (Actuals)	FY 2017 (Adjusted Authorized)	BIENNIUM TOTAL	% OF TOTAL
Division I - Categories 1, 2, & 3 (except Safety and Fish and Game)	\$ 514,888,170	\$ 544,864,461	\$ 1,059,752,631	37.5%
Division II - Categories 4 & 6 (plus Safety and Fish and Game)	\$ 235,571,582	\$ 243,240,517	\$ 478,812,099	16.9%
Division III - Category 5	\$ 640,969,632	\$ 646,979,943	\$ 1,287,949,575	45.6%
Total	\$ 1,391,429,384	\$ 1,435,084,921	\$ 2,826,514,305	100.00%

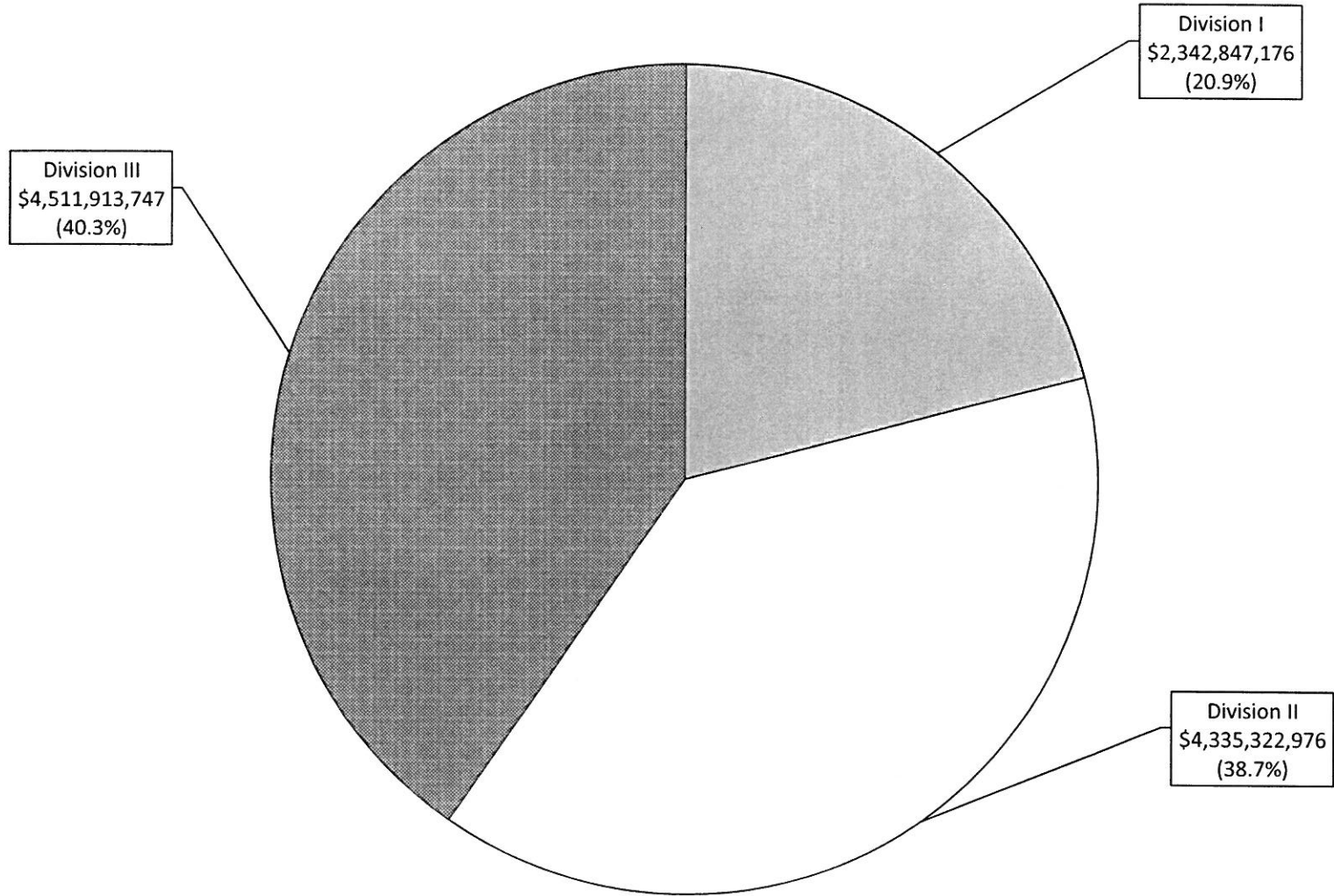
Totals by Division - All Funds

DIVISION / CATEGORY	FY 2016 (Actuals)	FY 2017 (Adjusted Authorized)	BIENNIUM TOTAL	% OF TOTAL
Division I - Categories 1, 2, & 3 (except Safety and Fish and Game)	\$ 1,084,491,649	\$ 1,258,355,527	\$ 2,342,847,176	20.9%
Division II - Categories 4 & 6 (plus Safety and Fish and Game)	\$ 2,096,318,260	\$ 2,239,004,716	\$ 4,335,322,976	38.7%
Division III - Category 5	\$ 2,224,247,242	\$ 2,287,666,505	\$ 4,511,913,747	40.3%
Total	\$ 5,405,057,151	\$ 5,785,026,748	\$ 11,190,083,899	100.00%

**FY 2016 ACTUAL EXPENDITURES AND
FY 2017 ADJUSTED AUTHORIZED APPROPRIATIONS**
(GENERAL FUNDS, BY DIVISION - \$2,826,514,305)



**FY 2016 ACTUAL EXPENDITURES AND
FY 2017 ADJUSTED AUTHORIZED APPROPRIATIONS**
(ALL FUNDS, BY DIVISION - \$11,190,083,899)



Division I

FISCAL YEAR 2016 ACTUAL EXPENDITURES AND FISCAL YEAR 2017 ADJUSTED AUTHORIZED APPROPRIATIONS

Division I by Agency - General Funds

ROW	CATEGORY- AGENCY CODE	AGENCY/DEPARTMENT	FY 2016 (Actual)	FY 2017 (Adj. Auth)	BIENNIUM	% OF DIVISION TOTAL
1	01-02	EXECUTIVE OFFICE	2,632,011	3,017,413	5,649,424	0.5%
2	01-03	DEPARTMENT OF INFORMATION TECHNOLOGY	266,223	304,123	570,346	0.1%
3	01-04	LEGISLATIVE BRANCH	14,740,205	17,392,392	32,132,597	3.0%
4	01-05	EXECUTIVE COUNCIL	219,730	239,616	459,346	0.0%
5	01-14	DEPARTMENT OF ADMINISTRATIVE SERVICES	52,857,079	56,156,244	109,013,323	10.3%
6	01-21	OFFICE OF PROFESSIONAL LICENSURE & CERTIFICATION	6,041,970	6,891,664	12,933,634	1.2%
7	01-30	BOXING AND WRESTLING COMMISSION	3,636	3,739	7,375	0.0%
8	01-32	DEPARTMENT OF STATE	1,714,725	1,672,728	3,387,453	0.3%
9	01-34	DEPARTMENT OF CULTURAL RESOURCES	2,621,599	2,911,224	5,532,823	0.5%
10	01-38	TREASURY DEPARTMENT	162,448,502	167,853,934	330,302,436	31.2%
11	01-59	NH RETIREMENT SYSTEM	-	-	-	0.0%
12	01-84	DEPARTMENT OF REVENUE ADMINISTRATION	16,579,675	18,012,997	34,592,672	3.3%
13	01-89	BOARD OF TAX & LAND APPEALS	744,494	796,637	1,541,131	0.1%
14	01-97	DEVELOPMENTAL DISABILITIES COUNCIL	-	-	-	0.0%
15	02-07	JUDICIAL COUNCIL	26,151,897	26,516,906	52,668,803	5.0%
16	02-10	JUDICIAL BRANCH	74,288,536	79,900,926	154,189,462	14.5%
17	02-12	ADJUTANT GENERAL DEPARTMENT	3,170,114	3,837,872	7,007,986	0.7%
18	02-18	DEPARTMENT OF AGRICULTURE	2,255,931	3,030,583	5,286,514	0.5%
19	02-20	DEPARTMENT OF JUSTICE	10,327,893	9,622,597	19,950,490	1.9%
20	02-24	INSURANCE DEPARTMENT	-	-	-	0.0%
21	02-26	DEPARTMENT OF LABOR	-	-	-	0.0%
22	02-27	DEPARTMENT OF EMPLOYMENT SECURITY	-	-	-	0.0%
23	02-46	DEPARTMENT OF CORRECTIONS	106,871,807	112,197,367	219,069,174	20.7%
24	02-72	BANKING DEPARTMENT	-	-	-	0.0%
25	02-73	PUBLIC EMPLOYEES LABOR RELATIONS BOARD	405,532	444,294	849,826	0.1%
26	02-76	HUMAN RIGHTS COMMISSION	474,489	532,913	1,007,402	0.1%
27	02-77	LIQUOR COMMISSION	-	-	-	0.0%
28	02-81	PUBLIC UTILITIES COMMISSION	-	-	-	0.0%
29	03-13	PEASE DEVELOPMENT AUTHORITY	-	-	-	0.0%
30	03-35	DEPARTMENT OF RESOURCES & ECONOMIC DEVELOPMENT	13,364,295	14,998,657	28,362,952	2.7%
31	03-37	COMMUNITY DEVELOPMENT FINANCE AUTHORITY	170,604	170,604	341,208	0.0%
32	03-44	DEPARTMENT OF ENVIRONMENTAL SERVICES	16,537,223	18,359,031	34,896,254	3.3%
33		TOTAL	514,888,170	544,864,461	1,059,752,631	100.0%

FISCAL YEAR 2016 ACTUAL EXPENDITURES AND FISCAL YEAR 2017 ADJUSTED AUTHORIZED APPROPRIATIONS

Division I by Agency - All Funds

ROW	CATEGORY- AGENCY CODE	AGENCY/DEPARTMENT	FY 2016 (Actual)	FY 2017 (Adj. Auth)	BIENNIUM	% OF DIVISION TOTAL
1	01-02	EXECUTIVE OFFICE	27,620,070	35,244,242	62,864,312	2.7%
2	01-03	DEPARTMENT OF INFORMATION TECHNOLOGY	65,840,941	80,069,281	145,910,222	6.2%
3	01-04	LEGISLATIVE BRANCH	15,664,394	18,066,661	33,731,055	1.4%
4	01-05	EXECUTIVE COUNCIL	219,730	239,616	459,346	0.0%
5	01-14	DEPARTMENT OF ADMINISTRATIVE SERVICES	120,596,070	131,567,746	252,163,816	10.8%
6	01-21	JOINT BOARD OF LICENSURE & CERTIFICATION	6,921,960	7,570,176	14,492,136	0.6%
7	01-30	BOXING AND WRESTLING COMMISSION	3,636	3,739	7,375	0.0%
8	01-32	DEPARTMENT OF STATE	10,191,748	8,567,843	18,759,591	0.8%
9	01-34	DEPARTMENT OF CULTURAL RESOURCES	5,487,416	7,145,444	12,632,860	0.5%
10	01-38	TREASURY DEPARTMENT	197,884,026	207,273,833	405,157,859	17.3%
11	01-59	NH RETIREMENT SYSTEM	7,168,954	8,269,180	15,438,134	0.7%
12	01-84	DEPARTMENT OF REVENUE ADMINISTRATION	18,360,017	20,757,297	39,117,314	1.7%
13	01-89	BOARD OF TAX & LAND APPEALS	875,579	937,220	1,812,799	0.1%
14	01-97	DEVELOPMENTAL DISABILITIES COUNCIL	478,294	672,825	1,151,119	0.0%
15	02-07	JUDICIAL COUNCIL	26,151,897	26,516,906	52,668,803	2.2%
16	02-10	JUDICIAL BRANCH	78,665,498	86,456,267	165,121,765	7.0%
17	02-12	ADJUTANT GENERAL DEPARTMENT	18,292,636	24,972,759	43,265,395	1.8%
18	02-18	DEPARTMENT OF AGRICULTURE	4,400,982	6,087,019	10,488,001	0.4%
19	02-20	DEPARTMENT OF JUSTICE	22,921,860	26,363,085	49,284,945	2.1%
20	02-24	INSURANCE DEPARTMENT	10,357,619	12,010,832	22,368,451	1.0%
21	02-26	DEPARTMENT OF LABOR	8,471,835	9,851,949	18,323,784	0.8%
22	02-27	DEPARTMENT OF EMPLOYMENT SECURITY	31,665,840	37,979,258	69,645,098	3.0%
23	02-46	DEPARTMENT OF CORRECTIONS	109,682,323	116,200,774	225,883,097	9.6%
24	02-72	BANKING DEPARTMENT	5,068,397	6,200,929	11,269,326	0.5%
25	02-73	PUBLIC EMPLOYEES LABOR RELATIONS BOARD	407,272	446,794	854,066	0.0%
26	02-76	HUMAN RIGHTS COMMISSION	624,896	685,628	1,310,524	0.1%
27	02-77	LIQUOR COMMISSION	56,474,934	62,579,472	119,054,406	5.1%
28	02-81	PUBLIC UTILITIES COMMISSION	41,009,813	33,986,559	74,996,372	3.2%
29	03-13	PEASE DEVELOPMENT AUTHORITY	484,928	681,734	1,166,662	0.0%
30	03-35	DEPARTMENT OF RESOURCES & ECONOMIC DEVELOPMENT	52,418,998	69,382,733	121,801,731	5.2%
31	03-37	COMMUNITY DEVELOPMENT FINANCE AUTHORITY	170,604	170,604	341,208	0.0%
32	03-44	DEPARTMENT OF ENVIRONMENTAL SERVICES	139,908,482	211,397,122	351,305,604	15.0%
33		TOTAL	1,084,491,649	1,258,355,527	2,342,847,176	100.0%

DIVISION I THINGS TO KNOW

Category 1

Department of Information Technology (DoIT)

DoIT uses a uniform cost allocation methodology that produces partner agency invoices reflecting each agency's share of information technology costs and provides the detail necessary for agencies to draw down their share of grant, highway, and federal revenues. Careful attention should be given to DoIT during the FY 2018/19 budget process since any changes to the DoIT budget will affect all agencies across State government due to the complexity of the mechanisms used to fund the agency. Each agency budgets its DoIT costs in class 027 (Transfers to DoIT).

Voice over Internet Protocol (VoIP) and wireless networking were recently implemented as was a cybersecurity strategy and Cyber Integration Center in conjunction with agency partners and the Governor's Office. Vulnerabilities and rapidly evolving dynamic threats to the state's IT infrastructure require constant vigilance to protect the security of essential services, public safety, public confidence, personal information and regulatory non-compliance. Trained and experienced technical staff are at a premium and attracting skilled workers is challenging.

The agency adjusted authorized budget for FY 2017 is \$80.0 million. It includes a direct agency IT budget of \$24.6 million for items 100% allocated to a particular agency, including current expenses, hardware, software, telecommunications and IT contracts to support the agency's specific requirements. The total DoIT budget request for FY 2018/19 is \$90.8 million and \$91.6 million and includes a direct agency IT budget request for FY 2018/19 of \$36.7 million and \$35.1 million for 33 agencies. The direct IT budget request for FY 2018/19 includes funds for DHHS for \$19.1 million and \$18.5 million; for the Department of Safety for \$6.4 million and \$6.6 million; and for DOT for \$3.0 million and \$2.6 million.

Central IT Services and Operations for FY 2018/19 are \$8.9 million and \$9.5 million. These include shared costs between two or more agencies. IT salaries and benefits for FY 2018/19 are \$39.7 million and \$40.8 million and include both direct and shared IT authorized and funded positions.

DIVISION I THINGS TO KNOW

Statewide telecommunications infrastructure is supported by a revolving fund. This function was transferred from the Department of Safety effective July 1, 2017 (Chapter 147, Laws of 2016, HB 1553) and for FY 2017 the adjusted authorized amount was \$5.3 million. FY 2018/19 includes a request for \$5.1 million and \$5.2 million.

A new Enterprise Document Workflow budget amount is requested in FY 2018/19 for \$300,000 and \$900,000 to support operating expenditures associated with the capital project.

Department of Administrative Services

Retiree Health Benefits - Pursuant to RSA 21-I:30, the State provides health benefits within the funds appropriated at each legislative session to eligible retired State employees and the Fiscal Committee is authorized to approve plan design changes to the Retiree Health Benefit Plan. The State's general fund share of this benefit is appropriated to the Department of Administrative Services.

Effective July 1, 2009, RSA 100-A:54 was amended to include a \$65/month premium contribution from retirees under the age of 65 (and their spouse, if applicable). Chapter 224, Laws of 2011 (HB 2) changed the under 65 retiree contribution from a fixed dollar amount to a percentage (12.5 percent) of premium.

Chapter 276 Laws of 2015 (HB 2) changed the under 65 retiree premium contribution from 12.5 percent to no less than 12.5 percent. The Fiscal Committee was also authorized to approve a recommendation by the DAS Commissioner to increase the under 65 and non-Medicare eligible retirees premium contribution rate higher than 12.5 percent.

During the FY 2016/17 budget process, DAS estimated a \$5.6 million deficit based on the difference between the agency's estimated required funding level to meet the projected expenses of the Retiree Health Benefit Plan and the proposed budget. An updated analysis revealed increased prescription drug costs amounting to an additional \$4.0 million plus a \$1.0 million deficit in the federal subsidy for over 65 retirees in the Employer Group Waiver Plan (Medicare Prescription Drug Program), bringing the total FY 2016/17 deficit to \$10.6 million. The Fiscal Committee took action in October 2015, voting to make changes to over 65 and under 65 pharmacy plan components, including

DIVISION I THINGS TO KNOW

increased copayments, mail copayments and maximum out-of-pocket limits effective February 1, 2016. In November, 2015 the Fiscal Committee approved an increase for the under 65 premium contribution rate from 12.5% to 17.5% (\$116/month to \$162/month) effective January 1, 2016 (November 2016 notices sent to non-Medicare Retirees projecting the premium contribution rate to remain at 17.5%, but the cost of the monthly contribution amount to rise from \$159.94 in CY 2016 to \$176.74 in CY 2017). Retiree Health surplus funds were also applied to reduce the deficit. In August 2016, the Fiscal Committee approved a reduction in Retiree Health Benefit Reserve Funds from 5% to 4% of projected annual claims and administrative expenses, thereby releasing additional funds. The Fiscal Committee also approved the release of funds from the Active Health Benefit Reserve Funds retroactive to April 1, 2016 to support Active Dental and Active Trooper plan expenditures. Active Trooper Health Benefit reserves were also reduced from 100% of estimated annual claims and administrative expenses to 90% of estimated annual claims and administrative expenses.

The Fiscal Committee held a public hearing with DAS on September 23, 2016 to hear short term options to address a forecasted FY 2018/19 \$30.0 million increase in costs (the November 2016 projection is at \$25.4 million). A study of long-term options for the Retiree Health Benefit Plan will be released in draft form by February 1, 2017.

The total agency budget request is \$81.7 million for FY 2018 and \$90.9 million for FY 2019 (updated projection to \$81 million and \$90.4 million in November 2016). The actual amount expended in FY 2016 was \$70.4 million and the adjusted authorized amount for FY 2017 is \$73.0 million. Based on updated FY 2018/FY 2019 budget projections and budget needs, in order to provide Retiree Health Benefits at the same level as currently provided to the State's 12,200 retirees, DAS requires an additional \$25.4 million total funds (\$16.1 M General Funds/\$9.3 M Other Funds). This estimate accounts for increases in health and prescription drug costs plus increases in retiree enrollment.

Concord Steam – The Department of Administrative Services received approval from the Fiscal Committee and Governor and Council in October, 2016 to transfer \$1,000,000 (97% General Funds/3% Other) within accounting units to pay for emergency engineering services to convert state office buildings heated by Concord Steam to State owned heating equipment.

DIVISION I THINGS TO KNOW

The State has been buying steam from Concord Steam (a PUC regulated utility) to heat 25 state owned facilities in Concord. Concord Steam has announced that it is planning to cease operations effective May 31, 2017 and is working with the PUC and customers toward a managed shutdown. The estimated cost for the design, engineering, installation project management to replace these heat and hot water services with state owned equipment and decommission the existing plant is \$23.8 million. The cost for design and engineering work is estimated at \$3.0 million; with \$1.0 million allocated for the preliminary engineering needed before issuance of an RFP in March 2017.

The Legislature appointed the Joint Concord Steam Task Force to assist the Department of Administrative Services to assure that state buildings would continue to have heat and hot water after the closure of Concord Steam. At their meeting on October 4, 2016, the Task Force recommended that DAS request the transfer of funds from their utility class lines to partially pay for the required engineering and return to the Fiscal Committee and Governor and Council at a later date to request an additional appropriation, if necessary, to cover any shortfall in the FY 2017 utility class line. The Fiscal Committee approved the request for an appropriation of \$1.0 million to cover the utility appropriation shortfall on January 13, 2017.

Department of Revenue Administration (DRA)

Flood Control Compact Payments - The State of New Hampshire (NH) is part of two flood control compacts: the Merrimack River Valley Flood Control Compact with Massachusetts (MA) and the Connecticut River Flood Control Compact with MA and Connecticut (CT). In FY 2011 and years prior, RSA 122:4 required the State to compensate the 18 affected NH cities and towns for the loss of taxable land from the construction of dams. The FY 2012/13 budget reduced compensation to communities by the amount of reimbursement not received from other participating states; this resulted in approximately \$540,000 less in compensation per year to the 18 affected municipalities. Chapter 286, Laws of 2012 again made NH responsible for other states' shares, regardless of whether the other states reimburse New Hampshire, and the FY 2014/15 budget fully funded flood control payments to municipalities. In January 2014, the State received a settlement check for \$1,112,377 from the Commonwealth of Massachusetts to resolve all outstanding years under the compact through FY 2012. Chapter 300, Laws of 2014 (HB 1282) appropriated \$542,672 from the state general fund for the purpose of reimbursing communities for the FY 2012 amount only. The remainder of the settlement money was paid out in FY 2015. In

DIVISION I THINGS TO KNOW

December 2014 the State reached a settlement with the Commonwealth of Massachusetts for \$658,000 for FY 2013 and FY 2014 amounts due (\$329,000 per year) and subsequently allocated \$163,285 for the purpose of reimbursing towns for the Massachusetts share of the Merrimack River Flood control Compact and the Connecticut River flood control compact for FY 2013 (Chapter 276:185, Laws of 2015, HB 2). There have been no additional actions since December 2014. The Merrimack River Valley Flood Control Commission met in November 2016 and received information relative to money due from Massachusetts to New Hampshire for fiscal years 2015/16/17. The Commission declared an impasse.

State Treasury

Land and Community Heritage Investment Program (LCHIP) - LCHIP is an independent state authority that operates a competitive matching grant program that provides funding to municipalities and publicly supported not-for-profit organizations for conservation and preservation of the State's natural, cultural, and historical resources, through the acquisition of lands, and cultural and historical resources, or interests therein, of local, regional, and statewide significance. Funds are used to leverage additional local, private and federal funds. From FY 2002 through FY 2008, the program was funded through a general fund appropriation to the LCHIP Fund, which is used in its entirety to fund grants. Beginning FY 2009, LCHIP has been funded by a \$25 surcharge on certain register of deeds documents. In the FY 2010/11 biennium, some surcharge revenue was diverted to the state general fund (\$1.5 million in FY 2010 and \$2.1 million in FY 2011, respectively). For the FY 2012/13 biennium, all recording surcharge revenue was diverted to the state general fund, less \$120,000 per year, which was appropriated to LCHIP's administration fund. The FY 2014/15 budget fully funded the program, directing all surcharge revenue to the LCHIP fund. The FY 2016/17 budget fully funded the program, directing all surcharge revenue to the LCHIP fund. In FY 2016 actual expenditures were \$2.6 million, and in FY 2017 the adjusted authorized amount is \$3.5 million.

The program also receives about \$6 (up to \$200,000) from the sale of each conservation license plate (Moose Plate), which provides about two-thirds of the program's annual administrative costs (RSA 261:97-b, I-a and RSA 261:97-c, V). The remainder of the administrative income comes from interest on the LCHIP Trust Fund and other bank accounts and an administrative fee assessed to each grant that is awarded. Total revenues generated to the administrative fund from plates and income on appropriations made to the trust fund pursuant to RSA 227-M:7

DIVISION I THINGS TO KNOW

shall not exceed \$335,000 for each fiscal year and any revenue generated above that threshold is credited to the program's trust fund (RSA 227-M:7-a,l)

Debt Service - The Treasury Department's budget includes funding for three types of debt service: debt service for state general funded and University System of New Hampshire capital projects, debt service for school building aid, and debt service for the Community College System of New Hampshire. Of the Department's \$198.0 million actual expenditure in FY 2016, \$115.0 million was devoted to debt service; and of its \$207.0 million adjusted authorized budget in FY 2017, \$117.0 million was devoted to debt service. Pursuant to RSA 78-A:26(a), the amount of debt service necessary to pay principal and interest on bonds for school building aid is paid from directly from Meals and Rooms tax revenue.

State Revenue Sharing - Pursuant to RSA 31-A, the Treasury Department is to distribute a portion of State general revenues to municipalities annually. Since FY 1999, the amount distributed each year has been \$25.2 million and it will remain this amount until the legislature alters it, pursuant to RSA 31-A:4. This disbursement has been suspended from FY 2010 until FY 2017. Since the suspension is ending June 30, 2017, revenue sharing will be included in the FY 2018/19 operating budget unless the statute is suspended or repealed.

Meals and Rooms Distribution to Cities and Towns - Pursuant to RSA 78-A the Department of Revenue Administration (DRA) distributes a portion of annual meals and rooms tax revenue to municipalities. Although this distribution is DRA's responsibility, the appropriation is contained within the Treasury Department's budget. RSA 78-A:26, II authorizes an increase in the amount to be disbursed, however, the increase from one fiscal year to the next can be no more than \$5 million. The FY 2010/11 and FY 2012/13 budgets capped total annual distribution at the FY 2009 level (\$58.8 million). The FY 2014/15 budget capped distribution at the FY 2009 level in FY 2014 only, with FY 2015 distributions returning to the formula outlined in RSA 78-A (\$63.8 million) The FY 2016/17 budget capped distribution at the FY 2015 level in FY 2016 only, with distributions returning to the formula outlined in RSA 78-A (\$68.8 million) for FY 2017 and each year thereafter.

DIVISION I THINGS TO KNOW

New Hampshire Retirement System

Retirement System Funding Status - The Retirement System's actuarially determined unfunded liability is \$5.1 billion as of FY 2016 (up from \$5.0 billion in FY 2015), and its funded ratio is 60.0% as of FY 2016 (up from 59.2% in FY 2015). Although the System's funded ratio is low by national standards, the Retirement System's Board of Trustees is currently implementing a plan to restore the System to fully-funded status by 2039. Three factors contributed to the NHRS unfunded liability: a flawed statutory funding methodology in effect from 1991-2007 that led to long-term under-collection of employer contributions; diversion of roughly \$900 million in investment earnings from the pension trust into a "Special Account" over roughly the same period (repealed in 2012) used to fund other post-retirement benefits such as cost-of-living adjustments; and significant global economic dips (2001-02 and 2008-09) negatively impacting investment performance.

Since 2007, nearly 90 changes have been made to RSA 100-A, the law governing the retirement system. Changes to plan design and statutory safeguards prevent a repeat of the factors which contributed to the current unfunded liability. Chapter 300, Laws of 2008 (HB 1645), and Chapter 224, Laws of 2011 (HB 2) made significant changes to the System's administration, funding methodology, and eligibility standards, some of which were the subject of ongoing legal challenges. The Supreme Court in 2012 upheld the state's authority to reduce and eventually eliminate its contribution toward employer retirement contributions for Teacher, Police, and Fire members employed by political subdivisions. Three different legal challenges have been decided in favor of the state pursuant to statutory changes made from 2008 and 2011. Plaintiffs claimed the provisions were a violation of the New Hampshire and U.S. Constitutions by substantially impairing vested contract rights. Decisions in late 2014, early 2015 and again in October of 2016 upheld the statutory changes. The most recent decision affirmed a Superior Court decision to dismiss the case because there was no "unmistakable intent by the legislature to contractually bind itself against prospectively changing the terms contained" in RSA 100-A, the Retirement System's governing statute.

Member rates are set by the New Hampshire Legislature and are currently 7.0% for Group I members, 11.55% for Group II permanent police members and 11.80% for permanent fireman members.

DIVISION I THINGS TO KNOW

Pursuant to RSA 100-A:16, III, employer contribution rates are set every 2 years as part of a biennial actuarial valuation, required by statute to determine the actuarially sound rates necessary to maintain the retirement system trust fund at the level needed to meet its future obligations. The rates for fiscal year 2018 and 2019 are based on the actuarial valuation as of June 30, 2015. The Retirement System Board of Trustees at its September 13, 2016 meeting certified the following employer rates of contribution effective July 1, 2017 – June 30, 2019:

The rates below apply to state agencies and other component units of state government.

State of NH Employer Contribution Rates for July 1, 2017-June 30, 2019

	Pension Percentage	Medical Subsidy Percentage	Total Employer Percentage
Group I Employees	11.08%	1.07%	12.15%
Group II Police	25.33%	4.10%	29.43%
Fire	27.79%	4.10%	31.89%

The rates below apply to counties, cities and towns, school districts and all other participating political subdivisions except the State of New Hampshire.

Municipal Employer Contribution Rates for July 1, 2017-June 30, 2019

	Pension Percentage	Medical Subsidy Percentage	Total Employer Percentage
Group I Employees	11.08%	0.30%	11.38%
Teachers	15.70%	1.66%	17.36%
Group II Police	25.33%	4.10%	29.43%
Fire	27.79%	4.10%	31.89%

DIVISION I THINGS TO KNOW

The rates are increasing by 7% over 2016-2017, largely because of recommended changes to the actuarial assumptions used to value the pension plan that were adopted by the Board of Trustees in May 2016. The most significant drivers of the rate increase were the reduction of the assumed rate of investment return from 7.75% to 7.25%, the adoption of updated post-retirement mortality assumptions, and a reduction in the payroll growth factor. Group I Teachers were additionally impacted by the adoption of payroll growth assumptions lower than other member groups, reflecting the recent and projected decline in school-age population and corresponding active teacher population, which has decreased nearly 5% since 2010. Medical Subsidy benefits are funded from a 401(h) trust for Political Subdivision Employees, State Employees, Teachers and Police and Fire members. Benefits are not fully funded, so employers are required by statute to pay the minimum rate necessary to maintain the benefits for each group. The benefit is a closed plan except with respect to certain Group II members, so the Medical Subsidy rates are expected to decrease in future years.

DIVISION I THINGS TO KNOW

Category 2

Judicial Branch

The Judicial Branch adjusted authorized budget for FY 2017 is \$86.5 million (\$79.9 million of state general funds), the total budget requested for FY 2018 is \$91.1 million (\$84.7 million general funds), and for FY 2019 is \$92.4 million (\$86.1 million general funds).

Drug Courts – Chapter 264 of the 2016 Legislative Session established the statewide drug offender grant program (drug courts) and appropriated \$2.1 million to fund grants available to counties during FY 2017. The Judicial Branch budgeted \$3.4 and \$4.0 million of general funds in FY 2018 and FY 2019 respectively to account for the projected increase in the number of counties anticipated to apply for drug court grants in the future.

Judicial Council

Indigent Defense – Indigent defense costs are constitutionally mandated at both the state and federal level. Though the Council only reimburses for indigent services authorized by the Judicial Branch, the Council is constantly working with the Branch to control indigent defense costs. The Judicial Council's actual expenditure in FY 2016 was \$26.1 million, and the FY 2017 adjusted authorized amount is \$26.5 million. The Judicial Council has requested in its efficiency budget \$27.5 million in FY 2018, and \$27.5 million in FY 2019 (100% general funds). The growth is largely attributable to a roughly \$1.0 million increase for contracted expenditures. However, RSA 604-A:1-b permits the Judicial Council to request additional funding for the purposes of indigent defense with fiscal committee approval if expenditures exceed appropriated amounts. During the FY 2016/17 biennium, the Judicial Council has requested and the Fiscal Committee has approved \$540,000 of additional funds to pay for indigent defense costs in excess of budgeted amounts.

Public Defender – In additional prioritized needs, the Judicial Council has requested \$2.6 million of general funds for the biennium, to pay for health insurance cost increases (65 percent) and step increases (35 percent) for current Public Defender staff. The FY 2018/19 efficiency budget request of \$20.39 million per year for the Public Defender is close to the FY 2017 amount of \$20.13 million.

DIVISION I THINGS TO KNOW

Civil Legal Services Fund - This appropriation is used to provide the poor with access to civil legal services provided by New Hampshire legal Assistance. Also included as an additional prioritized need request is \$600,000 for the biennium to allow NH Legal Assistance to staff each of its Claremont and Berlin offices with an additional attorney and administrative support person to provide capacity for an additional 160-170 cases annually.

Liquor Commission

New Stores, Renovations, & Rents – Since FY 2010 the Operating Budget has recognized the Liquor Commission as a separate liquor fund, not general funds. Revenue generated by the Commission is transferred to the state general fund after deducting expenses, therefore any increase in the Commission’s operating expenses may impact revenue transferred to the general fund. Currently, a new store is being constructed in Warner that will be leased, construction on a new store at the Portsmouth traffic circle is planned but has not yet begun, the Hampstead store on Route 111 is being enlarged, and the Commission has signed a lease for new store space in Rochester (moving old Rochester store). When the Commission has projects approved as part of the capital budget, debt service payments for these projects and new leases are added to the Commission’s operating budget since it has been treated as liquor funds, not general funds. The Liquor Commission’s adjusted authorized debt service is \$1.8 million for FY 2017. The efficiency budget includes \$3.2 million in FY 2018 and \$4.3 million in FY 2019 for debt service resulting from an increase in bond payments for store construction, renovations, and the new point of sale system discussed below. Further, \$3.5 million has been added to the debt service line for the FY 2019 Additional Prioritized needs request to pay for additional store expansions and renovations. Relatedly, the Liquor Commission’s adjusted authorized FY 2017 budget for rents and leases is \$5.3 million while the efficiency budget request for FY 2018 and FY 2019 is \$7.3 and \$7.6 million respectively.

Point of Sale System (POS) - The Liquor Commission is in the process of replacing its point of sale system at all of its 79 stores which will impact its debt service class line. The 2013 Capital Budget authorized \$10.0 million for the project, which was later increased in the 2015 Capital Budget to \$15.1 million. At the request of the Liquor Commission, the Capital Budget Overview Committee approved the use of \$1.0 million of the \$15.1 million request to pay for a consulting firm to oversee implementation of the process. The Liquor Commission has included an additional \$2.4 million as part of its FY 2017 Capital budget request for software customization. The Liquor Commission estimates the systems usable life to be 10 to 15 years and will result in cost savings/avoidance once

DIVISION I THINGS TO KNOW

finalized. Such savings are estimated to be \$80,000 in the first year which will later peak at \$340,000 by the seventh year.

Department of Agriculture, Markets and Food

Department Overview – The Department’s adjusted authorized budget for FY 2017 is \$6.1 million and the Department’s efficiency budget includes \$6.7 million for FY 2018 (\$500,000 additional general funds) and \$6.4 million in FY 2019 (\$500,000 additional general funds). The increase in general funds is caused by a variety of factors that include increased transfers to DoIT, replacing old equipment, three new full-time generally funded positions, increasing funding to the Vet Diagnostic Lab, and step and benefit increases.

Dairy Farmers – Low national milk prices and the severe drought conditions experienced this year have put dairy producers in unusually difficult financial positions. Many dairy farmers have lost crops traditionally used to feed their cows during the winter months and struggled to make a profit on milk sold. To address this need, the Department has included an additional prioritized need of \$2.0 million in general funds in both FY 2018 and FY 2019 to support the Milk Producers Emergency Relief Fund. The purpose of the fund is to provide dairy farmers assistance when the base price of milk falls below the target price. The Fund was created in FY 2008 but has never been appropriated money. Additionally, the Milk Producers Emergency Relief Fund Board requested in October 2016 that the Legislature provide an emergency appropriation of \$3.6 million to provide assistance to dairy farmers as they replace the cow feed needed for winter lost due to the drought.

Department of Justice

Victims of Crime Act (VOCA) Grant – The Department of Justice’s FY 2017 adjusted authorized is \$26.3 million (\$9.6 general funds) and its FY 2018 and FY 2019 efficiency budget request is \$35.0 million (\$10.1 general funds) and \$35.2 million (\$10.1 general funds). The Department has budgeted to receive an additional \$6.1 million in federal funds through the Victims of Crime Act federal grant. The additional federal funds will be used to assist the NH Coalition Against Domestic and Sexual Violence and its fourteen member agencies, Court Appointed Special Advocates of NH, Child Advocacy Centers, County Victim Advocates, Northern Human Services and other support and training programs directly servicing victims of crime.

DIVISION I THINGS TO KNOW

Litigation Costs – The Department has included an additional \$800,000 in its additional prioritized needs in both FY 2018 and FY 2019 to pay for litigation costs. RSA 7:12 permits the Department to request additional funds for unbudgeted litigation costs upon Fiscal Committee approval. Litigation costs were budgeted for the biennium at \$350,000 each year but the Department has requested and the fiscal committee has approved an additional \$3.0 million for litigation costs during the FY 2016/17 biennium.

New Positions – The Department of Justice has requested an additional 13 full-time positions in its efficiency budget (6 unclassified and 7 classified). Included in these new positions are: 1 assistant attorney general, 1 financial research analyst, 1 administrative assistant, 1 associate chief medical examiner, 1 investigative paralegal and 1 criminal justice investigator. Additionally, the Department has requested to convert 3 assistant attorney generals, 2 victim/witness specialists, 1 planning and data system analyst, and 1 administrative assistant position from part-time to full-time.

Department of Corrections

Overtime & Retention- Overtime continues to be a challenge for the Department of Corrections. The Department has seen its overtime costs increase from \$2.3 million in FY 2010 to \$9.4 million in FY 2016. Chapter 276:219, Laws of 2015 authorizes the Department to transfer funds within and among all accounting units with transfers in excess of \$75,000 requiring Fiscal Committee and Governor and Council approval. In FY 2016, overtime costs were budgeted at \$4.0 million and the Fiscal Committee approved the transfer of an additional \$5.8 million dollars to the overtime class line. The Department is requesting \$7.2 and \$5.3 million in FY 2018 and FY 2019 respectively in its agency budget submission for overtime costs. The Department attributes some of the overtime challenges to the decrease in authorized positions from 1,099 in FY 2007 to 891 in FY 2016, as well as difficulty in recruiting and retaining correctional officers to fill the existing vacant positions. For example, during the past five fiscal years, the Department has hired 160 corrections officers but has lost 216 due to retirements and terminations. To address the need for qualified uniformed staff the department has:

- Established a part-time recruiting specialist position and is currently actively recruiting for it;
- Participated in and held job fairs;
- Advertised on the radio, in newspapers, and used various online job posting boards and social media sites;
- Conducted outreach to military recruitment sites; and

DIVISION I THINGS TO KNOW

- Made presentations to high school and college classes.

Women's Prison - A new Women's Prison is currently being built in Concord and is scheduled to be completed in the Fall of 2017. The new facility will be 101,000 sq. ft. with a 224 bed capacity. The existing Women's prison has 31 authorized full-time positions in the FY16-17 operating budget. The Department has requested the following additional FTE to staff the new prison in its agency request:

		FY 2018	FY 2019	Totals
Efficiency Budget	Additional FTE	23	11	34
	Salaries & Benefits	\$2,758,099	\$3,919,416	\$6,677,515
Additional Prioritized Needs	Additional FTE	0	14	14
	Salaries & Benefits	\$0	\$1,767,796	\$1,767,796

Category 3

Department of Resources and Economic Development (DRED)

Travel and Tourism – For the FY 2017 adjusted authorized budget, travel and tourism accounted for \$7.7 million of DRED's \$15.0 million of general funds. The Division is requesting an additional \$3.1 million in general funds in its Promotional – Marketing Expense (Class 069) for the biennium over the FY 2017 adjusted authorized level. This funding is used to help promote and develop New Hampshire as a preferred travel destination. Chapter 276, Laws of 2015, suspended for the FY 2016-2017 biennium, RSA 78-A:26, I(b), which provides an amount equal to 3.15 percent of net income for the meals and rooms tax to the Division of Travel and Tourism. The additional \$3.1 million included in the efficiency budget is based on the 3.15 formula found in RSA 78-A:26.

Economic Development - The division of economic development accounted for \$2.2 million of general funds expended by DRED in FY 2016, and is authorized to spend \$2.7 million in general funds in FY 2017. The efficiency budget requests \$3.2 million in general funds for FY 2017, and \$3.4 million in general funds for FY 2019. The Division has included an additional \$1.4 million in general funds for the biennium in its promotional marketing

DIVISION I THINGS TO KNOW

expense class line to enable the Division to increase talent attraction and marketing efforts to recruit skilled workers to the State.

Department of Environmental Services (DES)

State Aid Grants to Communities – In December 2008 Governor Lynch issued an executive order 2008-10 that cut \$3.3 million from the State Aid grant program. The Legislature adopted budgets in FY 2010-2011 and FY 2012-2013 that provided funding for projects already receiving state aid. The DES created the delayed and deferred project list to keep track of projects that might be considered for future state aid funding. If funding was available within the budgeted appropriation due to the paying off of projects, the DES could provide state aid to projects on a first in first out basis from the delayed and deferred project list. Due to some confusion on what projects were being included on the delayed and deferred list, the Legislature added language to HB 2 during the 2013 legislative session that clarified the list of delayed and deferred projects, added language to include municipalities that had issued bonds and completed water projects, or had obtained local funding authorization prior to the executive order, and put in place a moratorium on new projects. The FY 2016 actual and FY 2017 adjusted authorized amounts for state aid grants was approximately \$5.7 million each year. The Department's efficiency expenditure request includes \$5.9 and \$4.2 million for FY 2018 and FY 2019 for state aid grants. The FY 2019 request is lower because existing local project bonds are being paid down, the State's obligations are decreasing, and there have been no new projects approved for funding since December 2008. However, the Department has requested \$1.1 million each fiscal year, as an additional prioritized need, to pay for the remaining 12 state aid grant projects that had obtained local funding authorization prior to the end of calendar year 2008. This request does not address funding for any new projects as there continues to be a moratorium on the funding of new projects.

Division II

LBA

January 2017

FISCAL YEAR 2016 ACTUAL EXPENDITURES AND FISCAL YEAR 2017 ADJUSTED AUTHORIZED APPROPRIATIONS

Division II by Agency - General Funds

ROW	CATEGORY- AGENCY CODE	AGENCY/DEPARTMENT	FY 2016 (Actual)	FY 2017 (Adj. Auth)	BIENNIUM	% OF DIVISION TOTAL
1	02-23	DEPARTMENT OF SAFETY	23,382,110	30,323,231	53,705,341	11.2%
2	03-75	FISH & GAME DEPARTMENT	50,000	50,000	100,000	0.0%
3	04-96	DEPARTMENT OF TRANSPORTATION	875,923	1,023,665	1,899,588	0.4%
4	06-50	UNIVERSITY SYSTEM OF NEW HAMPSHIRE	81,000,000	81,000,000	162,000,000	33.8%
5	06-56	DEPARTMENT OF EDUCATION	87,763,549	85,800,861	173,564,410	36.2%
6	06-58	COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE	42,500,000	43,775,000	86,275,000	18.0%
7	06-87	POLICE STANDARDS & TRAINING COUNCIL	-	1,267,760	1,267,760	0.3%
8	06-83	NEW HAMPSHIRE LOTTERY COMMISSION	-	-	-	0.0%
9		TOTAL	235,571,582	243,240,517	478,812,099	100.0%

LBA

January 2017

FISCAL YEAR 2016 ACTUAL EXPENDITURES AND FISCAL YEAR 2017 ADJUSTED AUTHORIZED APPROPRIATIONS

Division II by Agency - All Funds

ROW	CATEGORY- AGENCY CODE	AGENCY/DEPARTMENT	FY 2016 (Actual)	FY 2017 (Adj. Auth)	BIENNIUM	% OF DIVISION TOTAL
1	02-23	DEPARTMENT OF SAFETY	144,873,978	179,940,342	324,814,320	7.5%
2	03-75	FISH & GAME DEPARTMENT	28,702,641	30,421,728	59,124,369	1.4%
3	04-96	DEPARTMENT OF TRANSPORTATION	559,328,719	603,773,185	1,163,101,904	26.8%
4	06-50	UNIVERSITY SYSTEM OF NEW HAMPSHIRE	81,000,000	81,000,000	162,000,000	3.7%
5	06-56	DEPARTMENT OF EDUCATION	1,227,967,202	1,286,812,756	2,514,779,958	58.0%
6	06-58	COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE	42,500,000	43,775,000	86,275,000	2.0%
7	06-87	POLICE STANDARDS & TRAINING COUNCIL	2,943,186	3,603,987	6,547,173	0.2%
8	06-83	NEW HAMPSHIRE LOTTERY COMMISSION	9,002,534	9,677,718	18,680,252	0.4%
9		TOTAL	2,096,318,260	2,239,004,716	4,335,322,976	100.0%

DIVISION II THINGS TO KNOW

Multiple Agencies - Highway Funds

In the FY 2016/17 budget, highway funds are appropriated to the Department of Transportation, Department of Safety, Judicial Branch, and Department of Justice. Similar to the state general fund, the highway fund requires a surplus/deficit statement to compare expenditures to available revenue. The preparation of this statement requires coordination between the Finance Committee, to determine the level of spending, and the Ways and Means Committee to estimate available revenue. Traditional highway fund revenues are substantially comprised of road toll revenue and motor vehicle fees. Over the past several years temporary sources of revenue to the highway fund have been utilized, such as a surcharge on motor vehicle registrations, with the most recent being proceeds from the sale of a portion of I-95 to the Turnpike System.

Under the State Constitution, all revenues in excess of the necessary cost of collection and administration accruing to the State from motor vehicle registration fees, operator's licenses, gasoline taxes or any other special charges or taxes with respect to the operation of motor vehicles or the sale or consumption of motor vehicle fuels are appropriated and used exclusively for the construction, reconstruction, and maintenance of public highways within the State, including the supervision of traffic.

The FY 2016/17 biennium marked the first time in which the costs of collection and administration of highway funds by the Department of Safety were accounted for and budgeted for in the operating budget. In the past several budgets, all highway fund revenue collected by the Department was credited as unrestricted highway fund revenue, but in the FY 2016/17 budget, certain Department costs (as set in HB 1) are deducted from the gross revenue collected prior to revenue being credited to the highway fund. The amount appropriated in the operating budget as cost of collection and administration funds, mostly in the Division of Motor Vehicles, in FY 2016 and FY 2017 was \$28.8 million and \$29.7 million, respectively, and a budget request in FY 2018/19 of \$30.9 million and \$31.7 million, respectively.

**DIVISION II
THINGS TO KNOW**

In addition to the constitutional requirement, RSA 9:9-b sets the following highway fund appropriation thresholds, as a percentage of total anticipated gross road toll and motor vehicle fees and fines for the biennium:

Department of Transportation - Not less than 73 percent

Department of Safety - Not to exceed 26 percent

All Other Agencies - Not to exceed 1 percent

Unrestricted Highway Fund Appropriations

Department of Safety - In addition to the cost of collection and administration appropriations, the operating budget includes \$29.9 million in FY 2016 and \$30.5 million in FY 2017 in unrestricted highway funds. The breakdown of those appropriations is as follows (in millions):

Description	FY 2016	FY 2017	Total
Division of State Police Accounting Units	\$15.9	\$16.0	\$31.9
<i>Office of Commissioner / Division of Administration</i>			
Transfers to Dept. of Information Technology	\$4.4	\$4.4	\$8.8
Other	\$3.9	\$3.6	\$7.5
Retiree Health	\$3.4	\$3.9	\$7.3
Bureau of Hearings	\$2.3	\$2.6	\$4.9
TOTAL	\$29.9	\$30.5	\$60.4

The Department's unrestricted highway fund appropriation request is \$31.6 million for FY 2018 and 30.1 million for FY 2019.

Department of Transportation - The current budget includes \$187.4 million in FY 2016 and \$190.2 million in FY 2017 in unrestricted highway funds. The breakdown of those appropriations is as follows (in millions):

**DIVISION II
THINGS TO KNOW**

Description	FY 2016	FY 2017	Total
Division of Operations – Highway / Winter Maintenance	\$68.8	\$70.3	\$139.1
Division of Operations – Mechanical Services	\$15.4	\$15.4	\$30.8
Division of Operations – Other	\$15.5	\$16.2	\$31.7
Division of Project Development	\$16.4	\$17.4	\$33.8
Debt Service	\$12.1	\$12.8	\$24.9
Retiree Health, Unemployment/Workers' Compensation	\$9.3	\$9.8	\$19.1
Transfers to Other Agencies	\$8.1	\$7.4	\$15.5
Executive Office, Finance, Policy and Administration	\$5.4	\$5.5	\$10.9
General Fund Overhead	\$3.0	\$3.0	\$6.0
Rideshare Program	<u>\$0.2</u>	<u>\$0.2</u>	<u>\$0.4</u>
<i>Total Operating Budget</i>	<i>\$154.2</i>	<i>\$158.0</i>	<i>\$312.2</i>
Highway Block Grants	\$31.3	\$30.2	\$61.5
State Aid Construction	\$1.7	\$1.7	\$3.4
Non-Participating Construction	<u>\$0.2</u>	<u>\$0.3</u>	<u>\$0.5</u>
<i>Total Municipal Aid and Construction</i>	<i>\$33.2</i>	<i>\$32.2</i>	<i>\$65.4</i>
TOTAL	\$187.4	\$190.2	\$377.6

The Department's total unrestricted highway fund appropriation request for FY 2018 is \$265.9 million (*\$203.7 million efficiency budget plus \$62.2 million in additional prioritized needs*). For FY 2019, the total request is \$267.7 million (*\$204.7 million efficiency budget plus \$63.0 million in additional prioritized needs*).

DIVISION II THINGS TO KNOW

Category 2

Department of Safety

The Department of Safety is comprised of the Divisions of Administration, Emergency Services and Communications, Fire Safety, Fire Standards and Training and Emergency Medical Services, Homeland Security and Emergency Management, Motor Vehicles, and State Police, as well as the Office of the Commissioner.

Operation Granite Hammer - In the 2016 legislative session, HB 1000 expanded Operation Granite Hammer statewide to support state and local law enforcement in combating the heroin and opioid crisis. The bill made an appropriation for \$1.5 million in FY 2017 to be granted to county and local law enforcement agencies, as well as to the Division of State Police. Of the total \$1.5 million, nearly \$1.3 million was granted to county and local agencies and the remainder supported the Division of State Police, which includes the forensic laboratory. The Department's budget request includes \$1.5 million in FY 2018 and \$1.7 million in FY 2019 for this program.

Homeland Security and Emergency Management - The Division of Homeland Security and Emergency Management has historically been supported with a combination of several different funding sources. During the creation of the FY 2016/17 budget, concerns were raised regarding three of those funding sources, plea-by-mail revenue, fire and EMS fund, and the assessment on Vermont Yankee (power plant). Plea-by-mail revenue and the fire and EMS fund were deemed to be insufficient to fund HSEM in addition to the other functions they support, and the closure of Vermont Yankee resulted in less assessment revenue. In order to offset this, the adopted FY 2016/17 budget included a transfer of renewable energy fund revenues of \$2.3 million over the biennium. In the 2016 session, a bill was passed that ultimately reduced the draw on the renewable energy fund to \$520,000 over the biennium and appropriated \$1.7 million in general funds. The Department's agency budget includes \$1.7 million of general funds in each FY 2018 and FY 2019 to support HSEM.

"Plea-By-Mail" Revenue - Pursuant to RSA 262:44, I, fine revenue received for most motor vehicle violations, in which the individual pleads guilty or nolo contendere and remits their payment by mail, is credited as agency income to the Department. Since FY 2014, approximately \$7.5 to \$8.5 million in "plea-by-mail" revenue has been

DIVISION II THINGS TO KNOW

appropriated across multiple areas of the Department's budget, mostly for the Division of State Police Detective Bureau.

Other Topics

- *State Police Cruisers*
 - In 2016, \$0.7 million (from highway and turnpike funds) was appropriated for the purchase of additional cruisers.
 - The Department's budget request includes funding for additional cruisers
- *Fire and EMS Funding Concerns*
 - The Department, citing declining revenue, has concerns of the Fire and EMS fund's solvency through the FY 2018/19 biennium.
 - The Fire and EMS fund supports the Division of Fire Standards and Training and EMS as well as the Division of Fire Safety.

Category 3

Department of Fish and Game

As the guardian of the State's fish, wildlife, and marine resources, the New Hampshire Department of Fish and Game works in partnership with the public to conserve, manage, and protect these resources; inform and educate the public about these resources; and provide the public with opportunities to use and appreciate these resources.

Most of the Department's conservation work is funded by fishing and hunting licenses and fees, plus dedicated federal funds from the sale of hunting and fishing equipment. The rest of the funding comes from OHRV registrations; "non-refunded" road tolls for boats and OHRV, transfers and other agency income. Like the general and highway funds, the fish and game fund requires a surplus/deficit statement to compare expenditures to available revenue and also requires coordination between the Finance Committee that determines the level of

DIVISION II THINGS TO KNOW

spending and the Ways and Means Committee that estimates available revenue. The Department traditionally has been appropriated \$50,000 per year of general funds for the non-game species management program. This is usually the only state general funds provided to the Department, however, the FY 2014/15 and FY 2016/17 budgets transferred \$1.6 million and \$1.2 million, respectively, from the state general fund to the fish and game fund.

Over the past few budgets the fish and game fund has been experiencing flattening revenue coupled with growth in expenditures, thereby depleting the fund's balance. In addition, the fish and game fund is required to cover any deficit in the search and rescue fund, and the funding source currently in place (\$1 for each boat, OHRV, and snowmobile registration in the state) has proven inadequate in recent years, further depleting the balance. The last budget enabled the Department to set its license fees through administrative rule, rather than set in statute. Several fees were increased effective January 1, 2016, which is expected to result in approximately \$1.1 million in additional fish and game fund revenue per year.

Category 4

Department of Transportation

The Department of Transportation is comprised of the Divisions of Policy and Administration, Aeronautics, Rail and Transit, Finance, Operations, and Project Development, as well as the Office of the Commissioner. The Department is funded mainly through state highway funds, turnpike funds, and federal funds. While comprised of multiple sources of funds, the Department's budget has two major categories; operating (e.g., highway/winter maintenance, retiree health, Turnpike System collections, etc...) and municipal aid and construction (e.g., highway block grants, highway and bridge betterment account, "SB 367" funds, etc...)

"SB 367" (2014 Road Toll Rate Increase) - Chapter 17, Laws of 2014 (SB 367-FN-A) required a consumer price index (CPI) adjustment to the road toll rate effective July 1, 2014 (FY 2015). This resulted in the road toll rate per gallon increasing \$0.042 from \$0.18 to \$0.222, an increase of approximately \$34 million per year. The law requires any revenue raised by this adjustment be non-lapsing and continually appropriated to, and expended exclusively by, the Department of Transportation. In each year between FY 2015 and FY 2017 the law allocated the revenue raised

DIVISION II THINGS TO KNOW

differently. Beginning FY 2018, and each year thereafter, the funds, less required highway block grant payments, will be (1) debt service for bonds issued to complete the widening of I-93, (2) \$6.8 million for the state aid bridge program, and (3) the remainder to the highway and bridge betterment account.

Transportation Infrastructure Finance and Innovation Act (TIFIA) – In May of 2016, the state closed on a \$200 million low-interest direct federal loan intended for the remaining construction of the I-93 expansion. During the first nine years of the loan, the state is only required to make payments of interest only, allowing for the savings to be invested in road and bridge projects throughout the state through the highway and bridge betterment program.

Highway Fund State Aid – The Department of Transportation’s budget includes three major highway fund state aid programs; highway block grants, the state aid construction program, and the state aid bridge program.

- ***Highway Block Grants:*** Also referred to as Apportionment A, highway block grants are distributed by the Department to all municipalities. The total amount disbursed is equal to 12 percent of the previous year’s total gross road toll and motor vehicle revenue. In addition to the unrestricted highway fund appropriation for highway block grants, the SB 367 accounting unit also includes a class line for highway block grants attributable to the revenue collected under the SB 367 road toll rate increase.
- ***State Aid Construction Program:*** This program allows for municipalities to apply for a two-thirds state contribution for certain highway projects. This program has been funded at \$1.7 million per year for several years.
- ***State Aid Bridge Program:*** This program allows for municipalities to apply for an 80% state contribution for certain bridge projects. Prior to the FY 2016/17 budget, this program had been funded at \$6.8 million for several years. In FY 2015, the first year of SB 367 revenue, this program was appropriated \$6.8 million in unrestricted highway funds as well as \$9.1 million from SB 367 revenue. The FY 2016/17 budget did not include any unrestricted highway fund appropriations for this program, however \$6.8 million of SB 367 revenue was allocated in each FY 2016 and FY 2017, and will be in perpetuity under current law. Lastly, HB

DIVISION II THINGS TO KNOW

2016 (“10-year plan bill”) passed during the 2016 session, allowed for the appropriation of \$2.3 million in FY 2017 for this program from excess funding in FY 2016 in the winter maintenance accounting unit*.

* In addition to the \$2.3 million for the state aid bridge program, HB 2016 also allowed for up to \$2.3 million of excess winter maintenance appropriations for the purchase of fleet vehicles and \$4.0 million from excess highway maintenance appropriations for highway and bridge betterment district resurfacing and rehabilitation programs.

**DIVISION II
THINGS TO KNOW**

Category 6

Department of Education

Adequate Education Aid – The Department distributes grants from the state education trust fund based on the number of students in grades kindergarten through grade 12 who were legal residents of New Hampshire to municipalities. Kindergarten students are counted as no more than half. The base cost and differentiated aid per pupil for FY 2018 and FY 2019 are as follows –

Base Cost	\$3,636.06
<i>Differentiated Aid</i>	
Free or Reduced Lunch	\$1,818.02
English Language Learner	\$ 711.40
Special Education	\$1,956.09
Grade 3 Reading Non-Proficient	\$ 711.40

The State Wide Education Property Tax assessment (SWEPT) is deducted from the calculated cost of an adequate education to arrive at a preliminary grant amount (prior to the application of a stabilization grant). SWEPT rates are established by the Department of Revenue Administration by determining the rate needed to raise the statutorily required amount of approximately \$363 million statewide. The stabilization grant, if applicable, is then added to the preliminary grant. The stabilization grant for each municipality remained the same dollar amount from FY 2012 through FY 2016. Beginning in FY 2017, the stabilization grant will be reduced by 4% of the original amount until phased out in 25 years. Also beginning in FY 2017, any town which has no students or raises an amount equal to their calculated cost of an adequate education through SWEPT, shall receive no stabilization grant.

The total amount appropriated for adequacy grants in FY 2017 is \$932.5 million with anticipated expenditures projected at \$927.4 million. The FY 2018 preliminary estimate is \$925.6 million.

DIVISION II THINGS TO KNOW

Public Charter School Funding - The State has paid a per pupil amount to approved chartered public schools since FY 2007. Similar to adequate education funding for traditional public schools, charter school funding comes from the state education trust fund. For the FY 2018/19 biennium, charter school per pupil funding will be calculated at the same rate of traditional public schools, plus an additional \$3,099.76 per pupil (\$2,078.76 for the Virtual Learning Academy Charter School). Charter school payments are made in four installments over the course of the school year based on current year enrollment.

The total amount appropriated for charter school funding in FY 2016 and FY 2017, was \$27.4 million and \$37.0 million, respectively. In FY 2016, actual expenditures (for the 2015/16 school year) were \$23.6 million, and based on current projections FY 2017 is anticipated to be approximately \$30.2 million. For FY 2018 and FY 2019, the preliminary estimates total \$36.6 million and \$40.0 million, respectively.

School Building Aid - The School Building Aid program pays an amount of local school districts bond principal payments for qualifying construction projects. Since FY 2011 there has been a moratorium in place on aid for new projects. Under current law, this moratorium is set to expire on June 30, 2017. In the current budget, appropriations relative to school building aid are included in both the Treasury Department and Department of Education.

Since FY 2012, the operating budget has only included appropriations to cover the so-called “tail” (previously approved projects) payments for school building aid. For FY 2016 and FY 2017, the amount budgeted was \$42.8 million and \$37.0 million, respectively, and the anticipated “tail” payments in FY 2018 and FY 2019 are set to be \$34.8 million and \$32.6 million, respectively. The Department, as of September 14, 2016, has indicated there are 53 projects on the list of *potential* upcoming school construction projects with a total construction cost of \$570.1 million, with the state’s portion, if funded, being approximately \$210.8 million.

Catastrophic Aid - Catastrophic Aid is paid to school districts that have a special education student for whom costs of special education exceed three and one half times the estimated state average expenditure per pupil of the school year preceding the year of distribution. Catastrophic Aid is equal to 80% of the amount of the special

DIVISION II THINGS TO KNOW

education cost that is between three and one half times and ten times the state average expenditure per pupil plus 100% of the amount over ten times the state average expenditure per pupil. If the amount appropriated is not sufficient to fund the amount entitled, the appropriation will be prorated among the school districts. In the FY 2016/17 budget, the Catastrophic Aid program was funded at \$22.3 million in each year. In FY 2017, the total calculated “entitlement” for all districts was \$30.8 million, resulting in an overall program proration of 72.41%.

Tuition and Transportation Aid - The Department of Education is authorized to pay from its budget the cost of tuition and transportation expenses for full or part time students from sending schools who attend regional vocational education centers. The amount of the Department’s liability is set by rules, and under these the Department is liable for 75% of the cost of tuition and for 100% of the cost of transportation, less any costs paid via adequate education funding grants, of students from sending schools who attend regional vocational centers. Through FY 2013, this program was also subject to a proration provision if the appropriation was insufficient. Now, the districts no longer calculate tuition rates themselves. The Department calculates a statewide tuition rate through the administrative rules process to be used by every district. Under the new calculation, all districts will receive the same dollar amount of aid per student. From FY 2012 through FY 2017, the general fund appropriation for this program has been between \$6.9 million and \$7.5 million, and the Department estimates an additional \$3.5 million in FY 2018 and \$4.5 million in FY 2019, above traditional funding levels, would fully fund this aid program. State aid tuition and transportation is used as a substantial portion of the Department’s maintenance of effort requirement for the federal funds it receives as part of the Carl Perkins grant program.

University System of New Hampshire

In the state operating budget, funding for the University System of New Hampshire (USNH) is made through a block appropriation. For each FY 2016 and FY 2017, state general fund appropriations for USNH are \$81.0 million. All state appropriations to USNH subsidize the tuition rate for NH residents and fund statutory programs, such as the cooperative extension. The USNH request of \$88.5 million in FY 2018 and \$93.5 million in FY 2019 would allow for tuition to be kept at FY 2017 levels.

DIVISION II THINGS TO KNOW

Community College System of New Hampshire

Similar to the University System, the Community College System of New Hampshire (CCSNH) receives state funding through a block appropriation. For FY 2016 and FY 2017, state general fund appropriations for CCSNH are \$42.5 million and \$43.8 million, respectively. CCSNH has stated its request of \$49.3 million in FY 2018 and \$52.5 in FY 2019 would result in tuition to remain unchanged in FY 2018 and a reduction in FY 2019. CCSNH has not raised tuition since 2011, and reduced it by 5% in 2014.

Lottery Commission

The Lottery Commission includes the Lottery Division and the Racing and Charitable Gaming Division, which was merged into the Lottery Commission in the last budget. The Lottery Commission's budget includes only sweepstakes fund appropriations, with all net revenue transferred to the education trust fund.

Police Standards and Training Council

The Police Standards and Training Council (PSTC) sets the hiring and educational standards for state law enforcement officers. In addition, PSTC operates the NH Police Academy, NH Corrections Academy and regional part-time officer basic training classes. Historically, PSTC supported its operations with a dedicated fund, to which was credited portions of "penalty assessment" revenue and supervision fees, collected by the Department of Corrections. In 2016, HB 1428 was passed, which included repealing the dedicated fund and directing its revenue to the general fund and appropriating general funds to support PSTC beginning in FY 2017.

Division III

LBA

January 2017

FISCAL YEAR 2016 ACTUAL EXPENDITURES AND FISCAL YEAR 2017 ADJUSTED AUTHORIZED APPROPRIATIONS

Division III by Agency - General Funds

ROW	CATEGORY- AGENCY CODE	AGENCY/DEPARTMENT	FY 2016 (Actual)	FY 2017 (Adj. Auth)	BIENNIUM	% OF DIVISION TOTAL
1	05-95-42	HUMAN SERVICES	81,226,427	83,154,920	164,381,347	12.8%
2	05-95-45	TRANSITIONAL ASSISTANCE	42,571,365	45,983,660	88,555,025	6.9%
3	05-95-47	OFFICE OF MEDICAID & BUSINESS POLICY	239,487,514	214,490,888	453,978,402	35.2%
4	05-95-48	ELDERLY & ADULT SERVICES	11,242,512	13,831,126	25,073,638	1.9%
5	05-95-49	DIVISION OF COMMUNITY BASED CARE SERVICES	7,258,196	0	7,258,196	0.6%
6	05-95-90	DIVISION OF PUBLIC HEALTH	13,764,601	15,396,107	29,160,708	2.3%
7	05-95-91	GLENCLIFF HOME	5,801,904	7,515,777	13,317,681	1.0%
8	05-95-92	DIVISION OF BEHAVIORAL HEALTH	18,671,758	23,267,054	41,938,812	3.3%
9	05-95-93	DIVISION OF DEVELOPMENTAL SERVICES	138,314,133	147,838,309	286,152,442	22.2%
10	05-95-94	NEW HAMPSHIRE HOSPITAL	18,583,902	27,947,512	46,531,414	3.6%
11	05-95-95	OFFICE OF THE COMMISSIONER	49,442,142	50,475,352	99,917,494	7.8%
12	05-43	NH VETERANS HOME	14,101,189	16,517,457	30,618,646	2.4%
13	05-66	NH OFFICE OF VETERANS SERVICES	503,989	561,781	1,065,770	0.1%
14		TOTAL	640,969,632	646,979,943	1,287,949,575	100.0%

LBA

January 2017

FISCAL YEAR 2016 ACTUAL EXPENDITURES AND FISCAL YEAR 2017 ADJUSTED AUTHORIZED APPROPRIATIONS

Division III by Agency - All Funds

ROW	CATEGORY- AGENCY CODE	AGENCY/DEPARTMENT	FY 2016 (Actual)	FY 2017 (Adj. Auth)	BIENNIUM	% OF DIVISION TOTAL
1	05-95-42	HUMAN SERVICES	165,959,059	176,016,428	341,975,487	7.6%
2	05-95-45	DIVISION OF FAMILY ASSISTANCE / CLIENT SERVICES	84,004,215	91,428,347	175,432,562	3.9%
3	05-95-47	OFFICE OF MEDICAID & BUSINESS POLICY	1,302,277,703	1,271,937,728	2,574,215,431	57.1%
4	05-95-48	ELDERLY & ADULT SERVICES	24,048,431	28,042,401	52,090,832	1.2%
5	05-95-49	DIVISION OF COMMUNITY BASED CARE SERVICES	10,942,809	18,379,729	29,322,538	0.6%
6	05-95-90	DIVISION OF PUBLIC HEALTH	78,841,083	97,918,679	176,759,762	3.9%
7	05-95-91	GLENCLIFF HOME	13,713,292	16,060,361	29,773,653	0.7%
8	05-95-92	DIVISION OF BEHAVIORAL HEALTH	40,113,717	50,589,418	90,703,135	2.0%
9	05-95-93	DIVISION OF DEVELOPMENTAL SERVICES	298,556,640	324,686,224	623,242,864	13.8%
10	05-95-94	NEW HAMPSHIRE HOSPITAL	58,522,388	70,770,586	129,292,974	2.9%
11	05-95	OFFICE OF THE COMMISSIONER	116,915,042	106,885,029	223,800,071	5.0%
12	05-43	NH VETERANS HOME	29,848,874	34,389,794	64,238,668	1.4%
13	05-66	NH OFFICE OF VETERANS SERVICES	503,989	561,781	1,065,770	0.0%
14		TOTAL	2,224,247,242	2,287,666,505	4,511,913,747	100.0%

DIVISION III THINGS TO KNOW

Category 5

Division of Human Services

Child Development Program - The Child Development Bureau (CDB) is responsible for complying with the regulations of the Federal Child Care and Development Fund (CCDF) including both child care scholarship and the mandatory child care quality improvement initiatives. The NH Child Care Scholarship program supports family self-sufficiency and reduces family dependence on public assistance programs by providing assistance with the cost of child care so families may maintain gainful employment, participate in training for a vocation, or participate in short-term job search. The operating budget contained \$10.9 million in general funds in each of FY 2016 and FY 2017 for the Child Development Program. The general fund component of the agency budget request is \$11.2 million in each of FY 2018 and FY 2019.

Sununu Youth Services Center - The John H. Sununu Youth Services Center (SYSC) is a 144-bed secure rehabilitation and detention facility. The co-ed facility serves both adjudicated and detained youth. The Rehabilitative Programs and Juvenile Detention Unit provide clinical and residential care and treatment for youth detained or committed by the juvenile courts in an architecturally secure facility.

- Youth are committed for charges ranging from serious violent crimes/assaults, burglary and home invasions to sexual offenses, and are deemed a serious risk of harm to self or others.
- A high percentage of the youth have severe psychiatric diagnoses, are prescribed psychotropic medications, suffer from psychotic episodes, and have histories of self-harming behaviors.
- Committed youth require assessments, diagnostics, treatment planning, and therapeutic services to address committing charges and dangerous behaviors.
- All youth need effective treatment including family therapy and permanency planning, supporting restorative justice to promote successful reintegration into the community.
- Detained youth are provided crisis care, suicide assessments and monitoring in a secure environment while awaiting court hearings.

DIVISION III THINGS TO KNOW

- Due to dangerousness of youth behaviors and severe psychiatric needs, youth are often on Clinical/Suicide watches requiring one to one supervision.

Chapter 276:205, Laws of 2015 (HB 2), as amended by Chapter 303, Laws of 2016 (SB 466), required DHHS to reduce the SYSC's budget by \$1.7 million in FY 2017, bringing its total budget to \$11.8 million for that fiscal year. The FY 2018/19 agency budget request is \$11.6 million in FY 2018 and \$11.9 million in FY 2019, of which \$11.1 million and \$11.3 million, respectively, are general funds.

Bureau of Child Support Services - The core mission of the Division of Child Support Services (DCSS) is to locate parents, establish paternity, establish and enforce legal orders for support, and collect and distribute child support. Services provided by BCSS allow families with children to receive the support they are owed in order to maintain or achieve self-sufficiency. Recipients of assistance under the Temporary Assistance to Needy Families (TANF) program are automatically provided services as a condition of their eligibility for public assistance. TANF recipients must assign their rights to child support to the state, and amounts collected help the state and federal government recover a portion of the cost of public assistance expenditures. The operating budget contained \$3.9 million in FY 2016 and \$3.5 million in FY 2017 in general funds for child support services. The agency's general fund request is \$4.1 million in FY 2018 and \$4.2 million in FY 2019.

Division of Family Assistance

Temporary Assistance to Needy Families (TANF) - Provides cash assistance and emergency assistance to families with children in which one parent is absent, incapacitated, or deceased, who meet financial eligibility requirements. The four purposes of the program are to:

- 1) Assist needy families so that children can be cared for in their own homes;
- 2) Reduce dependency of needy parents by promoting job preparation, work and marriage;
- 3) Prevent and reduce out-of-wedlock pregnancies; and
- 4) Encourage the formation and maintenance of two-parent families.

DIVISION III THINGS TO KNOW

New Hampshire receives a \$38.0 million federal block grant and must spend \$32.0 million of state money as maintenance of effort (MOE). The consequences of failing to satisfy the MOE requirement are:

- 1) The TANF grant will be reduced on a dollar for dollar basis in the subsequent year reflecting the amount of noncompliance; and
- 2) The state will be required to expend additional state TANF MOE funds in the TANF program equal to the amount by which the state fell short of meeting the MOE requirement.

After the state MOE has been met, any unspent federal TANF funds are held in a TANF reserve account. Due to declining caseloads, as of September 30, 2016, the TANF reserve contained \$62.1 million. The state may leave these funds in the reserve, or spend them on any of the four purposes identified above.

Employment Support - The New Hampshire Employment Program (NHEP) supports purchased services for barrier resolution and job skills training for public assistance recipients to increase self-sufficiency and reduce the need for public assistance. Part of this functional area is the Food Stamp Employment and Training Program. To meet Federal requirements, the division operates a voluntary employment and training program to assist with job search training and reimbursement for some job search expenses, such as mileage. The operating budget contained general fund appropriations of \$3.9 million in FY 2016 and \$4.0 million in FY 2017. The general fund component of the agency budget request is \$3.7 million in each of FY 2018 and FY 2019.

Supplemental Nutrition Assistance Program (SNAP) - This program, formerly known as the Food Stamp program, helps to alleviate hunger and malnutrition by enabling needy households to purchase a nutritionally adequate diet through the normal channels of trade. SNAP benefits are funded 100% by the Federal Government. The State and Federal Government share administrative costs on a 50/50 basis. Nutrition Education is provided to Food Stamp clients through a contract with UNH Cooperative Extension. Food Stamps are issued via Electronic Benefit Transfer (EBT cards).

DIVISION III THINGS TO KNOW

State Supplemental Programs - Develop and implement income and resource criteria for eligibility for cash assistance in the Old Age Assistance, Aid to the Permanently and Totally Disabled, and Aid to the Needy Blind Programs. All three State supplemental categories are mandated in the Social Security Act and are budgeted based on historical trend data and to reflect federally mandated maintenance of effort (“MOE”) requirements. To maintain federal Medicaid funds the State must maintain minimum payment levels in its State Supplemental Programs.

- *Old Age Assistance (OAA)* - Provides financial assistance for low-income seniors. This grant is generally a supplement to Social Security or Supplemental Security Income benefits and helps low-income seniors maintain a standard of living compatible with decency and health. This program is funded solely with general state funds.
- *Aid to the Permanently and Totally Disabled (APTD)* - Provides financial assistance to needy individuals between the ages of 18 and 64 who meet the eligibility requirements including a physical or mental disability that is expected to last at least 4 years. The program is also funded entirely by state general funds.
- *Aid to the Needy Blind (ANB)* - Provides financial assistance to individuals who meet other eligibility requirements and either have no eyesight or have eyesight with corrective glasses so defective as to prevent accomplishing everyday activities requiring eyesight. This program is also funded by state general funds.

Office of Medicaid Business and Policy

Uncompensated Care Fund - Disproportionate Share Hospital (DSH) payments were authorized by the federal government in the early 1980s as a form of relief for public hospitals that served a disproportionate share of indigent patients. The purpose of the payments was for the Medicaid program to help with the cost of care for these patients. In New Hampshire, hospitals are required to pay the State a Medicaid Enhancement Tax (MET) on net patient services revenue. Prior to FY 2011, the State made uncompensated care payments to the hospitals equal to the amount of tax each hospital paid. The State then claimed Medicaid reimbursement for the payments. The additional federal revenue benefitted the State general fund as unrestricted revenue. Between FY 2011 and FY 2014, the state made multiple changes to the DSH distribution formula, some of which were necessary to comply with federal regulations. The result of these changes was a net reduction in DSH payments to hospitals, and a greater share of MET revenue retained by the State general fund. In response to these changes, as well as to reduce

DIVISION III THINGS TO KNOW

Medicaid reimbursement rates paid to providers, several hospitals initiated lawsuits. The resulting settlement agreement was codified in Chapter 158, Laws of 2014 (SB369). Some of the significant features were:

- Uncompensated care payments to critical access hospitals at 75% of cost.
- Uncompensated care payments to non-critical access hospitals at 50% of cost.
- Elimination of MET tax collections to generate unrestricted general fund revenue.
- Continued use of MET tax collections to fund a portion of the Medicaid program.
- Changed priorities for distribution of the tax to give preference to hospital payments.
- Reduction in the MET rate from 5.5% to 5.4%, where it will remain unless uncompensated care costs reported by hospitals fall below a certain threshold.

In FY 2016, as the result of a U.S. District Court injunction, DSH payments to hospitals totaled \$207.6 million, an increase of \$15.8 million above the budgeted amount of \$191.8 million. Since the DSH program is only 50 percent federally funded and MET revenue was insufficient to cover the additional expense, this resulted in an unanticipated general fund expenditure of \$7.9 million. As a final ruling has not yet been issued, the impact of this case on FY 2017 and future budgets is unknown. Per RSA 167:64, DSH payments to hospitals may not exceed \$224.0 million in FY 2017 and \$241.9 million in each of FY 2018 and FY 2019. The FY 2018/19 agency budget request includes \$166.0 million per year for DSH payments, split evenly between federal funds and MET funds.

Medicaid Care Management - The largest account in the DHHS budget and the Medicaid program, this account includes appropriations for payments to the managed care organizations (MCOs) under contract with the state. Medical services are provided by medical providers enrolled in the Medicaid program. The MCOs pay negotiated contracted rates to the providers for the services they provide to Medicaid clients. The Medicaid program pays the MCOs actuarially-determined per member per month rates for coverage of the Medicaid population. These rates must be approved by the federal Centers for Medicare and Medicaid Services (CMS). The rates approved by CMS in FY 2016 have resulted in Medicaid costs that are higher than the budgeted amounts. In addition, the FY 2016/17 budget assumed Medicaid caseload reductions that did not materialize. The Department has projected that these two factors will result in a general fund shortfall of approximately \$35.0 million in FY 2017. (The total Medicaid-

DIVISION III THINGS TO KNOW

related shortfall may be higher than this due to other factors noted below.) The FY 2018/19 agency budget request includes \$753.5 million in FY 2018 and \$754.4 million for Medicaid care management. (These numbers reflect total funds, including general funds, federal funds, and MET funds). Combined, this reflects an increase of 24.8 percent over the FY 2016/17 budgeted amounts.

New Hampshire Health Protection Program - Chapter 3, Laws of 2014 (SB 413) established the New Hampshire Health Protection Program effective March 27, 2014. The program provides health insurance coverage to citizens with income up to 138 percent of the federal poverty level. In accordance with the federal Patient Protection and Affordable Care Act, federal Medicaid funds paid for 100% of benefits through December 31, 2016, with federal funding declining to 95% effective January 1, 2017. Federal funding will continue to drop each year until reaching 90% on January 1, 2020, where it will remain under current federal law. Chapter 13, Laws of 2016 (HB 1696) extended the program for an additional two years through December 31, 2018. The non-federal share of costs (a.k.a. the “remainder amount”) will be funded by voluntary contributions from private foundations and an assessment on insurance providers. Program expenditures for benefits are made from a special non-budgeted trust fund established by RSA 126-A:5-b. Total expenditures in FY 2016 were \$406 million, and as of December 2016, total enrollment was approximately 51,000.

Bureau of Elderly and Adult Services (BEAS)

County-State Cost Sharing - In the Medicaid program federal funds pay 50% of the rates for long-term care and medical services, while the State or counties pay the non-federal share (50%). The State pays the non-federal share of costs for medical services, and the counties pay the non-federal share of nursing home and home and community based care services. County payments are capped in RSA 167:18-a at \$114.6 million for FY 2016, and \$115.3 million for FY 2017. Caps in future years are established by the Legislature on a biennial basis. Counties also receive an aggregate credit of \$5 million per year, intended to prevent them from paying more than they would have paid under a previous cost sharing arrangement with the state.

Medicaid Quality Incentive Program (MQIP) - MQIP is funded by the Nursing Facility Quality Assessment (also known as the “Bed Tax”). In accordance with RSA 84-C:2, a 5.5% assessment on nursing facilities net patient

DIVISION III THINGS TO KNOW

services revenues is collected by the Department of Revenue Administration. The Department transfers the amount collected to the Department of Health and Human Services which makes MQIP payments to the nursing homes. The payments generate additional federal Medicaid matching funds which supplement the Medicaid rate paid to nursing facilities. Payments are based on Medicaid bed days.

Proportionate Share Program (Proshare) - Proshare provides additional federal funds to county-owned nursing facilities. The additional payments make up the difference between the Medicaid rates paid and the Medicare Upper Payment Limit (a calculation of what Medicare would pay for such services). Proshare payments provide additional federal Medicaid revenue for the county homes, are funded with county and federal funds, and do not directly impact the state general fund or private nursing facilities. In aggregate, each additional dollar of MQIP funds received by county nursing facilities results in a one dollar decrease in Proshare payments.

Budget Neutrality - The Department is permitted by the federally approved State Medicaid Plan to apply a budget neutrality factor to rates to ensure payments do not exceed available appropriations. The Department sets nursing facility rates in August and February of each fiscal year by estimating total expenditures based on the cost of providing nursing services at each facility and projected nursing home bed utilization. If the Department estimates the expenditures will exceed available appropriations, they apply a budget neutrality factor, or rate reduction. For example, if the Department estimates nursing services expenditures will total \$220 million and appropriations are \$200 million, they would apply a budget neutrality factor in order to reduce total expenditures by \$20 million. In this instance, the neutrality factor applied to rates would be 9.1%.

Grants to Locals - Other non-Medicaid social services. These include a variety of home and community-based services designed to prevent nursing home placement for individuals age 60 and older and promote their independence. The services are part of the "safety net" targeted to the low-income elderly who may not meet Medicaid eligibility criteria. The primary programs administrated in this unit are funded with federal funds under the Older Americans Act and the Social Services Block Grant and with State general funds. Services provided include: home-delivered and congregate meals programs, transportation services, homemaker and home health aide services, and personal care services. These services are provided by BEAS' community partner agencies

DIVISION III THINGS TO KNOW

statewide. The operating budget appropriated general funds of \$11.4 million in FY 2016 and \$11.7 million in FY 2017. The general fund component of the agency budget request is \$12.6 million in FY 2018 and \$12.7 million in FY 2019.

Division of Community Based Care Services

Bureau of Drug and Alcohol Services - The Bureau of Drug and Alcohol services provides administrative oversight, in collaboration with the Division of Public Health Services, of regional public health networks for the development and implementation of environmental strategies relative to substance misuse prevention and school-based student prevention programs. In addition to other responsibilities, the Bureau administers impaired driver rehabilitation service programs, including impaired driver care management intervention programs and approximately 150 independent impaired driver treatment service providers. The Bureau is also responsible for oversight of substance use disorder treatment programs as well as for-profit methadone clinics.

Governor's Commission on Alcohol and Drug Abuse Prevention/Alcohol Abuse Prevention and Treatment Fund - RSA 176:16, III requires a percentage of the profits derived by the Liquor Commission to be placed into this continually appropriated, non-lapsing fund for alcohol education and abuse prevention and treatment programs. From FY 2004 through FY 2015 the Legislature suspended this law, instead appropriating a fixed dollar amount that was generally lower than the five percent of Liquor profits required by statute. The FY 2016/17 budget and trailer bill (Chapter 276, Laws of 2015) changed the statutory funding from five percent to 1.7 percent of gross Liquor profits, resulting in an estimated appropriation of \$6.7 million over the biennium (an increase over the \$3.6 million appropriated during the previous biennium). Additionally, Chapter 330, Laws of 2016 (SB 533) appropriated \$2.5 million to the Commission over the biennium, bringing the total FY 2016/17 appropriation to \$9.2 million. The FY 2018/19 agency budget request proposes restoring the percentage of Liquor profits devoted to the Governor's Commission to its original five percent, for a request of \$18.5 million over the biennium.

New Hampshire Hospital (NHH) and Glenclyff Home for the Elderly

New Hampshire Hospital (NHH) and Glenclyff Home for the Elderly are state facilities that serve individuals with mental illness. The institutions operate 24 hours per day year round. Both institutions are components of the

DIVISION III THINGS TO KNOW

statewide mental health system. Insufficient community mental health resources increase the need for beds at NHH. A shortage of beds at NHH has increased the demand on hospital emergency rooms, caused long waits in emergency rooms for citizens needing specialized treatment, and resulted in inefficient care and higher overall costs. In response to the situation, the Department opened 12 additional beds in the spring of 2013 and a 10-bed psychiatric crisis unit opened on July 1, 2016. The 10-bed unit opened a year later than anticipated due to nursing shortages. Partially in response to this, in January 2016 the Governor and Council approved a 15% salary enhancement for nurses to address shortages in NHH. The agency budget request includes funding for a continuation of this salary enhancement, as well as a 15 percent increase for nurses elsewhere in the Department.

Division of Behavioral Health

Community Mental Health Services - Mental health services are provided by the community mental health centers under agreements with the state. These services are a significant part of the Medicaid program. In April 2011, the U.S. Department of Justice issued a letter finding the State failed to comply with aspects of the Americans with Disabilities Act (ADA) by not providing services for individuals with mental illness that allow them to live in the most integrated community-based settings appropriate for their needs. In February 2012, a class action suit was filed in the U.S. District Court alleging New Hampshire had failed to provide adequate community-based mental health services. In February of 2014 the state agreed to a settlement to expand and enhance mental health service capacity in integrated community settings. The agency budget request includes \$6.7 million per year in general funds for assertive community treatment teams in order to comply with the settlement.

Bureau of Developmental Services

Developmental Services – Community-based services are provided to developmentally disabled citizens and their families through the area agencies established in RSA 171-A. This program is a significant part of the Medicaid program. Chapter 363, Laws of 2007 required, beginning in FY 2010, the Department to budget the full cost of services for persons with developmental disabilities and acquired brain disorders and also required the Legislature to provide sufficient appropriations to pay for the services. The Department maintains a prioritized list of people who are eligible, but not receiving services in three areas: developmental services, acquired brain disorder services, and children’s in-home support services. These lists are often referred to as the “DD Waitlist.” The operating

DIVISION III THINGS TO KNOW

budget appropriated general funds of \$142.3 million in FY 2016 and \$147.8 million in FY 2017. The general fund component of the agency's budget request is \$169.2 million in FY 2018 and \$175.1 million in FY 2019.

DHHS - Department Wide

Personnel/Staffing - There have been significant reductions in the number of authorized and filled position in the Department over the last several biennia. In December 2010, there were 3,348 positions authorized in the operating budget, of which 2,815 were filled. In October 2016 there were 2,891 positions authorized, of which 2,556 were filled. This represents a reduction of 259 filled positions over six years, and the Department has a current vacancy rate of 11.6%. The vacancies are in part due to the Department holding positions vacant in order to achieve savings needed to help cover budget shortfalls.

FY 2017 Budget Shortfalls - The Commissioner has indicated in public testimony that the Department is facing an FY 2017 general fund shortfall, due largely to Medicaid costs being higher than the amounts budgeted (see section on Medicaid managed care above). Other factors include costs for Medicare Parts A, B, and D that are greater than anticipated due to a significant increase in rates set by the federal government. The total shortfall may be in the range of \$50 million, or possibly larger, depending on the impact of a federal lawsuit regarding DSH payments to hospitals (see section on the uncompensated care fund above).

New Hampshire Veterans Home

The New Hampshire Veterans Home provides long-term care and treatment services to the elderly and disabled veteran population. The home has three funding sources: general funds, federal funds in the form of per diem payments based on the resident's acuity, and payments from the residents. The FY 2018/19 maintenance budget request for the Veterans Home is based on a census of 225 residents, compared to a census of 200 in previous budgets. The general fund appropriation for the Veterans Home was \$16 million in FY 2016 and \$16.3 million in FY 2017. The agency has requested \$16.6 million in FY 2018 and \$16.8 million in FY 2019. The Home has a unique budget footnote permitting additional revenue to be expended, and permitting the home to spend appropriations if budgeted revenues are not achieved, ultimately resulting in a cost to the general fund.