COMMONWEALTH OF VIRGINIA
HOUSE OF DELEGATES
RICHMOND

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VINCENT F. CALLAHAN, JR., CHAIRMAN

September 10, 2007

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

Dear Governor Kaine:

At the August meeting of the joint money committees, it was noted both in your prepared remarks and those of Finance Secretary Wagner that a withdrawal from the Commonwealth's Revenue Stabilization Fund (or "Rainy Day Fund") was being actively considered as one of several means to balance the current Fiscal Year 2008 state budget. While balancing the budget is always an arduous task, we are concerned that the use of the Rainy Day Fund would be premature and inappropriate under the current circumstances.

As was presented by Secretary Wagner, nearly half of our current shortfall is being driven from the payment of refunds in excess of the Administration's forecast for the Land Preservation Tax Credit ($175 million) and agency errors in calculating interest earnings to the general fund ($120 million). As we understand the situation, more taxpayers claimed the land preservation tax credit than was assumed in the original forecast. While there is a market in selling tax credits that is legally permissible, officials in your Administration apparently failed to accurately anticipate the increase in activity in this popular program.

The errors in the interest earnings forecast were the result of failing to accurately segregate the general and non-general fund agency balances to which interest earnings accrue. The bottom line is that the general fund interest estimate was overstated by $120 million during the two year period.

That being said, key economic indicators such as employment and wage and salary growth, while softening, appear to be in line with long-term trend growth of a maturing economy. Unlike the recession earlier this decade, when the state actually collected less revenue, the updated revenue forecast presented by Secretary Wagner indicates Virginia's revenues are still experiencing growth.

If one includes the land preservation tax credit and interest earnings forecasting errors, the 2007 revenue shortfall would technically meet the Constitutional requirements allowing for a withdrawal. Nevertheless, we remain concerned that utilizing the state's Rainy Day Fund during a non-recessionary period establishes a bad and undesirable precedent that suggests we can overspend taxpayer resources without consequence. Effective long-term budget management practices caution against creating such a situation.

The General Assembly has spent the last four years replenishing the Rainy Day Fund, which now totals approximately $1.3 billion. It should only be used to respond to a severe economic downturn, not to backfill errors in the Administration's revenue forecast. In fact, if these forecasting errors had not occurred, the constitutionally required triggers would not be met.

Prior to looking to the Rainy Day Fund, we respectfully urge that you thoroughly examine the budget and make some hard decisions about what should and what should not be funded in the two-year spending blueprint you will propose to the General Assembly this coming December. For example, we do not think it would be prudent to reduce state support for our colleges and universities while at the same time expanding the pre-K program. This would be tantamount to raising tuition on middle-class Virginians in order to launch a new initiative. Clearly, we should not embark upon new and ongoing programs. Rather, the spending decisions we make should be aimed at maintaining a structurally balanced budget for the future.

Like all lawmakers wanting to ensure that Virginia's finances are fiscally sound and in order, we look forward to reviewing the details of the proposed 5% state spending reductions you have instructed all state agencies to develop, as well as learning of the needed changes instituted by your Administration to avoid future state revenue forecasting errors. Secretary Wagner has an excellent opportunity to present this information during her next scheduled appearance before the legislative money committees. We anxiously anticipate her report.

Sincerely,

Vincent F. Callahan, Jr.
Chairman,
House Appropriations Committee

Lacey E. Putney
Vice Chairman,
House Appropriations Committee

William C. Wampler, Jr.
Member,
Senate Finance Committee

Walter A. Stosch
Member,
Senate Finance Committee