N H C P P S

New Hampshire Center for Public Policy Studies

What is New Hampshire?

An overview of issues shaping the Granite State's future

2018 edition

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About this paper

The New Hampshire Center for Public Policy Studies produced this report, in part, for *Leadership New Hampshire*, a program intended to introduce rising leaders to the people, strengths, and challenges of the Granite State. The Center is grateful for the opportunity to present this material to *Leadership New Hampshire* and to all others seeking an overview of information about the state. The Center has produced this report with funds donated by individuals, foundations, and businesses from across New Hampshire. The Center's supporters do not necessarily endorse, nor has the Center asked them to endorse, any of the materials included in this report. The Center, not *Leadership New Hampshire*, determined what to include in this report.

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Introduction: What is New Hampshire?

What is New Hampshire? was created to help raise the level of public debate in the Granite State through the dissemination of objective information about who we are as a state. Our hope is to paint a clear picture, through simple graphs and text, of where New Hampshire has been, where it is today, and where it might be heading in the future.

Among the highlights:

- **Geographical differences:**
  Though our state boundaries imply that the residents of Salem live in the same political entity as the residents of Colebrook, there is considerable variation between those towns as well as across the Granite State. From demographic changes to the concentration of poverty to property tax rates, the data is clear that the experiences and opportunities that residents encounter are quite different, depending on where they live. Thus, state policy makers need to be cognizant of these disparities as they tackle the serious problems our state faces.

- **Demographics:**
  New Hampshire is amidst an historic swing in the age distribution of its residents, with the state becoming older, a trend expected to persist for many years. For example, between the years of 2015 and 2030, the state's official population projections anticipate the following:

Age group	2015	2030	Change over period
15 to 34 years old	327,375	311,623	-15,752
65 to 84 years old	190,375	323,530	133,155

This shift is a result of the much-publicized aging of the Baby Boom generation, as well as due to declining fertility over the past decade. This looming demographic rotation could have serious implications for the size of our workforce, state financial obligations related to elderly healthcare, healthcare providers (as more people move from private insurance to Medicare), state revenues, and the K-12 education system, to name a few.

- **Education:**
  While New Hampshire is rated one of the best places to raise children, elementary and secondary public-school enrollment has consistently declined over the past decade. This decline raises questions for districts about the possible need to consolidate functions across schools, including combining districts and SAUs, especially in today's environment when the state is modestly reducing its financial contribution to K-12 education, costs continue to increase, and certain towns are near or at their financial limit in terms of tapping their residents for further property tax increases.

- **Healthcare:**
  One of the goals of the Affordable Care Act was to decrease the number of people lacking insurance. Through the New Hampshire Health Protection Program (NHHPP), which expanded the Medicaid program to include adults with incomes less than 138% of the federal poverty level that were not otherwise eligible, nearly 50,000 individuals have received health insurance.

  The program is due to sunset by the end of calendar year 2018, which means that its future will be at the top of the list of policy debates at the State House in the next legislative session. If extended, one unanswered question will be how to pay for the continuation of the program, as the federal government will be reducing its financial support over time and has said that the current funding model which New Hampshire created in 2016 is illegal.

The interactive online version of *What is New Hampshire?* may be found at www.whatisnh.org. It contains a selection of key charts, graphs, and summary information along with moderated discussion and reaction. New information will be added through the year.

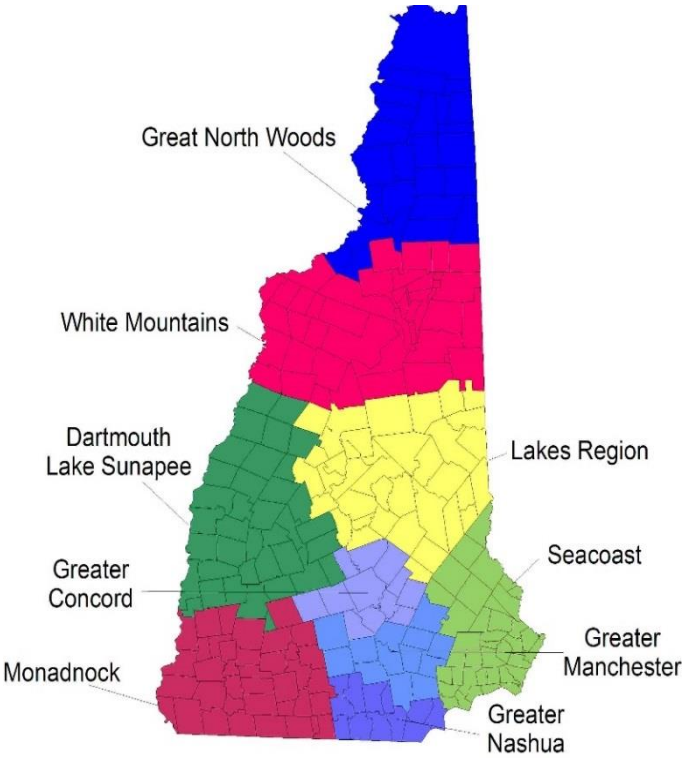
New Hampshire's Regions

New Hampshire residents have long valued the concepts of strong local identity and governance. Annual town and school district meetings still shape the political life in many communities. The New Hampshire Legislature, with 424 members, gives the smallest towns a voice in the lawmaking process. And with a weak system of county government, most communities provide their own services – police and fire departments, public schools, administrators, and boards of selectmen – strengthening the sense of local identity and oversight.

But in the realm of policy work, little attention has focused on the state as a network of distinct regions. Aside from the North Country, which has faced economic development challenges, the state's regions play a small role in public policy conversations about the future.

This oversight is unfortunate. New Hampshire, despite its size, is clearly a collage of distinct regions. Geography offers a template to carve up the state, but an analysis of quantitative data – economic trends, education levels, and migratory patterns – underscores a simple reality: Residents face different opportunities and challenges depending on where they call home. An approach that accounts for this will likely lead to more deliberate decision-making.

Figure 1: NH's Regions

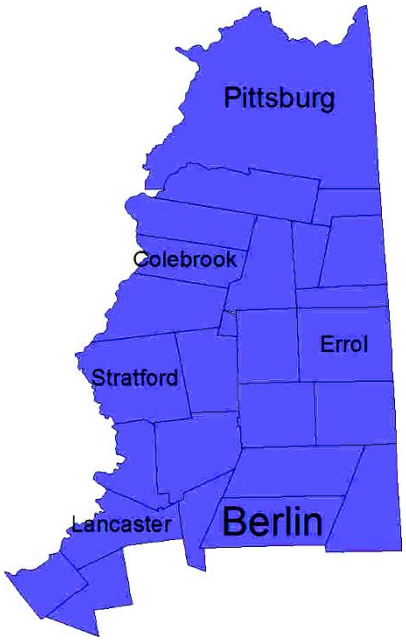


Of course, this approach is not flawless. A regional analysis masks many town-by-town variations, obscuring stark disparities within a region. For instance, statistics for the "Greater Manchester" region alone do not illuminate the differences in wealth, and education demographics between Manchester and Bedford, two neighboring communities with very different profiles. But, for many public policy questions, a regional analysis offers a useful lens for discerning New Hampshire's major issues.

Over the next several pages, we offer more detail about each of these regions. What industries power their economies? How old, educated, and well-paid are their residents? The answers to these will help give texture to the daily life in these regions and provide a starting point to understanding their futures.

Great North Woods

At the state's northern tip lies the Great North Woods, a region where the contrasts with other parts of New Hampshire are the starkest. In terms of educational attainment, 26% of the region's adults (25 years +) have earned an associate's degree or higher. Conversely, one in two adults in Greater Nashua and the Seacoast have earned that level of education.



Why does this matter? Because a high-quality education is often a requirement for accessing the promising career opportunities in today's economy, as a skilled workforce helps attracts firms and investment to a place and generate economic growth. Conversely, a lack of human capital likely limits the menu of economic opportunities in a location. This lack of human capital, along with the region's remoteness and scarcity of infrastructure, like high-speed wireless telecommunications, poses challenges for future economic growth.

This challenge becomes clear when we look at the industrial structure of the North Woods economy. First, of all the regions, the Great North Woods is the one where the private sector has penetrated the least, as it is responsible for 70% of the jobs in the economy, whereas that figure is near or eclipses 90% in the Greater Nashua, Dartmouth-Lake Sunapee, and Greater Manchester regions. This matters, since on the whole, the private sector pays better than the public.

Second, the regional economy is not diversified, with a real absence of industries that provide high-quality opportunities such as manufacturing, professional/technical services, and finance.

Rather, the Great North Woods economy is mostly dependent upon retail, tourism, and healthcare. The first two are low-wage industries with little potential to move up a career ladder. While healthcare encompasses a variety of employment opportunities, overall it is viewed as a good-paying sector in which to launch a career. This is the case in the Great North Woods, as the average weekly wage in healthcare is $860, which can provide a good living in the region given the area's inexpensive housing costs, though the industry does pay much more statewide ($1,022) and, Grafton County (home to Dartmouth-Hitchcock, $1,371).

The consequences of low educational attainment and a dearth of decent-paying jobs are unfortunate and unsurprising. Roughly half of the children enrolled in public education (K-12) are eligible for the National School Lunch Program, which provides meals to low-income students provided their family income is no greater than 185% of the federal poverty level. This compares to about 20% in the Greater Nashua and the Seacoast.

The region also has the highest average property tax rate at $30 per $1,000 assessed property value. These headwinds have led to a massive decline in public school students, which prompts questions about school consolidation and how to attract families back to the region and keep those still there from leaving.

White Mountains

The White Mountains, defined both geographically and economically by the 800,000-acre White Mountain National Forest, is a center of tourism and recreation. Consequently, its economy is weighted towards industries driven by tourist spending, such as retail trade and accommodation/food services. Due to the nature of what these industries pay, the region has the lowest average weekly wage ($658) in the state.

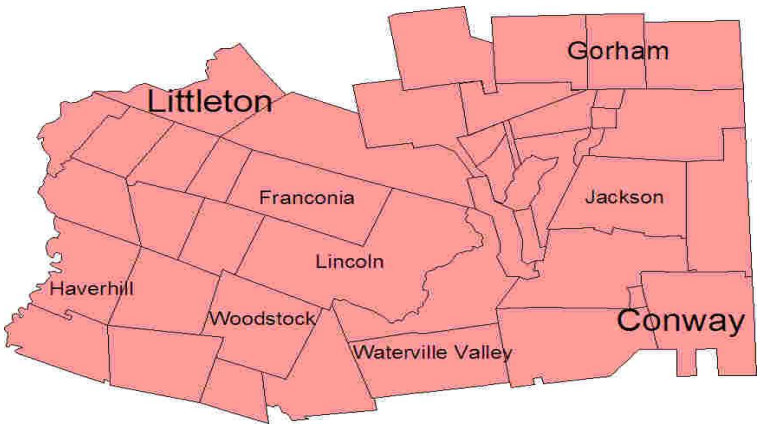
A more diversified economy would help raise wages, and efforts to do this include the TechVillage in Conway, which seeks to attract small, full-time employers to the region.

Looking at the data, the White Mountains has many similarities to the Great North Woods. Each has a high number of low paying jobs and the 65+ population comprises at least 20% of the total population, making them the oldest regions in New Hampshire.

Because these regions are "greying" (more residents hitting retirement age, less women in their childbearing years) faster than other parts of the state and are anticipated to become older, they are in a cycle in which more of their residents are dying than their younger households are having children. This cycle has caused declines in their overall population over the last few years.

This shrinking and aging that is occurring simultaneously raises policy concerns going forward, such as how will the region's health care, housing, and transportation infrastructure adapt and will there be a sufficient workforce to sustain its tourism and service industries, given their low-pay and the declining number of native young people?

One characteristic of the White Mountains region that is considerably different than the Great North Woods is property tax rates, as the average property tax rate is close to 30% less ($22 per $1,000 assessed property value) than the Great North Woods. This is likely due in part to the prevalence of seasonal homes, with wealthy vacationers and second-home owners inflating prices across the real estate market, as well as the presence of large ski resorts (Attitash, Bretton Woods, Waterville Valley, Wildcat, Cannon, Loon).

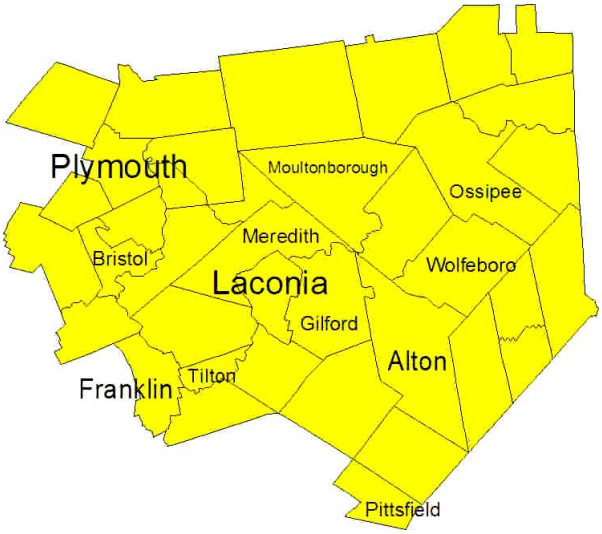


Lakes Region

Comparable to its neighbor to the north, the Lakes Region is a hub for tourism due to the dozens of lakes and ponds that dot the area. Its biggest body of water is Lake Winnipesaukee, where the offerings range from the quiet, resort village of Wolfeboro to the more raucous entertainments of Weirs Beach, home to a lively boardwalk and the annual Laconia Motorcycle Week.

Like the previous two regions, the population of the Lakes Region tends to be on the older side with 19% of its residents 65 years old or older (Greater Manchester and Greater Nashua, the youngest regions, have about 12-13% of their population in this age group). Because of its large share of seasonal and lakefront properties combined with Laconia and Franklin having hard limits on how their property taxes can increase from year to year, the region has the lowest average property tax in the state.

Yet, despite having an abnormally high amount of property wealth, the area, like the Dartmouth/Lake Sunapee region upcoming, is really comprised of two very different sub-regions.



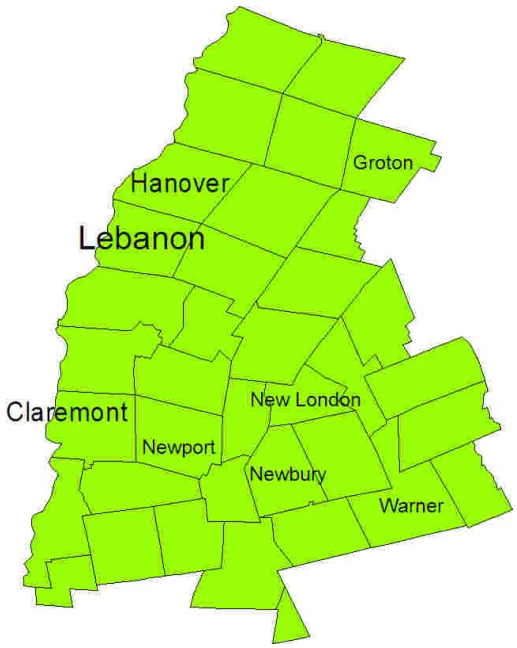
For example, the percent of public school students (K-12) eligible for free and reduced lunch, a proxy measure for poverty, varies substantially between communities only 20 to 30 miles apart, as it ranges from 20% to 25% for the lakefront towns of Gilford, Moultonborough, and Wolfeboro, to 50% to 60% for Franklin, Laconia, and Pittsfield. Similar disparities among these two groups of communities are present when looking at high school graduates and the number planning (or not planning) to attend post-secondary education.

Similar to the White Mountains, retail trade and leisure/hospitality are the dominant industries in terms of employment. This coupled with a high percentage of jobs in local government, which also pays below-average, is why the overall average weekly wage ($769) is 20% to 30% below the average pay in the southern tier regions that border the Boston metro area. With the anticipated health needs of an older population in coming years, attracting and maintaining a younger workforce to serve them remains a challenge for the Lakes Region. The region's lakes and mountains remain a lure for many retirees. But there is also concern among some employers that the Lakes Region needs to develop more cultural and entertainment options to attract younger workers and families

Dartmouth/Lake Sunapee

The Dartmouth/Lake Sunapee Region derives its name from the college and medical center on its western edge and the body of water at its center. Dartmouth College, in Hanover, and the Dartmouth-Hitchcock Medical Center, in Lebanon, provide much of the intellectual and economic energy for the region. Given the presence of these institutions, the region has a

relatively substantial inventory of well-educated residents. Hospital payroll per employee is the highest of any region, and the medical center and the college have attracted allied businesses such as medical device companies and research.



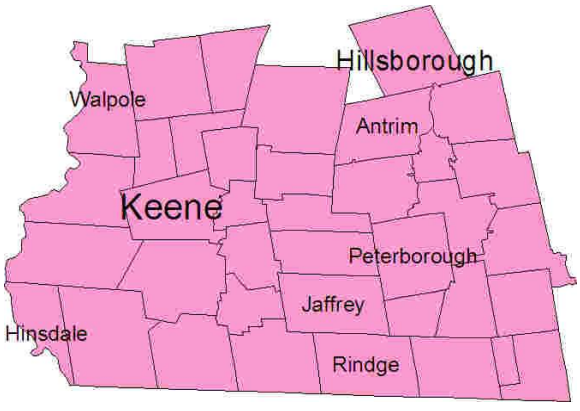
The predominance of education and health care has helped make the area resilient to economic ups and downs. Nevertheless, the region retains something of a bifurcated structure. Incomes, home values and education levels are among the highest in the state for the towns closest to the college, the medical center, and the lake. Yet many of the region's outlying communities struggle with economic development issues. Claremont, the region's largest city, is also among the state's so-called "property poor" communities, where disparities in education spending and tax rates have fueled legislative and court debates for two decades. For example, the total property tax rate for Claremont residents is just over $42 per $1,000 assessed property value, while a half-hour drive to the north, the residents of Hanover pay around $20 per $1,000.

Monadnock Region

With its small villages, old town greens and absence of interstate highways, the Monadnock Region evokes images of classic New England. Keene is its largest city and economic hub. The region is home to Keene State College, part of the University System of New Hampshire, as well as Antioch University New England and Franklin Pierce University.

On the surface, the region is in the middle of the pack in terms of educational attainment (41% of its adults have at least an associate's degree), share of its population age 65 years old and over (17%), and average weekly wage ($837).

In terms of industrial structure, the manufacturing industry has a sizable presence along with higher education, retail trade, and the corporate headquarters of C & S Wholesale Grocers (Keene), one of the largest privately held companies in the nation and which employs over 1,000 workers locally.



Yet, there are some causes for concern. The region's population base has modestly declined over the past few years due exclusively to out-migration, rather than the natural declines seen in the older regions such as the Great North Woods, White Mountains, and Lakes regions.

Why residents are voting with their feet and leaving is unclear, but this trend has coincided with a 15% decline in the K-12 public school student population (FY12-FY17), the second largest drop in the state and noticeably larger than the 7% to 10% declines that have transpired in the Seacoast and Greater Manchester, Concord, and Nashua regions.

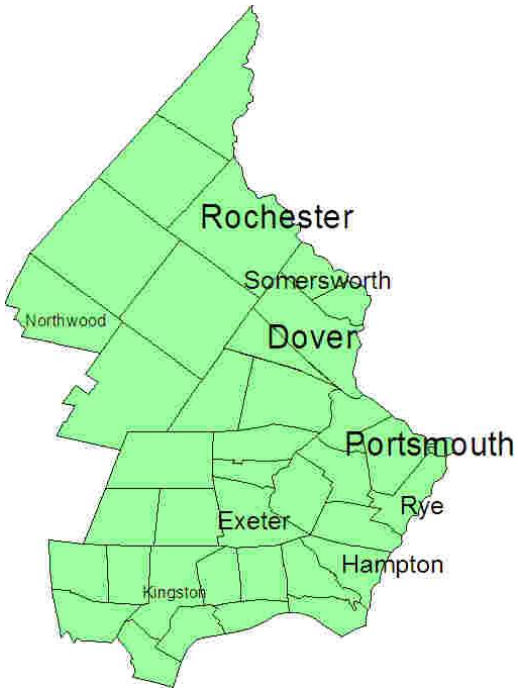
This evaporation of school-age children combined with many school costs being fixed and not varying 1-to-1 with classroom population fluctuations has likely brought about significant pressure on property tax rates, with the region currently having the second highest average property tax rate in the state ($29 per $1,000 assessed value) with places such as Keene, Peterborough, Jaffrey, and Troy having rates north of $30 per $1,000.

The citizens of the Monadnock Region rank quality-of-life issues as high priorities. Residents and community leaders here often speak of their unique view of civic engagement and community involvement. For example, the Healthy Monadnock 2020 initiative strives to make the area the healthiest community in the country by the year 2020. In addition to this effort, there are several other examples of collaborative spirit in the Region such as Arts Alive!, Monadnock Farm and Community Connection, and Monadnock Buy Local.

Seacoast

Wedged between Maine and Massachusetts, New Hampshire's Seacoast is officially the 18-mile strip of oceanfront linking the state to the Atlantic Ocean. But the economic ripples from this vital region reach much farther inland, encompassing the coastal communities of Great Bay and the coastal rivers.

Looking across our various metrics, the Seacoast clearly stands out from the rest of the pack in terms of its economic vibrancy. The region's population grew by nearly 3% between 2010 and 2016, the highest rate of increase in the state, due to both a natural increase in the population as well as net in-migration.



While undoubtedly the region's natural beauty, proximity to Boston and access to recreation are responsible for some of this "pull", the region's concentration of good-paying industries (average weekly wage = $1,017), such as finance/insurance (Liberty Mutual), education (University of New Hampshire), and manufacturing (Lonza, Sig Sauer, Albany International, Naval Shipyard), is also likely helping the region become a magnet and experience the slowest rate of decline in its K-12 student population in the state.

With this growth has come increased traffic on the region's road networks (i.e. Interstate 95, and Routes 101, 4 and 16) and challenges related to affordable housing. Managing the transportation network will have considerable impacts on economic development, the environment, and the

quality of life for Seacoast residents. It will also require collaboration across town lines, forcing communities to think beyond the needs of their individual municipalities. The expansion of the Little Bay Bridge and the Spaulding Turnpike, which will likely be completed in next five years, will hopefully have a positive impact on economic development at Pease, Portsmouth, Dover, Rochester, and Durham.

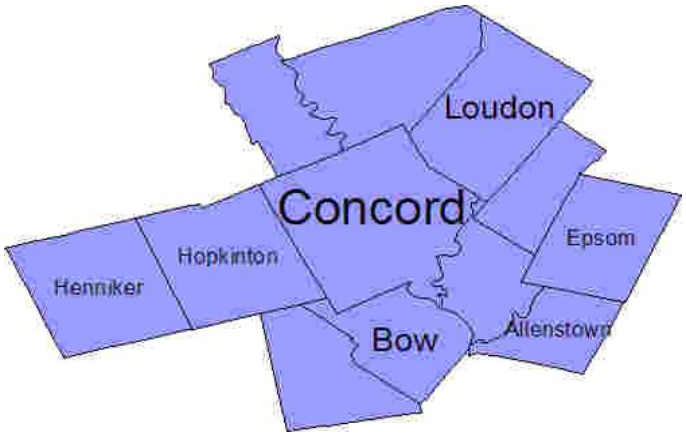
Merrimack Valley Region

The Merrimack Valley is the most densely settled area in New Hampshire. The state's three largest cities – Concord, Manchester, and Nashua – are located here, representing the centers of government, finance, and manufacturing for the state. Interstate 93 slices through this region, offering access to the Boston economy, especially for those living in the southern portion of the region. While the Merrimack Valley's population is the youngest in the state, the region – like the rest of New Hampshire – is aging and must consider steps to retain and attract young and middle-aged workers if it wishes to remain economically competitive.

More than 45% of New Hampshire's total population calls the Merrimack Valley home, and the region's economy is diverse. Because of that, we have divided the Merrimack Valley into three sub-regions for this report, with one sub-region for each of the area's major urban hubs.

Greater Concord

With the state capital at its center, Greater Concord counts state government as its major industry. The city of Concord, located at the juncture of three highways, is the region's employment and commercial hub, with state government (employing approximately 6,000) and Capital Regional Health Care (employing just over 3,000) as the city's major employers.



Compared to Greater Manchester and Nashua, Greater Concord is still relatively underdeveloped. Population density here is less than a third that of Greater Nashua, for instance. Concord itself, beyond the compact downtown, includes large swathes of protected woods and open space, as do many neighboring towns. This landscape illustrates a fundamental tension for the region as it contemplates its future: how to encourage and accommodate growth without undermining the region's rural character. Recent projects in Concord and Penacook Village have refocused attention on the city's downtown cores.

In terms of private sector employment, the region is among the least concentrated in low-paying industries such as retail trade and leisure/hospitality. Greater Concord is not a major tourist hub and is not near a state border (which often attracts out-of-staters for shopping due to the absence of a broad-based sales tax).

The industries it does have range from high-paying (finance/insurance) to middle-paying (state government and healthcare) to slightly below average paying (civic, grantmaking, social

advocacy, political organizations). This diversity has the average wage right in the middle of the pack at $944 per week.

In terms of population growth, the region has grown by about 1% between 2010 and 2016, which classifies as a modest increase. That rise in residents has mainly come about in the outlying areas (Bow, Loudon, Epsom) and not so much within the city of Concord, a trend that has also occurred in the Greater Manchester region, as we will see.

Like the rest of the Merrimack Valley sub-regions, Greater Concord, for New Hampshire standards, trends towards the younger side regarding the age distribution of its population.

Greater Manchester

Greater Manchester, with the state's largest city at its heart, features a diverse economy based on finance and insurance, information services, manufacturing and health care, with several significant and unique assets: the Manchester/Boston Regional airport within short driving distance to the downtown; several colleges and universities (Southern New Hampshire University, St. Anselm College, UNH's Manchester campus and Manchester Community College) and proximity to the interstate highway system.

Because of its healthy exposure to the industries mentioned above, the region's average weekly wage ($1,018) is one of the highest in the state. However, while most of those jobs are located within the City of Manchester itself, the vast majority of those workers likely live outside of the city, as evidenced by the immense disparity in poverty between the city and its suburban neighbors.

For example, roughly 56% of Manchester's public-school students are eligible for free and reduced lunch. That figure is closer to 15% for the remaining towns within the region.

Regarding the region's overall population base, it has increased at a respectable rate over the past few years, at least by New Hampshire standards, though most of that growth has taken place not within the city of Manchester, but in adjacent towns such as Bedford, Londonderry, Hooksett, and Auburn.

This region is the youngest, as only 12% of its population is 65 years old or older and the median age is around 40 years old (The Great North Woods, White Mountains, and Lakes regions hover near 46 to 47 years old). This portends that the region will likely not experience - to the degree the more northern regions will - the concerns and challenges of a rapidly aging population. Also, the region has the second-highest percentage of foreign-born residents in the state – 7.3%, with the Hispanic population having increased by more than 75 percent over the 2000-2010 time period.

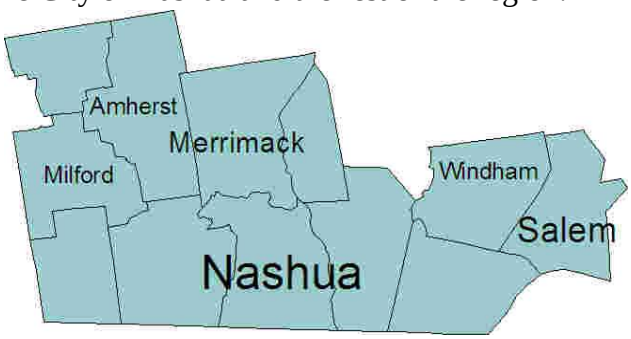
Greater Nashua

Straddling two major north-south highway networks, Greater Nashua is the most densely populated region and one where a considerable portion of its residents commute out-of-state for work, underscoring its ties with the Boston metro area.

Despite the number of locals trekking over the border for work each day, the region itself has one of the most vibrant economies in the state. Despite having the highest concentration of retail employment in the New Hampshire, the region benefits from an above-average concentration of high-paying industries, including finance/insurance (i.e. Fidelity), professional and technical services (highly productive white-collar jobs), and manufacturing (i.e. BAE Systems).

Thus, the region's average weekly wage ($1,120) is the highest in the state and the percent of public school students eligible for free and reduced lunch is the lowest, though like Greater Manchester, there is a wide difference between the City of Nashua and the rest of the region.

Also, similar to the Greater Manchester region, Greater Nashua is quite young, at least on a relative basis within the Granite State, with 13% of its population age 65 or older and a median age of 41 years old. The region's residents are among the most highly educated in the state and it has the largest percentage of Hispanic residents in New Hampshire.



Demographics

New Hampshire had been the fastest growing state in the Northeast for years, fueled by high rates of domestic in-migration, largely from Massachusetts. With the arrival of these newcomers, educational attainment and income levels increased significantly, which in turn, helped propel the state's strong economic growth during the 1960s, 1970s, 1980s, and 1990s.

But these migration patterns have changed since the onset of the 21st century and especially over the course of the Great Recession, a fact that will have real implications for the future. As we will see, migration into New Hampshire has slowed considerably and is not expected to return to the past pattern for the foreseeable future.

New Hampshire's people: By the numbers[1]

Compared to the rest of the country, New Hampshire's population is older, less racially diverse, better educated, wealthier, and much more likely to have moved here from another state.

- **Median age (2016):**
  - New Hampshire: 42.7 years
  - United States: 37.9 years
- **Percent of the population that is white alone, not Hispanic or Latino (2011-15):**
  - New Hampshire: 91.4 percent
  - United States: 62.3 percent
- **Percent of the population (25 years old and over) that is a high school graduate or higher (2011-2015):**
  - New Hampshire: 92.3 percent
  - United States: 86.7 percent
- **Percent of occupied housing units that are owner-occupied (2011-2015):**
  - New Hampshire: 71.0 percent
  - United States: 63.9 percent
- **Median household income (2016):**
  - New Hampshire: $70,936
  - United States: $57,617
- **Poverty rate (2016):**
  - New Hampshire: 7.3 percent
  - United States: 14.0 percent
- **Percent of state residents born in the United States, but in another state (2016):**
  - New Hampshire: 55 percent
  - United States: 31 percent

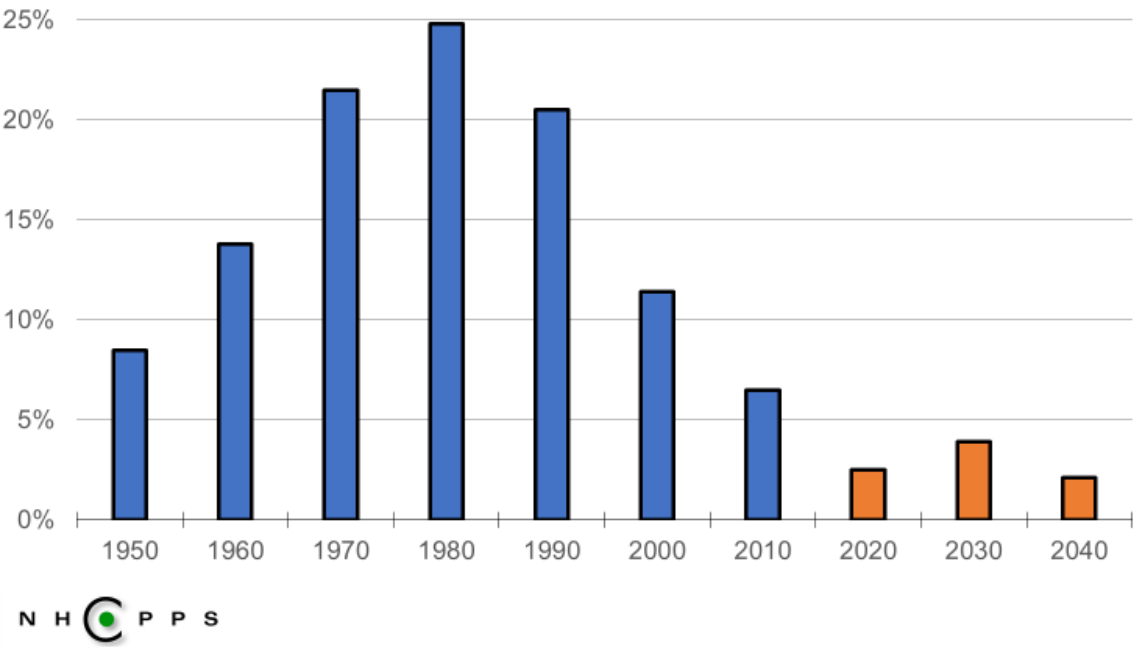
[1] Data was downloaded from the Census Bureau's American FactFinder data system in September 2017.

New Hampshire as a magnet for people: A thing of the past

Through the 1960s, 1970s, 1980s and 1990s, New Hampshire saw high rates of population increases (see Figure 1). That surge of new residents coincided with a period of economic expansion and rising wages. Since then, the pace of growth has fallen steadily. For the decade between 2000 and 2010, New Hampshire's population grew by 6.5 percent, still the highest in the region but the slowest rise since World War II. For context, the national change in population from 2000 to 2010 was 9.7 percent.

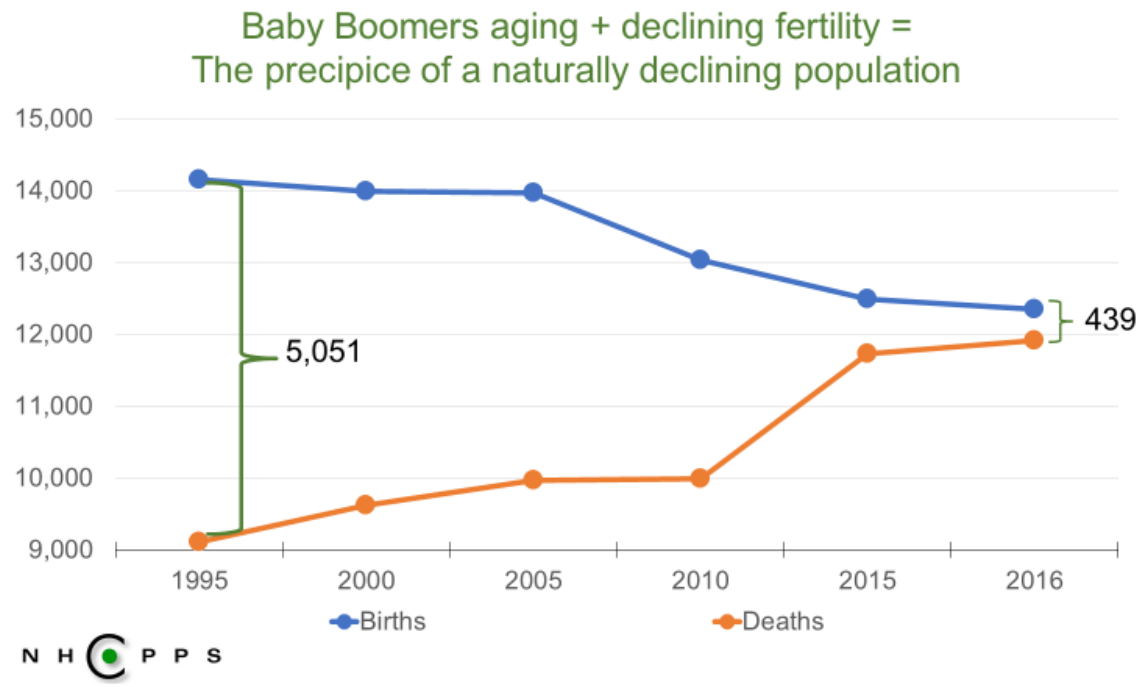
As we gaze into the future, our population is anticipated to grow even more slowly. According to the New Hampshire Office of Energy and Planning's 2016 population projections, the number of state residents in 2020 is expected to be 1,349,908 or just 2.5 percent higher than in 2010. Beyond that, the following two decades are each projected to bring about increases of under 5 percent, something unseen in modern times for the Granite State.

Figure 1: New Hampshire's population: 10-year percent change by decade end



What is the source of this decline? To some degree, this has come about due to the aging of the Baby Boom generation (residents born between 1946 and 1964) coinciding with a significant decline in fertility (see Figure 2).

Figure 2: New Hampshire Vital Statistics: Births and deaths

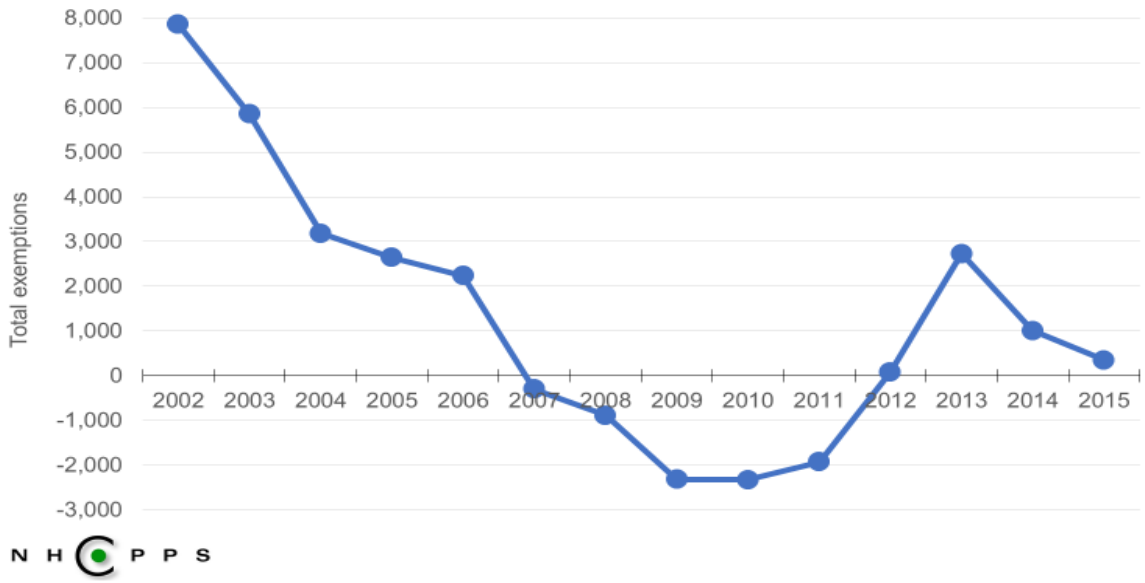


However, the primary force behind this massive deceleration in the growth of our population is the fact that fewer people are moving into New Hampshire, on net, as compared to before.

Where have all the Massachusetts residents gone?

The IRS releases data which shows migration trends based on address changes for tax filers from one tax year to the next. After five successive years of net out-migration during and right thereafter the Great Recession (see Figure 3), the state has started to gain more residents via in-migration (based on the number of claimed individual income tax exemptions, which can be used to approximate number of residents moving to or from a state). Yet, the degree at which the Granite State is attracting individuals and families remains paltry.

Figure 3: Net migration in New Hampshire (part 1)



A closer look reveals that the main reason for this lack of a rebound towards more usual migration patterns is due to fewer Massachusetts residents moving north. At the turn of the 21st century, New Hampshire could count on 10,000 net new residents per year from our neighbor to the south (see Figure 4), whereas today that figure is closer to 3,000. To a much lesser degree, the tide has also negatively changed regarding migration flows from and to California. On the positive side, New Hampshire and Maine are trading residents in roughly the same numbers, whereas 15 years ago, we were losing many more of our residents to Maine then vice versa.

Figure 4: Net migration in New Hampshire (part 2)

	Net migration (# of claimed individual income tax exemptions)		Difference between points in time
	2001-02	2014-15	
NH Total	7,851	351	-7,500
Net flows to NH from select states			
Massachusetts	10,035	2,999	-7,036
California	214	-273	-487
Florida	-2,199	-1,482	717
Maine	-1,273	-170	1,103

N H P P S

Using similar, but not identical migration estimates from the Census Bureau, the data clearly shows that every New England state experienced domestic out-migration (more people leaving for other states than moving in from other states) over the past six years (see Figure 5). For some, but not all, these losses were offset by foreign immigration. This trend of domestic out-migration is happening in other places around the nation (California and New York), but not everywhere, as states with vibrant economies and/or favorable climates continue to draw more and more Americans within their state borders.

Figure 5: Net migration (2010-16): New England and select other U.S. states

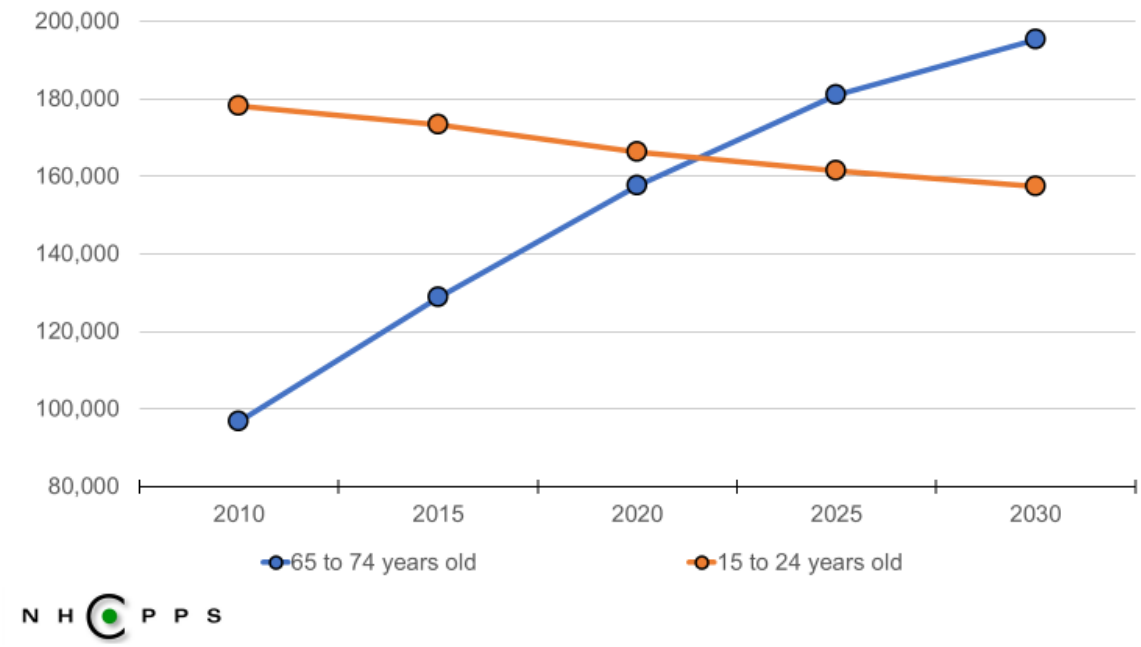
	International	Domestic	Total
Connecticut	100,910	-135,684	-34,774
Maine	9,715	-1,962	7,753
Massachusetts	236,088	-72,605	163,483
New Hampshire	12,587	-2,783	9,804
Rhode Island	25,406	-28,565	-3,159
Vermont	5,196	-9,272	-4,076
California	826,554	-383,344	443,210
Colorado	62,531	243,671	306,202
Florida	695,906	866,484	1,562,390
New York	699,448	-846,669	-147,221
Texas	508,843	866,933	1,375,776

N H C P P S

New Hampshire is growing older every day and this will persist for the foreseeable future

As mentioned previously, New Hampshire had been the fastest growing state in the Northeast for years, fueled by high rates of domestic in-migration, largely from Massachusetts. But these migration patterns have meaningfully changed, with migration into New Hampshire slowing considerably. Because of this and the aging of the Baby Boomer generation, New Hampshire grows older. This trend is anticipated to continue (see Figure 6) for the next 20 years and presents a whole of host of challenges such as whether there will be an adequate supply of labor for employers to increasing demands on the healthcare system.

Figure 6: NH residents by select age-cohorts (estimates and projections)



Geography Matters - The Many New Hampshires

The map in Figure 7 shows the median age, community by community, according to the most recent Census figures. (The statewide median age was 42.7 years in 2016, up from 39.5 in 2005.) It illustrates New Hampshire as distinct regions when it comes to age, with an older northern half, and a younger southern half. However, even in the younger half, there is a further subdivision, with the eastern region – between Interstate 93 and the Seacoast – significantly younger than the western portion.

These patterns of aging, which are a result of a complex set of factors – including migration patterns of younger families and older retirees – also suggest that the aging process will differentially affect New Hampshire communities. As noted above, the year 2020 will see the beginning of the great population shift to the over-65 population. However, not all communities are expected to experience the same changes in population, as shown in Figure 8.

Carroll County, because of the forecast for a significant increase in the number of retirees, is projected to have the highest share of the population over the age of 65 of any New Hampshire county. This variation raises important questions about how different communities will handle the population changes that will be occurring.

Figure 7: Geography Matters

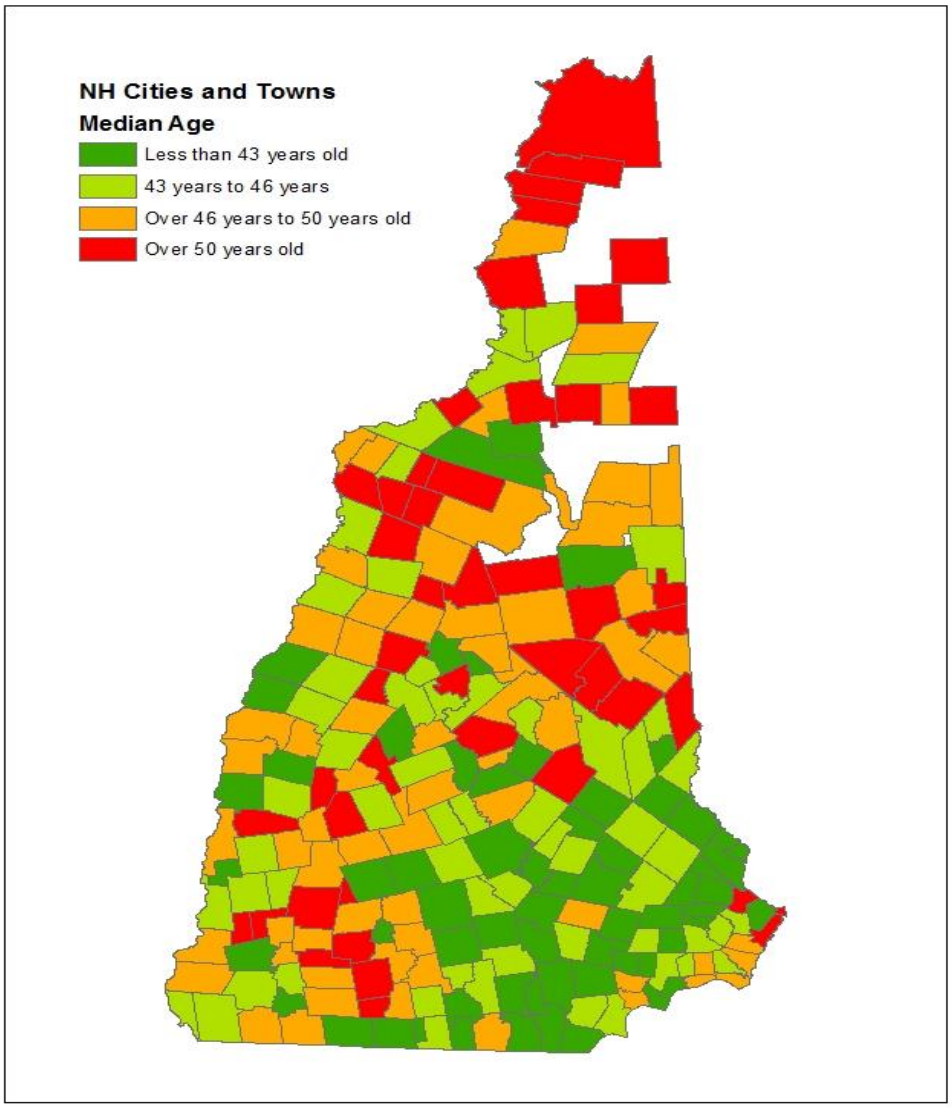
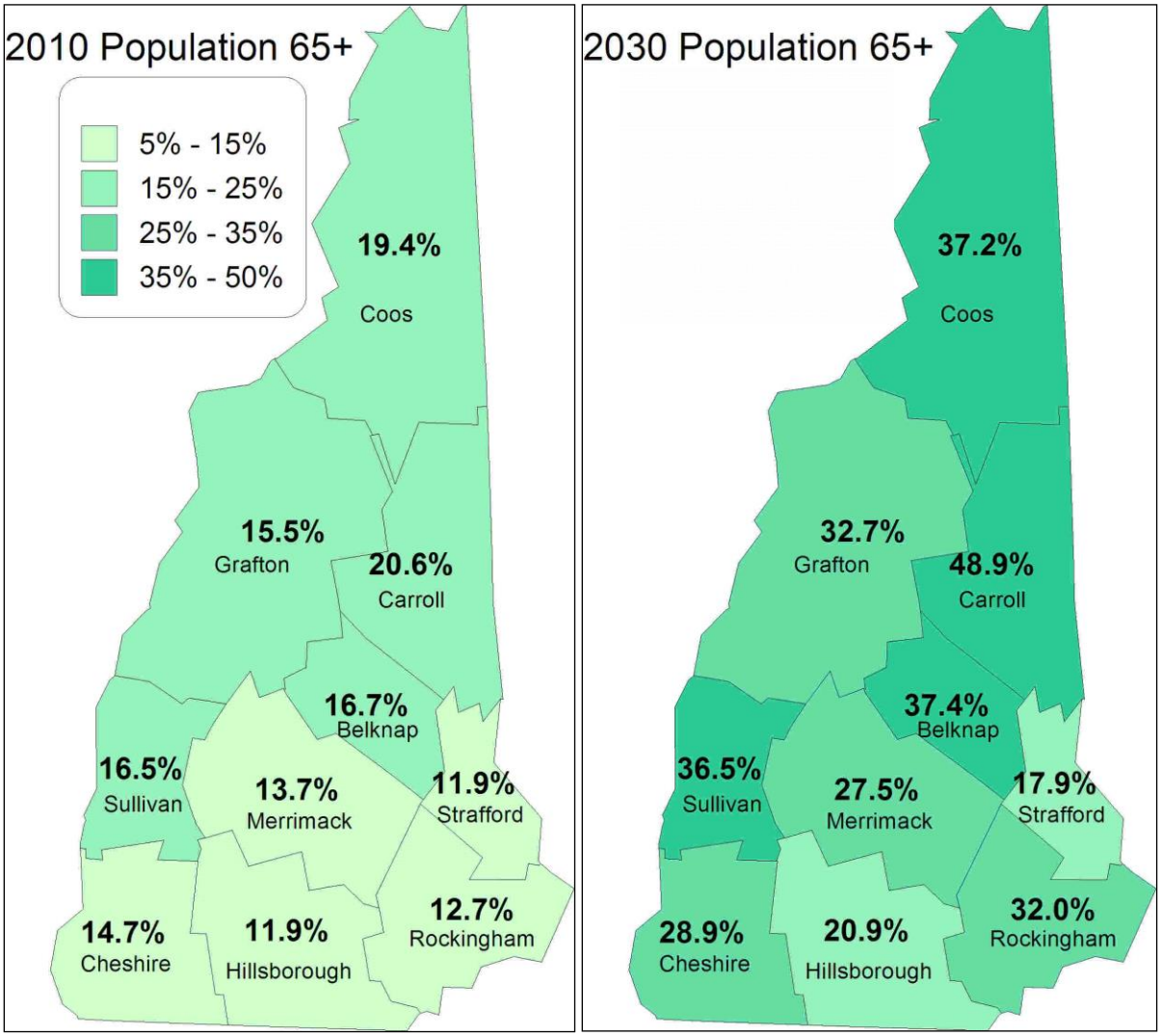


Figure 8: The aging of New Hampshire varies across counties



Older retirees who move to so-called "amenity communities" such as Carroll County differ significantly from populations that age in place, such as Coos County, particularly as it relates to income and poverty.

New Hampshire's Foreign-Born Population

State policymakers have devoted considerable effort in recent years to understanding New Hampshire's shifting migratory patterns. The public conversation focuses almost exclusively on domestic migration – that is, people moving in and out of New Hampshire from other parts of the United States.

But that conversation ignores an important piece of New Hampshire's economic and demographic future: foreign immigration.

New Hampshire currently has approximately 75,000 foreign born residents out of the state's 1.3 million residents. While the state's overall foreign-born population is small compared to the rest of the country, immigration has played an important role in the state's recent migratory trends. In fact, without foreign immigration, New Hampshire would have experienced a *net out-migration* (more people leaving the state than moving in) over the past six years, rather than the slight increase we did see during that span (see Figure 9).

Figure 9: Net migration (2010-16): New Hampshire counties

	International	Domestic	Total
Belknap	328	999	1,327
Carroll	120	381	501
Cheshire	275	-1,404	-1,129
Coos	37	66	103
Grafton	1,313	-1,302	11
Hillsborough	6,348	-6,805	-457
Merrimack	1,641	-32	1,609
Rockingham	1,304	4,498	5,802
Strafford	1,037	1,435	2,472
Sullivan	184	-619	-435
State	12,587	-2,783	9,804

N H P P S

Too often, the narrative of immigration in New Hampshire focuses on foreign refugees and the perception that those residents strain public resources. This is an incomplete and misleading picture. The word "immigrant" covers a broad range of people and experiences.

For example:

- Almost 39 percent of New Hampshire's foreign-born residents have a bachelor's degree or better, ranking the state among the top ten in the educational attainment of its foreign-born residents.
- Despite being a small portion of our population, foreign-born residents make up nearly one in ten residents with a graduate or professional degree.
- Skilled foreign workers are in high demand in New Hampshire. Qualified foreign students can easily attend New England colleges and universities, but only a small number of visas are offered for employment-based immigration. One study estimates that expansion of the H1B high-skilled visa program would create 2,000 new jobs in New Hampshire by 2020.
- In 2013, New Hampshire foreign-born workers earned about $2 billion in wages working in New Hampshire, or about 6.4 percent of the $29 billion in wages earned in the state.

New Hampshire's foreign-born workers held more than 38,000 jobs in the state, about 6.2 percent of total state jobs.

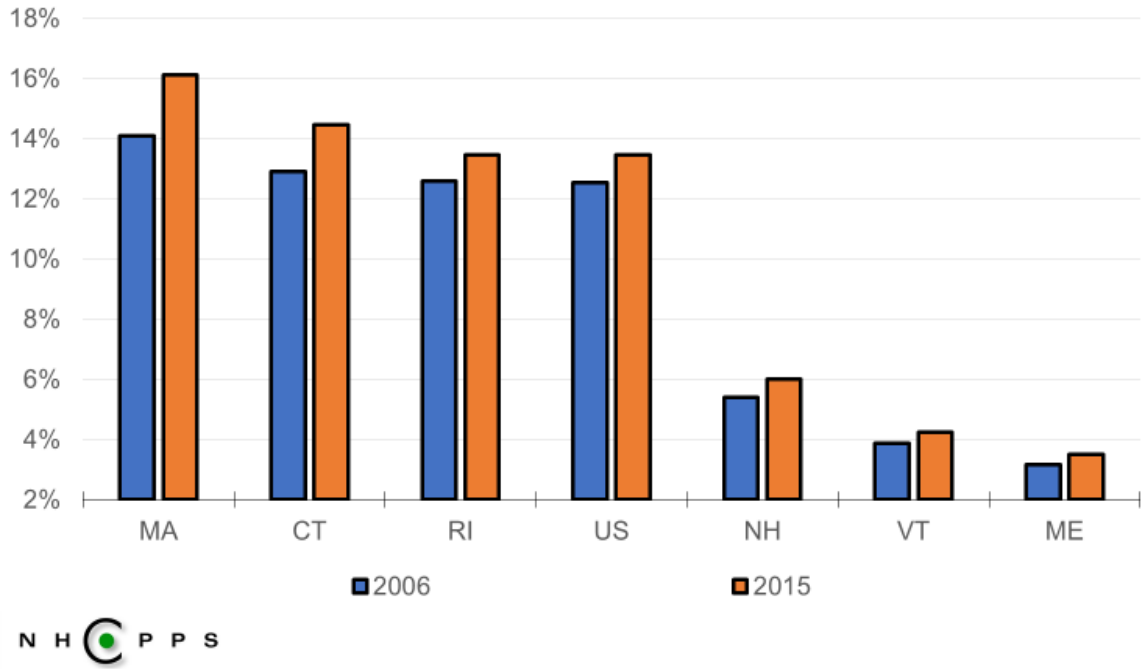
- New Hampshire's foreign-born population, broadly speaking, falls into two categories: those with little education, and those with very high levels. This poses an interesting set of challenges for policymakers, including, on the one hand, how to best improve the educational prospects of those with little schooling (and their children), while at the same time trying to attract and retain more highly-skilled and educated foreign-born workers.

New Hampshire's immigrants in a New England context

Foreign-born residents make up a smaller share of New Hampshire's population than much of the rest of the country – and New England as a whole (see Figure 10). The dividing line between Northern New England (Maine, New Hampshire, and Vermont) and Southern New England (Massachusetts, Connecticut, and Rhode Island) is quite stark, as shown in the chart below.

For instance, 16 percent of Massachusetts residents are foreign-born residents, compared to New Hampshire's 6 percent. One consistent trend throughout the region has been that the foreign-born population as a share of the total is rising everywhere.

Figure 10: Foreign born population as % of total population



Looking ahead

An aging population will reshape the state's healthcare system

The aging of the population in New Hampshire will put pressure on virtually every dimension of the state's health care system. If we assume that the elderly eligible for the state's Medicaid program in 2020 will use services at the same rate as today, the number of residents participating

in the program will increase rapidly, by more than 30 percent over the next decade. This will put pressure on the state to rethink how it finances long-term care services, including institutional and home and community-based services.

Additional resources from the Center on aging in New Hampshire can be found here:

- "New Hampshire's Silver Tsunami: Aging and the Healthcare System," NHCPPS, Sept. 2011. http://www.nhpolicy.org/UploadedFiles/Reports/aging_and_the_healthcare_system_final.pdf
- "Aging and the Public Long Term Care System," NHCPPS, Sept. 2012. http://www.nhpolicy.org/UploadedFiles/Reports/Aging_and_the_LTC_Systemv5test.pdf

NH's housing stock is not well matched to future demographic needs

In the decades before the Great Recession, New Hampshire's housing market was a major driver of the state's expanding economy. But with recent shifts in the state's demographic and economic trends, New Hampshire's current housing infrastructure could end up becoming a drag on future economic growth and stability.

There are several reasons for this: an aging population, shifts in housing preferences among younger generations, a misalignment between housing supply and future demand, and changes in traditional financing paths for homeownership.

In the 1970s, 1980s, and 1990s, housing demand was driven by Baby Boomers moving to New Hampshire. But as we have seen in many policy areas, much of the state's housing industry (builders, planners and public officials) has yet to transition from the past, in which consistent rates of high population growth were the norm. Instead, they need to prepare for a future model defined by less growth overall, more seniors, fewer twenty-somethings, financially strained first-time buyers, and changing lending standards.

Public policy initiatives can do more than respond to such changes: They can help shape them. Local zoning ordinances that limit the number of new housing units, increase mandatory lot sizes, or dictate the type of units that can be built, may drive up the cost of housing. Higher housing prices, in turn, can create difficulties for new arrivals and current residents seeking affordable homes, which may deter young people and working families from moving to the state.

Additional resources from the Center on housing and demographic change in New Hampshire can be found here:

- "Big Houses, Small Households" NHCPPS, March 2014. http://www.nhpolicy.org/report/housing-in-nh-pt-1-big-houses-small-households
- "Housing in New Hampshire: Senior Perspectives," NHCPPS, March 2014. http://www.nhpolicy.org/report/housing-in-nh-pt-2-senior-perspectives
- "Housing in New Hampshire: The Evolving Environment," NHCPPS, March 2014. http://www.nhpolicy.org/report/housing-in-nh-pt-3-the-evolving-environment

Aging, Consumer Spending and NH's Economy

What effect will New Hampshire's aging population have on the New Hampshire economy? The answer is both positive and problematic. In what follows, we discuss one part of New Hampshire's economy and how it might change as a result of aging demographics. [2]

According to surveys of household spending and income done by the Bureau of Labor Statistics, household spending varies by age. People under the age of 25 tend to spend equal portions of their income on education and saving for retirement and unforeseen events (insurance). Meanwhile, people over 25 spend much more on insurance and pensions, and much less on education. The data also suggests that health care spending increases with age. As consumers attain their senior years (65 and over), spending on health care dwarfs the other expenditures.

As an example, take expenditures on transportation, where the data suggests that as people age they tend to spend less on transportation. In 2010, households headed by someone between the ages of 45 and 55 years of age had, on average, 2.1 vehicles. Households headed by someone over the age of 75 had only 1.3 vehicles. What happens to the demand for automobiles in New Hampshire due to the effect of aging? According to our simulations, demand between 2020 and 2030 will decline by 2.7%.

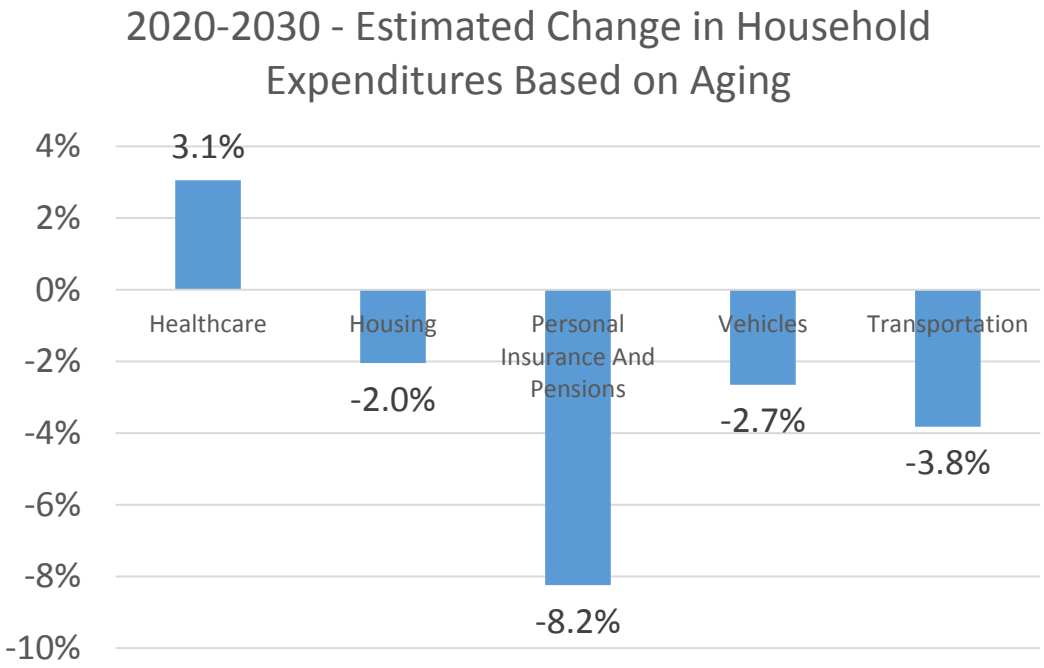
And how does this translate into transportation expenditures generally? Unsurprisingly, our simulations suggest that those expenditures – which include vehicles, maintenance, and transportation for vacations – decline more quickly. Households headed by a 45-54 year old individual spend almost $11,000 per year on transportation, compared to less than $5,000 for a household headed by a 75 year old. As the state ages, spending on transportation will decline by approximately 3.8% over the 2020-2030 period.

We have used this consumer survey data to simulate the impact of an aging population across a wide set of income measures and industry sectors. Health care demand – for both acute care and long-term care – will increase markedly. Across the 2020-2030 period, our analysis indicates that consumer spending will increase by almost 4% on healthcare. In fact, healthcare is the only broad consumer spending category that is expected to see increases.

Spending on transportation, housing, and education among others are all expected to see net declines as a result of the aging of New Hampshire's population. From a financial services perspective, income will generally fall, and aging seniors will move from investing their savings in the financial markets to pulling those savings out of the market to support retirement.

[2] This is excerpted from an article authored by the Center, published in the Business New Hampshire magazine, February of 2016.

Figure 11: Simulating the Impact of Aging on Consumer Spending



New Hampshire's Economy

New Hampshire's economy rests on strong foundations. With high levels of educational attainment, a competitive tax structure, relatively low poverty rates, proximity to Greater Boston, and a high quality of life, the state has many enviable assets.

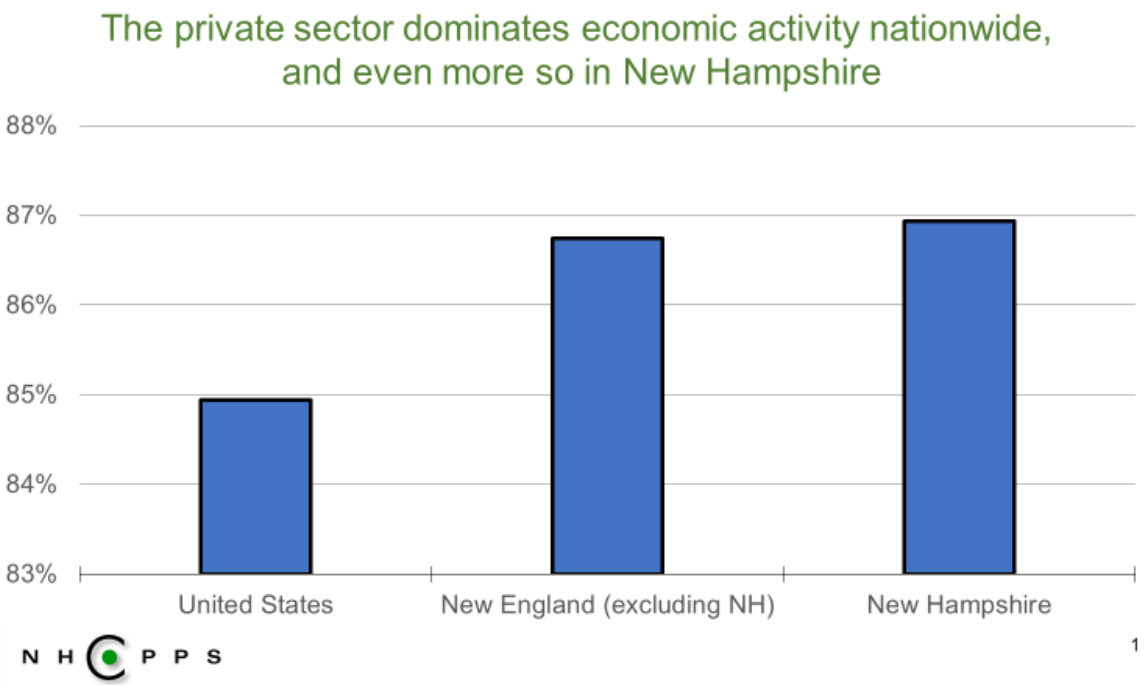
Like the trend in our population, the pace of economic growth over the course of the 21st century has been slower than what was routine during the last half of the 20th century. Nevertheless, the economy has been stable and growing fast enough recently to keep unemployment low, generate a rising standard of living, produce increasing state revenues to finance essential investments, and has most residents feeling confident in their financial situations.

Yet, as we near the close of this decade, one of the key challenges for the economy will be the availability of qualified workers. Employers already complain that they are having serious difficulties finding workers, with a host of factors driving these challenges to employers' doorsteps (low unemployment, historic demographic shift (aging of the Baby Boomers), the substance abuse crisis) and none of these roadblocks are going away anytime soon. Consequently, employers and public policy makers will have to work together to craft solutions such as increasing the skillset of our existing workforce, attracting new working-age residents to live and work in the Granite State, and creating incentives for many residents who are approaching the traditional retirement age to remain in the workforce in some capacity.

An overwhelmingly private-enterprise economy

At its core, an economy is the total of all the buying and selling (transactions) that takes place between businesses, consumers, the financial system, and the public sector. According to the most recent estimates, New Hampshire's economic activity was worth nearly $78 billion in 2016 and employed nearly 650,000 workers. The vast majority of that production and employment is conducted in the private sector (which also includes non-profits like hospitals and Southern New Hampshire University), as opposed to the public sector or by government entities (Figure 1).

Figure 1: Private sector jobs as a percentage of all jobs for various geographies



Within the private sector there are numerous industries employing capital and labor in order to produce the goods and services that enable the buying and selling that comprises our economy. Below are two tables that highlight the seven largest industries, which collectively represent around 70% of private sector jobs (Figure 2) and wages (Figure 3).

Figure 2: New Hampshire's largest private industries (by number of jobs)

Industry	Jobs	% of total private jobs
Retail	95,923	17%
Healthcare	89,809	16%
Manufacturing	68,095	12%
Accommodation & food services	58,146	10%
Administrative services	34,869	6%
Professional services	33,903	6%
Finance & insurance	29,402	5%

N H C P P S 2

Figure 3: New Hampshire's largest private industries (by wages paid to workers)

Industry	Wages	% of total private wages
Healthcare	$4.77 billion	16%
Manufacturing	$4.65 billion	15%
Professional services	$3.01 billion	10%
Retail	$2.97 billion	10%
Finance & insurance	$2.97 billion	10%
Wholesale trade	$2.50 billion	8%
Administrative services	$1.61 billion	5%

N H C P P S 3

Each of these industry names describe a very broad activity that might not be entirely clear on the surface. Below are more detailed examples for each of these "high-level" industries to better understand what the largest employers are and what they are engaged in.

- Retail: Grocery stores, department stores, automobile dealers, home improvement stores
- Healthcare: Hospitals, physician's office, nursing care facilities
- Manufacturing: Electronic instruments and components, fabricated metals, plastics
- Accommodation/food services: Restaurants, hotels
- Administrative services: Temporary staffing agencies, building related services (landscaper, janitor, pest control), day-to-day office administration work (i.e. billing, record keeping) on a contract or fee basis.
- Professional services: Computer systems design, engineering services, law firms, management consultants.
- Finance/insurance: Insurance carriers, banks, securities, and commodity brokerage

Analyzing the data, there are a few notable takeaways:

1) New Hampshire has the highest concentration of retail employment in the nation.

Besides being the state's largest industry by the number of workers it employs, New Hampshire's retail concentration (17% of all private sector jobs) is the highest among the 50 states. For comparison, retail comprises about 13.1% of total private employment nationwide, while California has the lowest concentration at 11.6%.

2) Though retail is the largest employer, it is also one of the lowest paying industries.

While retail employs just under 100,000 workers in the Granite State, it only pays out around $3 billion in wages (average annual pay = $31,000). We use the word "only" here because that is also the same aggregate dollar amount the professional services industry pays out in wages (average annual pay = $89,000) as well as the finance and insurance industry (average annual pay = $101,000). However, these two industries each employ about one-third the number of workers that the retail industry employs.

3) In terms of jobs and wages, New Hampshire's main economic pillars are healthcare and manufacturing.

Employing nearly 160,000 workers and paying out a combined $9.5 billion in wages annually, the healthcare and manufacturing industries are roughly one-third of New Hampshire's private economy.

Switching gears, even though an industry might employ many workers, one cannot necessarily conclude that it is an industry in which New Hampshire specializes or an industry that makes our economy unique from other states. Let's walk through an example to make this more concrete.

The accommodation and food services industry employs 58,000 workers. While this is our 4th largest industry, its concentration of total private sector jobs (10.3%) is less than many other states, signaling that most other states also have many workers in the industry and that the industry is not unique to New Hampshire or does not provide a competitive advantage. Conversely, states like Nevada and Hawaii have significant employment concentrations within the industry, which makes sense given both are known tourist hubs and import millions of visitors annually to their economies.

Accommodation and food services as a % of total private employment
Nevada: 27.8%
Hawaii: 20.2%
United States: 11.1%
New Hampshire: 10.3%

So, which industries do we specialize in? The table below (Figure 4) highlights the five New Hampshire industries in which the concentration of private employment is meaningfully higher than the nation, and thus unique to New Hampshire.

Figure 4: Private industries that New Hampshire specializes in relative to the national economy

Industry	New Hampshire jobs	NH - industry's % of total private jobs	US - industry's % of total private jobs
Educational services	19,779	3.5%	2.3%
Retail	95,923	17.0%	13.1%
Manufacturing	68,095	12.1%	10.2%
Arts, entertainment, and recreation	11,592	2.1%	1.9%
Finance & insurance	29,402	5.2%	4.8%

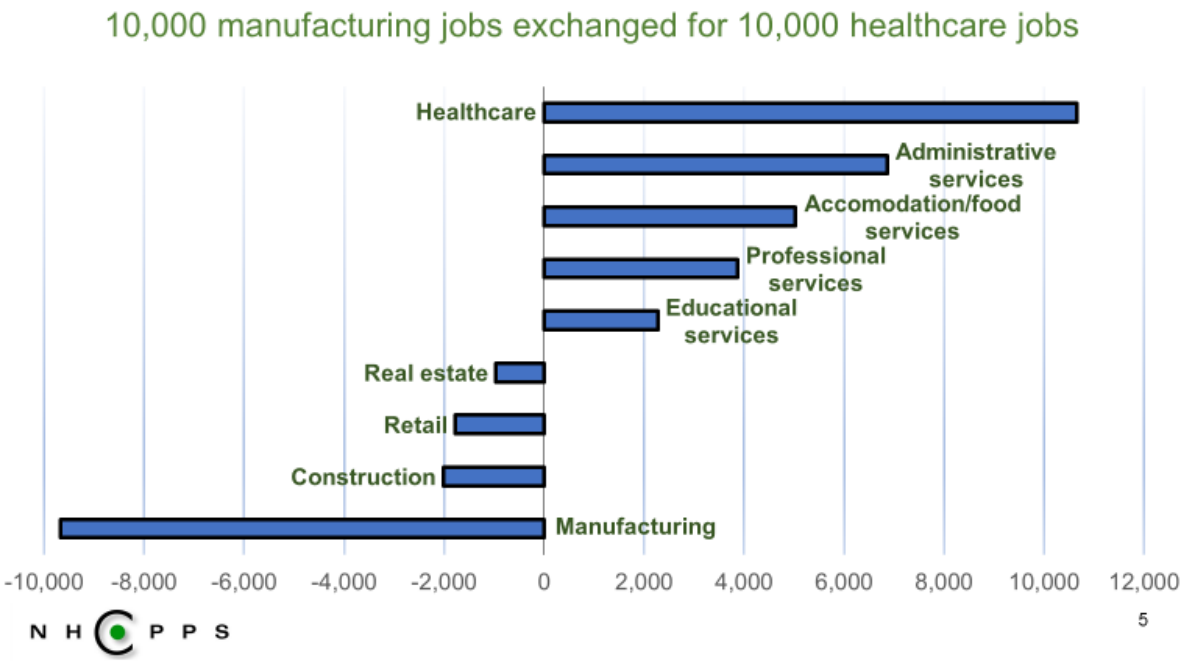
N H C P P S 4

Though it is difficult to tell exactly which employers make these industries competitive in New Hampshire, data from New Hampshire Employment Security can help us make a few guesses.

Concerning educational services, Southern New Hampshire University in Manchester and Dartmouth College in Hanover are likely candidates, while Fidelity Investments in Merrimack and Liberty Mutual in Dover are probably behind our above-average concentration in finance and insurance. Finally, while we host numerous manufacturing enterprises, some of the larger players include BAE Systems, Sturm Ruger, Hypertherm, and Hitchiner Manufacturing.

Now that we have taken a closer inspection of the private sector at a point in time, it next seems logical to review how New Hampshire's industrial structure has changed over time. First, the number of workers employed in the private sector is greater today (563,000) than a decade ago before the onset of the Great Recession (544,000). Second, the manufacturing and healthcare industry have essentially swapped 10,000 workers (Figure 5).

Figure 5: Change in jobs by private industry (2007 vs 2016)



One final observation related to the economy's underlying structure is that, given that the private sector represents a considerably large part and that its presence is higher than in most other states, it follows that the public sector is a smaller part of our economy than most other states. Indeed, state, and local government jobs within New Hampshire represent 11.9% of total employment, whereas nationally that figure is 13.1%.

Analyzing the data, there are a few notable takeaways (Figure 6):

1) The public sector, in terms of jobs, is smaller today than seven years ago, while the opposite is true for the private sector.

Comparing employment in 2009 (the first year with consistent estimates to compare to today regarding state and local government employment) to 2016, state and local government employment is roughly 3% less (79,496 to 76,940), while private sector employment has increased by nearly 9% (517,676 to 562,818).

2) Nearly all state and local government jobs are in educational services or public administration.

3) Though both state and local government are leaner today as opposed to seven years ago, they are for opposite reasons.

In state government, employment in public administration is lower while employment in educational services (think University and Community College Systems) is modestly higher. On the other hand, public administration employment in local government has remained stable over

this period, while educational institutions (think elementary and secondary schools) have trimmed staff at a striking rate, likely due to fewer students flowing through their classrooms.

Figure 6: New Hampshire state and local government employment over time

Significant decline in local education jobs
likely driven by huge shift in student population

	State government			Local government		
	2009	2016		2009	2016	
Total	21,035	20,617	-418	58,461	56,323	-2,138
Educational services	7,232	7,602	+370	36,274	33,762	-2,512
Public administration	9,504	8,895	-609	18,091	18,462	371

N H P P S 6

Households

The previous section looked mostly at private businesses, with a slight nod to the public sector. But, there are obviously more than those two entities in the economy. Another key element in the economic landscape is households. Why? Because households are the source of our labor force and, as consumers, represent about 70% of the buyers of the products produced by the economy.

So, how has the economy treated New Hampshire households? To try to answer this question, we first look at employment data to check whether the economy has been growing fast enough to create enough work to keep unemployment low.

When the economy does not do this (create enough jobs for everyone who is willing and able to work), a valuable resource is lost and there can be massive human costs for those sitting idle (Think Great Depression of the 1930s.). As background, a resident is considered "unemployed" if they are at least 16 years of age, are not employed, are available for work, and have made specific efforts to find a job during the past four weeks.

The most recent information confirms that over the past few years, the New Hampshire economy's steady growth has been adequate to sustain employment for many (Figures 7 and 8). For context, just before the Great Recession (late 2007-early 2008), the number of unemployed

residents lingered around 25,000. No more than two years later (late 2009-early 2010), because of a precipitous decline in economic activity, that number nearly doubled to 48,000. Since then, the economy has rebounded and as of mid-2017, the number of unemployed New Hampshire residents is hovering around 21,000, its lowest level since 2001.

Figure 7: Number of unemployed New Hampshire residents over time

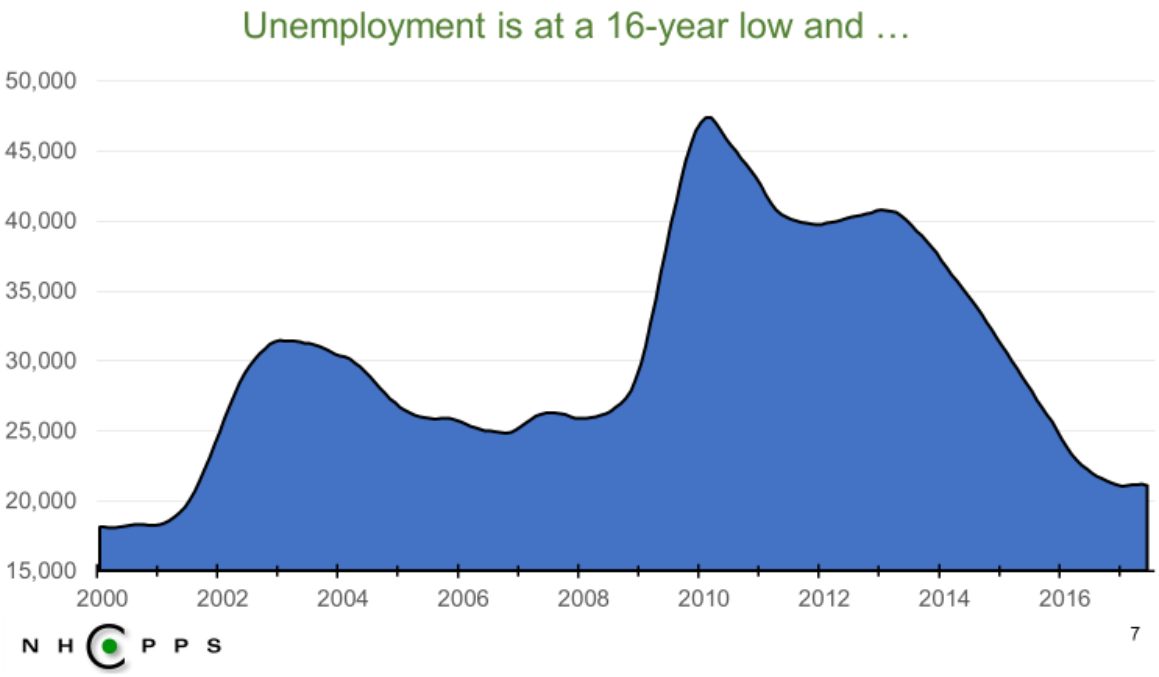
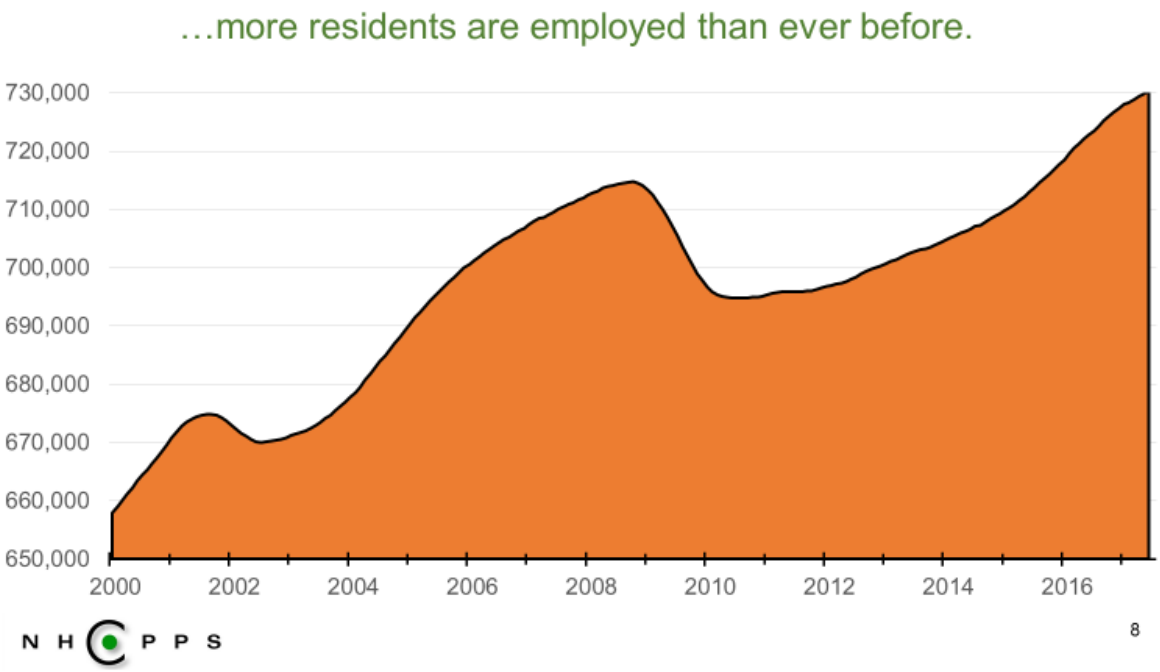


Figure 8: Number of employed New Hampshire residents over time



Consequently, it appears that one of the goals of economic growth, generating enough economic activity to employ everyone who is willing and able to work and keeping unemployment low is presently being met. But, is everyone "feeling" the prosperity that is thrown off by economic growth or, put differently, has the economy brought about a rising standard of living, where the bulk of society experiences an increase in their ability to acquire a variety of goods and services. To try to answer this question, we looked at the following indicators:

GDP per capita: The amount produced by the economy divided by the population or how much each resident would reap if everyone received an equal share of the economy's production.

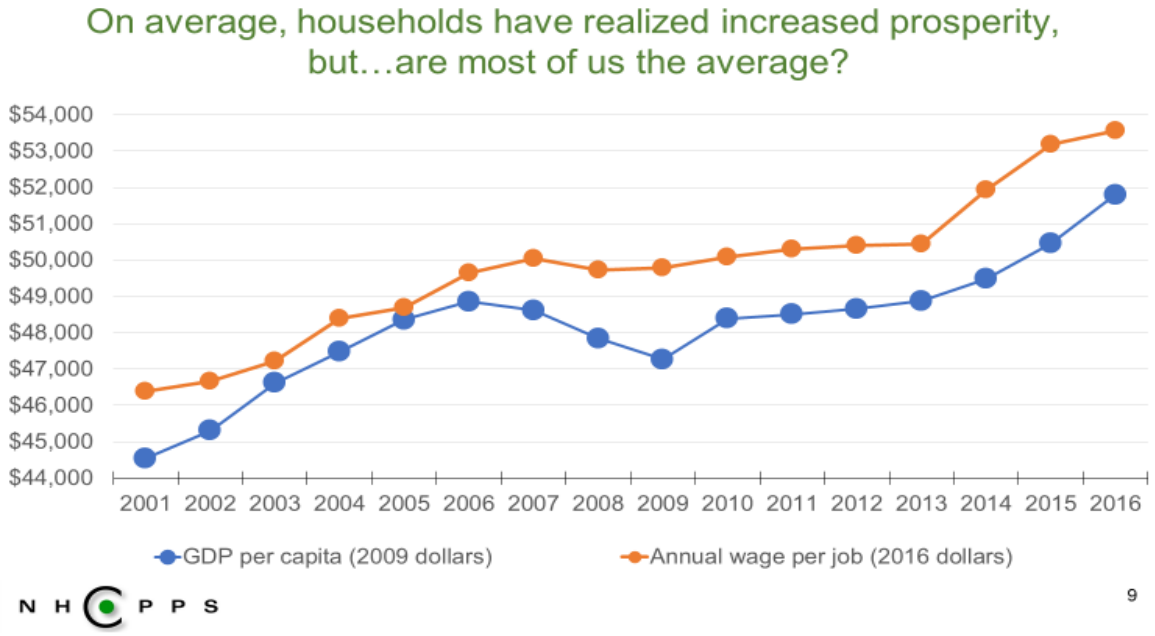
Annual wage per job: The total wages paid out by employers divided by the number of jobs or how much each job would pay if everyone received the same wage.

Median household income: The income "right in the middle" or the income that divides our state's households into two equal parts, where 50% earn more and 50% earn less.

Rates of poverty: The percent of people who do not earn a certain level of income. For example, in 2015, 8.2% of residents lived in a household where their income was below a certain threshold ("poverty line") that depends on household size (single person: $11,880, 3-person: $20,160).

Below is a chart (Figure 9) of the first two measures. Over the course of the 21st century, they both exhibit an upward trend, excluding the years around the Great Recession (2007-09). What does this mean? Well, a rising GDP per capita means that the New Hampshire economy has grown faster than our population and therefore there should be more prosperity to divide among our residents. In similar fashion, a rising annual wage per worker means that the wages paid out by employers is growing faster than the number of jobs on their payrolls and therefore each worker, in theory, should be receiving more in their paycheck.

Figure 9: Measures of living standards (part 1)



However, these two pieces of information have at least one weakness. Both metrics are averages and by its very nature, an average of anything can be heavily influenced (or skewed) by a small number of abnormal observations (outliers). Regarding GDP or wages, the average assumes that everyone gets an equal slice of the growth in the economic pie, which is highly unlikely. Though these statistics are relatively easy to measure and understand, the fact that they are climbing is not enough evidence to conclude that most people are experiencing increasing prosperity. Accordingly, we investigated other data that are not prone to distortion by outliers, such as median household income and different rates of poverty (Figure 10), to provide a fuller picture into the health of New Hampshire households.

Unlike GDP per capita and annual wage per job, which returned to their pre-recession levels a few years ago and are at their highest in the 21st century, these other measures have taken much longer to bounce back and remain below (median household income) and above (poverty rates) where they were nearly a decade ago. This information suggests that while the overall economic pie (GDP per capita and annual wage per job) has rebounded rather nicely since 2010, the benefits of that economic growth may not have widely dispersed (median household income), especially to the lower rungs of the income ladder (poverty rates), though this finally might have changed course in the right direction over more recent years.

Figure 10: Measures of living standards (part 2)

A more unfavorable picture regarding household financial health, though recent data are quite encouraging

	2007	2012	2016
Median household income	$71,160	$66,063	$70,936
% of individuals below 100% poverty	7.1%	10.0%	7.3%
% of individuals below 200% poverty	19.0%	23.9%	19.4%

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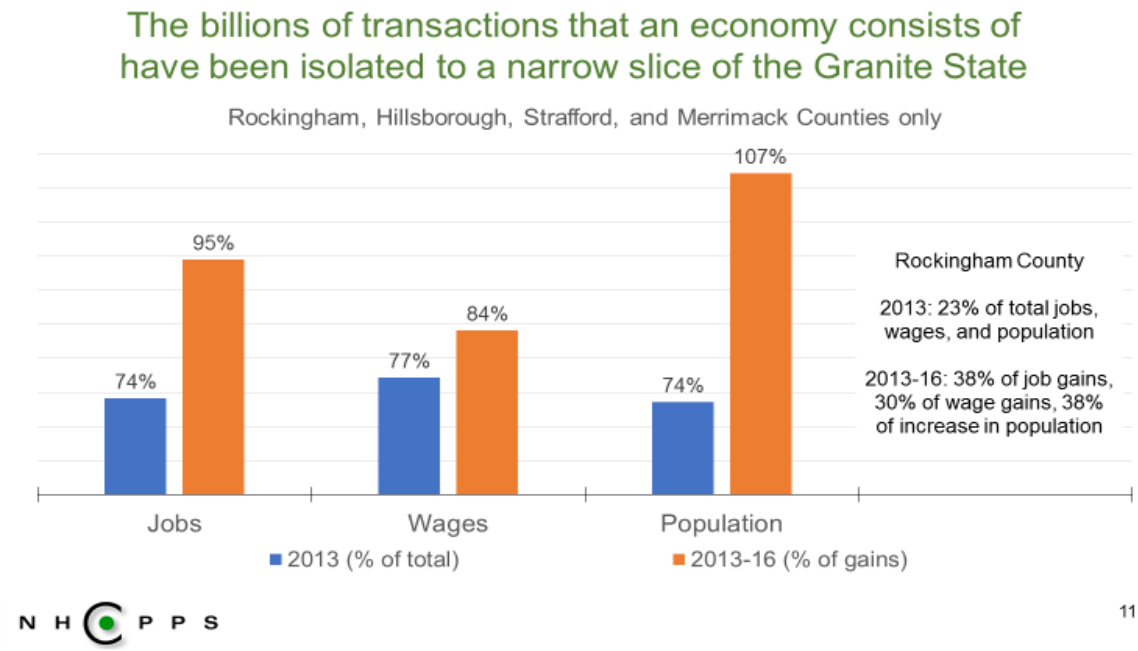
Where and who is the New Hampshire economy?

In journalism, one formula used for obtaining unknown information are interrogative words known as the Five W's. The title of this publication utilizes one of those words and hopefully in the first few sections, we have started to unpeel the onion on the "What" and "When". From here, we turn our attention to the "Where" and "Who" of the New Hampshire economy.

Regarding the "Where", up to this point we have only looked at the economy from the state perspective, as if the economy were spread out evenly throughout all corners of the Granite State. But, in reality, that is not the case (Figure 11). In terms of jobs, the vast majority are confined to the southern tier of the state. While Hillsborough, Rockingham, Strafford, and Merrimack counties only comprise about one-third of the state's land area, they are where three-quarters of the jobs are situated. Within these counties are the state's largest hubs for employment, such as Manchester, Nashua, Concord, Portsmouth, Salem, Merrimack, and Dover.

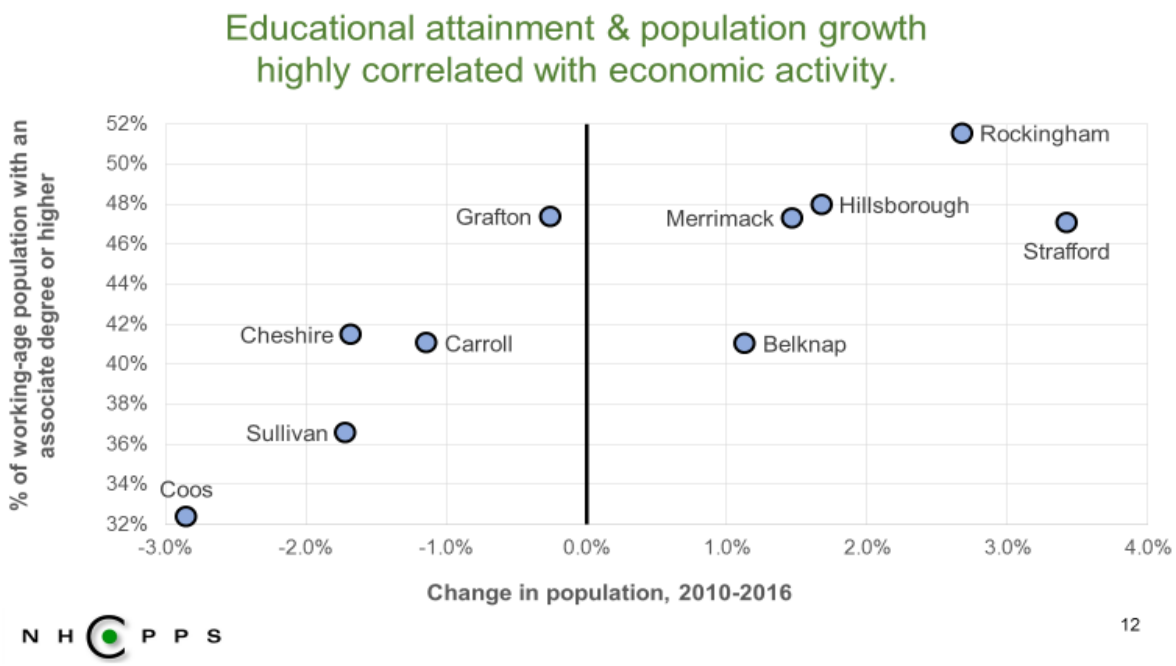
Admittedly, one would expect this, since this is where most of our population lives. Yet, the level of economic activity that has taken place in these four counties is higher than anticipated. For example, in 2013, Rockingham County comprised about 23% of the state's population and labor market (jobs and wages). Yet, between 2013 and 2016, it was responsible for almost 40% of our job gains and population increase.

Figure 11: Various measures of economic activity



What might be causing these disproportionate economic gains in the southern part? We do not attempt to fully answer that here, though educational attainment appears highly associative with these lopsided population and job increases (Figure 12). The data reveals that Hillsborough, Merrimack, Rockingham, and Strafford counties also have the highest shares of their working-age (25 to 64 years old) residents who have earned at least an associate's degree.

Figure 12: Educational attainment and population growth by NH county



As an aside, if we stay with educational attainment and delve deeper, we find that females are more educated than men, specifically between the ages of 25 to 34 years old, the leading edge of the millennials. In addition, every age/gender cohort appears to have made progress and become more educated since 2007, except men between the ages of 45 to 64 years old.

Figure 13: Working age residents (25-64 years old) by gender w/an associate's degree or higher (part 1)

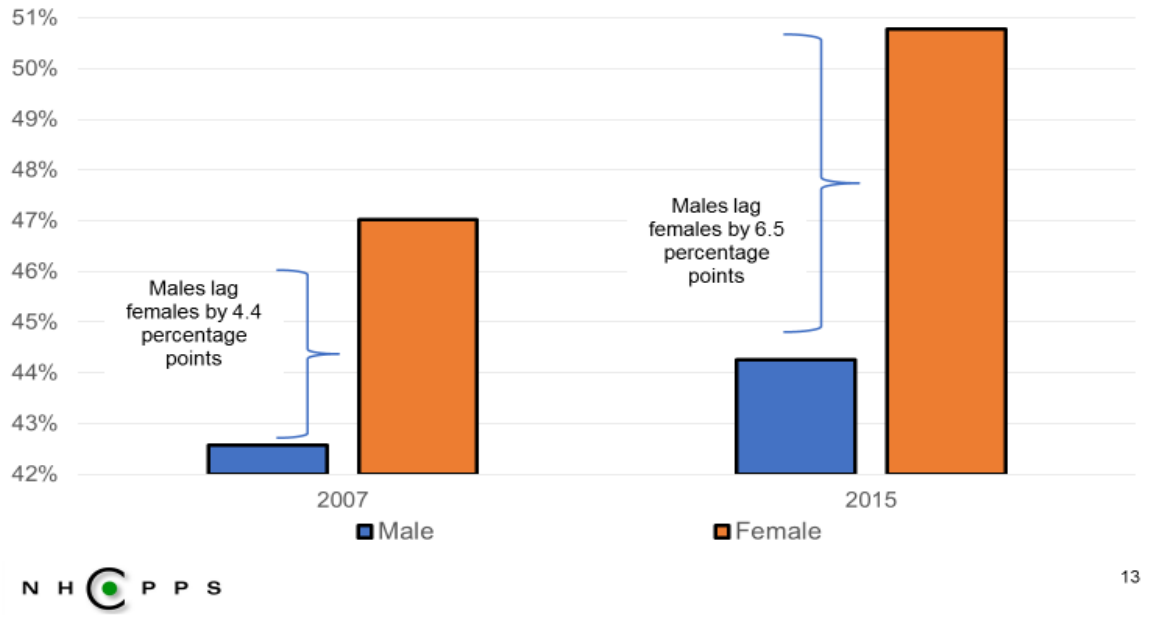


Figure 14: Working age residents (25-64 years old) by gender w/an associate's degree or higher (part 2)

Younger males: Considerably lagging behind females
Older males: Zero progress over the last decade

		2007	2015
25 to 34 years old	Male	38.9%	**44.1%**
	Female	51.1%	**56.3%**
35 to 44 years old	Male	42.7%	47.2%
	Female	48.9%	53.1%
45 to 64 years old	Male	**43.9%**	**43.2%**
	Female	44.4%	47.9%

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To finish out this topic of the "Where" and "Who" of the New Hampshire economy, we looked at the labor force by age and gender and found that males comprise a slightly higher proportion and that the Late Baby Boomers (born between 1956-1964, and would have been 51-59 years old in 2015) are where the critical mass of our workforce is located in terms of age (Figure 15). This latter fact could be important going forward, as many of these 50-somethings today will likely be retiring or paring back their involvement in the labor force over the next decade or so. When they do, will there be enough younger workers to replace them and sustain the economy and will their experience and wisdom (human capital) be transferred to the future workforce or lost forever?

Figure 15: New Hampshire's labor force by age and gender

New Hampshire's labor force:
Trends slightly more male and towards the Late Baby Boomers

	Male	Female		Total	
16 to 24	56,182	54,610		110,792	15%
25 to 34	71,042	61,256		132,298	18%
35 to 44	70,091	63,814		133,905	18%
45 to 54	90,432	83,903		174,335	**24%**
55 to 64	76,713	71,577		148,290	**20%**
65 to 74	21,487	17,437		38,924	5%
	385,947	352,597		738,544	
	52%	48%			

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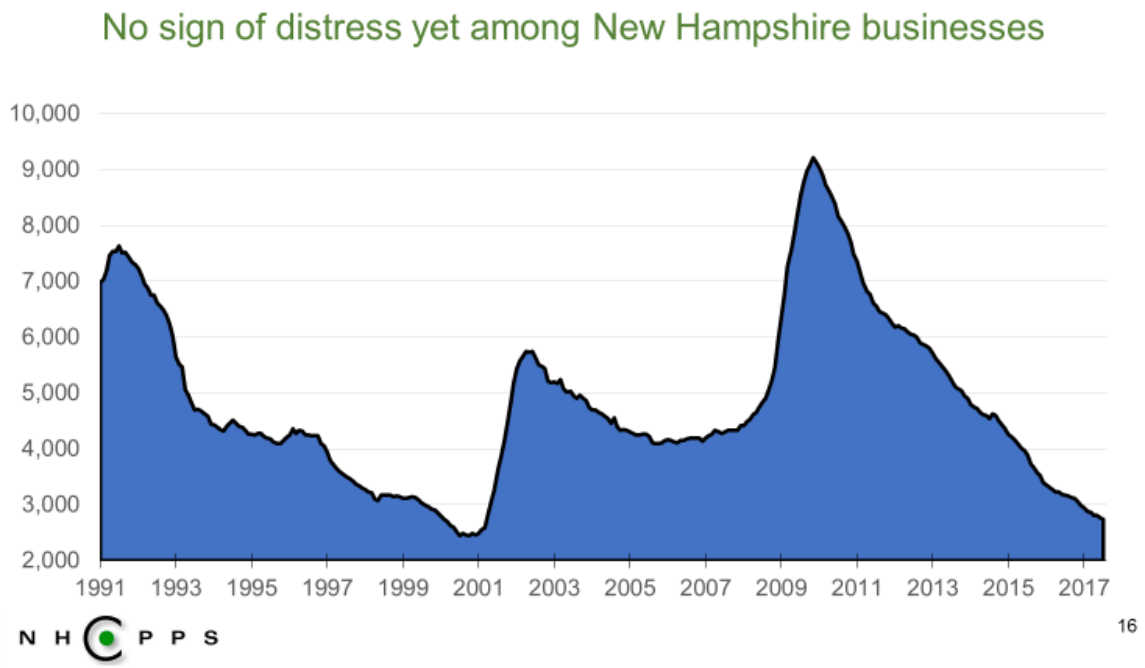
The crystal ball: Near-term and long-term outlook

Looking forward, the New Hampshire economy appears on stable ground in the near-term. The pace at which New Hampshire Employment Security, our state agency responsible for the unemployment insurance program, is receiving new applications for unemployment benefits continues to fall and is nearing a historic low. This suggests that though employers might be struggling to find qualified and reliable labor to hire, they are showing no sign of laying workers off, which would potentially signal they are anticipating or experiencing a downturn in business.

Figure 16: Initial claims for unemployment insurance (# per month)



Regarding households, the Business and Industry Association's Consumer Confidence Survey, conducted by UNH Survey Center, reveals that the percentage of households who say their financial situation has worsened over the last year is at its lowest since the survey began in 2001, while the percentage of households who say now is a good time to buy a major item for their house is at an all-time high. This is important because as mentioned previously, consumer purchases comprise a lion's share of the demand for the economy's production and the collective psyche and financial health of consumers can often foreshadow demand over the coming months.

Notwithstanding, there is concern on whether the New Hampshire economy can continue to grow as we enter calendar year 2018 and beyond. Why? Well, let's first discuss what drives economic growth, the ability of our economy to produce more and more goods and services. Economists believe that over the long-term, real GDP growth in an economy is approximated by the sum of two things: labor-force growth (new workers added to the economy) and productivity growth (increased production from those workers).

As we near 2020, the economy might struggle to add new workers, therefore short-circuiting one of the pillars of economic growth. Why? Well, the main reason is that we are currently witnessing a decline in the number of people that are of prime working age (25 to 64 years old), with this trend only expected to accelerate as more and more of our residents cross the age 65 threshold, while the number of twenty-somethings, those starting out in their careers and providing new blood to the labor force, is anticipated to remain stationary (Figures 17 and 18).

Figure 17: New Hampshire's prime working-age population (25 to 64 years old)

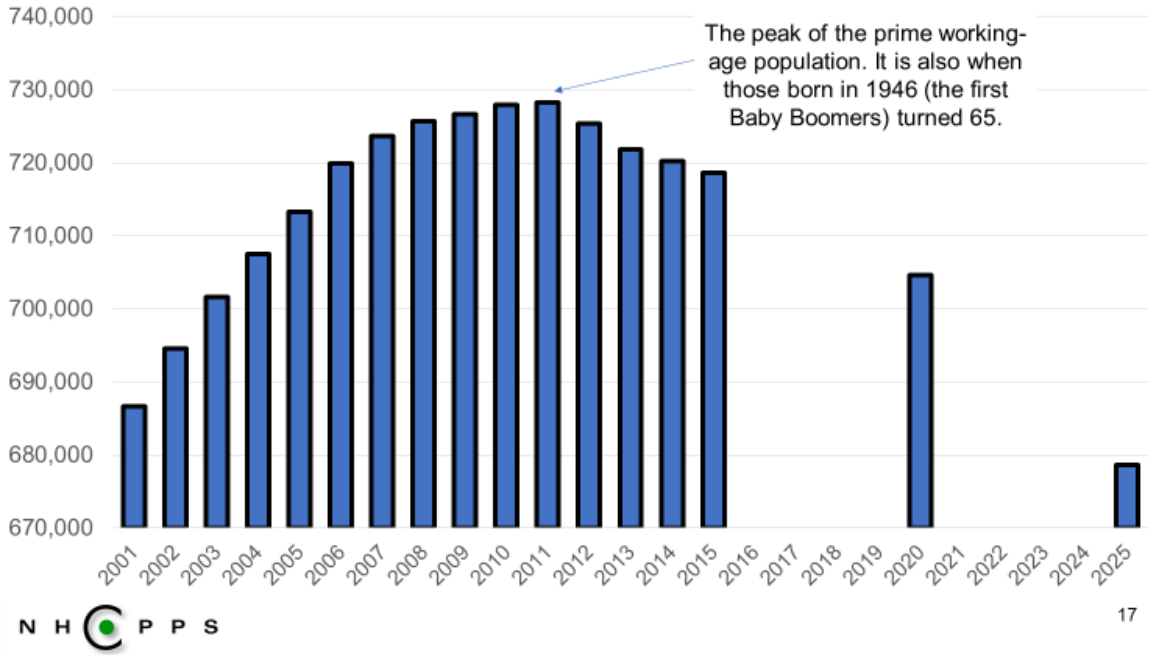
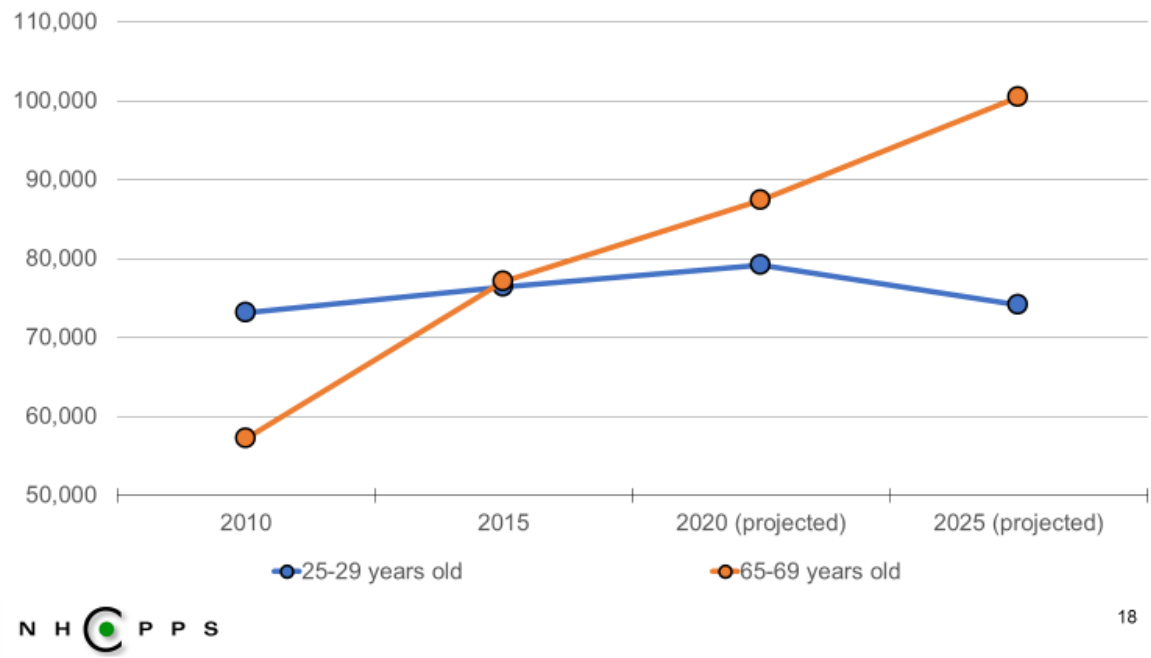
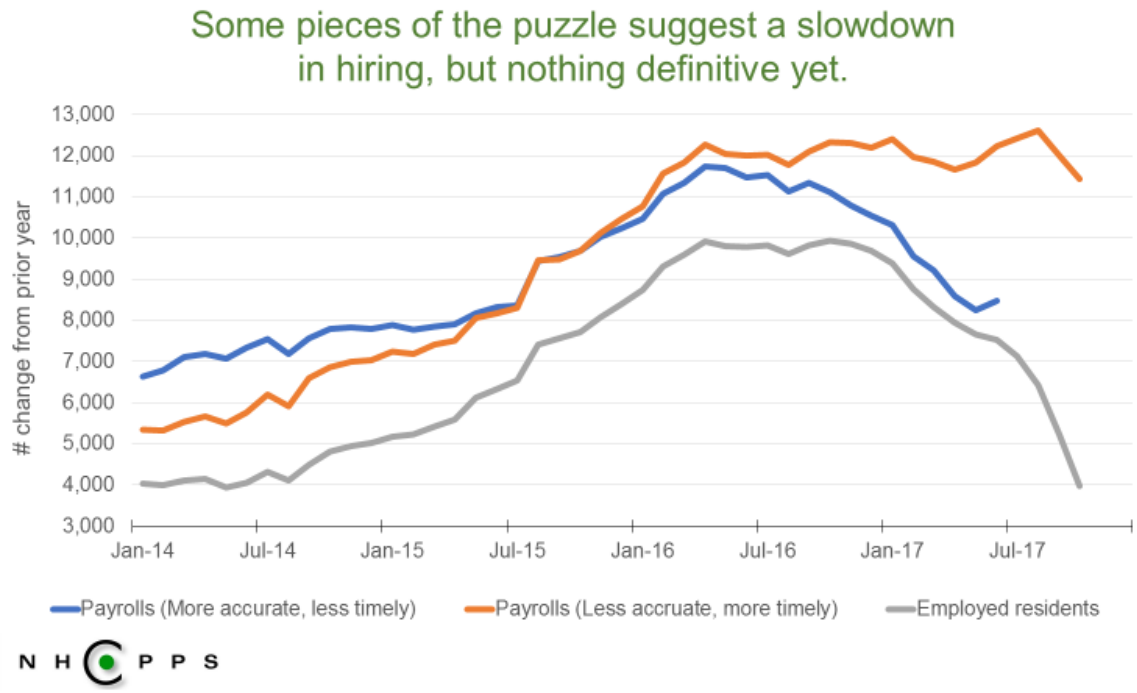


Figure 18: New Hampshire residents by select age cohorts over time



Thus, the rate at which employers add workers could slow sharply and possibly come to a halt, not so much due to weaker demand on their end, but rather because the inventory of workers from which they can select to sustain and expand their operations will be extremely limited. Indeed, we already might be seeing some early signs of this happening from the data (blue and gray lines in the below chart).

Figure 19: New Hampshire employment trends



Education in New Hampshire

For years, New Hampshire has had among the highest-performing public education systems. On math and reading scores as reported by the National Assessment of Educational Progress, high school graduation rates, and high school dropout rates, we rank among the top for education quality.

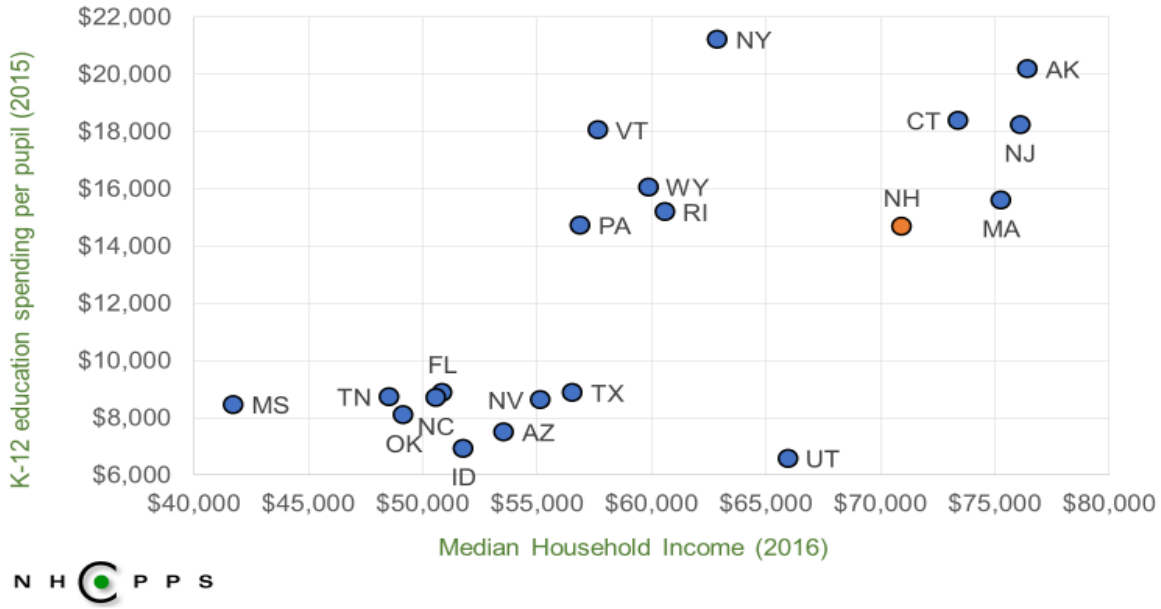
Recently, demographic changes have been the focus of public policy debates, as over the past 15 years New Hampshire has seen a steady decline in its public school students. This consistent drop is prompting questions about spending on staffing levels, changes in curriculum, and regionalization of educational services.

In addition, discussions have started to be re-focused on how the State pays for its constitutionally required portion of public education costs. With the legislature deciding to gradually take away an element of education funding known as stabilization grants, a conversation has been reopened, mainly about the state's constitutional requirement to pay for an adequate education, as established in the Claremont lawsuits of the 1990s.

Elementary and secondary education funding is largely a local affair

According to the Census Bureau's Annual Survey of School System Finances, New Hampshire school districts spent an average of $14,697 (10th highest) per elementary and secondary student in fiscal year 2015. For context, New York ($21,206) spent the most, Utah ($6,575) spent the least, with Iowa and Louisiana (around $11,000) representing the middle of the distribution. Figure 1 shows the top and bottom ten states in terms of per-pupil education spending along with their respective median household income measures. In general, there appears to be a positive correlation, that states with higher incomes devoting more resources to education and vice versa.

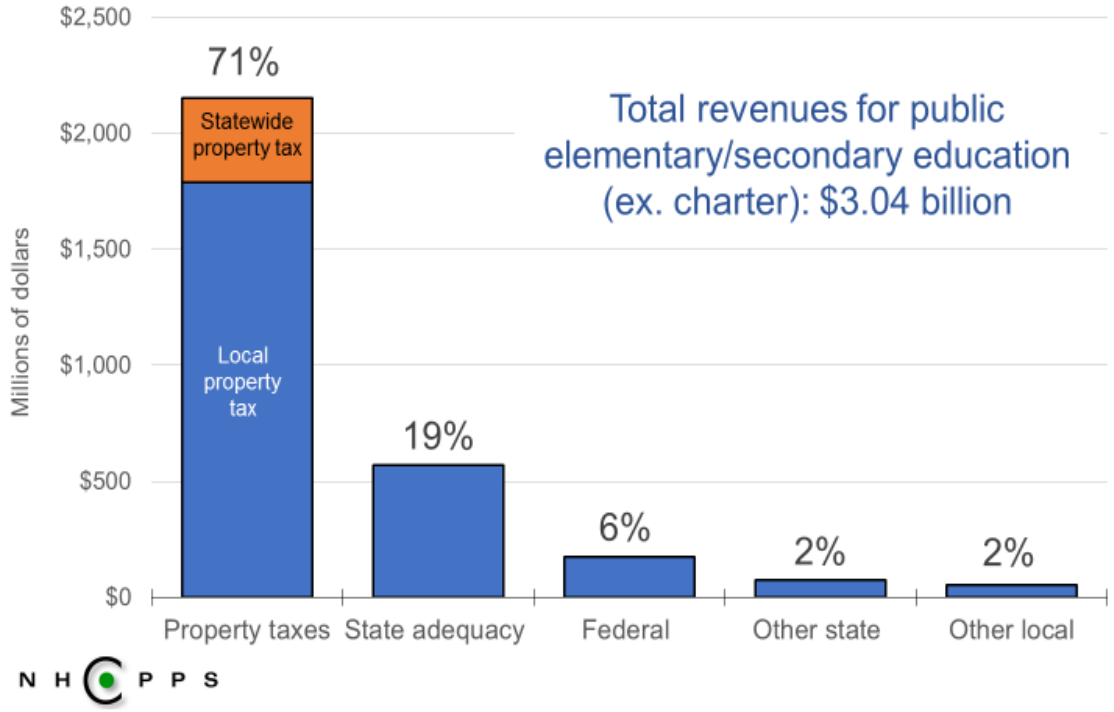
Figure 1: Per-Pupil Education Spending (top & bottom ten)



In terms of where that money comes from, state and local government are the predominant sources across every state (roughly 91¢ of every $1), with the federal government being a minor contributor. But, the allocation between state and local sources varies dramatically. In Hawaii and Vermont, the state is responsible for around 90% of the revenue raised for K-12 education. On the other end of the spectrum, in South Dakota, Nebraska, and New Hampshire, the state is the source of about one-third of revenue. The median states (Oklahoma, Mississippi, Wisconsin, Oregon) have about one-half of K-12 education revenues coming from state government.

Moreover, the Census figure for New Hampshire (33% of elementary/secondary school revenue from the state) lumps in money that technically comes from the state, though in reality is a local property tax. The Statewide Education Property Tax (or SWEPT) raises $363 million every year to support local education. Though imposed by state statute, the tax is collected and retained in its entirety by each municipality to provide an adequate education to all students. Therefore, if the money from the Statewide Education Property Tax is considered a local revenue source, which it appears to be, then the state of New Hampshire contributes around 22% of the revenue raised for the public K-12 education system (Figure 2).

Figure 2: New Hampshire School District Revenue by Category, 2015-16



The share of state aid varies considerably from community to community, which reflects efforts to "target" state education aid to those communities who are less able to generate school district revenue through local taxation. Nevertheless, the extent to which targeting is executed along with the allowed to drive state education spending remains a topic of considerable debate.

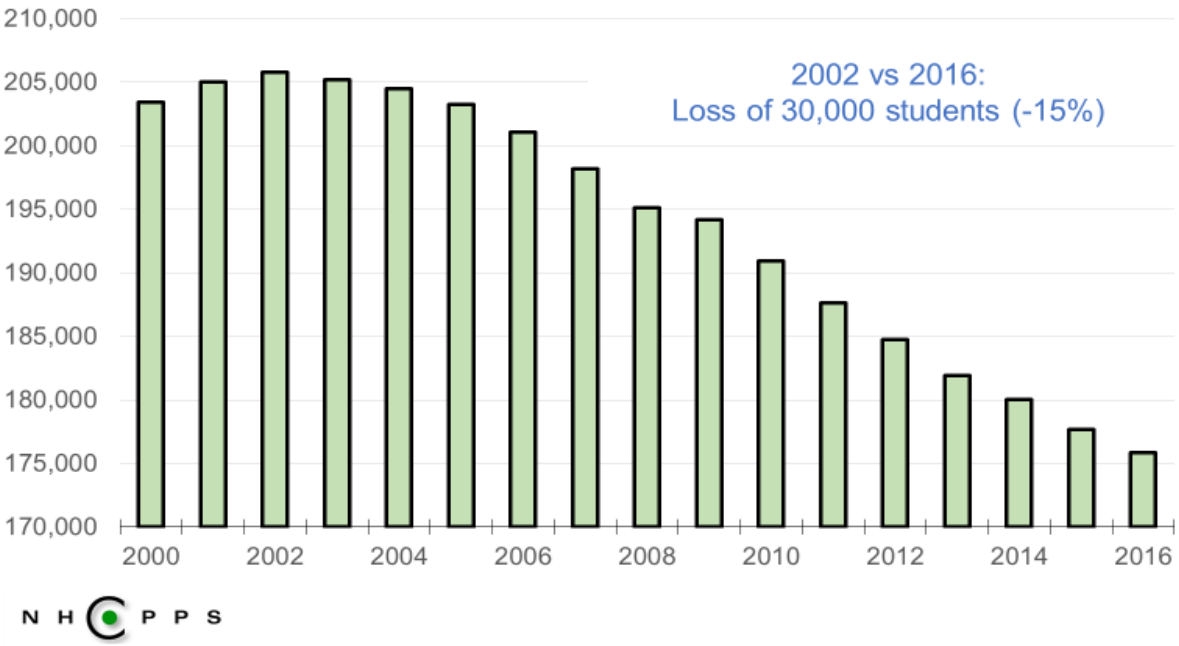
Classrooms are becoming emptier and emptier

Over the course of the 21st century, New Hampshire has seen several changes in its student population, including a steady decline in public school enrollment, growth in the charter school and home school population[3], rising racial and ethnic diversity, and increases in economic hardship. These trends will shape future policy discussions, including conversations about staffing, funding formulas, school facilities, curriculum offerings, and the achievement gap.

One of the most talked about trends recently is the consistent and noteworthy decline in public school students. According to data from the New Hampshire Department of Education, public school enrollment (K-12) has declined every year since 2002, with a loss of nearly 30,000 students between 2002 and 2016 (Figure 3). This decline raises questions for districts about the possible need to consolidate functions across schools, including combining districts and SAUs.

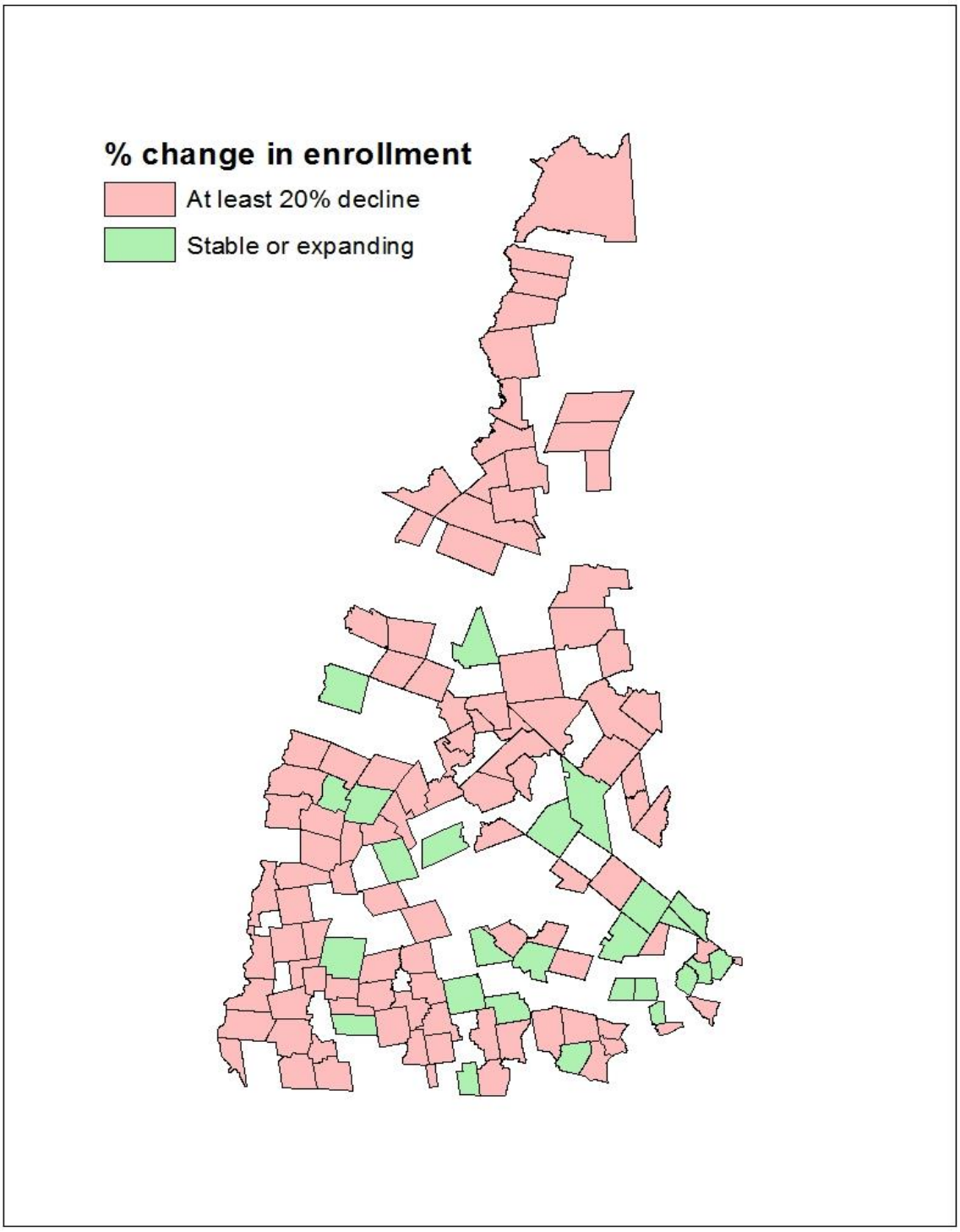
[3] New Hampshire legalized the operation of charter schools, which are funded by tax dollars but have more leeway in administration and curricula than traditional schools, beginning with the 2004-05 school year.

Figure 3: New Hampshire Public School Enrollment (K-12)



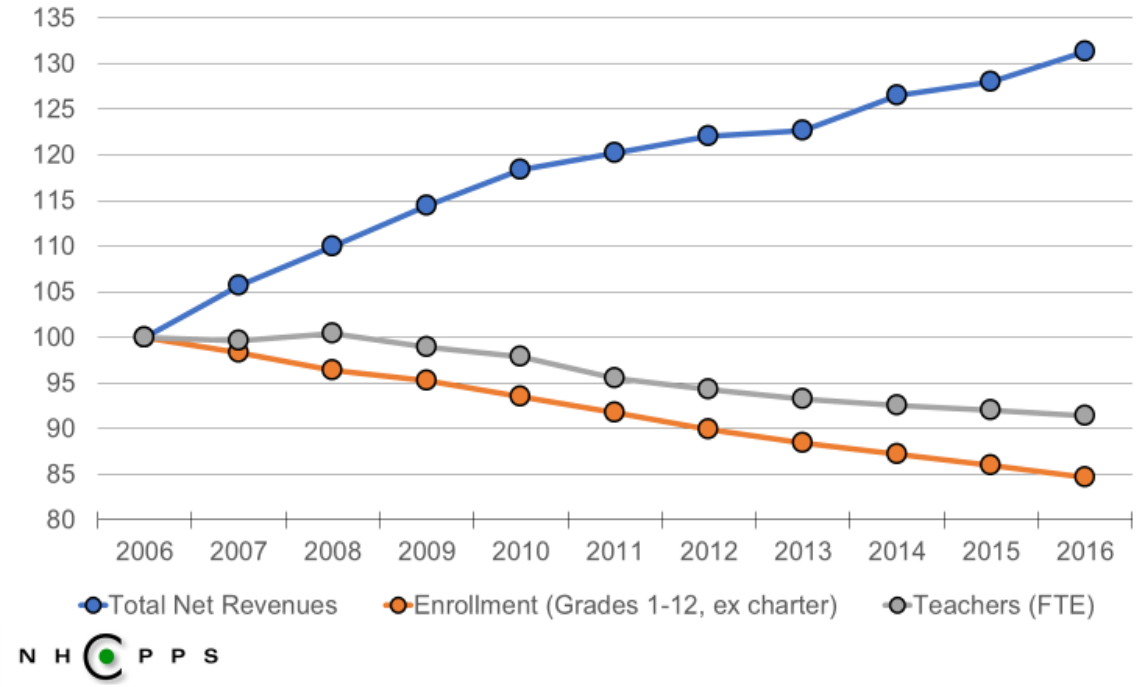
If we dig deeper, the data show that about half of New Hampshire's communities have seen an even larger decline (at least 20%). The vast majority are concentrated in the state's more rural areas, such as in the southwestern region and north of Lake Winnipesaukee (Figure 4, the communities in red). On the flip side, 31 communities have seen either a stable or expanding public school population (Figure 4, the communities in green). These municipalities are mostly concentrated in the outlying areas of the Seacoast and in the suburbs of Manchester and Nashua.

Figure 4: 2003 vs 2016: % change in public school enrollment (municipalities with at least 100 students)



Although schools have less students then before, more money is flowing into schools collectively from municipal and state coffers. Figure 5 normalizes changes in revenue, enrollment (grades 1-12, ex. charter schools) and the number of teachers (grades 1-12, ex. charter schools) to 2006, so that one can easily compare changes to each over time in a single graph. According to the New Hampshire Department of Education, total net revenues for all public school districts was $2.32 billion in school year 2005-06. Fast forward ten years and that amount increased to $3.04 billion (31% increase), even though enrollment dropped by 15% and the number of teachers by 10%. This raises questions that range from how much of a school system's costs are fixed and do not vary in the short-term with the size of its student population to can the system deliver education in a different way that more effectively manages school finances and provides more efficiency.

Figure 5: Changes in revenues, enrollment and teachers in NH (2006=100)



New Hampshire's higher education system

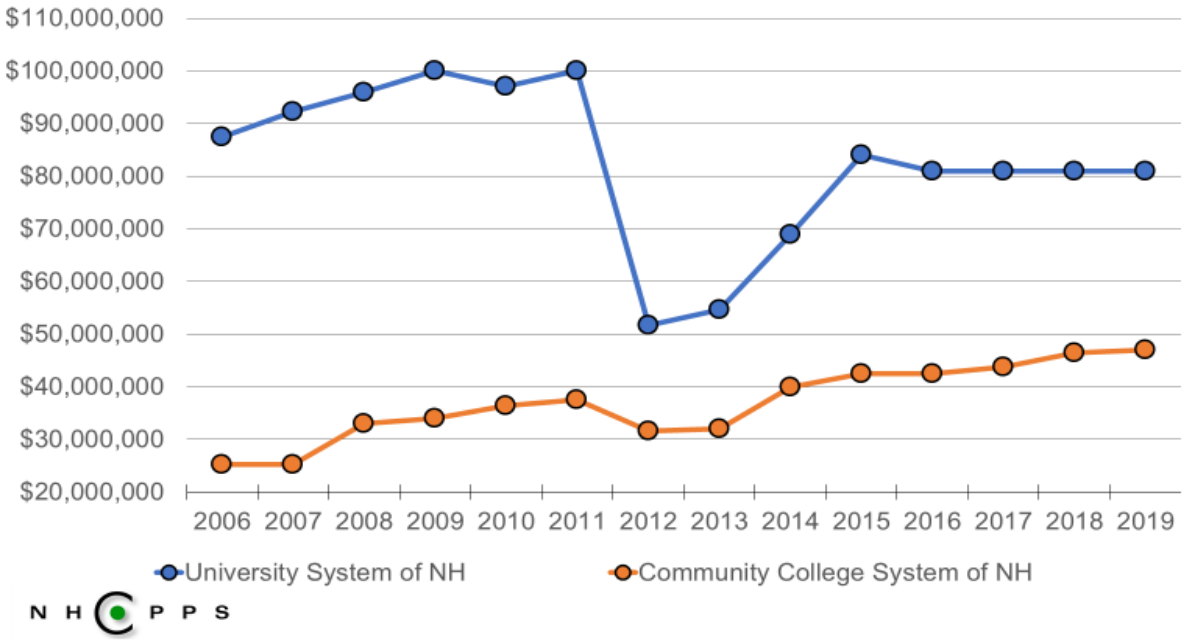
Public higher education is divided into two systems – the University System (USNH) and the Community College System (CCSNH). USNH is comprised of four institutions– the University of New Hampshire, Keene State College, Plymouth State University and Granite State College. CCSNH is comprised of seven institutions – NHTI Concord, Manchester Community College, Nashua Community College, Great Bay Community College, Lakes Region Community College, White Mountains Community College and River Valley Community College.

Historically, New Hampshire has funded higher education at relatively low levels.[4] The past decade has witnessed significant changes in state fiscal support for higher education, much of it driven by financial pressures from the Great Recession. State funding for USNH fell by nearly 50% in FY2012 and remains below the pre-cut level. Meanwhile, state support for CCSNH,

[4] In measures of state appropriations per capita, per $1,000 in personal income and per full-time student.

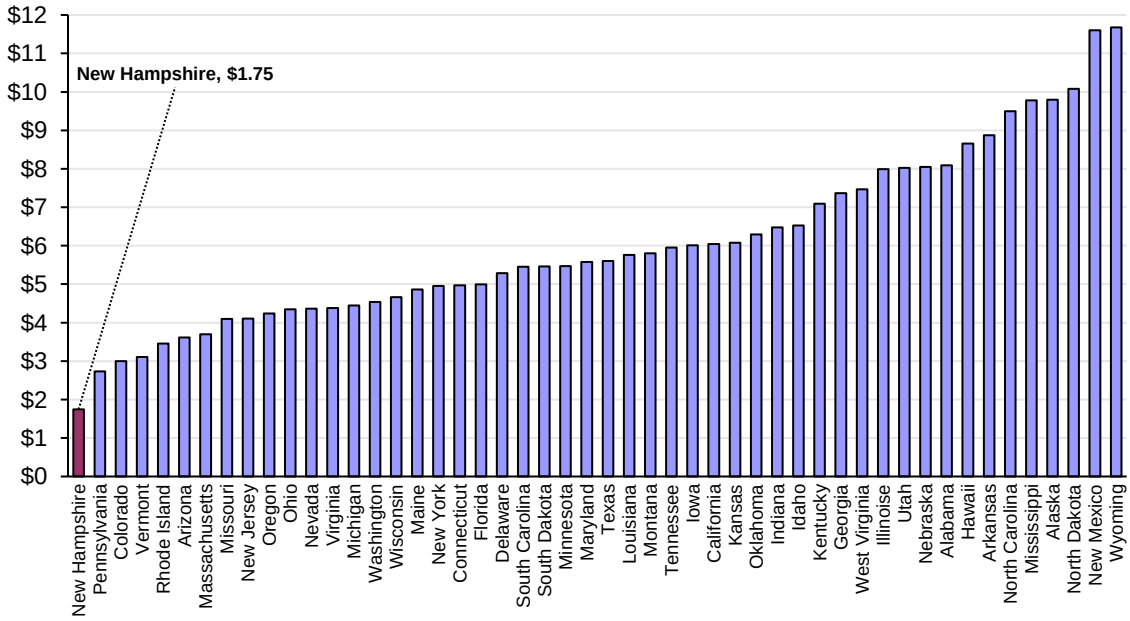
though relatively smaller, has been steadily rising and is above its peak before the onset of the Great Recession. And while state support for public higher education remains comparatively low in New Hampshire, tuition levels are among the highest in the country.

Figure 6: State Support for Higher Education by System



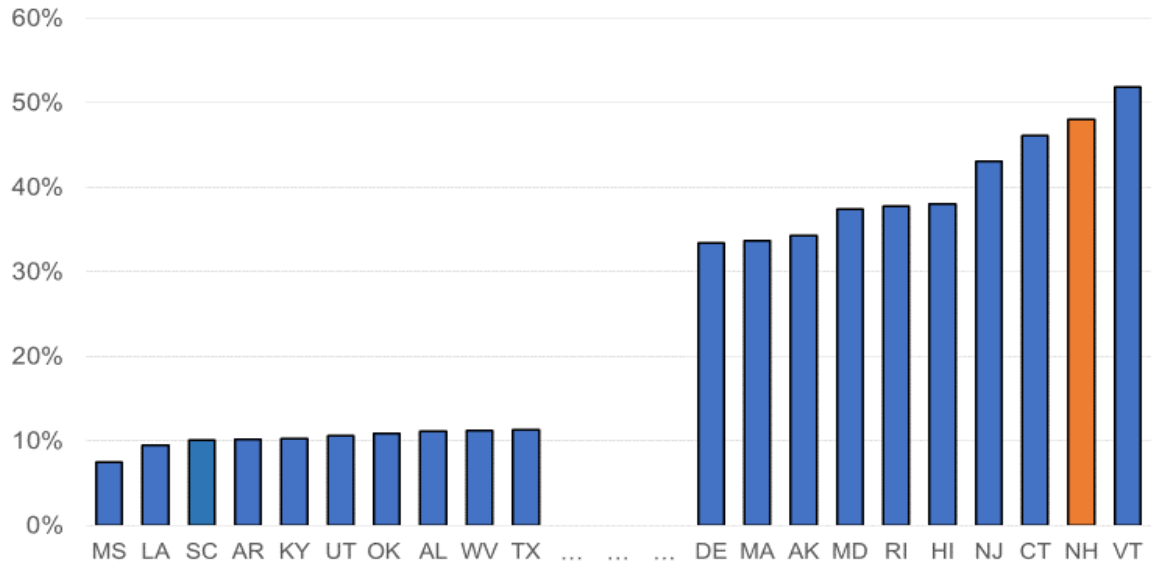
As of FY2015, New Hampshire ranked last in state support for higher education relative to personal state income, with the national average of $5.55 per $1,000 in personal income being three times greater than New Hampshire's state support – $1.75 for New Hampshire.

Figure 7: State Support for Higher Education per $1,000 in Personal Income, FY2015



Consequently, New Hampshire public four-year institutions had the highest average in-state tuition and fees in the country (2014-15). Tuition and fees averaged more than $14,700 per academic year compare to the national average of $9,139. This fact that four-year public institutions are more expensive then most other places could be one reason why so many New Hampshire high school graduates leave the state to attend college (Figure 8). However, high tuition is not likely the only reason, as there is also a correlation between students from states with higher median household incomes opting for out-of-state schools because their families have more financial resources for them to do so.

Figure 8: % of first-time college freshmen leaving home state to attend college (2014)



K-12 education funding

Due to the passage of HB356 in the 2017 legislative session, the legislature is currently amidst an 18-month review of the successes and shortcomings of how the state funds K-12 education. One of the questions the study committee will have to contemplate surrounds the projected loss of state education dollars to mostly rural communities. Why?

When a new funding formula was enacted for FY2012, to ease the impact on municipalities that would have otherwise faced a reduction in aid, the state legislature created a new funding vehicle, named stabilization grants, to make up the difference so that no community experienced a drop. The sum of that "difference being made up" was initially around $158 million, though in FY2017, it began to shrink and will continue to over the next 20 years until fully phased out.

At first glance, losing $158 million appears challenging, though not a crisis, given that total K-12 education revenue is around $3 billion, on an overall basis New Hampshire spends a good deal of money per elementary and secondary pupil, and it will not be until FY2042 when this funding mechanism is completely gone. Also, not every community receives a stabilization grant, which further lessens the financial blow statewide. Yet, there is a non-trivial group of communities that

rely heavily on these funds and it just so happens that these cities and towns also have significantly higher rates of poverty (as measured by free and reduced lunch concentration), fewer assets to support the educational system (as measured by equalized property value per student), and disproportionately higher property tax rates (Figure 9).

Figure 9: Select cities and towns, from a list of the top 20 communities by stabilization grant dollars per student (Municipalities with at least 100 students)

Town (Rank)	Stabilization grant per student	Free and reduced lunch	Property value per student	Total property tax rate per $1,000
Berlin (1)	$4,916	56%	$298,075	39.2
Allenstown (5)	$4,382	40%	$496,494	33.9
Pittsfield (9)	$4,056	49%	$463,649	32.3
Charlestown (13)	$3,772	46%	$388,600	35.1
Claremont (15)	$3,632	50%	$398,920	42.6
Franklin (16)	$3,630	57%	$473,070	25.2
Northfield (17)	$3,573	36%	$452,148	26.0
Haverhill (19)	$3,497	40%	$524,363	29.8
Top 20 (median)	$3,953	44%	$479,031	28.6
Rest of NH (median)	$535	25%	$924,880	23.2

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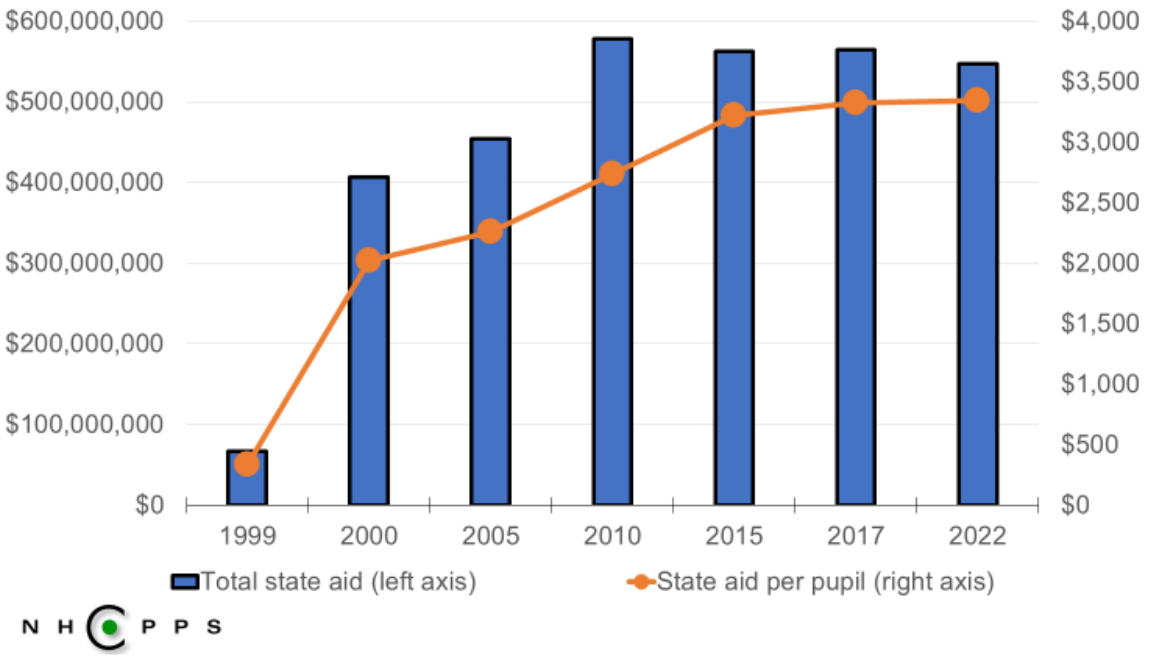
The disappearance of these state funds could further the disparity in property tax rates between these communities and those which are not exposed to the financial risk of dwindling stabilization grants, and apply more fiscal stress to these communities, places that already have far less property wealth to generate extra tax revenue. With this potential future lingering, some communities have begun to speak out publicly and lobby the legislature, stating that current law essentially translates to the state reneging on its obligation to provide a constitutionally adequate education, which came about as a result of what are known as the Claremont lawsuits of the 1990s. This prompts the question "Have the original goals of the Claremont lawsuits been met?"

Post-Claremont, the state's commitment to local education has generally grown (Figure 10). Between 2000 and 2010, total state education aid to local communities (excluding the Statewide Education Property Tax) grew by about 42%. Since then, total aid has declined slightly, and we project that it will fall a bit further due to the reduction in stabilization grants. Still, there has also been a sea change in school enrollment over this period with the result being that per pupil state aid has gone up significantly (65%).

Figure 10: State Adequacy Aid (Total $ and $ per student)
(excluding the Statewide Education Property Tax)

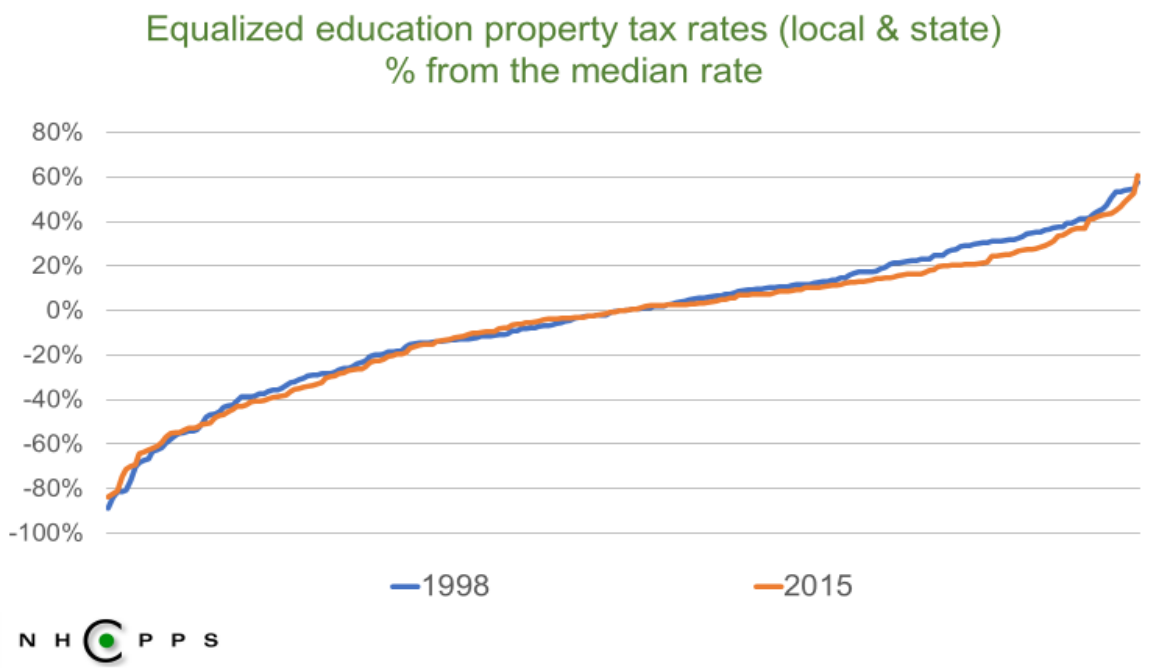


One of the main goals of the Claremont lawsuits was to reduce the disparity in property tax rates among towns. In their 1997 ruling, known as Claremont II, the State Supreme Court stated:

"…varying property tax rates across the State violate part II, article 5 of the State Constitution in that such taxes, which support the public purpose of education, are unreasonable and disproportionate. To the extent that the property tax is used in the future to fund the provision of an adequate education, the tax must be administered in a manner that is equal in valuation and uniform in rate throughout the State."

Figure 11 shows data from the New Hampshire Division of Revenue Administration, showing one dot for each town's local and state education property tax rate relative to the median rate before the Claremont II ruling (blue line) and today (orange line). The results suggest there has been virtually no change in the relative differences in tax rates. If there were any decrease in the inequity of tax rates, the orange line would be flatter relative to the blue line.

Figure 11: Taxpayer Equity



Using specific towns comparisons from the Claremont II ruling, Figures 12 and 13 show the local school property tax rates for Moultonborough and Pittsfield, as well as Rye and Allenstown. The stark contrasts that existed in the mid-1990s clearly remain today.

Figure 12: Local school property tax rates per $1,000 equalized property value

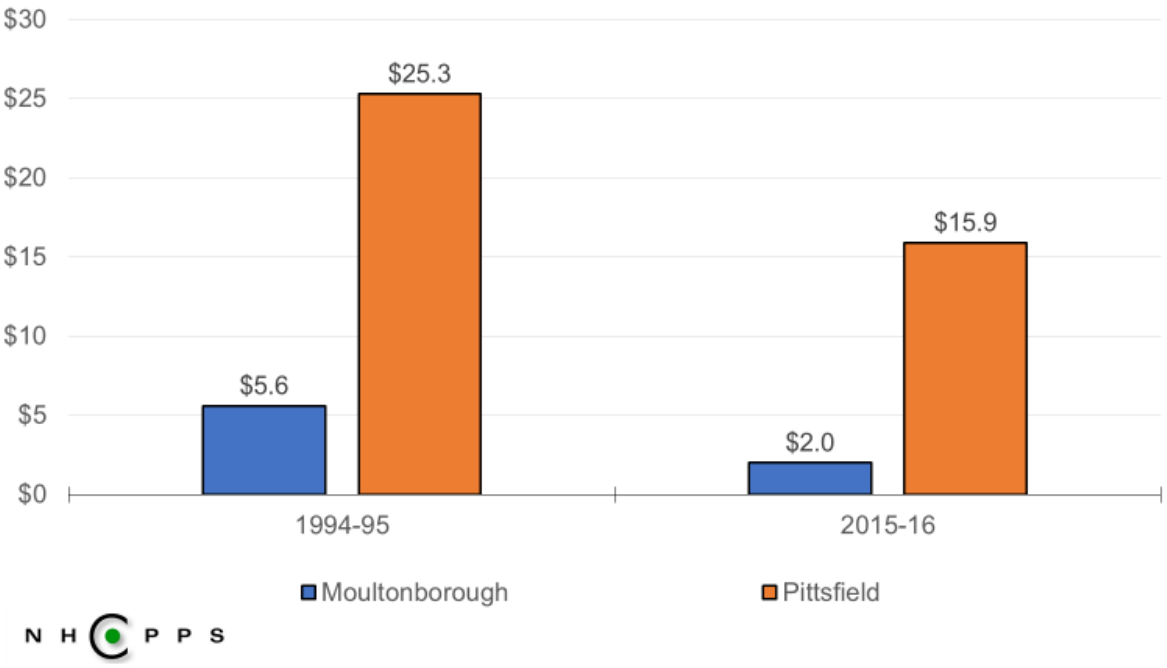
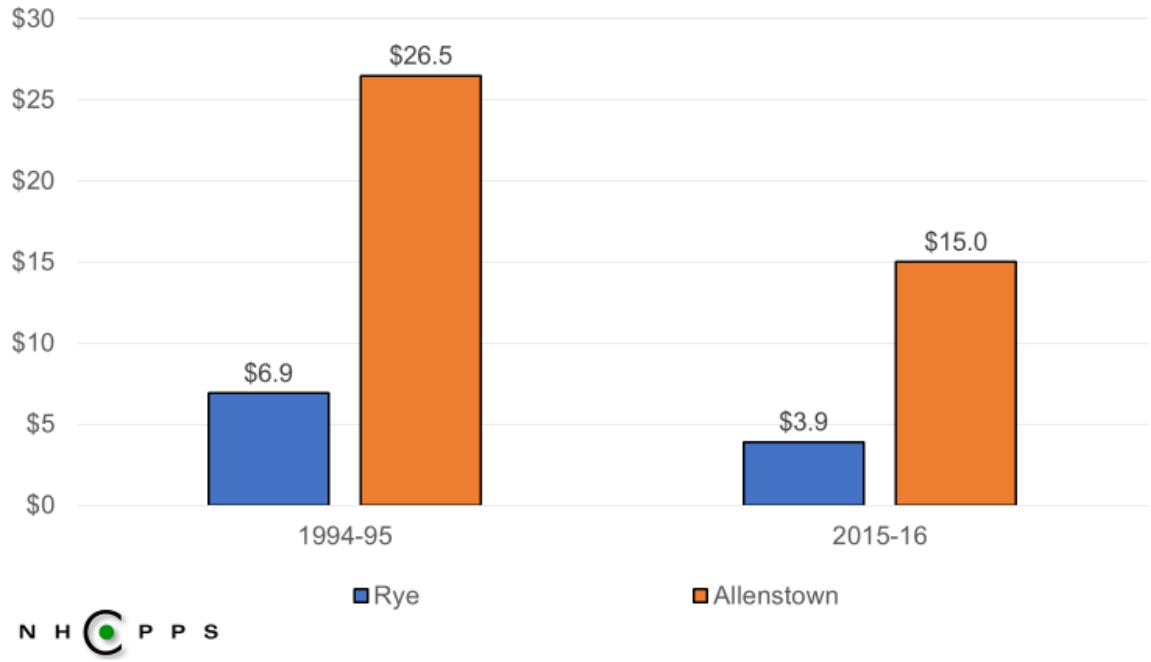


Figure 13: Local school property tax rates per $1,000 equalized property value



Considering cost reduction through school consolidation

With demographic pressure, declining state aid, and increased pressure for reporting assessment, and accountability on districts from state and federal governments, arguments have been made for school consolidation. These arguments usually rest on a handful of assumptions. Most common is the basic concept of economies of scale, whereby adding students to a district will reduce per pupil costs if the added students do not result in an increase in fixed costs. Also, it is argued that larger districts will be able to support more specialized teaching staff, thereby providing a wider, more diverse education to students.

There are often, however, other factors which can undercut potential savings or advantages. For one, transportation costs may increase through consolidation, as a district or SAU must transport students over a larger geographic area. Consolidation may result in higher personnel costs, especially if new salary agreements result in lower-paid staff from one district becoming eligible for higher wages and benefits once they are employed by a larger district.

Still, it must be said: Research offers few firm conclusions about the impact of consolidation. In most instances, the impacts (whether financial, educational or community) of school/district consolidation vary widely according to the circumstances of each case.

One important note: A distinction must be drawn between the consolidation of school *districts* and of *SAUs*. A school district is a distinct political subdivision, with a single controlling school board. An SAU can cover a single school district or include multiple districts. School district costs include the usual things associated with education: instruction, transportation, facilities

maintenance, teacher salaries and benefits. The costs with an SAU are largely administrative, usually limited to the personnel costs associated with the superintendent office staff.

In terms of cost savings from consolidation, combining SAUs will likely result in lesser savings unless that shift is accompanied by a parallel consolidation among the member school districts. Also, the fact that superintendents in multi-district SAUs must report to multiple school boards has been raised as a barrier to streamlining administrative responsibilities.

Attempts to quantify savings associated with consolidation typically cover the following areas:

- Financial savings are most likely when dealing with relatively small educational units. There is, however, wide disagreement about what constitutes a "small" school or district.[5]

- Transition costs are often associated with consolidation, though they may decline over time. These transition costs include new construction to accommodate the shift in students that results from consolidation.
- Increasing school size initially brings positive returns both on cost savings and student outcomes, but these trends are reversed as size increases beyond a certain point. Defining that point, however, is subject to disagreement within the literature.[6]

- Consolidation plans often overlook impacts beyond education costs, including residents' connections with existing schools, housing prices and economic activity in the wider community associated with a local school.

We see in New Hampshire that, as enrollment increases, general administrative expenses (those associated with district or SAU-wide functions) steadily decrease. In fact, general administration consumes more than twice as much of a district budget for districts with 100 students or less than for those districts with 3,000 students or more. Yet, school-level administration costs remain relatively similar regardless of district-wide enrollment, varying between 4.7% and 5.6%. This indicates that cost savings are most evident, not through combining individual schools, but by combining smaller districts into larger districts.

[5] Craig Howley, Jerry Johnson & Jennifer Petrie, "Consolidation of Schools and Districts: What the Literature Says and What it Means," National Education Policy Center, February 2011, and Ulrich Boser, "Size Matters: A Look at School-District Consolidation," Center for American Progress, 2013.
[6] John Slate & Craig H. Jones, "Effects of School Size: A Review of the Literature with Recommendations," *Essays in Education*, vol. 13, 2005. Joshua Barnett, Gary Ritter & Christopher Lucas, "Does Size Matter? School Consolidation Policy Issues in Arkansas," University of Arkansas, Office for Education Policy," 2004.

Table 1: Administrative Costs for New Hampshire Districts by Enrollment

District Enrollment	# of districts*	Gen. Admin expenses as % of total expenses	School Admin expenses as % of total expenses	Gen Admin per pupil	School Admin per pupil
<100 students	26	6.3%	5.6%	$2,155	$1,923
100-300	28	4.6%	4.7%	$1,116	$1,141
300-500	25	4.2%	4.7%	$865	$979
500-1,000	27	4.2%	5.3%	$768	$971
1,000-3,000	41	4.2%	5.4%	$666	$862
3,000-5,000	12	3.1%	5.2%	$443	$751
5,000+	2	2.7%	5.1%	$325	$608
Statewide	161	3.8%	5.2%	$605	$829

*14 New Hampshire districts that do not operate schools are not included here.

Additional Resources

- "Education Finance in New Hampshire: Headed to a Rural Crisis?" June, 2017. http://www.nhpolicy.org/report/education-finance-in-new-hampshire-headed-to-a-rural-crisis
- "School Consolidation in NH: Some Points for Consideration" NHCPPS, April 2015. http://www.nhpolicy.org/report/school-consolidation-in-nh-some-points-for-consideration
- "Public Colleges, Public Dollars: Higher Ed in New Hampshire" NHCPPS, March 2014. http://www.nhpolicy.org/report/public-colleges-public-dollars-higher-education-in-nh

Health Care in New Hampshire

New Hampshire's health care system is amidst great change

New Hampshire's health care policy landscape faces great change and uncertainty, as the state grapples with intertwining trends in health care financing, demographics, and federal policy. The most critical issues in health care in New Hampshire today include:

- Significant and rapid vertical and horizontal integration of the health care provider market (hospitals, physician practices), which has begun to transform the health care networks serving New Hampshire. As the provider market has consolidated, the major insurers have also considered consolidation. These changes have raised concerns in the New Hampshire Attorney General's office about the impact of consolidation on residents.

- Republican efforts to repeal the sweeping federal health care reform effort known as the **Patient Protection and Affordable Care Act (ACA)** have been unsuccessful. Policies adopted under the ACA resulted in significant increases in health care coverage, and have helped transform New Hampshire's health care system.

- New Hampshire's **aging population** is increasing pressure on policymakers to consider reforms to the health delivery and financing system.

The following questions are likely to dominate future policy debates:

- Has the implementation of the ACA – including the subsidization of private insurance and the state's expansion of Medicaid to low income adults – reduced the number of uninsured residents, or lowered uncompensated care costs to New Hampshire hospitals?

- What impact does the significant increase in mergers among the state's twenty-four non-profit hospitals have on the provision of care and the community benefit they provide?

- Have the enormous changes in the health care marketplace had a positive or negative impact on the health and productivity of New Hampshire residents?

Health care reform has reshaped New Hampshire's health care marketplace

The ACA, enacted in March 2010, set forth two goals for the nation's health system: extend coverage to the uninsured and slow the growth in health care costs. The ACA has been gradually phased in over several years, with the promise to fundamentally change health care delivery.[7]

The major components of the ACA are:

- the enactment of several health insurance reforms
- the provision of insurance premium subsidies for some individuals not eligible for Medicaid, with incomes between 138% and 400% of the federal poverty level
- providing states with an option to expand their Medicaid programs to adults with incomes less than 138% of the federal poverty level
- requiring all individuals to secure health insurance or else pay a fine.

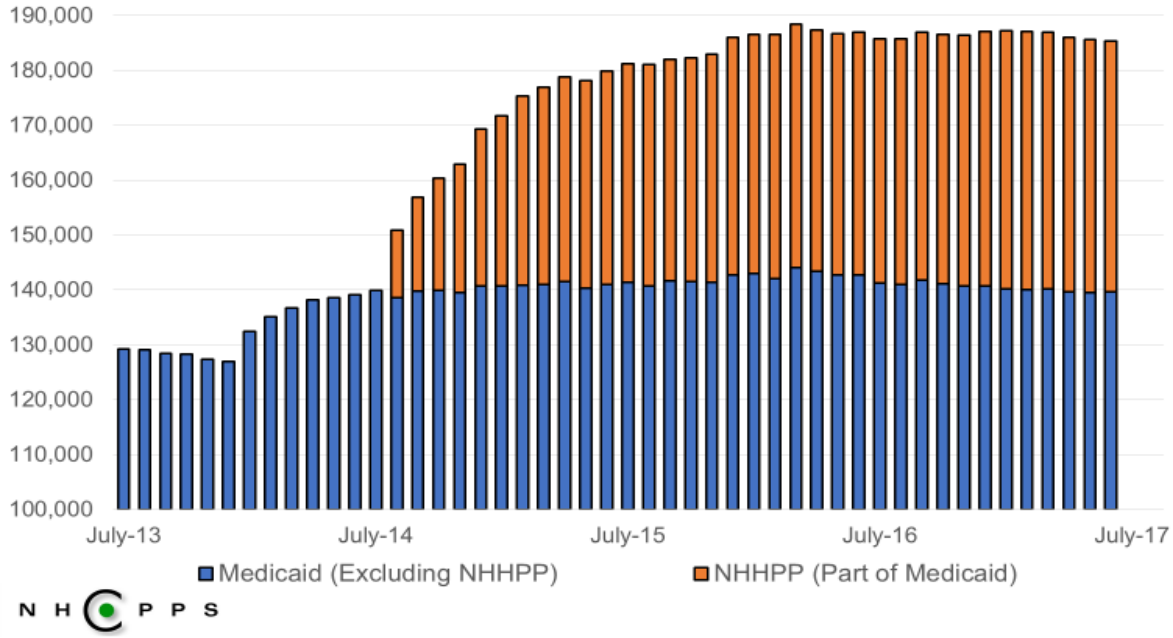
The ACA mandates a series of structural changes in the market as well – including the development of health insurance exchanges and the introduction of pilot programs encouraging the development of integrated health systems called Accountable Care Organizations (ACOs) to improve the cost-effectiveness of care through the Medicare program.

One of the goals of the ACA was to decrease the number of people lacking insurance via insurance premium subsidies and expansion of who is eligible to receive Medicaid. Regarding the first policy tool, as of February 2017, nearly 53,000 New Hampshire residents sought coverage through the federal health insurance exchange[8]. In terms of the Medicaid program casting a wider net, the number of individuals enrolled has increased by 45,000 individuals due to the New Hampshire Health Protection Program (NHHPP), which expanded the Medicaid program to include those adults with incomes less than 138% of the federal poverty level that were not otherwise eligible.

Coverage in the NHHPP (Figure 1) has grown from roughly 12,000 (August 2014) to 45,000 (June 2017). While New Hampshire's penetration of Medicaid is small (meaning the share of residents who are insured through Medicaid is low relative to other states), there are still about 190,000 individuals who currently have Medicaid coverage.

[7] A full implementation timeline can be found here: http://kff.org/interactive/implementation-timeline/
[8] http://www.kff.org/health-reform/state-indicator/total-marketplace-enrollment/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D

Figure 1: Medicaid Coverage During the Medicaid Expansion Era



As seen in Figure 2, enrollment increased for all populations. The increase for minors was driven by changes in socio-economic conditions and in the income eligibility calculation, previously mentioned above. Increases for the adult population, which were substantial, were largely driven by the implementation of the New Hampshire Health Protection Plan.

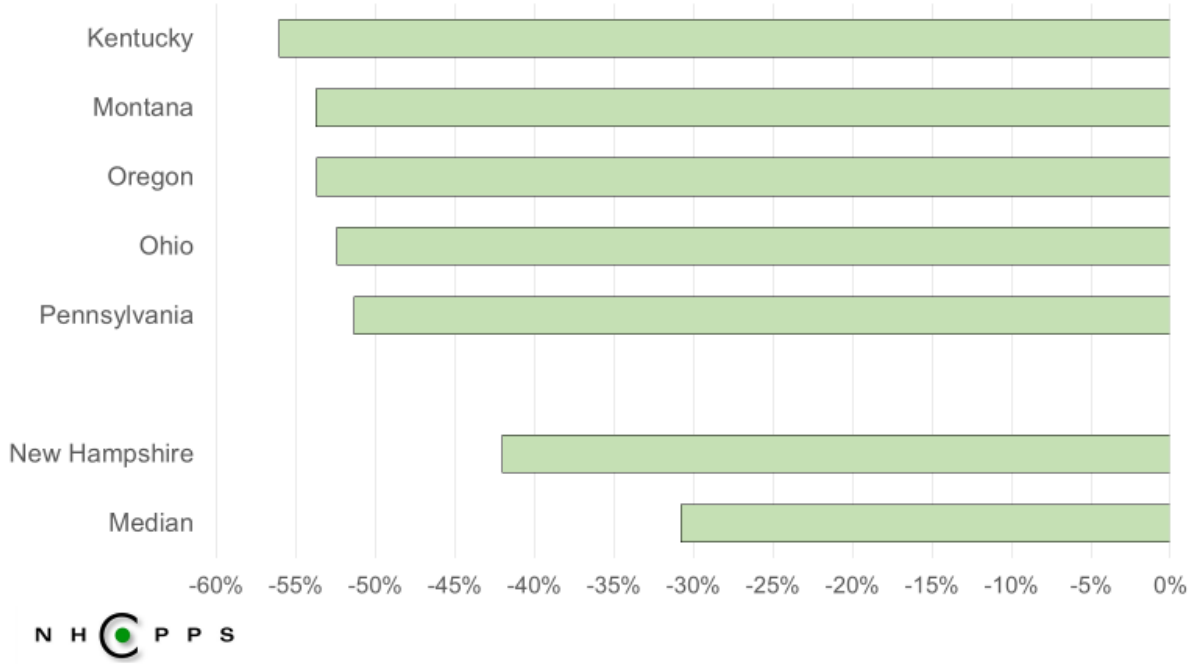
Figure 2: Changes in Medicaid Enrollment by Age Cohort (2012 – 2016)

Age Group	SFY 2012	SFY 2016	# change	% change
0-18 years old	81,045	97,527	16,482	20.3%
19-44 years old	24,317	57,662	33,345	137.1%
45-64 years old	12,762	29,362	16,600	130.1%
65 years old and over	8,727	8,974	247	2.8%

N H P P S

Analysts argued that the primary impact of the ACA and Medicaid expansion would be to increase the share of the population that has insurance and thus lower medical providers' uncompensated care costs or unreimbursed costs expended to serve the uninsured. Between 2013 and 2016, that is exactly what happened in New Hampshire, with the state experiencing a 40% decline (148,000 to 86,000) in the number of residents without medical insurance (Figure 3).

Figure 3: Percent change in the number of uninsured residents (2013 vs 2016)



What effect will mergers in the health care market have on NH residents?

New Hampshire hospitals had financial responsibility for almost $5.7 billion in total assets (2014), according to the latest audited financial data. Of that sum of money, almost 190% of those assets have been part of hospital merger activities (Memorial N. Conway), Upper Connecticut Valley (Colebrook), Weeks (Lancaster), Littleton, Androscoggin Valley (Berlin), Alice Peck Day (Hanover), Lakes Region (Laconia), and Franklin hospitals). Catholic Medical Center (Manchester), Huggins Hospital (Wolfeboro), and Monadnock Hospital (Peterborough) ($500 million) and Wentworth Douglass Hospital (Dover) ($500 million) recently had merger requests before the Attorney General's office. Elliot (Manchester) and Southern NH Regional (Nashua) have also announced plans to merge.

Could increasing market power for providers translate into more successful price negotiations with insurers that could result in consumer savings? According to a study by the Center, the literature over the last 20 years largely suggests that hospital consolidation neither lowers costs nor consistently improves the quality of the care provided.

However, there are important qualifications to these findings. With respect to prices, it is only recently that the literature has begun to explore the possibility that the type of consolidation –

whether the two organizations are competitors compared to non-competitors – and the level of administrative and therefore clinical integration – materially impacts the degree to which consolidation impacts prices.

The most recent analysis (Dafny, 2015) confirmed that as hospital competition declines, prices rise. Yet, it also suggested that the mergers of hospitals that are more distant – and potentially not competing for the same patients– had little impact on prices.

With respect to quality of care, the literature is weaker. National studies – with the best controls and most generalizable results – have looked at a very narrow set of services (principally for acute myocardial infarction), and none have looked at geography and different types of service competition (for example, for primary, tertiary or quaternary services).

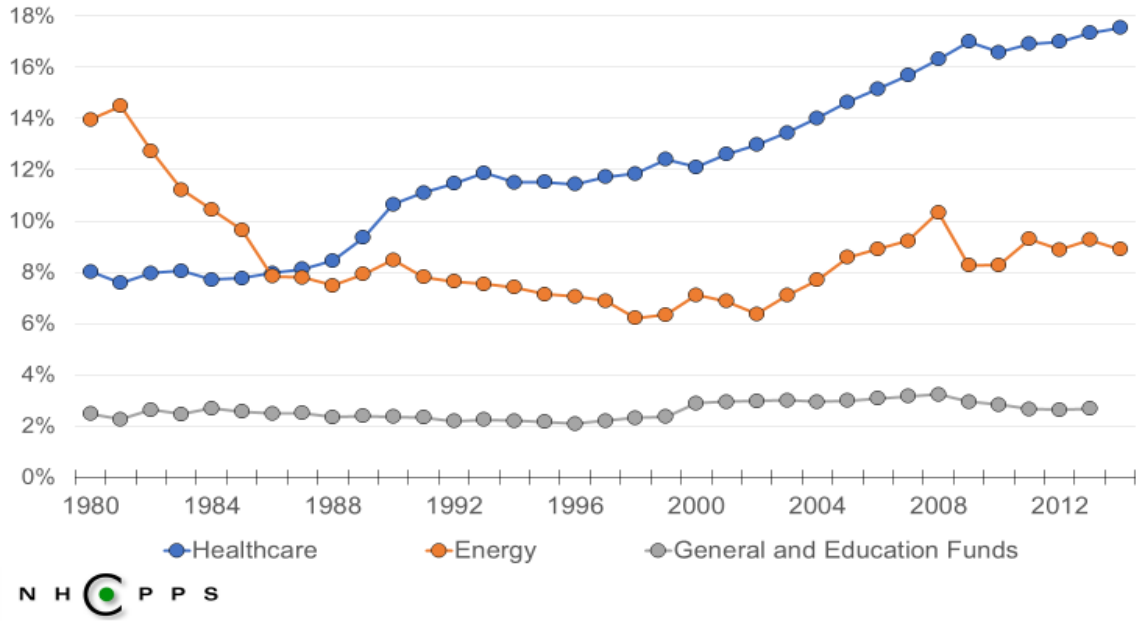
As these mergers continue, policy makers are likely to focus on the impact of the provision of community benefits. In 2015, the most recent year for which data is available, New Hampshire hospital charitable trusts provided $564 million in community benefit, according to the Attorney General's Charitable Trusts Unit.

Of that total amount, $317 million (56%) resulted from the fact that Medicaid pays less than the expenses associated with providing services. The next two biggest line items were the provision of subsidized health care services ($96 million) and charity care ($73 million). According to these same reports, the average health care charitable trust provided $22 million in community benefit. Mary Hitchcock provided over $180 million in community benefit, with Elliot and Concord Hospital providing more than $60 million.

Health care continues to be a growth industry in New Hampshire

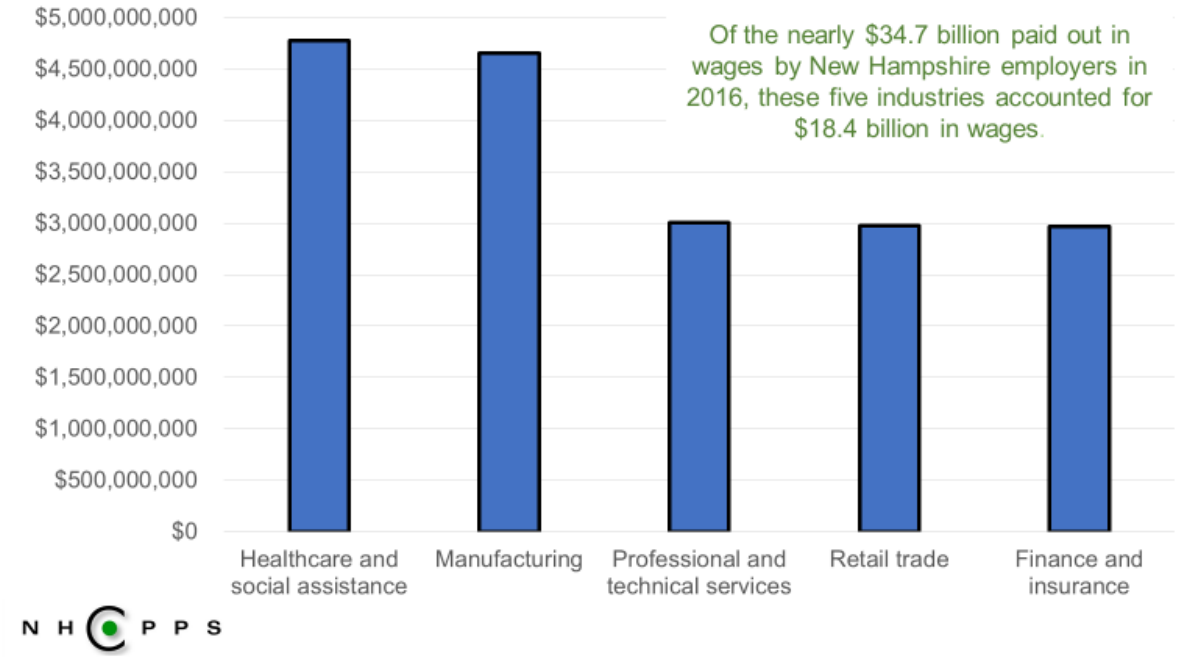
Growth in health care spending has consistently outpaced that in other consumer expenses, including energy and taxation levels. Since the late 1980s, the state budget, as measured by the General and Education Funds, and energy spending have remained relatively constant as a share of the New Hampshire economy, as measured by Gross State Product (Figure 4).

Figure 4: % share of New Hampshire GSP: Energy, Health Care, and the State Budget



Conversely, health care has continued to take up an increasing share of the economy, from 8% to around 17%. Given that backdrop, it is not surprising that the health care industry pays out the most in total wages to employees among all New Hampshire industries, even more than manufacturing (Figure 5).

Figure 5: Top five NH industries, by total wages paid



An aging population is putting pressure on the health care system

Among the impacts of an aging population will be a change in the demand for services, as older residents tend to spend a higher share of their income on health care. This uptick will vary considerably across the system, with Medicaid, Medicare, and private insurance companies feeling the impact of an aging population differently. Also, impacts will vary across the state, as certain regions age quicker than others. Some will see an increase in the elderly population because of in-migration, while others will age in place, with current residents growing older.

Medicaid will increasingly become an insurer of the elderly. Currently, Medicaid provides health insurance for a wide range of individuals, including the poor, those with disabilities, and the elderly. That balance will shift considerably towards the senior population in coming years.

Higher Medicaid participation rates in older age cohorts (Figure 6) combined with significantly higher expenses (Figure 7) per person (associated with the use of long-term-care services) almost guarantee that the state will experience significant pressure on long term care budget items. An analysis by the Center finds that if we only accounted for the underlying changes in demographics (via the state's population projections) and assume no changes in reimbursement rates, participation rates, or services use patterns, Medicaid spending can be expected to grow by close to $400 million over the next fifteen years, or about 1.5% per year.

Figure 6: Medicaid participation rates by age (2009)

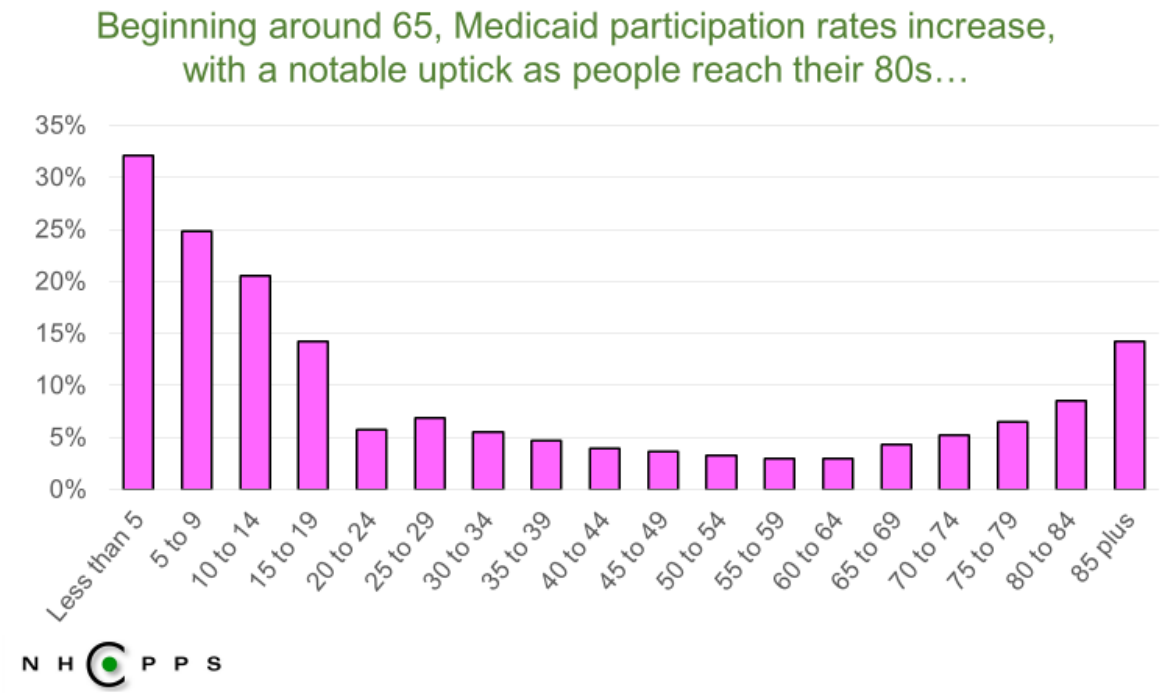
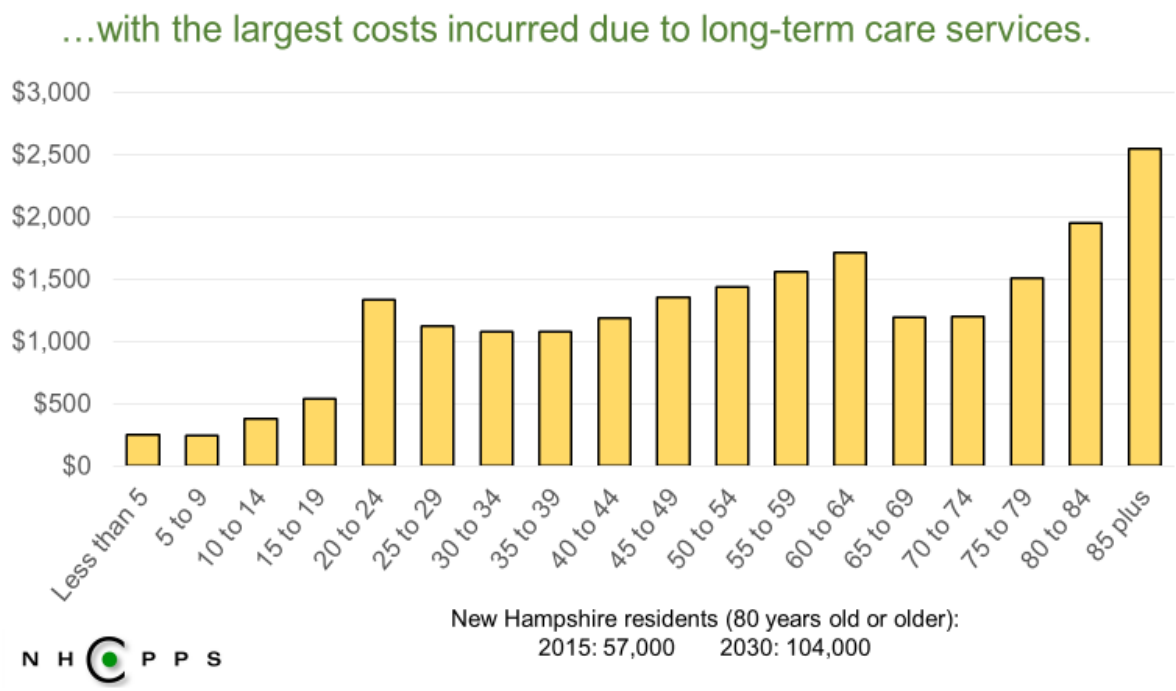


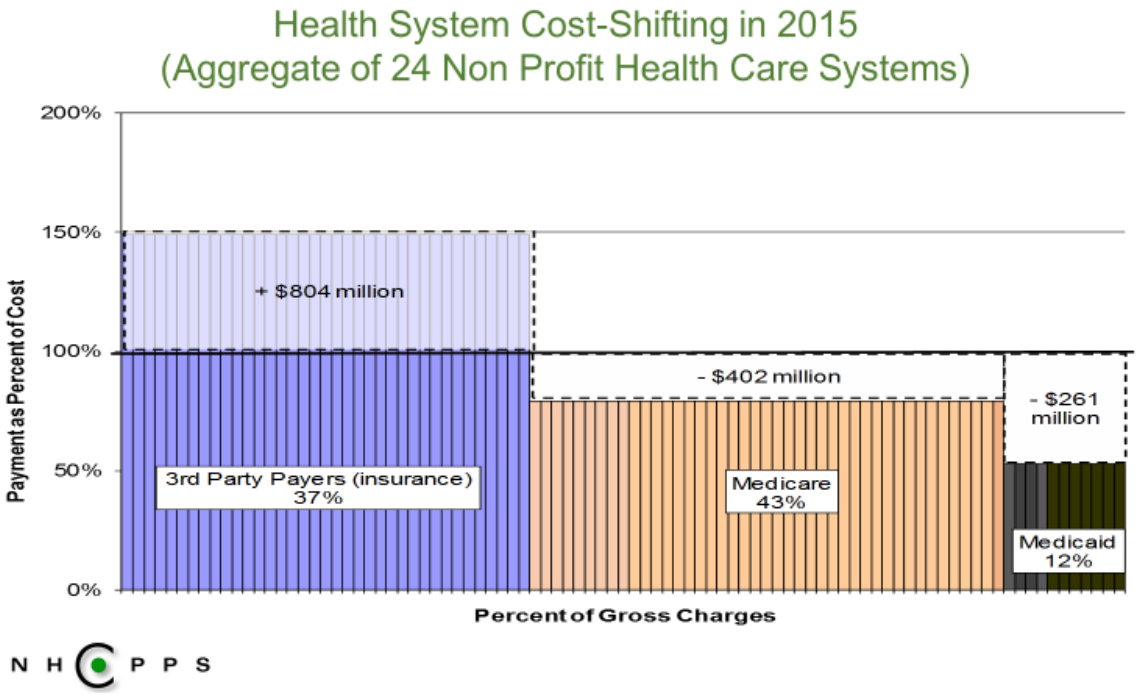
Figure 7: Medicaid per member per month costs, by age (2010)



With the aging of the population, many residents will shift from having private market insurance to Medicare, applying cost shifting pressure on private insurance premiums. As the market share of Medicare increases, hospitals and other providers will try to shift the cost of losses associated with Medicare to the private insurance market. The reason: Medicare reimbursement rates are lower than average patient expenses, which means health care providers will receive less money for providing services.

In 2015, Medicare payments fell $400 million short of the actual cost of services provided to patients in New Hampshire. Health care providers offset this gap by charging privately insured patients above cost for their care. This is the fundamental tension at the heart of Medicare in an aging society – more people on Medicare, resulting in a greater need to cost shift, but fewer people who are privately insured, thus shrinking the pool of people you can downshift to.

Figure 8: Healthcare Cost Shifting



State action

The regulatory oversight of the health care system in New Hampshire will increasingly shift to questions regarding anti-trust. In June 2016, the regulatory structure that had responsibility for oversight of the health care infrastructure in New Hampshire – the Certificate of Need program (CON) – was eliminated. That regulatory structure had the responsibility of monitoring, reviewing, and approving the development of any new large health care project. After long debate regarding its merits, the legislature passed a bill which sunset the program in July 2016.

Given the significant increase in merger activities, the state's Attorney General and the New Hampshire Department of Insurance are likely to take center stage. In the summer of 2016, the Department of Insurance joined the Department of Justice suing Anthem and Cigna for anti-trust violations. The Attorney General will continue to play a role in monitoring how the state's 24 non-profit hospitals' actions with respect to mergers and collaborations will affect residents.

From a fiscal perspective, the single largest policy concern likely remains the question of whether the state will continue with the New Hampshire Health Protection Program. This past August, the federal government ruled that the way the state has funded the program is inconsistent with federal rules. This program – which as mentioned is currently providing coverage to over 45,000 individuals – was reauthorized through 2018.

For additional information on the New Hampshire health care sector, look here:

- "Measuring the Health of the Healthcare System, "NHCPPS, NH's Healthcare Dashboard 2012. http://www.nhpolicy.org/report/measuring-the-health-of-the-healthcare-system-nhamp39s-healthcare-dashboard-2012
- "Getting What We Pay For? Healthcare Spending in New Hampshire," NHCPPS, January 2013. http://www.nhpolicy.org/report/getting-what-we-pay-for-healthcare-spending-in-nh
- "Health and Equity in New Hampshire," NHCPPS, February 2013. http://www.nhpolicy.org/report/health-and-equity-in-new-hampshire-2013-report-card
- "New Hampshire's Silver Tsunami: Aging and the Healthcare System," NHCPPS, September 2011. http://www.nhpolicy.org/report/nhamp39s-silver-tsunami-aging-and-the-healthcare-system

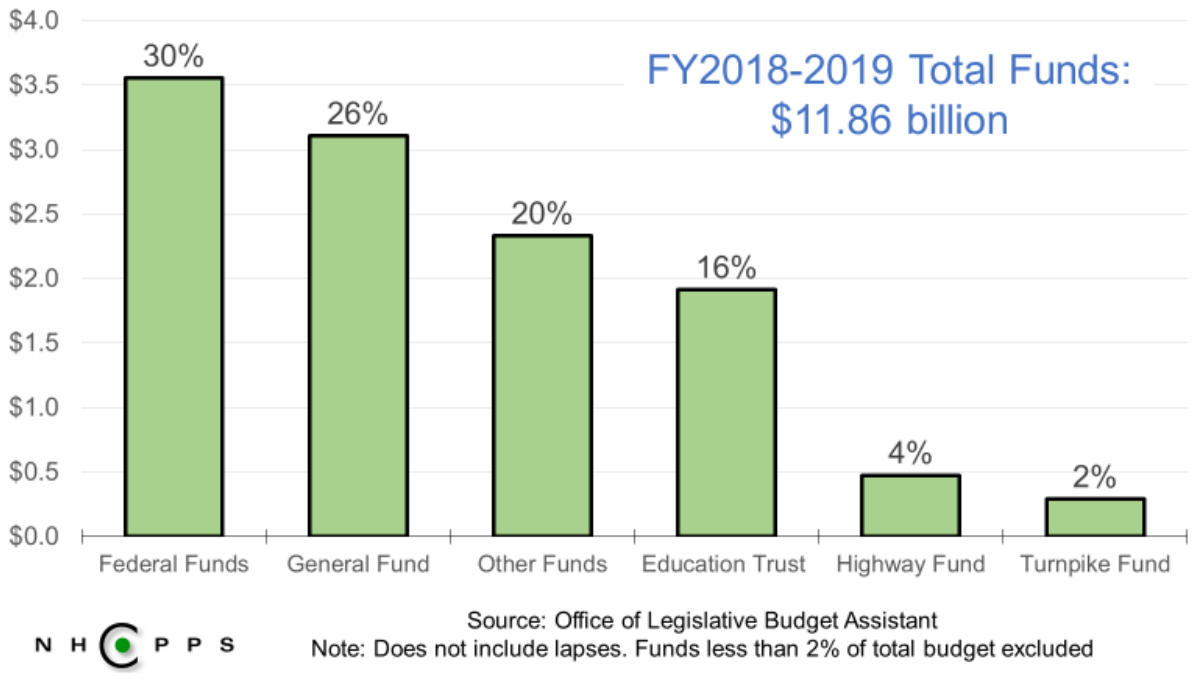
New Hampshire's State Budget

Every two years, the New Hampshire Legislature crafts a budget to fund state responsibilities and priorities. This spending plan covers a wide range of services, including public education, highway maintenance, prisons, environmental protection, health care, and more. Behind the dollars and cents are numerous policy decisions that determine which programs obtain further investment and which do not. Thus, analyzing the state budget is a good way to understand the state's public policy priorities.

As budget writers crafted the budget for fiscal years 2018 (July 2017 – June 2018) and 2019 (July 2018 – June 2019), they had a significant surplus from the previous budget to work with for the first time since the Great Recession. They used that surplus to do many things, such as deposit monies in the state's rainy-day fund, provide added resources to aid the substance abuse crisis, improve the state's infrastructure (roads, bridges, school buildings), and provide increases to service providers to people with developmental disabilities and people with mental illness.

Like all budgets, the FY2018-19 budget relies on several revenue sources to pay for state spending. Many of these (Fish & Game, Highway, and Turnpike Funds) can only be used for specific purposes (Figure 1). The combined General and Education Trust Funds (around $5 billion over the biennium) represent most of what we think of as raised by state taxes and fees.

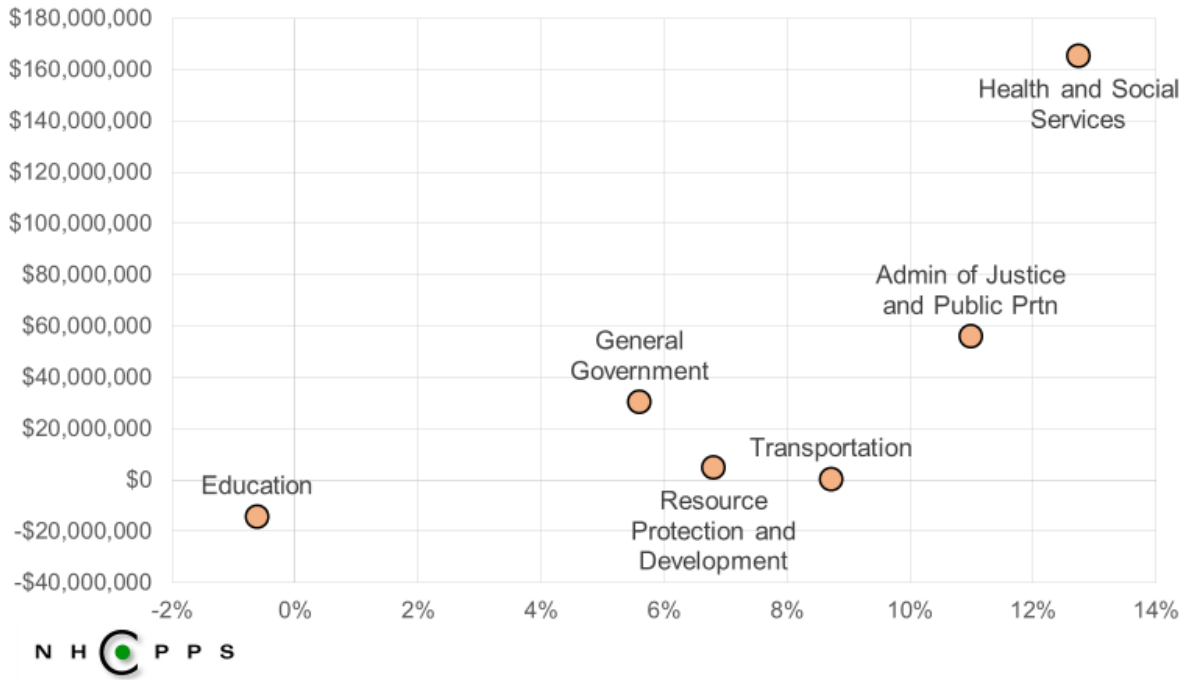
Figure 1: Total Appropriations by Fund Source, FY2018-2019 (Billions of Dollars)



In total, General and Education Trust Funds spending is anticipated to be $242 million higher (or 5%) than the previous 2-year budget cycle. Figure shows changes at a very high level, in both dollar and percentage terms, by major functions in state government. Examples of departments within these general categories are:

- General Government: Department of Treasury, Department of Administrative Services, Department of Information Technology
- Administration of Justice and Public Protection: Department of Corrections, Department of Safety, Judicial Branch
- Resource Protection and Development: Department of Environment Services, Department of Business and Economic Affairs, Fish and Game Department
- Transportation: Department of Transportation
- Health and Social Services: Department of Health and Human Services
- Education: Department of Education, University System of New Hampshire, Community College System of New Hampshire

Figure 2: General and Education Funds: Changes at the category level (FY16-17 vs FY18-19, X-axis: % change, Y-axis: $ change)



Nearly 70% or $165 million of new dollars being appropriated in this current budget is being directed to Health and Social Services spending, for things such as increased funding for children with severe emotional disturbances, domestic violence services, nursing home rate increases, and mental health services (in the form of psychiatric beds and acute mental health service mobile crisis teams and community apartments). Also, the budget provides funding to the Department of Corrections (Administration of Justice and Public Protection) for 55 new positions for the new

women's prison, which was anticipated to open in November 2017, though has been delayed due to challenges in finding qualified staff.

While the budget does increase funding for the Community College System and create the Governor's Scholarship program ($5 million to assist high school students to attend colleges and universities, or workforce training programs in New Hampshire), education as a category will experience a slight decline in dollars, due to a reduction for the Department of Education and no change in funding for the University System of New Hampshire from last biennium.

Moreover, not only does Health and Social Services receive the greatest increase in dollars and percent change from the previous budget, it also receives (and has for some time) the most total dollars. Of the nearly $12 billion planned to be appropriated during FY2018-19, $4.8 billion (or 41%) goes to Health and Social Services. Figure 3 shows the share of total state spending each category of government comprised at various points in time. The diagram makes clear that most spending goes to providing social services, with a large role for public education (K-12 system and post-secondary systems). You can see that Health and Social Services has grown substantially as a share of total state spending, while spending on Transportation and General Government has fallen. By analyzing state spending across categories of government over a long-time span, we can see broader trends and patterns in the way spending has changed[9].

Figure 3: State Appropriation by Category (% of total funds) over time

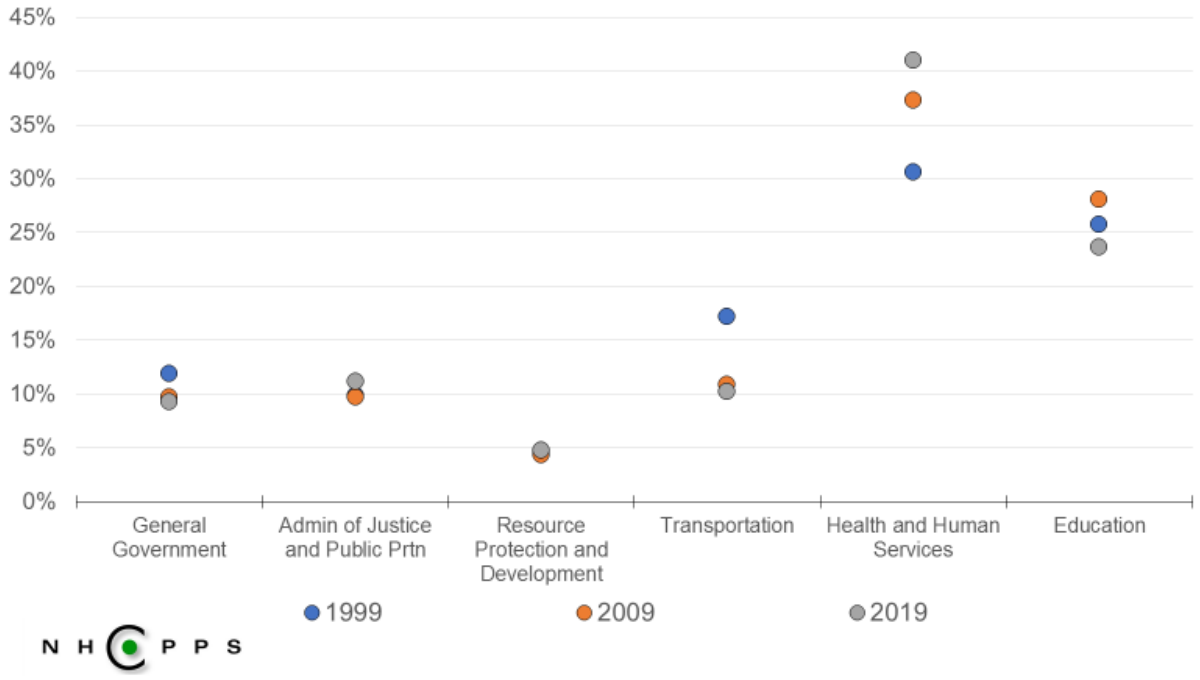


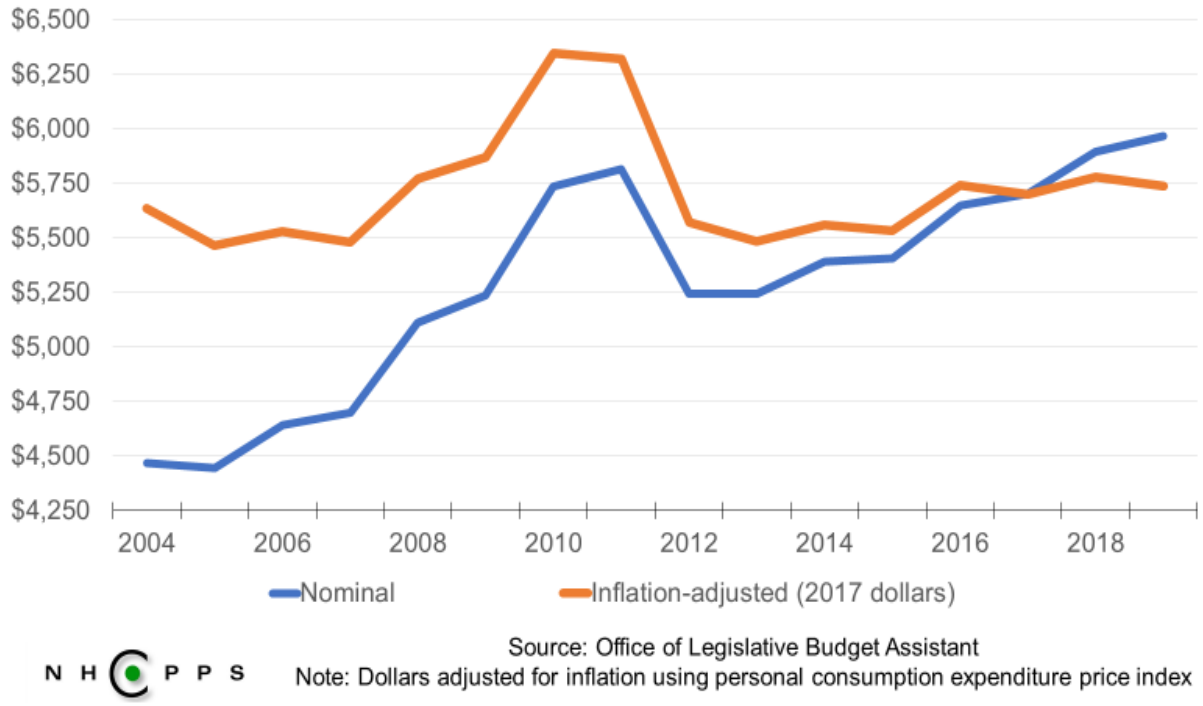
Figure 4 shows how total fund appropriations have changed between 2004 and 2019. The Great Recession had a strong impact on budget decisions, due mostly to a significant reduction in revenues. Between 2011 and 2012, nominal (or unadjusted for the effects of inflation) total fund

[9] An apples-to-apples comparison is difficult because programs and responsibilities shift within state government. But in general, the data provide a broad picture of shifts in state spending by major function over this span.

appropriations (blue line) fell by $570 million (10%). Since 2012, there has a steady increase in total state spending, so that by 2018, budgeted total funds will eclipse their 2011 peak.

However, accounting for inflation (a $1 today is worth less than a $1 in the past), total funds are still about $500 million (in 2017 dollars) below where they were before the financial crunch of the Great Recession really took hold.

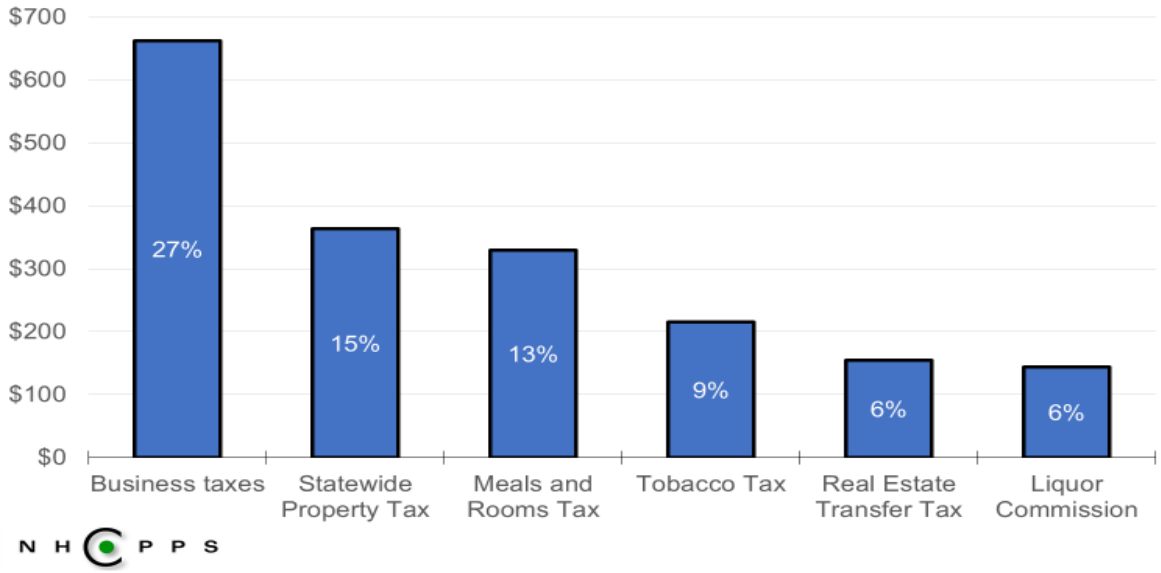
Figure 42: Total Fund Appropriations (Millions of dollars)



Source: Office of Legislative Budget Assistant
Note: Dollars adjusted for inflation using personal consumption expenditure price index

Finally, Figure 5 documents the largest contributing revenue sources to the General and Education Funds, which, as mentioned previously, are most of what we think of as monies raised by state taxes and fees. Corporate profit and income taxes, the state's education property tax, the state's sales tax on meals and rooms, consumer vices (tobacco and liquor), and the state's real estate transfer tax provide 75% of the monies for the General and Education Funds.

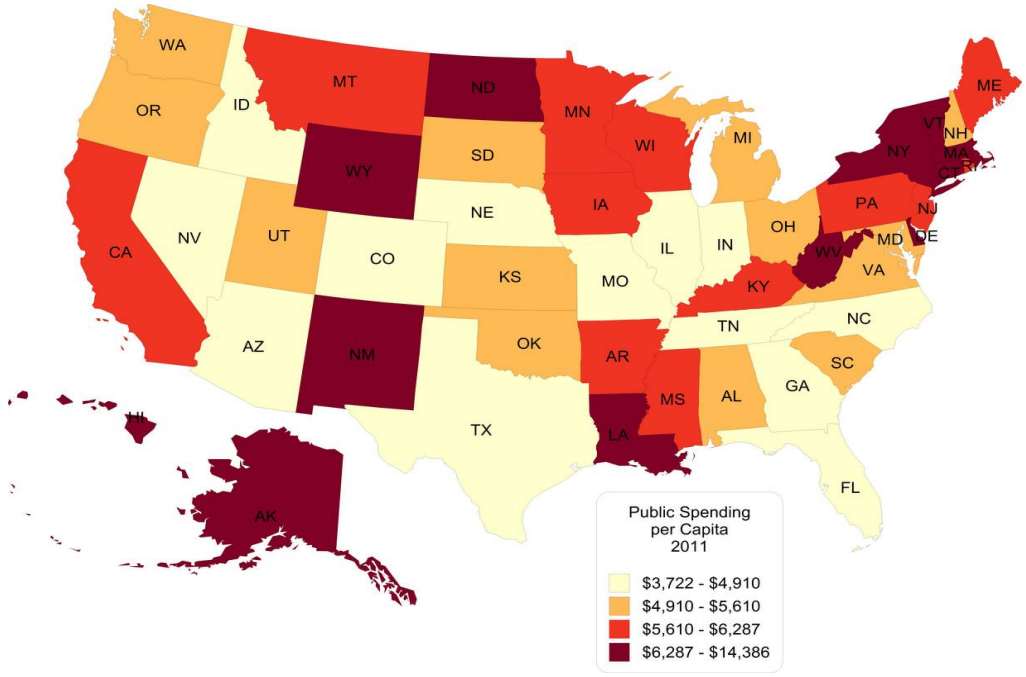
Figure 5: FY2018 General & Education Funds, top six revenue sources (Millions of dollars)



New Hampshire is a relatively low spending state on a per-person basis

Each year, the Census Bureau reports information on total public spending on a per capita basis for all U.S. states (Figure 6). The map highlights geographic differences, with the South largely spending less, and the Northeast (with New Hampshire as an exception), northern parts of the Midwest, and the Pacific Northwest as relatively high spenders.

Figure 6: Per capita public spending (2011)

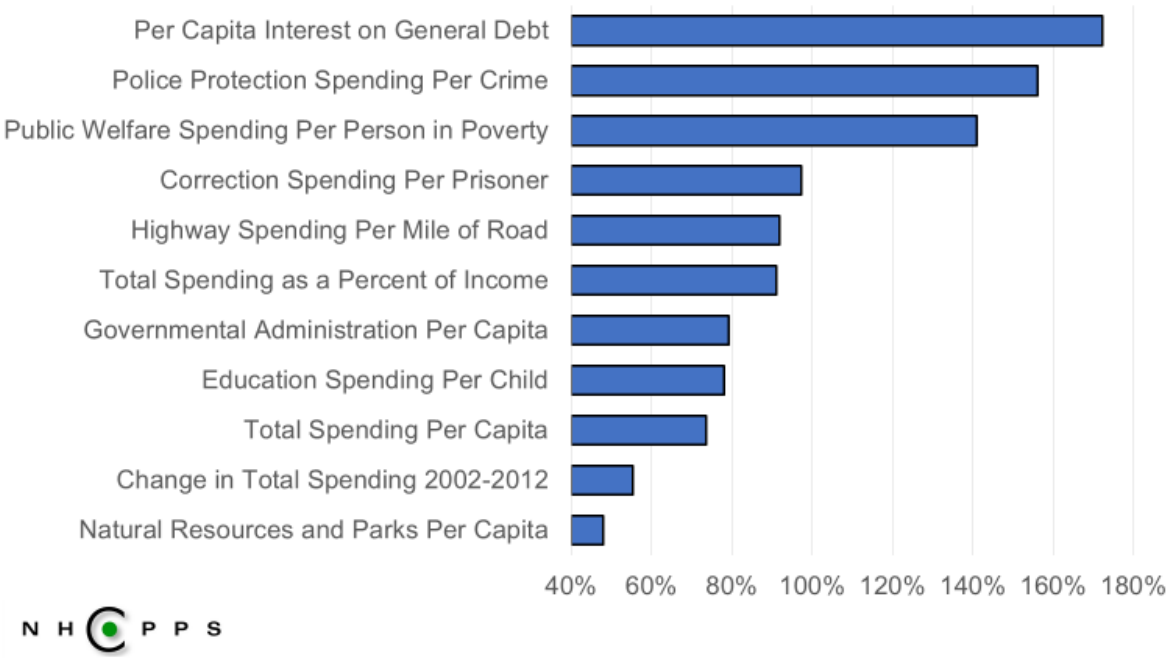


What explains these differences? To tease these out, we created a budget dashboard that provides policymakers with a snapshot of how much New Hampshire spends, normalized to reflect the underlying demand for services. For example, we normalized state corrections spending with the number of inmates in state prisons. We also controlled for underlying cost of living differences in the states.

This type of display provides a clear, simple picture of the trade-offs that come from the various spending decisions made by state policymakers. Figure below shows that per capita spending is lower in New Hampshire than nationally and that it grew more slowly between 2002 and 2012. Total spending as a share of GDP, government administration per capita, education spending per child, and spending on natural resources and parks per capita are all below the national average.

But not all spending areas were below the national average. There are some expenditures, when normalized for the underlying demand for services, spending is higher than the national average. Spending on police protection per crime, public welfare spending per person in poverty, and per capita debt were all at least 40 percent higher in New Hampshire than in the country as whole.

Figure 7: New Hampshire: Per capita state spending by various categories (as a percent of the national average)



Looking ahead

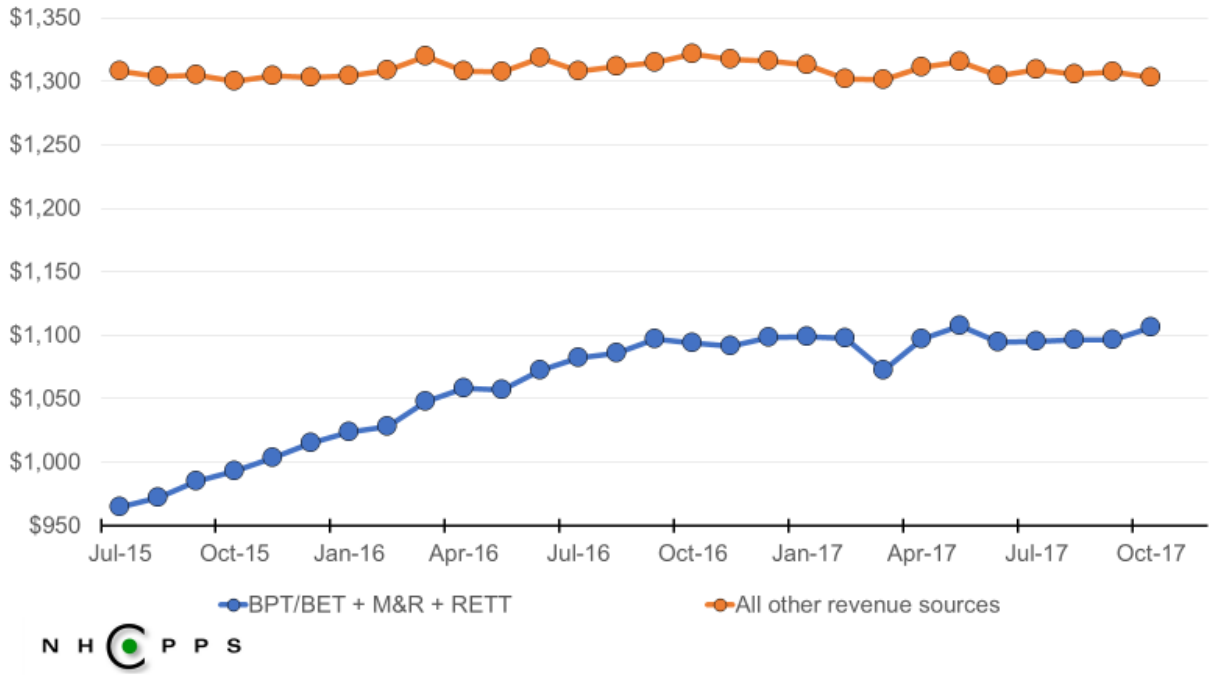
Balancing a budget should be relatively straightforward at the state level, as state spending is required to equal revenues. The challenges (and opportunities) come when there is an imbalance – that is, when revenues grow more slowly than spending, or vice versa. While the Governor and Legislature have struggled over past cycles to balance the budget, 2016-2017 was different,

as revenues came in to a much larger degree than planned, and more notably, faster than spending increases.

How has this situation developed? Over the past two years or so, those sources of revenue most closely tied to the economy (Business Taxes, Meals and Rooms, and Real Estate Transfer) experienced extraordinary gains (Figure 8), even though everything else that feeds the General and Education Funds (15 other revenue sources) have remained essentially static.

However, over the last few months those workhorse revenue streams that have driven all the growth in state revenues, have flatlined and thus, in the current biennium (FY2018 - FY2019), state revenue trends are indicating that the state may have less leg room to deal with unexpected expenses and less likelihood of a significant revenue surplus than it had in the recent past.

Figure 8: General and Education Funds revenues, by custom groups (Millions of Dollars, 12-month moving sum)



Additional Resources

- NH's General Fund Appropriations: The Committee of Conference, June 2017. http://www.nhpolicy.org/report/nhamp39s-general-fund-appropriations-the-committee-of-conference
- Understanding Changes in the House's FY16/17 budget" April, 2015. http://www.nhpolicy.org/report/policy-note-understanding-changes-in-the-houseamp39s-fy1617-budget

- "Looking Down the Fiscal Road: NH's Long Term Finances, January 2015 http://www.nhpolicy.org/report/looking-down-the-fiscal-road-nhamp39s-long-term-finances.
- "State Revenue Forecast, 2014-15" January 2013. http://www.nhpolicy.org/report/policy-note-state-revenue-forecast-2014-2015
- "Turbulent Times: New Hampshire's State Budget, 2008 to 2013," NHCPPS, May 2013. http://www.nhpolicy.org/report/turbulent-times-nhamp39s-state-budget-2008-to-2013
- "Counting on the Future: New Hampshire's State Revenue Estimates," NHCPPS, May 2011. http://www.nhpolicy.org/report/counting-on-the-future-new-hampshireamp39s-state-revenue-estimates