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VINCENT F. CALLAHAN, JR., CHAIRMAN

Opening Remarks of Vincent F. Callahan, Jr. Regarding the Governor's Actions to Balance the Budget

House Appropriations Committee Meeting
October 15, 2007

Before we begin this morning, I would like to make a couple of comments regarding the October 1st actions of Governor Kaine to generate immediate savings of \$300.3 million in order to address the \$641 million in anticipated revenue shortfall for fiscal year 2008. As required by law, the Governor's approved reduction plan was submitted to me, along with the agency specific proposals that were submitted to the Cabinet Secretaries.

By weeks end, I received a draft memo for my review from the staff which summarized the Governor's actions, and noted that in addition to the savings strategies, there were \$170 million in fiscal year 2007 unspent balances. This memo was sent to the entire Committee several days later.

Arguably, the disclosure of the balances occurred in a meeting between the Appropriations and Senate Finance Committee staffs and Ric Brown. No one is accusing Ric of not disclosing the existence of the balances; however, as a legislator and the Chairman of the Committee, I was unaware of these balances until I was informed by the staff.

The nearly 50 page plan that I received and reviewed indicated in the "Introduction and Notes" on page 1, that this plan represented the "first step in this process". It concluded by stating "that unless otherwise noted in the budget action description, the savings strategy will begin immediately."

Nowhere in the document is it mentioned or indicated that in addition to the savings strategies there are \$170 million in fiscal year 2007 unspent balances that will be used to address the shortfall.

Clearly in my mind, the June 30, 2007 unspent balances would have represented the first step in a plan to address the shortfall. The actions of the Governor on October 1st -- 3 months later -- would have represented the second step.

A clear read of the Governor's plan would have the reader conclude that there were only \$300 million in savings strategies against a shortfall of \$641 million. This was further underscored based on statements and media reports, that the Governor would also utilize approximately \$303 million from the Rainy Day Fund to address the remaining shortfall. No article ever mentioned the \$170 million in unspent balances.

Based on this new information, I wrote the Governor on October 9th asking for full disclosure of these balances.

The following day, I was both amused and annoyed in reading a quote from the Governor's Press Secretary Delacey Skinner that stated, "If they had been paying attention . . . rather than being focused on campaigning and hurling political grenades, they would have heard that these balances were part of the governor's plan,"

Perhaps Ms. Skinner is unaware of the fact that I am not seeking re-election and I was indeed paying attention. The fact is I did read the plans and I read a letter from Secretary Wagner, transmitting them to me. Nowhere in her letter does she mention the balances.

I did however go back and read the Governor's October 1 press release and observed that he did allude to the use of unspent balances, but did not specify the dollar amount.

As I understand the balances, approximately \$100 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 that will either be available to address the shortfall or to meet other unbudgeted expenditures.

The remaining \$66.3 million in unspent balances were generated by state agencies at the request of 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.

However, as I read the plan, only four agencies, James Madison University, the Department of General Services, Gunston Hall and the Department of Planning and Budget identified their portion of the \$66.3 million in balances as specific offsets to their reduction targets.

In my letter to the Governor, I specifically noted that 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 \$365 million. If, however, the agencies are now 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 – not the \$300.3 million contained in the plan. If that is the case, then the strategies would not be implemented in their entirety, as was stated. From my perspective, this would represent a foregone opportunity to balance the budget with existing unspent revenues.

As I reflect back on this situation, I think it is fair to say -- stealing from a line in the movie Cool Hand Luke – "what we have here is a failure to communicate."