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Dear Chairman Smith and Members of the Fiscal Committee:

We are in the midst of an unprecedented global economic crisis. When we crafted the state budget 18 months ago, no one could have predicted the depths to which our nation's economy would sink. And while New Hampshire is better positioned than most states, we are not immune to the global economic conditions. The challenge before us is very real and very significant.

Fortunately, because of our work together in the past three years, we are better prepared than most states to address this challenge. Our unemployment rate remains among the lowest in the nation. We built our Rainy Day Fund from \$17 million to a record \$89 million.

As of now, we project a \$250 million revenue shortfall for fiscal year 2009, which ends June 30. The actions we took together last spring, however, reduced that amount by \$100 million, leaving us with a \$150 million revenue shortfall.

Like you, I am committed to meeting our responsibility to balance the budget. Today I am presenting the next steps in our efforts to address this shortfall and to ensure we end this biennium with a balanced budget.

Executive Order 2008-10 includes specific budget reductions from state agencies in the amount of \$53.6 million. Instead of a reduction in appropriation, the University System and Community College System have agreed to pay \$4,516,101 and \$1,672,864, respectively, to the general fund prior to June 30, 2009.

In making these cuts, we sought to minimize the impact on services for our most vulnerable citizens and on public safety. Unlike most states, we have kept significant portions of our budget off the table – including adequate education grants to communities. We are not proposing any layoffs at this time.

Executive order Executive Order 2008-11 implements additional steps to reduce spending across state government. Though this executive order, I am directing state agencies to:

- Limit overtime wherever possible.
- Ensure that all state vehicles are parked overnight at state offices, unless absolutely necessary for a state employee to carry out his or her job responsibilities.
- Limit mileage reimbursement by requiring employees to car pool and use pooled state vehicles wherever possible.

- Print all publications exclusively online wherever possible.
- Retain only essential consulting services and to terminate existing consulting contracts where feasible.
- Cancel subscriptions for books, newspapers and periodicals wherever possible.
- Undertake a reduction in their telephone landlines where possible and to reduce mobile cell phone use and encourage the pooling of cell phones.

In addition, we will not authorize any tuition reimbursements without a waiver for the remainder of the fiscal year.

We estimate that Executive Order 2008-11 will result in general fund savings of \$3 to \$5 million in fiscal year 2009.

I am recommending the following additional steps, which will require legislation, to help reduce spending by approximately \$20 million in fiscal year 2009:

- Legislative Branch – A reduction in the fiscal year 2009 appropriation and reserves in the amount of at least \$700,000. I have discussed this reduction with the Speaker and Senate President.
- Judicial Branch – A reduction in fiscal year 2009 appropriation of approximately \$441,000. This is a reduction to which the judicial branch has agreed.
- Retirement System -- recovery of expected lapse of \$1.5 million.
- Repayment of general funds from the highway fund -- \$5 million.
- Sweeping of dedicated funds – approximately \$10 million.
- Deferring pay increases for unclassified and non-classified employees -- approximately \$500,000. We will continue discussions with representatives of employee unions about deferring pay increases across state government, although any changes would need to be agreed to as part of the Collective Bargaining Agreement.

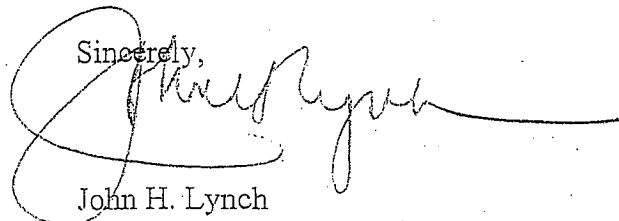
With these executive orders and the proposed legislation, our revenue shortfall target will be reduced from the original \$250 million to about \$75 million. We have made significant progress, but we must still work together to address the remaining challenge.

While we do have \$89 million in the Rainy Day Fund, I believe those funds should be used only as a last resort.

I am committed to ensuring that we end the biennium with a balanced budget. I know you share in this commitment.

Thank you for your dedication and hard work on behalf of the people of New Hampshire.

Sincerely,



John H. Lynch
Governor