



**COMMONWEALTH of VIRGINIA**  
*Office of the Governor*

Timothy M. Kaine  
Governor

September 11, 2007

**VIA FACSIMILE AND FIRST-CLASS MAIL**

The Honorable Vincent F. Callahan, Jr.,  
Chairman, House Appropriations Committee  
Post Office Box 1173  
McLean, Virginia 22101

The Honorable Lacey E. Putney,  
Vice-Chairman, House Appropriations Committee  
Post Office Box 127  
Bedford, Virginia 24523

The Honorable William C. Wampler, Jr.  
Member, Senate Finance Committee  
510 Cumberland Street, Suite 308  
Bristol, Virginia 24201-4387

The Honorable Walter A. Stosch  
Member, Senate Finance Committee  
4551 Cox Road, Suite 110  
Glen Allen, VA 23060-6740

Gentlemen:

I was surprised to receive your letter of September 10 containing a number of misunderstandings about the steps I am taking to deal with a significant softening of state revenues. Let me clear up a few things.

First, Virginia is experiencing a slowdown in state revenues that began in the last half of fiscal year 2007. With declines in the housing market affecting income, sales and recordation tax revenue, we need to work through a revenue deficit in this biennial budget that is expected to total slightly over \$600 million. Contrary to your assertions,

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the decline in revenue is not a mere forecasting error. The revenue forecasts were approved by economists, private sector experts and the legislative leaders on the Governors Advisory Committee on Revenue Estimates after extensive review. The state and national economies are slowing and that fact is creating budget challenges for most states. There are additional signs for concern in the volatility of the stock market and the disappointing job figures that the White House released last week.

Second, as I described in August, I am taking necessary steps to work through this challenge. I have reforecast state revenues to lower projections through fiscal year 2010. In May, I requested that state agencies tighten spending and will soon announce a set of mid-year cuts to reduce expenditures on an ongoing basis. I am exploring some options—i.e., changing the timing or manner of capital expenditures—that may provide relief from this year's shortfall on a temporary basis. Finally, I hold out the option of proposing use of reserve fund revenues to cover some portion of the shortfall when I present my caboose budget to the General Assembly in December.

Together, we have deposited nearly \$700 million into the state's reserve fund in the 20 months I have served as Governor. The current revenue shortfall meets the constitutional trigger for withdrawals from the fund. Withdrawing some fraction of the recent deposit may stave off the need for critical service cuts to Virginia citizens, while leaving the fund at a near-record level. Thus, it is an option on the table as I work to prepare a budget to close the 2008 fiscal year.

Third, you worry that the reserve fund will be used to fund pre-kindergarten education in the next biennial budget. You are, of course, aware that the discussion of the reserve fund concerns fiscal year 2008. My proposal to expand early childhood education in fiscal year 2009 will be based on revenues available during that time period. I am excited about such a program on both educational and cost-effectiveness grounds. Rather than tolerate a costly status quo in which 50,000 Virginia schoolchildren repeat grades each year due to poor academic performance, we can invest dollars up front in high-quality programs that enable them to start and complete school successfully. The full cost of such a program is just a fraction of what we willingly pay every year for kids repeating grades.

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It is the case that my early education proposal would represent an expansion of an existing program at a time when revenues are tightening. As I informed the money committees in August, a revenue slowdown is no excuse for ceasing efforts to be more innovative or effective. I note that you and your colleagues have also recently announced a number of new or expanded initiatives that carry their own price tags. I look forward to discussing these priorities with you in connection with what I know will be a productive legislative session in 2008.

Sincerely,

  
Timothy M. Kaine

TMK:slh