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VINCENT F. CALLAHAN, JR., CHAIRMAN

October 8, 2007

MEMORANDUM

TO: Member, House Appropriations Committee

FROM: Robert P. Vaughn, Staff Director RPV

SUBJECT: Governor's Budget Reduction Strategies to Meet Revenue Shortfall

In order to address the $641 million revenue shortfall for fiscal year 2008, on Monday, October 1, 2007, Governor Kaine submitted to the money committee chairmen the approved agency budget reduction plans, along with the agency specific proposals submitted to their respective Cabinet Secretaries.

As was announced by the Governor, the approved plans identify approximately $300.3 million in savings strategies. Exempted from reduction was funding for public education, Medicaid, mental health and mental retardation programs (and other safety net programs), direct services for inmates, funding for Sheriffs, debt service, and rent payments.

Attached is a brief write-up summarizing the major savings strategies by secretarial area. It is my understanding that these savings strategies will begin immediately. According to the Department of Planning and Budget, approximately 83 percent of the adopted strategies are on-going in nature and will be reflected in each agency's base-budget for the 2008-2010 biennial budget.

Following the release of the Governor's savings strategies, the Appropriations and Senate Finance Committee staffs met with Ric Brown, Director of the Department of Planning and Budget and Dan Timberlake, Deputy Secretary for Finance. During that meeting we discussed strategies to address the shortfall, including the plans approved by the Governor.

During our discussions, we specifically inquired about the several hundred million dollars in Fiscal Year 2007 cash balances that had not been a component of the Governor's announcement that afternoon. What we learned was that in addition to the $300.3 million in savings there is approximately another $170 million in unspent agency balances from Fiscal Year 2007.

Of those balances, approximately $105 million will revert back to the general fund, the largest component of which is approximately $64 million in Medicaid savings due to lower than projected expenditures in FY 2007. It is anticipated that lower than anticipated expenditures will also occur in Fiscal Year 2008, producing a yet to be determined amount of savings. The remaining $35 to $40 million in balance reversions will come from across government, representing unspent dollars. Please note this $100 million in reverted balances will be in addition to the $300.3 million in savings identified by the Governor on October 1.

Together, the FY 2007 balance reversions, along with the adopted savings strategies will address just over $400 million of the $641 million shortfall.

The remaining $66.3 million in unspent balances were generated by agencies at the request of former Chief of Staff Bill Leighty last spring. You may recall Mr. Leighty notified agencies in May that they could 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 has been or will be re-appropriated to the agencies. However, these balances for the most part are not reflected in the agency plans approved by the Governor in order to offset or meet their specific reduction target.

Because agencies are implementing their specific reduction strategies, thus generating immediate savings, it is unclear as to whether or not the $66.3 million is in addition to the $300.3 million in agency reductions. Depending on how this additional $66.3 million is recognized, total savings could be as much as $470 million, against the $641 million shortfall, leaving a remaining gap of approximately $171 million to eliminate.

With regard to the agency reduction plans approved by the Governor, the largest component of saving strategies was within the colleges and universities, representing approximately $81.9 million or 27.3 percent of the total reductions approved by the Governor. When compared to the institution's operating budgets, the reductions represent less than 2.5 percent of their total budget.

As mentioned earlier, the Governor exempted nearly all of the local aid from any reductions. In total, 50 percent ($8.5 billion annually) of the state general fund budget goes back to local governments, with public education representing two-thirds of the total aid. Approved reductions in local aid total $19.3 million, the bulk of which will come from the "599" program, which is essentially being level funded in fiscal year 2008.

Finally, with regards to personnel reductions, the plans approved by the Governor save approximately $38.5 million. This is achieved in three ways: by eliminating nearly 312 vacant positions; by reducing or eliminating funding for part-time positions; and, through abolishment of 74 filled positions. Individuals impacted through lay-off are provided a severance package under the Workforce Transition Act (WTA). Under the WTA, employees will receive 2 weeks for each year of state service up, to a maximum of 36 weeks of salary. In addition, individuals will also receive one year of health insurance and one year of life insurance. Individuals over the age of 50 may utilize their WTA payment and purchase additional retirement credit through the Virginia Retirement System (VRS). According to the approved plans, it is unknown how many of the employees that will be laid-off are eligible to retire. The Department of Planning and Budget is asking agencies to provide this information.

In preparing the October meeting agenda, Chairman Callahan has invited Ric Brown to provide an overview of the approved reduction plans.

Cc: The Honorable Vincent F. Callahan, Jr.
The Honorable William J. Howell

Attachment