



COMMONWEALTH OF VIRGINIA
HOUSE OF DELEGATES
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October 9, 2008

MEMORANDUM

TO: Members, House of Delegates

FROM: Robert P. Vaughn, Staff Director *RPV*

SUBJECT: Governor Kaine's Revenue Re-forecast and Budget Reduction Plan

I am transmitting a copy of the Governor's budget reduction strategies for Fiscal Year 2009, along with his revenue revisions for the 2008-2010 biennium.

Revised General Fund Revenue Estimates

With regard to the general fund revenue revisions, the Governor is recommending a downward adjustment of \$973.6 million in fiscal year 2009 and \$1,540.1 billion in fiscal year 2010. These revenue numbers translate into growth rates of negative 4 percent in FY 2009 and positive 3.6 percent in FY 2010. It is important to note that despite the assumed revenue growth of 3.6 percent in FY 2010 over FY 2009, the actual amount of revenue assumed to be collected will still be less than the actual revenue collected in FY 2008.

The revenue revisions reflect the recommendation of both the Governor's Advisory Board of Economists (GABE) and the Governor's Advisory Council on Revenue Estimates (GACRE). Specifically, the economic outlook is based in the combination of the Global Insight Standard Forecast and the Low Growth Alternative Forecast, adjusted for first-quarter FY 2009 actual revenue collections.

I should point out that the Governor will reconvene both groups again in November to reassess the forecast based on economic updates by Global Insight. This will form the basis of the December revenue forecast that will be included in his budget submission.

Given the amount of "noise" in the economy, it is important to continue to watch the monthly revenue report with particular focus on payroll withholding, which accounts for 60 percent of total general fund revenues. Payroll withholding correlates to both jobs and wage and salary growth. Finally, given the volatility of the stock market, which correlates to nonwithholding taxes, it will be important to look at the December/January estimated payments, which hopefully will provide better insight into what the May 2009 final payments will be.

Governor's Budget Reduction Strategies

The strategies contained in the attached document are designed to specifically address the current fiscal year revenue shortfall of approximately \$975.0 million. For the most part, the document does not address the FY 2010 shortfall of \$1.5 billion; rather these strategies will be reflected in his budget amendments presented to the General Assembly in his amendments to the 2008-10 biennial budget.

Page two of the document provides an overview of the reduction strategies, which total \$1,124.7 billion or approximately \$151.1 million more than the anticipated FY 2009 shortfall. This difference will be applied to the FY 2010 shortfall.

The majority of actions (\$831.5 million) proposed by the Governor are one-time in nature. Specifically, he is proposing a withdrawal of \$400.0 million from the Revenue Stabilization Fund, savings of \$250.0 million by bonding existing general fund cash capital projects, and savings of \$181.5 million in various balances.

The proposed withdrawal from the Revenue Stabilization Fund is less than the amount otherwise permitted by law. Based on the calculation, a maximum of \$475.0 million would be available to the General Assembly to meet the FY 2009 shortfall. Also, the document does not reflect the potential use of the Fund to address the revenue shortfall in FY 2010.

With regard to agency specific reductions, the Governor is recommending on average a 5.5 percent reduction to state agencies, totaling \$201.9 million. This includes the elimination of 1,405 positions, including 567 layoffs. Of course, employees that are laid off will be given a severance package as provided for through the Workforce Transition Act, which was adopted by the General Assembly in 1995 to manage workforce reductions. The remaining 838 positions are vacant and will not be filled. I would note that the cost of the severance package is reflected in the \$201.9 million savings target. Keep in mind that these savings will continue into FY 2010, however, they are not reflected in the document.

Also included in the Governors strategies is the supplanting of approximately \$18.2 million in general fund spending with nongeneral revenues.

Finally, the Governor is withholding the 2 percent pay raise for state employees and college faculty, scheduled for November 25th and for state-supported local employees scheduled for December 1st. These actions result in a savings of \$44.7 million in FY 2009. Not reflected in this document are the ongoing savings that will accrue in FY 2010 from this action. These savings amount to approximately \$77.0 million. The Governor has indicated that he hopes to propose to the General Assembly a larger second year pay raise for these employee groups. You may recall that the adopted budget provided for a 2 percent pay raise in FY 2010 for these employee groups.

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In closing, the Chairman has scheduled Secretary Brown to present the revised revenue forecast and the Governor's budget reduction strategies at the October 20, 2008 Appropriations Committee meeting. Also, the Appropriations Committee Staff is scheduling more in-depth meetings with the staff of the Department of Planning and Budget (DPB) on these proposals. Staff is also analyzing the agency specific budget reduction proposals submitted to the Governor. If you have any questions, please do not hesitate to call.

cc: The Honorable Lacey E. Putney, Chairman
The Honorable William J. Howell, Speaker of the House

Attachment