COMMONWEALTH OF VIRGINIA
Office of the Governor

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Governor

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GOVERNOR KAINE ANNOUNCES REVENUE REFORECAST

~ Revenue projected to decline for unprecedented second straight year ~

RICHMOND – Governor Timothy M. Kaine today released the state's official revenue forecast in a speech to the Joint Money Committees. Below are his prepared remarks:

"Chairman Putney, Chairman Colgan, Chairman Purkey, and Members of the Committees: Good morning.

I stood before you in August 2007 and told you that Virginia's housing market was in decline and that we needed to take steps to reduce spending and likely access the state's reserve fund in order to manage through a slowing national economy. Many people didn't agree with my warning about our economic situation then. Two years later, we all know that we have been through a uniquely challenging time. And I'm sure that the depth of the national recession was something that none of us—even the most pessimistic—would have predicted.

My main message to you today is that, while the national economy continues to create difficulties, Virginia has managed through this extraordinary time with skill and creativity. We have made the tough decisions that the times require and been recognized for doing so. We have more tough decisions to make. But, we are well positioned to maintain our leadership stature among states as the economy improves. And, while it is early, there are positive signs for the longer term that should make us feel a sense of optimism.

In my comments today, I will focus on the national economic climate, the relevant budget figures in Virginia and the steps we have taken to manage through this challenging time. I will then talk about additional steps we need to take to make sure that the FY 2010 budget stays in balance through June 30 of next year. Finally, I will offer some thoughts about our future prospects as we approach the task of preparing the 2010-12 biennial budget.

The National Economy

The national economy officially went into recession in December 2007. The pace of the economic decline accelerated in 2008 and that contraction has been deeper and longer than any slowdown since the Great Depression. August marks the 21st month of the national recession; this is five months longer than any recession since the 1930's. Major investment banks have failed or been taken over; non-functioning credit markets have required the historic intervention of the federal government to restore some stability; and two of the world's oldest and largest U.S.-based manufacturing enterprises have filed for bankruptcy.

The culmination of these and other events have dramatically impacted the economy. Housing prices nationwide are a third less than they were at their peak. Substantial amounts of net worth—an estimated $13 trillion—were lost due to the sudden and remarkable decline in the stock market, real estate prices, and job losses.

The American public has responded to the grim economy in part by clamping down on spending. As a result, the demand for goods and services dropped sharply, leading to businesses shedding jobs at a rate that peaked at more than 700,000 a month earlier this year. The national unemployment rate is now at 9.7%, double what it was 4 years ago.

The cumulative impact of all these developments on the national economy is perhaps best summarized by the Gross Domestic Product, or GDP. National GDP has now been declining for 12 consecutive months, amounting to the longest uninterrupted decline since 1947 when recordkeeping on GDP was first established. And, the slowdown in economic activity has affected federal tax receipts. Tax receipts at the federal level are on pace to drop 18 percent this year. The last time the government's revenues were this bleak, the year was 1932 in the midst of the Depression. While we are starting to see some positive economic signs, and I will discuss those near the end of my comments today, most of the relevant data show that we have been living through the toughest national economy in the last 70 years.

Virginia Economy

The Virginia economy has followed national trends. Our unemployment rate has grown from 4% to 6.9% in just one year. Our unemployment rate is still one of the lowest in the nation, especially for a large state, but that is cold comfort to the families and communities all across Virginia who have had to wrestle with the pain of unemployment in this difficult job market.

Home sales and average sale prices in Virginia have declined in the same manner as the larger U.S. housing market. Consumer activity has slowed. And, while Virginia continues to land economic deals and win accolades for our strong business climate, there has been a significant reduction in the willingness of businesses to expand amidst this climate of economic uncertainty.

These downward pressures impacted fiscal year 2009 general fund revenue collections. As a result, we ended the fiscal year $298.8 million below the official revenue forecast. This translates into an annual growth rate of negative 9.2% for the year. Virginia has only had negative revenue growth in two other fiscal years—1991 and 2002—but the 9% decline in 2009 was nearly triple the drop experienced in either of those years. Acting together, we already have implemented strategies to address reduced revenues of $5.6 billion in the FY 2008-10 biennial budget. These reductions left the final FY 2009 revenues at a level less than what Virginia collected in fiscal year 2006.

How Virginia Has Managed the National Recession

I think it is important here to spend a few minutes talking about how we have managed through this uniquely difficult time. It is important for our citizens to know that, even in a tough time, especially in a tough time, Virginia continues to lead the nation in fiscal stewardship, management, business climate, educational outcomes and innovation. As other states and the federal government have wrestled with these same issues, we have taken the needed steps to keep Virginia at the front of the pack.

First, let me tell you some things that other states have done that Virginia has not done in this hard time:

We have not increased the tax burden on our citizens and businesses; most states have increased taxes during the recession, but Virginia has not.

We have not delayed paying vendors or given them IOU's to redeem sometime down the road.

We have not delayed paychecks to state workers.

We have not sold off state buildings for upfront cash, just to lease them back at a higher yearly cost.

We have not slowed down tax refunds; in fact, tax refunds increased 17 percent this year, money that we put more quickly in the hands of our citizens and businesses who need it.

We have not imprudently relied on debt that would create future budget problems; our state debt as a percentage of personal income is significantly less than the national average for all states.

Now, and more importantly, let me tell you what Virginia has done:

We have made precise decisions to reduce spending and used real-time data about priorities and performance to do so. The Virginia Performs system that we created has been cited by technology organizations, the Pew Center on States and Governing Magazine as the right way to tackle budget decisions. Our focus on performance is one of the key reasons why Virginia continues to be recognized as the best managed state in America.

We have kept the Virginia business climate strong. As you all know, Virginia has been named the most business friendly state in America seven times during my tenure as Governor. That's why we have seen so many globally innovative companies like IKEA, Volkswagen of America, SRI, AREVA/Northrop Grumman, Canon, MeadWestvaco, Orbital, Hilton, CSC, EDS, CGI, and Rolls Royce choose Virginia for major investments in the last 3 years.

We have continued to focus on the education of our students and workforce. Our educational institutions and outcomes are strong, we are expanding the capacity of our colleges and we have reorganized our workforce programs under the community college system to make sure that workers and employers have a streamlined way to access new skills needed in today's economy. Keeping education and workforce training at the forefront of what we do is critical as we move ahead.

We have innovated, finding new resources and strategies to improve community mental health services, reform our foster care system, expand access to pre-kindergarten education, reduce an unacceptable infant mortality rate and make gains in many other areas. A leading state can never use a soft economy as an excuse to stop improving.

And, we have maintained our stellar reputation for fiscal management. Virginia has maintained its AAA bond rating by each major ratings agency, one of only 7 states that can make this claim. Virginia went into the market to issue bonds in June and let me share with you comments made by financial analysts in connection with that bond issuance:

- Virginia's rating "reflects what we view as the commonwealth's strong and broad-based economy that in the past decade has grown at a faster pace than the national average; strong financial position demonstrated by good reserves; long history of proactive and conservative financial management; and manageable debt burden." (Standard and Poors)

- "The commonwealth's AAA rating reflects its substantial economic resources, conservative approach to financial operations, which include periodic revenue forecast updates, and careful attention to the level of its debt obligations." (Fitch)

- "Although Virginia's economy and budget have suffered amid the housing downturn and the national recession, it has taken wide-ranging action to maintain a sound financial position. Moody's expects the commonwealth . . .

will continue to manage its finances conservatively and approach revenue shortfalls proactively in order to maintain positive financial results and structural balance." (Moody's)

Actions Necessary to Maintain Balance In FY 2010

We should all be proud of the work we have done together to keep Virginia in a strong fiscal position. But, while we have made many tough decisions together, we are not done. The dramatically slowing revenues at the end of FY 2009 convinced me that we should carefully analyze our 2010 projections and take immediate steps at the beginning of this fiscal year so that we maintain a balanced budget throughout the year. Over the past month, both the Governor's Advisory Board of Economists and the Governor's Advisory Council on Revenue Estimates have met at my request to analyze all available data and make a refined estimate of 2010 revenues.

These recent meetings have been instructive and sobering. On the one hand, the decline of FY 2009 revenues by over 9%, heavily influenced by sharp revenue declines in the last few months of the year, understandably call for significant caution in the near term. On the other hand, there are a number of signs that the recession may be coming to an end. Employment losses have dramatically slowed, the stock market has gained a significant portion of its recent losses back, the housing market and some areas of consumer spending are stronger. Thankfully, the combined effects of federal action—tax cuts (nearly $4 billion to Virginians), infrastructure spending, the successful re-start of automobile purchases, incentives for first-time homebuyers and better financial market regulation—are beginning to be seen in improved economic conditions.

In discussing these contrary bits of evidence, I am in agreement with GABE and GACRE that caution should win out in FY 2010. We will reconvene these groups in October and November to review the interim revenue forecast for the 2010-12 biennium. Any positive news about the economy can be reasonably factored into our discussion of the biennial budget at that time. But for now, we should continue to make tough decisions about expenses and revenues, in the hopes that our work in this regard will set the stage for a stronger recovery. By making tough choices now, the additional dollars that Virginia will see in a recovery can be directed to their highest and best use at the moment—instead of just being spent to do the same old things in the same old ways.

Accordingly, the revenue forecast that I deliver to you today will adjust the budget estimates downward along the lines of the revised revenue forecast reviewed by both advisory boards. For fiscal year 2010, total general fund revenues are projected to decline by 1.6 percent. Combined with the 9.2 percent decline in fiscal year 2009, this will mark the first time on record that general fund revenues are projected to decline for two consecutive years.

The revised fiscal year 2010 forecast will bring our projected revenues down by nearly $1.2 billion. When taken together with the nearly $300 million shortfall in 2009, this reforecast will necessitate action to close a revenue gap of approximately $1.5 billion for the remainder of the fiscal year. We will close this gap, just as we have in past rounds, by relying on expense reductions, reprogramming of unexpended balances, targeted withdrawal of reserve funds, focused use of federal Recovery Act funds and other reasonable strategies. We will make these decisions carefully, but they will be painful to those who rely on public services in this most challenging time.

I directed executive agencies in July to prepare budget reduction plans at the 5, 10 and 15 percent levels so that we can make decisions promptly. I began review of these plans last month and will be prepared to announce and implement decisions in early September. We will follow the same principles as in early rounds of budget reductions—transparency, focus on performance and priorities, and making decisions that position us for long-term success. Many of the changes will be those I am authorized to make under the relevant sections of the budget. But, there may be additional actions where I will need to propose language in the caboose budget for your approval. I have no doubt that we can continue to work together to move Virginia forward.

Conclusion

Each of us is engaged in public service for many reasons, but all of us have been chosen to serve in the midst of the most difficult economy since the Great Depression. We wish it were otherwise, but I have often shared with my Cabinet and agency heads the basic tenet that we make people happy when times are good and earn our pay when times are tough. It is always an honor to serve, but it is particularly important to serve in the tough times when there are no easy choices. That is the position we find ourselves in and giving it our best in these circumstances is what we owe to Virginians everywhere.

Like you, I am struck by the resilience and can-do spirit of the Virginia citizenry. They know times are hard, but in communities across this Commonwealth, people band together to help each other and stay positive. I saw that spirit on display recently in Wise County at the annual Mission of Mercy that brings hundreds of medical and dental volunteers together to serve thousands of people who lack basic health care. After many years of attending this weekend-long event, I am still stunned to see the unmet needs of citizens in the greatest nation on earth. But, I return every year energized by the volunteers and inspired by the optimism of those seeking help. Even in a tough time, our citizens have confidence in themselves and in their Commonwealth and I know we will not let them down.

Just last month, when CNBC named Virginia its "Top State for Business" for 2009, they paid us a simple but powerful compliment: "Virginia has what it takes to emerge from an economy turned upside down." We have gone through global economic turmoil but we can see better days ahead. And, I have complete confidence in saying that, when those days arrive, Virginia will continue leading the way."

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