

COMMONWEALTH OF VIRGINIA
Office of the Governor

Timothy M. Kaine
Governor

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**GOVERNOR KAINE ANNOUNCES
REVENUE REFORECAST,
PLAN TO ADDRESS FISCAL YEAR 2009 SHORTFALL**
~ Shortfall for the biennium just over \$2.5 billion ~
~ Reductions, bonds, Stabilization Fund to meet FY 2009 shortfall ~

RICHMOND – Governor Timothy M. Kaine today announced the official revenue reforecast, and immediately announced an executive spending reduction plan to meet the fiscal year 2009 shortfall. The Governor’s plan reduces government spending by making operations more efficient and reducing the scope of some government programs, while protecting K-12 education and other critical government functions, like public safety. The cuts include reductions in the Governor’s office and residence budgets, previously announced.

“Since October of last year, the continuing uncertainty and downturn in the national economy has required us to adjust the revenue forecast downward twice, and thus far, we’ve reduced the state budget by over \$1.7 billion, not including the reductions we’re making today,” Governor Kaine said. “Just like families and businesses, state government is feeling the effects of the national economic crisis. And just like Virginia families and businesses, we’re going to have to reduce our spending to make ends meet.”

The official revenue reforecast projects a shortfall of \$973.6 million for fiscal year 2009 and \$1.54 billion for fiscal year 2010, or just over \$2.5 billion for the biennium. Governor Kaine will balance the FY 2009 budget through state agency savings and spending reductions of over \$348 million and additional steps, including a withdrawal of about \$400 million from the Revenue Stabilization Fund.

The revised revenue estimate is based on a series of meetings the Governor and his Secretary of Finance held with economists, critical industry leaders, and legislative leaders of both parties.

The new forecast predicts a decline in the general fund budget for fiscal year 2009 of 4.0%, and very slow growth – of 3.6% – as the recovery begins in fiscal year 2010.

In anticipation of this shortfall, on September 2nd, the Governor directed his Cabinet secretaries to work with their respective agencies to develop a range of possible spending reductions. This action enabled the Governor to order immediate reductions in spending upon completion of the revenue reforecasting process.

The Governor's savings actions include

- recovering over \$40 million in balances from fiscal year 2008;
- capturing savings of over \$24 million resulting from Governor's directives to agencies in August to immediately implement a hiring freeze and cuts in discretionary spending; and
- reducing agency spending by over \$323 million, based primarily on the recommendations made by state agencies in their 5, 10, and 15 percent reduction strategies, including the delay of the planned 2% state employee salary increase.

The Governor's reduction strategies include

- \$100 million in improved business practices and efficiencies
- nearly \$32 million in the reduction or elimination of current services
- over \$27 million in reduced personnel costs
- over \$13 million in reduced discretionary expenses

For example, the Department of Forestry will save \$50,000 by sharing the cost of a hydrologist with Virginia Tech; the Science Museum will save \$100,000 by closing for an additional day each week; the Department of Taxation will save over \$1.7 million by reducing technology costs; and the Department of Mental Health, Mental Retardation, and Substance Abuse services will save over \$2 million by consolidating certain targeted administrative services regionally for their mental health treatment centers.

Governor Kaine will propose addressing the remaining portion of the \$973.6 million shortfall through **bonding nearly \$250 million in capital outlay** that had been planned for cash payments and through a withdrawal of **around \$400 million from the Revenue Stabilization Fund**, which currently holds over \$1 billion. These actions must be approved by the General Assembly.

Use of the Revenue Stabilization Fund in fiscal year 2009 enables state leaders to protect certain critical services from 2009 cuts, most prominently, K-12 education.

“While no agency can expect complete exemption from cuts, it is important to protect crucial state services as much as possible,” said Governor Kaine. “By employing the Revenue Stabilization Fund, we can avoid fiscal year 2009 cuts in K-12 education. This action avoids a devastating impact on classrooms with the school year already underway.”

Major actions in the Governor's announced fiscal year 2009 reduction plan include:

- About 570 layoffs, the elimination of more than 800 additional positions that are currently unfilled, holding about one-third of all at-will positions vacant, and the imposition of a continued freeze on new hiring.
- The delay of a previously planned 2% salary increase for state employees, to July 2009 from November 2008.
- Reductions of 5 or 7 percent to institutions of higher education.
- Administrative efficiencies in Medicaid, the Department of Aging, and Community Service Boards that will prevent deeper cuts in direct service delivery.
- Restructuring Department of Corrections facilities, closing several older facilities.
- Previously announced reductions in the Governor's office and mansion budget, including a continued reduction in the Governor's own salary.

"I know that the layoffs associated with these cuts come at a challenging time for state employees, and I regret that they are necessary," Governor Kaine said. "I have instructed the Virginia Employment Commission and our Human Resources Department to help those state employees who are laid off through this difficult transition."

The Governor noted that some strategies, like delaying the 2% state employee raises, would be reconsidered as further reductions for 2010 are considered. Reductions to address the \$1.54 billion shortfall in fiscal year 2010 will be announced in the coming months and are expected to include further layoffs and structural changes.

"The shortfall for 2010 is projected to be even greater, and while I will work to protect items like employee raises, we must keep open the possibility that they may have to be eliminated altogether as we make additional reductions," said Governor Kaine. "We will continue to examine every government expenditure for performance and efficiency, but we will have to look at new ways of doing things and ask ourselves hard questions about all of our programs."

"No one would wish for a crisis like this, and as we move forward, there will be more difficult choices to make," the Governor continued. "But we should embrace the opportunity to critically evaluate how we're spending taxpayer money, and whether every program is delivering the results people deserve."

The Governor's reduction plan can be found [here](#).

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