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Lynch urges \$50 million in cuts: Crisis in real estate market drives deficit

By Lauren R. Dorgan

Facing revenue shortfalls and a weakening national economy, Gov. John Lynch is asking the heads of state agencies to plan for midyear budget cuts of as much as \$50 million.

"The news is sobering. We are beginning to see the impact of the national economic downturn here in New Hampshire," Lynch told the House Finance Committee yesterday. "We can minimize that impact, if we continue to be fiscally responsible."

When legislators crafted a two-year budget last year, economists didn't foresee "the severity of the situation that the nation is currently facing," Lynch said. Revenues for the first half of the fiscal year were close to budget expectations, but the latest news on revenue projections is serious, Lynch said.

In total, agency heads are now projecting a \$49 million budget shortfall for the fiscal year ending June 30, said Rep. Susan Almy, who chairs the House Ways and Means Committee. The biggest piece of that is from the real estate transfer tax, which is now expected to miss budget expectations by \$15 million. The interest and dividends tax is expected to fall about \$10 million short, and the tobacco tax is expected to miss its mark by \$8 million.

"Back when we did these revenue estimates, there was a very small group of people that were predicting a recession," said Almy, a Lebanon Democrat, who cautioned that the projections aren't final. "But that group has been growing since August."

Some of the projections may be directly tied to two factors driving the national economy's slump.

The housing market crisis appears to be the culprit behind lagging transfer tax revenues, Almy said. Mean-

while, slipping lottery ticket sales - those are now projected to bring in \$6 million less than originally expected - "are very closely linked to gas prices," Almy said, because people may not want to buy a ticket after they've paid for a full tank at \$3 a gallon.

While Lynch said he was still meeting with agency heads to discuss the situation, he estimated that the total would need to be "in the range of \$50 million." Lynch said he will report back to the House Finance Committee in weeks to come with a complete proposal for spending cuts and other adjustments. He said he does not favor the idea of new taxes or revenue streams to fill the hole.

Yesterday, plans for what would be cut were scant. Lynch said he hadn't issued any directives to agency heads, and some agency heads had not yet met with the governor to talk about what's next.

Across the nation, the slowing economy is taking a toll on states, prompting legislatures and governors to propose spending freezes, toll increases and other emergency measures. According to yesterday's Wall Street Journal, Kentucky's governor has called for 3 percent cuts in spending nearly across the board, while California's governor has proposed closing the state's parks and cutting \$4 billion from the education budget.

New Hampshire is one of only a few states that saw a decline in its first-quarter revenues from the summer of 2007, according to a new report from the Rockefeller Institute of Government at the State University of New York.

"The cost of government services continually goes up," said Robert Ward, the Rockefeller Institute's deputy director. "So even a low rate of increase in revenues can be a problem for a state. When revenues actually go down, it's that much worse."

Yesterday, Lynch also set out thrifty parameters for the legislative session.

"Barring an emergency, I will not support any bills this session that require additional general funding spending," he said. "I also will not support bills that create positions or programs to be funded in the next budget. Those proposals should be considered in the context of the next biennial budget and weighed against other priorities."

Some Republicans faulted Lynch and Democratic budget-writers, saying that they had been warned last spring that their projections were too rosy.

"You build a budget around revenues, you don't build revenues around a budget, which is how this budget was crafted," House Minority Leader Mike Whalley said in a statement. "The 'Perfect Storm' predicted last spring by Rep. Norm Major is becoming a reality that the Democrats continue to ignore."

Lynch said he hoped that acting now would take pressure off the state in 2009.

Economists have no reason to believe 2009 will be any easier on the budget.

"It seems likely that these fiscal problems are not going away in the next few months," Ward said.