



COMMONWEALTH OF VIRGINIA  
HOUSE OF DELEGATES  
RICHMOND

APPROPRIATIONS COMMITTEE  
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VINCENT F. CALLAHAN, JR., CHAIRMAN

October 9, 2007

The Honorable Timothy M. Kaine  
Governor of Virginia  
Patrick Henry Building, 3<sup>rd</sup> Floor  
1111 East Broad Street  
Richmond, Virginia 23219

Dear Governor Kaine:

On October 1, 2007, you released your plan to generate immediate savings of \$300.3 million in order to address the \$641 million in anticipated revenue shortfall for FY 2008. I apologize for not being able to participate in the telephone conference call earlier that morning; however, I have received your approved agency plans. Likewise, the Appropriations Committee staff is in receipt of the agency specific proposals as submitted to their respective Cabinet Secretaries. The Committee will begin to review them and may wish to arrange for meetings with the appropriate subcommittees.

It is my understanding that following the release of the plans, the Appropriations and Senate Finance Committee staffs were briefed by Ric Brown and Dan Timberlake. During that meeting, the money committee staffs specifically inquired about the several hundred million dollars in Fiscal Year 2007 cash balances, which you alluded to in your October 1<sup>st</sup> press release, but did not specify the dollar amount. However, I now learn that in addition to the \$300.3 million in immediate savings there is approximately another \$170 million in unspent agency balances from Fiscal Year 2007.

Specifically, I understand that approximately \$105 million will revert back to the general fund, representing agency unspent dollars, the largest component of which is approximately \$64 million in Medicaid savings due to lower than projected expenditures in FY 2007. I also understand that lower expenditures are expected in Fiscal Year 2008, producing an additional amount of savings.

The remaining \$66.3 million in unspent balances were generated by state agencies at the request of your former Chief of Staff, Bill Leighty. In that Memorandum (dated May 21, 2007) Mr. Leighty notified agencies that they should begin taking steps to generate FY 2007 savings that could then be applied towards any FY 2008 budget reductions. It is my understanding that the \$66.3 million in balances, with a handful of exceptions, are not reflected as a savings strategy in the agency plans you approved and publicly announced last week.

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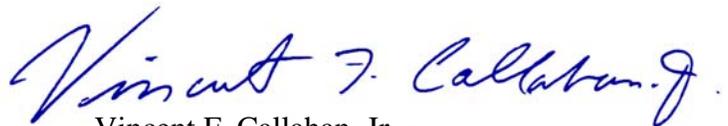
In the document, **Governor's FY 2008 Reduction Plan Detailed Report** it is stated "...the savings strategies will begin immediately", suggesting that \$300.3 million will be achieved in this current fiscal year. If that is in fact the case, then the total agency savings would stand at \$366.6 million. If, however, the agencies are allowed to use these unspent FY 2007 balances as an offset to their approved savings target, then the reduction plans would actually total \$234 million as opposed to \$300.3 million. If that is the case, then the strategies you approved would not be implemented in their entirety, as was stated. This would represent a foregone opportunity to balance the budget without having to look to the Rainy Day Fund.

Clearly these unspent balances, coupled with the agency savings plans, produce approximately \$470 million in identified savings against the anticipated \$641 million revenue shortfall; leaving a remaining gap of approximately \$171 million to eliminate. That is a substantial difference from the \$341 million in "remaining shortfall" that has been reported by the media.

As I stated in the beginning, your October 1<sup>st</sup> press release alluded to unspent balances as a strategy to closing the shortfall. I believe it is imperative that your administration disclose these balances, as opposed to shrouding them anonymously in order to generate fear within the public and with state employees and creating the false impression that raiding the Rainy Day Fund is the only remaining means by which to balance the state budget.

I continue to pledge to work with your Administration in balancing the budget. I will share with the Members of the Appropriations Committee the agency proposals that were submitted to the Cabinet Secretaries. It is my hope that other strategies, which you chose not to adopt, can be properly vetted by us over the next several months in order to address the remaining \$170 million shortfall once the General Assembly convenes its 2008 Session in January.

Sincerely,

A handwritten signature in blue ink that reads "Vincent F. Callahan, Jr." The signature is written in a cursive, flowing style.

Vincent F. Callahan, Jr.

The Honorable William J. Howell  
Members, Appropriations Committee