

Citizens' Advisory Committee
April 2, 2011
7:30 AM

Meeting Attendees:

Mark Kaplan (Chair, Selectmen), Peter Bianchi (Selectman), Jack Harrod, Terri Bingham, Will Kidder, Phyllis Piotrow, Dave Payne, Carolyn Lockhart, Raymond Ettenborough, David Dunning, Beth Swanson, Bob MacMichael, Vahan Sarkisian, Joe Cardillo, Bud Dick, Rip Cross, Gary Markoff, Sen. Bob Odell, Rep. Dave Kidder

Chair Kaplan called the **MEETING TO ORDER** at 7:30 AM.

He opened by welcoming Senator Bob Odell and Representative Dave Kidder to the meeting and said he would like to start the discussion with the topic of education funding. New London received a bill of \$1 million that is due in March 2012. He knew the House and Senate had passed an education bill and he wondered what would happen next.

Rep. Kidder opined that the bill passed by the House was not as good as the one passed by the Senate, which had a difference of just one word: "responsibility." He's never been in favor of a Constitutional amendment to fix this situation, but felt that in this situation, it seems to be the only way out. Rep. Kidder believed that the Senate bill should be passed. In the House they passed a bill a couple weeks ago which allows for the house to be removed from responsibility as it pertains to the funding of education. The bill is open-ended without the word "responsible" in there. Another amendment was that a 3/5 majority would be needed to increase any taxes, revenues, and fees, among other things. Those amendments will work against each other and could be a recipe for down-shifting and putting responsibility back on the towns. If the state can't raise money, the cost will be put on the towns.

Chair Kaplan asked Sen. Odell about the word "responsible" in the bill. Sen. Odell said that he has always been in favor of a Constitutional amendment, as the problem has been with them for nearly a generation and he doesn't see another way out. If they deny that the State has any responsibility, the opposition of the Constitutional amendment on the ballot in 2012 will be so substantial that it won't have a chance to pass. Sen. Odell said that the Governor is close to being supportive of this and he is optimistic that they will find a way for him to be supportive. Mr. Sarkisian opined that it was stupid for the House to pass a bill releasing responsibility for education funding. Rep. Kidder said the House leadership point of view is trying to get out of education funding and by using the word "responsible" it holds the State's feet to the fire so that they have to provide some form of monetary interest in the education system.

Sen. Odell said that this was all coming from the Claremont decision. New Hampshire is the only one of the 50 states required, by interpretation of New Hampshire Supreme Court, to require the first dollar they send to the public schools, they have to send an equal amount for every community in the amount of \$3,450 per student. This distorts the pattern because they distribute money equally and then tweak the formula a bit to put more money in other areas. Sen. Odell commented that they are holding steady to the same amount they have contributed to public education in the past. He opined that the fact that this is true in the era they are in, was a fortunate thing and an important accomplishment. On the statewide property tax, without doing this piece of legislation, communities with greater property would find themselves sharing their statewide property distribution with other communities. He said that they were not going to have donor towns, each town raises their own money from statewide property taxes and then they keep it. That will keep things as they are for the next two years, without a Constitutional amendment.

Kaplan said if House goes along with what the Senate did and the Governor signs it, the bill New London got for \$1 million can be torn up and thrown out. If this bill is agreed to by the House and the Governor

signs the bill, they won't have to pay a donor town tax for the next two years. Sen. Odell said without a Constitutional amendment, this issue becomes a wild card. The formula they are currently using, where there are communities that have gone down in enrollment and some that have grown are getting the same amount needs to be fixed.

Mr. Sarkisian asked if anyone had broken the cost of education down to figure out the numbers for special education. Sen. Odell said that special education catastrophic aid is being cut in both the Governor's and the House budgets. He wasn't sure if that would remain true for the Senate.

Ms. Piotrow congratulated Sen. Odell and Rep. Kidder as she felt they were two of the best from the legislature. She said she spoke with people from Hilltop and also the League of Women Voters who came up with some specific questions they would like answers to. She handed out a list of the questions for all to see. She hoped the questions she brought forth would be covered during their discussion that morning.

Mr. Markoff referred to something Sen. Odell had said about them still putting the same amount of money into education, which he felt was contra-indicated by the State diminishing their payment into the retirement contribution side. The funding had decreased from 35% to 25% and is working against their ability to pay for education. The school systems have to make reductions to be able to fund this gap. Mr. Markoff said that they had to lay off five teachers to make up the difference. They have no ability to cut what they want to spend back on the retirement side. To the extent that the payments are the same, it is just not true since this funding has been cut. He knew it would never go back to 35% and has seen on the table that 0%, as is taking away the funding for building aid. He asked for clarification.

Rep. Kidder and Sen. Odell clarified that building aid would be grandfathered in and only new buildings would not be funded.

Mr. Markoff asked if the 25% funding would go to zero. Chair Kaplan said there is a retirement reform bill issue they want to talk about which would answer that question. Mr. Markoff said that the two issues are related. If they are not being faced with \$1 million for state education, and then get hit with having to come up with \$1.5 million to fund retirement, they shouldn't be celebrating. Chair Kaplan said they are being faced with both issues.

Mr. Markoff said that the actuarial system was going to steal money from the school system. They have the potential of reduced pay percentage from the state and an increase in the consequence from the actuarial changes simultaneously and if not phased in, will knock out teachers, schools and the school systems. Rep. Kidder said he was not on the Finance Committee but his perception was that downshifting is going to happen. That is going to happen in the budget they sent to the senate, if it passes. He said that it was going to be awful. The people chairing the Ways and Means and Finance Committees both understand what is going on. The House leadership wants to get rid of downshifting.

Chair Kaplan directed the discussion towards the retirement reform bill. His understanding was that retirement for municipal and state employees is about \$4.3 billion underfunded. Either they are not putting enough money into it, or they've increased benefits to the point where the money coming out is greater than the income. Mr. Markoff said that it is actually underfunded by \$4.75 billion. Sen. Odell said that SB3 passed for the second time that past Thursday. They have operated with a return of 8.5% predicted, and if they lower the projected returns to 7.5% it will add another \$1 billion to the State's liability. For each member of the retirement system now, they are \$100,000 under-funded in terms of pension liability. Those out there at \$18,000 are the ones who have retired a number of years ago. They live in a high cost environment. As 30 other states have done in the last five years, they increased contributions from members and from Group 2 (firefighters and police) they have put restrictions on

bumping up in their last couple of years by doing special duties so they are making more money than they had previously. They have had to take some heat about this but thought they had made a lot of progress. The labor unions have not been as cooperative as they wanted them to be. The retirement system is now more employer-oriented than employee-oriented; they have increased the contribution by 1% the next two years for all people. They have to have current employees paying a different rate than what they had been paying, or else it would take another 25 years to get out of the situation. He felt it was one of the most thoughtful processes they have gone through. It is a long needed change and they take the heat from unions and others by doing it.

Chair Kaplan asked if this addressed the question of the State going from a 35% contribution to 30% and then down to 25%, with the potential to go to 0%. Sen. Odell said if they are generating more money from employees into the fund, the cost to the communities will go up less. If they don't do this, the percentage down the road for firefighters could be 40%. In Manchester, 40 firefighters can retire but will leave 27 vacancies because the city can't afford to hire because they are paying so much in retirement. If they don't pass this bill, all these cost factors will go up.

Sen. Odell went on to explain that both his and Rep. Kidder have lived through one of the dumbest times in the legislature. He didn't understand why they would commit to paying 35% of retirement for employees they don't hire, supervise, fire, and their predecessors agreed to this and it became an entitlement to communities. He didn't think there was any will to take it below 25% but that means that because there is no cost shifting there, costs will be shifted elsewhere. It is a hot issue and whoever made this decision many years ago was using very bad judgment.

Mr. Markoff said that the social contract on all sides was insane. That there is a defined benefit in place that assumes it will continue forever even if life-spans go up and healthcare costs don't continue to increase. If returns are 3.2% before fees for a decade, and are still not altered, that is a problem. There is no responsibility on the unions that were deciding where the capital was going; they had complete control of the portfolio execution and they didn't do anything about it. It was their fault. The idea that there is no ability to control this leaves a huge problem, which is jamming the deficit back down to the education system with a huge consequence. He wondered if it could be designed in the tax system, another way to address paying healthcare and retirement benefits so it doesn't show up on the education line. He suggested creating a 1% income tax or sales tax until the gap is closed. Every year this goes on, it gets worse. It is a structural deterioration of the education system. Can they reorganize how they collect taxes and not meld them into the education line? They should just tell the truth about the retirement obligation so people can see it for how it really is. Most people don't realize how much the retirement system is stealing from education. It hasn't been transparent and that is how the problem got so big.

Rep. Kidder said that his father was part of creating the problem; 20-30 years ago, folks would come to the Finance Committee and say they needed to give raises. They didn't have the money to do that, so they increased benefits, which was a simple and easy thing to do. Now the bill has come due and they are paying the price for it. He felt an income tax would solve this issue, dedicated to education, however, the reality now in Concord is that it will not happen. Mr. Markoff asked about a toll increase. Rep. Kidder said the House will pass no increase - period.

Sen. Odell said their underfunding of their retirement system could be considered as fourth worst retirement system in the country. Almost every state has the problem and is a huge issue wherever they go. Mr. Markoff said as the fourth worst they neglect to be transparent. Sen. Odell said that was not true. The legislature had many public hearings on it, the unions have been articulate about it and they are getting it out to the people.

Sen. Odell said the new bill will increase the amount of money being put into the system. Employees will see the benefits, just not so soon. It will hurt retirees down the road because there is no source or vehicle to get them cost of living increases. Those expenses would have to come from appropriations from the legislature, which was very unlikely to happen. Rep. Kidder said that in the House they are always "dissing" the unions. He said he wasn't a union person, but management and unions have to sign a contract. Part of this is a management issue. The time to be tough is when times are good, not the other way around.

Mr. Markoff said that the bill doesn't get it out of the problem, but just changes it to be less of a very large problem. The most frightening this is that the return on the plan in June '09 to June '10 was a +12.7% number which is 4.2% greater than the 8.5% assumption. They would have thought that the unfunded would have become less unfunded, but it went from 58.3% to 58.5%. Mr. Cardillo said that there were 10+ years to make up and it couldn't be fixed in one year. Mr. Markoff said they have to have steady out-performance by a fund that has steady gargantuan under-performance, so the liability sits truthfully on the taxpayer's back. With anything less than 12% return, the un-fundedness will continue to drop and the liability will continue to expand. He asked what other ways -- other than throwing it back on real estate taxpayer, which has consequences back into the educational funding -- are being contemplated to address this. Sen. Odell said it wasn't just property taxpayers who pay this. Non property taxpayers pay 25% of their share and non property taxpayers pay the entire share for the State.

Rep. Kidder said that previously there had been no investment committee to handle the portfolios. There was a 13-member committee who didn't know what they were doing. Now they have a separate investment committee made up of people who have backgrounds in investing, and is headed up by Senator Janeway. Another piece of this is the Kurk Amendment which is part of the budget they passed on Thursday. It goes further than SB3 and in his estimation went too far and was similar to the Wisconsin situation where they were trying to take away some basic rights from the union folks. SB3, however, starts what they need to do. This problem isn't going to go away and they have to get over the hump and are not quite there yet but are headed in the right direction.

Ms. Piotrow wanted to know what they planned to do about public television and Planned Parenthood, which were in danger of being unfunded. Sen. Odell said that New Hampshire appropriates \$100 million to the University System. They decide how to use that money and if they want to spend \$2.7 million to fund public television they can, but if their funding is cut to \$50 million, they have to decide how to spend it. With regards to Planned Parenthood, he believed that if they were going to be considered parallel to others, they may need to take a cut, but they don't need to be eliminated. He said that Planned Parenthood was not all about abortions but also about health services.

Chair Kaplan asked about the Highway Block Grant, which is money collected through the gasoline tax and a portion of it is passed down to the cities and towns. He noted that people are getting better gas mileage with the vehicles today, and they travel the same amount of miles per year. As a result, people are buying fewer gallons and are paying less tax to the state. He wondered if they will they lose the Highway Block Grant. He and Selectboard member Tina Helm went to a GACIT meeting that discussed repairing highways and bridges and this issue came up. Chair Kaplan felt they were all saving money because they were buying fewer gallons and felt raising the gas tax was okay to do because they needed the money for repairs. Rep. Kidder said they tried to pass a \$0.05 gas tax the last three years with no avail. The last gas tax increase was 1992. If they indexed it with inflation, it would have brought them where they need to be. The infrastructure is getting worse and worse. They don't have money and resources to rebuild the roads; all they do is re-pave them and don't address the problems.

Ms. Piotrow asked about the \$30 registration charge. Sen. Odell said that this was to sunset on June 30 and it was always meant to go away. They put it back on the table but it was a symbolic vote to say "we don't like the surcharge." The highway problem is not just the gas tax situation, but an increase in costs, and that fact that they were bailed out by stimulus money. The Federal Government also raises money through the Gas Tax, so their grant to New Hampshire in the next few years is going to go down. They have implemented the rolling tolls, the State sold part of I-95 to the turnpike authority, and bonded things they shouldn't have, and it is all coming home. The \$30 for the highway surcharge made people mad, but \$90 million was raised. Of that, only \$30 million went to the highways, and then the State Police got a piece of it as did others and the \$60 million isn't accounted for. Sen. Odell said they are going to sort it out next year. The transparency in terms of moving and shifting around of highway money needs to change. With the I-93 work, it has taken future money away. Garvey Bonds will be paid by federal money over the next 10-20 years. I-93 will be a great road, but the rest of them will have to suffer.

Ms. Lockhart asked if anyone has considered putting a fee on new car sales to raise highway funds. Rep. Kidder said he was not aware of this. Ms. Piotrow asked about the reduction on the tobacco tax. Rep. Kidder said they reduced it by \$0.10. He said if they want to make enough of a cut to get the people from surrounding states to come to New Hampshire to buy them, they have to do more than \$0.10. He thinks \$0.25 cents would do it. Sen. Odell didn't think the Senate would take the tobacco tax cut.

Mr. Markoff thanked Sen. Odell and Rep. Kidder for coming to the meeting. He referenced an article he saw on January 3, 2011 that said the State of NH had the second largest increase in revenues, up 29.86%. He didn't think there was any way they could have budgeted for that. He thought the only way out of the situation without raising taxes was to grow. Mr. Markoff asked how they were doing in this regard. Sen. Odell said they generally raise a little over \$2 billion/year from the general fund and education trust fund revenues and are not heavily dependent on income or sales tax as other states are. Through end of March, they are off by about 1%. This February they had an anomaly; they were down \$16 million for a short month of about \$100 billion in revenue, and in March they are close to \$600,000 in revenue. Of the balance of over \$200 million, they came ahead by about \$6 million. Sen. Odell said the key is April, which is the biggest month of the year. The house has suggested they would be off by \$50 million. Through March they are about \$20 million off. This is important because if they end the year flat, that is how they project the budget the next year. If they are using 2011 as part of the base for projecting revenues in 2012 and 2013, they want as high a base as they can get in which to base their percentage.

Mr. Cross asked about gaming. Rep. Kidder said it was off the table this year. Sen. Odell said he was in a meeting and felt the deal was done and that Massachusetts would beat them to the punch. He felt it would bring in some revenue, but not as much as they are projecting, and felt it would change New Hampshire.

Mr. Cardillo asked about trickle down from gaming and what was the trickle-down they see from the rooms and meals tax. If there are more people coming here, what do they see, percentage-wise? Mr. Odell said it produces about \$220 million/year, which would be about 10% of the revenue. About 1/3 comes from business taxes, business profits and enterprise. Rep. Kidder said if they have a casino in Salem, it sucks money out of the rest of the community. People eat and drink at the casino and the surrounding areas take a hit.

Mr. Dick said he has been in hospitality business for about 40 years, and 20 years ago they looked into gaming in Maine and he was on a commission to study the possibility of riverboat gambling. The promises made in the communities he visited failed to come true. Bankruptcies tripled, kids coming to school barefoot increased by 300%. The social costs were increased, even when the boat was removed, in order to take care of the problems from the addiction of that particular vice. It has been an enormous cost to those communities. The revenue did not increase.

Mr. Payne asked about the publicity of dropping the dropout rate from 18 to 16. He wondered what the logic was. Rep. Kidder didn't agree with it and thought it should change back. He said they currently have less than a 1% dropout rate in New Hampshire since it was increased to 18 years of age. Sen. Odell said that New Hampshire has done very well in this regard. He has chaired a study on dropouts and successfully created a unique student number system to be able to track kids as they move through schools to be able to demonstrate having the value of an 18-year old. He said the House budget de-funds the drop-out prevention programs.

Ms. Piotrow asked if they added \$1.4 million to the legislative budget. Rep. Kidder said he wasn't sure but had it on his list to find out.

Mr. Harrod commented that he was in touch with friends all over the country and that the Concord happenings have gotten into the national media. He opined it was not good for the State; people think they are crazy.

Ms. Lockhart said that New Hampshire was the only state not to have a seatbelt law. She wondered if they are being denied any federal funding because they don't have this law. Mr. Sarkisian said they were.

Mr. Dick said there was a story in the State of West Virginia. The legislature insisted that gambling revenue be split between the state and to tourism promotion. This brought people in who didn't necessarily gamble. Sen. Odell said it started as racetracks, slot machines, and then tables. West Virginia now has 7,000 establishments. The state gets addicted to the money and West Virginia has some bad numbers in terms of addiction. Slot machines are allowed wherever liquor is sold.

Ms. Piotrow asked about hospital funds being cut. Sen. Odell said it is a \$100 million issue for the state called "Medi-Scam." It was created several years ago when Ed Dupont was president of the Senate. They would tax hospitals, the hospitals would pay money in, they would bill the federal government for their share, and then pay the hospital back. Because of that transaction, they could bill the feds for \$100 million. They were supposed to pay back for uncompensated care, but they were paying it back, dollar for dollar. The House has said they are going to use that money to pay other bills and not to pay the hospitals back for it. Odell said they still have \$100 million budgeted and if they don't get it for the Medicaid enhancement cost, they'll have to raise the money some other way.

Mr. Markoff said that some creative thought had begun in the Governor's budget in terms of how to be more efficient in certain areas. How much more efficiency could be achieved? Also, what has been done to advertise the resources in the state? A lot of their problems would disappear through time if this is addressed? Rep. Kidder said that from House side, there is very little creativity. They make cuts everywhere, including advertising. He felt they were being penny-wise and pound foolish. Sen. Odell said the House cut the Community College budget by \$11 million, but kept \$2 million in the budget, which is tied to technology where they could educate a whole group of people. The area around Rochester may be a locale for hundreds of jobs, and this money could train a lot of people. They are trying to do a lot with the University System, and in Claremont they have Red River Computer, which is the world headquarters. They want to find a way with Sysco to have young people be able to access systems to participate in networking or writing code. He felt this initiative had real power.

Rep. Kidder said there have been things within the court system that are interesting. The new chief justice has done a huge amount of work to make the whole system more workable such as arranging arraignments from jail via video so people don't have to be transported from jail to the courthouse.

Mr. Bianchi said he has heard that all the cuts they are talking about in the state would bring the state budget back to the 2007 levels. Rep. Kidder said that was a close assumption. Mr. Bianchi asked how, in that four years, did they get into that position? Did they go haywire in spending? Rep. Kidder answered yes. Ms. Piotrow said there was also a big recession, Medicaid expenses had gone up, as well as unemployment.

Mr. Sarkisian said that with regards to taxes, he is a property owner on the lakefront as well as others. He and his wife are at the point where they are considering selling their house as the taxes are ridiculous. The lakefront has been hit so hard and Main Street and surrounding housing has been reduced. He felt there was something wrong with it and felt it was going to drive a lot of people out of the state. Chair Kaplan said assessments are based on sales.

Rep. Kidder said that the problem is that property tax is subjective; it is not a scientific system. He said that the subjectivity of it is difficult to deal with it. He sometimes leans towards an income tax because which adds some progressivity to the very regressive tax structure they have in New Hampshire. Mr. Sarkisian said that when he pays more real estate tax on his one acre lot on the lake, and Hillary Cleveland pays less with her property with a mansion on it with views, barns and garages, something is wrong.

Chair Kaplan noted that \$14.88 is the tax rate in New London. Assessments are based on sales of various pieces of property in the town. They compare the lake properties to the other lake properties.

Chair Kaplan thanked the representatives for coming and for the great discussion.

The meeting adjourned at 8:53 AM.

Respectfully Submitted,

Kristy Heath, Recording Secretary
Town of New London