



**Statement of John Stephenson  
State Government Affairs Manager  
National Taxpayers Union  
Before the New Hampshire Senate Committee on Public and  
Municipal Affairs  
Regarding Senate Bill 2**

**February 22, 2011**

I. Introduction

Chairman Barnes and Members of the Committee, my name is John Stephenson, and I am the State Government Affairs Manager for the National Taxpayers Union (NTU), the nation's oldest and largest non-partisan advocate for overburdened taxpayers. I am honored to appear before you today and to present these remarks on behalf of NTU's 2,100 members in New Hampshire. NTU has 362,000 members nationwide, all of whom share the belief that constitutional tax and expenditure limitations are key elements of fiscal policy at all levels of government.

I commend you for holding this hearing on Senate Bill 2 (SB 2), which would amend state law to allow towns, school districts, villages, and other municipal entities to adopt caps on expenditures and allow the flexibility to accommodate unanticipated needs through "supermajority" override provisions. SB 2 currently has 17 cosponsors in the House and Senate, including the Chairman, members of this Committee, the Senate Majority Leader, and the Senate President. NTU members strongly support procedural safeguards against government overspending as a way to keep budgets manageable and to prevent burdensome tax increases. Therefore, I urge you to support SB 2 and immediately forward this important legislation to the full Senate for an expedited vote.

II. Background

In November 2009, Manchester voters – by a 54-46 percent margin – approved an expenditure limitation measure. The Manchester law tied the city's increases in spending to the rate of inflation, but would have allowed the city to spend above that limit with approval from two-thirds of the city's Aldermen. In enacting an expenditure limitation, Manchester joined several other New Hampshire towns and cities whose citizens sought to bring more fiscal accountability to local government.

Despite a clear mandate from Manchester voters, a few city officials (and those narrow interests that rely on government spending) could not accept any restriction on their ability to spend taxpayers' hard-earned dollars. Opponents of the Manchester measure successfully challenged the limitation in court. The state Supreme Court ruled in *City of Manchester v. Secretary of State* that the limitation was inconsistent with laws implementing the home rule amendment to the New Hampshire Constitution.

Although our members disagree with the Court's conclusion, we certainly accept that it is the law of New Hampshire. Now, however, it is necessary for the General Court to clarify the law's true spirit by amending it so that towns, cities, and taxpayers who wish to enact or continue to have reasonable limitations on spending at the local level can do so with certainty.

### III. Why New Hampshire Townspeople Deserve Expenditure Limitations

Citizens of New Hampshire's towns need the ability to limit expenditures. This is because small government tends to keep tax rates low, which allows economies to flourish and the quality of life to improve. Smaller government also tends to be less burdensome financially. For years, New Hampshire has attracted countless numbers of visitors, residents, and businesses – including my family – in large part because it is a small government, low-tax state.

Also, states and cities with smaller, more manageable governments tend to perform better than those with large, bloated bureaucracies and can weather economic downturns like this one better than others. Half of the net new jobs created last year were in Texas, a state that prides itself on low taxes and small government.<sup>i</sup> Consider also the experiences places like Illinois and Harrisburg, Pennsylvania, two places that on the verge of fiscal collapse, to Utah and Nashua, two places that have weathered the recession reasonably well.

Unfortunately, the pressures to continually increase government expenditures are heavy. Special interests constantly lobby elected officials for more money to be spent on their pet causes. To illustrate this point, ask yourselves, "Who hasn't visited the State House since Governor Lynch released his budget last week?" Further, special interests demand more money from taxpayers as the costs that these very same taxpayers must bear, such as on state employee health care, rise without abatement. But there is a problem: with the exception of Washington, DC, governments cannot print their own money. Moreover, they cannot run deficits except under very specific circumstances. So local governments, to increase spending, must "pay as they go." They do so by boosting taxes on hard-working New Hampshire families. But those who reside in the Granite State do not have bottomless pockets. Their ability to carry these burdens is not infinite.

This is why SB 2 is so essential to preserving the prosperity and financial freedom of New Hampshire residents. Laws that set boundaries on government's share of the citizens' earnings help to promote stability and accountability.

Tax and expenditure limitations are neither foreign in concept nor problematic in practice. At least 30 states have some form of this fiscal discipline, and several local governments across the United States operate under their own locally imposed tax and expenditure limits.<sup>ii</sup> They are also not new to New Hampshire, as Nashua, Franklin, Derry,

Dover, Laconia, and Rochester – several of the state’s largest cities and towns – all have some forms of tax and expenditure limitations on their books, some for more than a decade.

These taxpayer protection laws do not choke off all expenditures, nor do they eliminate entire government programs. Instead, they encourage fiscal prudence in government and prioritize spending decisions ... the very same prudence one should exercise in running a business or raising a family on a budget. By prioritizing spending, cities and towns are forced to make decisions about what they can afford to do rather than doing more than what is in their means.

Scholarly research over the last several years also suggests that taxation and expenditure limitations are effective tools for controlling spending. While not all such measures have functioned perfectly, most of them have helped to keep public expenditures at affordable levels, in turn smoothing out revenue demands as well as budget deficits.<sup>iii</sup> Michael New, an economist at the University of Alabama, has also found that tax and expenditure limitations at the state level have saved taxpayers millions of dollars through generating rebates and preventing tax hikes. Such reforms hold similar promise to save money for taxpayers in New Hampshire.

While I could expound upon the theory and merits behind taxation and expenditure limits all day, I think it is better if instead I tell you about the practical experience of such limits using a prominent local example. Consider the experience of Nashua with a taxation and expenditure limit. According to the *Nashua Telegraph*, the city has operated under a taxation and expenditure limit for more than 17 years. Over the better part of two decades functioning under a tax and expenditure limit, Nashua achieved a AAA bond rating, funded the construction of the Broad Street Parkway, and built a \$150 million high school.<sup>iv</sup> Nashua is also New Hampshire’s third largest city and, last year, was listed as one of the Best Places to Live by *Money* magazine.<sup>v</sup> For Fiscal Year 2011, Nashua increased spending by 2.1 percent – and by an average of 2.3 percent over the last three years – and kept tax increases to a minimum, all within the strictures of the limitation.<sup>vi</sup> Nashua’s experience shows that provisions like those proposed in SB 2 are both workable and beneficial for New Hampshire.

#### IV. Conclusion

NTU strongly supports efforts to limit government spending, and in so doing prevent burdensome increases in taxes. SB 2 provides such an option for New Hampshire’s towns and other local government authorities. I appreciate the opportunity to present these views and I am happy to answer any questions. Thank you.

---

<sup>i</sup> Lowry, Rich, “The Texas Model,” *National Review*, October 15, 2010, <http://www.nationalreview.com/articles/249868/texas-model-rich-lowry>.

<sup>ii</sup> “What are tax and expenditure limits?” *The Tax Policy Briefing Book*, Tax Policy Center, <http://www.taxpolicycenter.org/briefing-book/state-local/fiscal/limits.cfm>.

<sup>iii</sup> Kirchgassner, Gebhard, “The Effects of Fiscal Institutions on Public Finance: A Survey of

---

the Empirical Evidence,” Center for Economic Studies & Ifo Institute for Economic Research, CESifo Working Paper Series No. 617, December 2001,

<http://papers.ssrn.com/abstract=292219>.

<sup>iv</sup> “Effects of Ruling on Cap Unclear,” *The Nashua Telegraph*, November 12, 2010

<http://www.nashuatelegraph.com/news/899304-196/effects-of-ruling-on-cap-unclear.html>.

<sup>v</sup> Meighan, Patrick, “Nashua Cracks Money’s Top 100,” *The Nashua Telegraph*, July 13,

2010, <http://www.nashuatelegraph.com/news/794640-196/nashua-cracks-moneys-top-100.html>.

<sup>vi</sup> City of Nashua FY 2011 Budget.