Vol. 85 No. 5 October 2009

The Virginia
News Letter

Virginia's State Budget – A Train Wreck About to Happen

by James J. Regimbal Jr.

The recession is ending and the worst is over for the state government budget, right? Wrong! "Rainy day" funds, other cash balances built up from better days, deferring various obligations and payments, and, most importantly, federal stimulus funds have kept state operating budget reductions from being reduced even further than they already have been. Now the reserves are gone. The federal stimulus funding will soon be over. Does anyone expect an economic boom to restore most of the lost jobs anytime soon? In the 2010-12 biennium, Virginia's state budget will experience the full force of the worst economic downturn since the 1930s. Even more painful changes to state government policy are forthcoming.

On August 19th, Governor Kaine announced final FY 2009 general fund revenue collections that were $300 million below the amount in the adopted 2008-10-appropriation act. In addition, he announced an interim revenue forecast for FY 2010 that was $1.2 billion less than the adopted budget. With only $159 million in available reserves, additional budget cutting for FY 2010 is necessary. The "great recession" of 2007-09 has been much longer and deeper than anyone believed possible. While Virginia's August unemployment rate of 6.5 percent is better than the national unemployment rate of 9.7 percent, Virginia has lost 114,800 jobs since August 2008.[1] The 9.2 percent decline in general fund revenues for FY 2009 is three times larger than the percentage decline registered in FY 2002 during the last recession and is the largest decline in the last 70 years. The 1.6 percent decline now expected for FY 2010 would be the first time since the 1930s that Virginia general fund revenues have declined two years in a row.

James J. Regimbal Jr.

Unlike the federal government, the state must balance its budget. On September 8th, Governor Kaine announced a $1.35 billion budget reduction plan to balance the FY 2010 budget under the emergency powers granted him in the appropriation act.[2] These budget reductions will be on top of the $4.1 billion in reductions that have already taken place for the current biennium, making the total budget shortfall nearly $5.5 billion since the original appropriation act for the 2008-10 biennium was adopted in the 2008 session.

Governor Kaine's new budget plan includes using almost one-half of the remaining rainy day fund ($283 million) and several other cash flow and one-time initiatives to reduce the need for painful mid-year budget cuts. For example, the governor

[1] http://www.bls.gov/news.release/laus.nr0.htm

[2] See http://dpb.virginia.gov/forms/20090908-1/Reductions2010.PDF for complete details on the Governor's September 8th budget reduction plan

Weldon Cooper Center for Public Service
University of Virginia

Sign up for email notification of future News Letters. See last page.

"Preliminary analysis of the 2010–12 budget indicates a minimum shortfall of $1 billion per year in general fund revenues available to pay for already reduced current services."

is planning on a waiver from the federal government to accelerate $160 million in federal stimulus funding originally designated for FY 2011 into the current fiscal year to help solve this year's shortfall.

There were already few easy choices for the governor to close the remaining FY 2010 shortfall. State aid for public education comprises 35 percent of the general fund budget. Medicaid comprises another 16 percent of the general fund budget and is difficult to reduce since Virginia already operates one of the leanest programs in the country. The governor's September 8th plan did avoid deep cuts to these programs. This was done by using the rainy day fund and federal stimulus funds as described above, cutting deeply into other state programs, such as higher education, transferring cash from nongeneral fund balances where possible, and saving cash by delaying state contributions to the Virginia Retirement System for state employees and public school teachers.

Most budget flexibility has been consumed dealing with the 2008-10 biennium revenue shortfalls, and there is little budget leeway left for the 2010-12 biennium. Over 60 percent of the budget reductions needed for the current biennium were accomplished through the use of one-time sources of funding. This means that the state operating budget is not yet "right-sized" with forecast revenues in the 2010-12 biennium. With no boom in revenues expected for the next biennium, the loss of federal stimulus funding, and significant expected growth in Medicaid and other health and human services due to the effects of the recession, what Virginia is confronting is an even more dire 2010-12 biennium budget. Preliminary analysis of the 2010-12 budget indicates a minimum shortfall of $1 billion per year in general fund revenues available to pay for already reduced current services.

The state is a major funding partner in providing services at the local government level. About half of the state general fund budget is devoted to local aid programs with the lion's share going to K-12 public education ($5.2 billion general fund, plus $430 million lottery funds in FY 2010). General fund aid to public education for FY 2010 was cut 10 percent in the 2009 session and a further 3 percent in the September 8th plan. While federal stimulus funding has temporarily lessened the impact of the general fund reductions, expect further public education cutbacks *and* the loss of federal aid in the next biennium. Other local aid programs from the state general fund, such as support for constitutional officers, funds for the comprehensive services act for children and aid to local police departments have also been significantly reduced and will most likely be trimmed further in the next biennium.

Do *not* expect outgoing Governor Kaine to propose raising general taxes or reducing the $950 million per year level of car tax reimbursements to deal with an estimated $3 billion general fund current services budget shortfall still facing Virginia in the 2010-12 biennium. However, given the magnitude of the budget crisis still confronting us, these subjects may be debated by our new political leaders in the not too distant future.

State Revenue Outlook

The drop in state general fund revenues has been severe. The original FY 2010 forecast adopted in the 2008 session appropriation act anticipated $17.2 billion in general fund revenues. The governor's August 2009 interim forecast now expects FY 2010 general fund revenues to be $14.1 billion, or $755 million *below* the amount collected in FY 2006 (see **Figure 1**).[3]

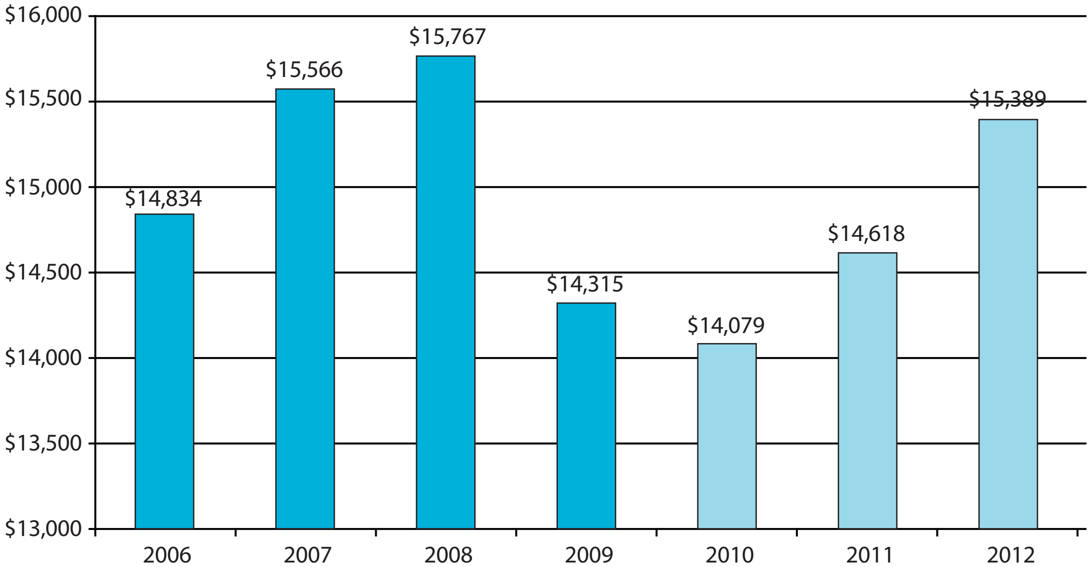
As shown in **Table 1**, about two-thirds of the state's general fund revenues come from individual income taxes. That principal source dropped by 6.3 percent in FY 2009. While withholding grew by 2.3 percent in FY 2009, non-withholding dropped by 19 percent and refunds grew by 17 percent. These changes reflect the sharp losses by businesses and investors during tax year 2008. While income tax withholding was positive for the full fiscal year, withholding receipts were negative over the second half of the fiscal year due to the large numbers of job losses that occurred beginning in the fall of 2008. With no quick turnaround in employment expected, and large loss carryforwards on the tax returns of taxpayers, total individual income tax revenues are expected to decline by almost 2 percent in FY 2010 as well.

Sales taxes make up another 20 percent of the general fund and declined sharply in FY 2009. The August interim forecast continues to expect sales taxes to decline modestly in FY 2010. Do not expect sales taxes to meaningfully increase until employment increases, household balance sheets are repaired and consumer confidence returns.

The August interim forecast in **Table 2** projects general fund revenue growth of 3.8 percent in FY 2011 and 5.3 percent in FY 2012. This would be historically weak growth coming out of a recession, but it appears to be a reasonable forecast given the economic problems this country continues to face. While this forecast expects strong corporate income tax growth, most economists

[3] See http://www.finance.virginia.gov/KeyDocuments/JMCmaterials/JMC-Aug2009.pdf

Figure 1: Actual and Forecasted General Fund Revenue, Fiscal Years 2006 to 2012 ($ Millions)



Source: Virginia Secretary of Finance, *Review of General Fund Revenues and the Virginia Economy for Fiscal Year 2009 and The Interim Economic Outlook and Revenue Forecast for Fiscal Years 2010 through 2012* (August 19, 2009) http://www.finance.virginia.gov/KeyDocuments/JMCmaterials/JMC-Aug2009.pdf

Table 1: Interim General Fund Revenue Forecast for Fiscal Years 2009 and 2010 Provided in August 2009

	FY 2009		FY 2010	
General Fund Revenue Source	Actual Amount ($ Millions)	Percent Change	Projected Amount ($ Millions)	Percent Change
Individual income tax	9,481.1	-6.3	9,310.8	-1.8
Sales taxes	2,903.4	-5.6	2,892.0	-0.4
Corporate income tax	648.0	-19.8	662.2	2.2
All other	1,282.6	-27.5	1,214.4	-5.3
Total general fund revenues	14,315.1	-9.2	14,079.4	-1.6

Source: Virginia Secretary of Finance, *Review of General Fund Revenues and the Virginia Economy for Fiscal Year 2009 and The Interim Economic Outlook and Revenue Forecast for Fiscal Years 2010 through 2012* (August 19, 2009) http://www.finance.virginia.gov/KeyDocuments/JMCmaterials/JMC-Aug2009.pdf

Table 2: 2010-12 Biennium General Fund Revenue Forecast

	FY 2011		FY 2012	
General Fund Revenue Source	Amount ($ Millions)	Percent Change	Amount ($ Millions)	Percent Change
Individual income tax	9,838.2	5.7	10,375.6	5.5
General sales taxes	2,783.1	-3.8	2,885.9	3.7
Corporate income tax	781.9	18.1	861.6	10.2
All other	1,214.8	0.0	1,266.1	4.2
Total general fund revenues	14,618.0	3.8	15,389.2	5.3

Source: Virginia Secretary of Finance, *Review of General Fund Revenues and the Virginia Economy for Fiscal Year 2009 and The Interim Economic Outlook and Revenue Forecast for Fiscal Years 2010 through 2012* (August 19, 2009) http://www.finance.virginia.gov/KeyDocuments/JMCmaterials/JMC-Aug2009.pdf

"Spending in the state general fund budget for FY 2010 has been reduced from $17.6 billion to $15 billion. This is a large reduction, but it is still not enough to match ongoing spending with available ongoing revenues."

Table 3: Reductions to the General Fund Budget for FY 2010

Category	Original Amount ($ Millions)	Current Amount ($ Millions)	Percent Change
Direct aid to K-12	5,930.5	5,148.2	-13.2
Medicaid	2,672.1	2,220.4	-16.9
Other health and human services	1,723.4	1,521.6	-11.7
Higher and other education	2,060.8	1,794.1	-12.9
Public safety	1,828.2	1,686.7	-7.7
Car tax reimbursement	950.0	950.0	0.0
All other[a]	2,424.0	1,669.8	-31.1
Total	17,589.0	14,990.8	-14.8

[a] Administration, finance, commerce & trade, natural resources, judicial, executive, legislative and capital outlay.

Sources: Fiscal Analytics, Ltd. analysis of adopted appropriation acts from 2008 and 2009 sessions; Governor Timothy M. Kaine, *FY 2010 Reduction Plan* (September 8, 2009) http://dpb.virginia.gov/forms/20090908-1/Reductions2010.PDF

Table 4: Major "One Time" Strategies Used to Close the 2008-10 Biennium General Fund Budget Gap

Strategy	$ (Millions)
Rainy day fund withdrawal	773
Total of sales tax acceleration, land preservation tax credit allowable[a], and tax amnesty	186
Use of bonded debt for capital outlays	355
Delay of the 4th Q VRS retirement contributions[b]	135
State employee furlough[b]	16
Sell a prison and transfer fire programs fund to the general fund	51
Enhanced ARRA SFSF Medicaid match	1,059
ARRA SFSF - flexible funds	219
ARRA SFSF - education	652
Total	3,446

[a]Land preservation tax credit allowable claims were reduced from $100 million to $50 million for tax year 2009 with the difference allowed to be claimed in future tax years.

[b]Includes a nongeneral fund agency transfer to the general fund.

Sources: Fiscal Analytics, Ltd. analysis of adopted appropriation acts from 2008 and 2009 sessions; Governor Timothy M. Kaine, *FY 2010 Reduction Plan* (September 8, 2009) http://dpb.virginia.gov/forms/20090908-1/Reductions2010.PDF

expect a relatively "jobless" recovery. Without strong growth in employment, there will continue to be relatively weak increases in individual income and sales taxes.

Implications for the State Budget

Table 3 details reductions in state general fund proposed spending for FY 2010 since the original adoption of the current biennium budget in the 2008 session. Spending in the state general fund budget for FY 2010 has been reduced from $17.6 billion to $15 billion. This is a large reduction, but it is still not enough to match ongoing spending with available ongoing revenues.

As seen in **Table 4**, the difference between spending and revenues in the 2008-10 biennium has been bridged with the use of balance sheet transfers and other "one-time" funding strategies.[4] Additional one-time funding strategies will be limited in the next biennium. Virginia now has a much-weakened state balance sheet.

The commonwealth's ability to borrow additional funds and maintain its "Triple A" credit rating is also restricted. The last meeting of the Debt Capacity Advisory Committee in May 2009 determined that Virginia had the ability to issue only another $125 million in new tax-supported debt in each of fiscal years 2010 and 2011 and still meet the commonwealth's goal of keeping debt under 5 percent of "blended revenues".[5] This debt capacity projection was *before* the latest round of general fund and transportation revenue

[4] Fiscal Analytics, Ltd. analysis of adopted appropriation acts from 2008 and 2009 Sessions, plus September 8th FY 2010 Reduction Plan.

[5] http://sfc.state.va.us/pdf/Public%20Safety%20Jt.%20Sub/Treasury-DebtCapacity-Presentation.pdf

Table 5: General Fund Budget Outlook for the 2010-12 Biennium

Item	Amount ($ Millions) FY 2011	FY 2012
Governor's August 19th revenue forecast	14,618	15,389
Transfers	329	339
Total estimated funds available	14,947	15,728
Current service appropriations[a]		
Legislative and executive departments	94	94
Judicial Department	407	407
Planned general fund debt service	600	630
Adminstration, finance[b] and technology	815	815
Commerce and trade, agriculture and natural resources	238	238
K-12 direct aid	5,286	5,582
K-12 rebenchmarking: July 22nd Department of Education draft	60	79
Higher and other education	1,805	1,842
Medicaid based on 7% annual growth	2,817	3,427
Other health and human services	1,600	1,600
Public safety	1,710	1,710
Transportation	41	41
Central appropriation, including car tax distribution and capital outlays	1,000	1,000
Total appropriations	16,473	17,464
Projected budget gap	-1,526	-1,736

[a]Assumes carryforward savings from September 8th reduction plan.

[b]Excludes debt service.

Source: Fiscal Analytics, Ltd.

reductions, so Virginia may very well have already exceeded its 5 percent goal.

Finally, federal stimulus funding under the American Recovery and Reinvestment Act (ARAA) will be much lower in FY 2011 and will expire thereafter. There are two major components of ARRA being used to effectively supplant state general funds: 1) an increased federal match for Medicaid funding through CY 2010 (moving from 50 percent to a 61.58 percent federal share of program costs), and 2) the State Fiscal Stabilization Fund (SFSF). The SFSF has two components: the Education Stabilization Fund, and the Government Services Fund. The Education Stabilization Fund comprises 81.8 percent of the SFSF funding ($730 million for K-12 education and $254 million for higher education), and 18.2 percent for general use ($219 million). The bulk of ARRA funding is being used to supplant general funds in FY 2010.

The easier budget cuts have also already been made. The consensus economic forecast is for a weak economic recovery. These factors will result in the state being faced with making even tougher policy choices to balance the 2010-12 state budget.

As detailed earlier, the governor's August 19th interim revenue forecast expects less than $2 billion in additional revenues and transfers for the entire 2010-12 biennium over the FY 2010 base. This additional revenue will likely not be enough to even cover the expected demands for increased Medicaid funding alone. **Table 5** presents the very difficult general fund budget outlook for the next biennium. General fund revenue is forecast to grow only by 3.8 percent in the first year and 5.3 percent in the second. In total, expect a shortfall of over $3 billion in available revenues to cover current general funded services being provided.

In the Table 5 budget outlook, state programs are level-funded to their FY 2010 base appropriation and then adjusted for the loss of appropriated federal stimulus funds that will begin to occur in FY 2011 and then disappear completely by FY 2012 for Medicaid, public education, and higher education. Medicaid utilization is also assumed to increase by 7 percent per year. This is a conservative growth assumption for Medicaid programs due to the counter-cyclical poverty increases being caused by the recession.

For Medicaid, approximately $674 million in federal ARRA stimulus funding is appropriated

"The easier budget cuts have also already been made. The consensus economic forecast is for a weak economic recovery. These factors will result in the state being faced with making even tougher policy choices to balance the 2010-12 state budget."

"Since the car tax reimbursement program was implemented in 1999, additional tax cuts, such as the estate tax repeal and land preservation tax credit, have entirely offset the tax increase enacted in 2004."

Table 6: Major Tax Changes Adopted in Virginia Over the Last Ten Years

Item	Fiscal Year Implemented	Foregone Revenue in the 2008-10 Biennium ($ Millions)
Car tax relief	1999	-1,900
Historic rehabilitation tax credit	1999	-92
Low-income tax relief	2000 and 2007	-125
Land preservation tax credit	2003	-300
2004 tax reforms[a]	2005	1,600
Additional reduced sales tax on food	2006	-381
Shift of insurance premium and recordation taxes to transportation funds	2009	-400
Estate tax repeal	2009	-280
Total		-1,878

[a]Some reforms that increased selected taxes while others were decreased. The foregone revenue estimate shows the net increase after allowance for reductions.

Source: Virginia Department of Taxation, Office of Revenue Forecasting, Tax Relief Master Spreadsheet.

for FY 2010. This declines to $362 million in FY 2011 and then disappears completely by FY 2012. For K-12 public education funding, $434 million in federal ARRA is expected in FY 2010, only $296 million will be available for FY 2011, and none for FY 2012. For higher education, $219 million in ARRA stimulus funds is expected for FY 2010, while only $35 million is expected for FY 2011 and none for FY 2012.

Public education funding in Table 5 assumes only minimal re-benchmarking above the FY 2010 base. No additional retirement contributions are assumed for either state employees or teachers, even though actuarial assumptions dictate that an additional state contribution of $244 million per year is needed to fully fund the Virginia Retirement System over the next 30 years.[6] Other programs are also level-funded using their lower FY 2010 base funding levels resulting from previous funding reductions. Even with these very conservative spending assumptions, there is still a funding gap of over $3 billion in the next biennium. It is clear that major policy changes will be necessary to balance the 2010-12 budget.

It is also important to note that tax changes over the last ten years have also contributed to the general fund revenue shortfall the state is now experiencing. Since the car tax reimbursement program was implemented in 1999, additional tax cuts, such as the estate tax repeal and land preservation tax credit, have entirely offset the tax increase enacted in 2004. **Table 6** lists the major tax changes adopted over the last decade. In effect, Virginia is still dealing with the loss of general fund revenue experienced by the $950 million per year car tax reimbursement program.

Nongeneral funded programs such as unemployment compensation and maintaining our transportation system are also experiencing very challenging funding issues.

Virginia's unemployment insurance fund has run out of money. By October 15, 2009 Virginia is expected to borrow $252 million from the federal unemployment insurance trust fund to meet the needs of approximately 69,000 Virginians currently receiving unemployment benefits.[7] Virginia will be the 21st state to seek federal assistance for unemployment compensation. Even though Virginia employers will be assessed higher taxes beginning January 1, 2010, sufficient revenues will not accrue in the Virginia Trust Fund until 2012 or 2013 to avoid further federal borrowings. In total, it is currently estimated that Virginia will need to borrow a total of $1.2 billion from the federal unemployment trust fund to maintain solvency before sufficient revenues accrue in the state fund from higher employer taxes. While the ARRA stimulus program waives interest accrued on the borrowings through CY 2010, interest accruals will resume in CY 2011. It is estimated that Virginia will pay approximately $35 million in interest payments to the federal unemployment trust fund on these borrowings.

Transportation revenues have also been severely impacted by the great recession. Since 2008, the FY 2010 state transportation revenue

[6] See Robert P. Schultz, Director of VRS presentation to the Senate Finance Committee, September, 17, 2009, page 19 http://sfc.state.va.us/pdf/committee_meeting_presentations/2009/Interim%20Meetings/091709%20Meeting/No2%20VSR.pdf

[7] http://www.governor.virginia.gov/MediaRelations/NewsReleases/viewRelease.cfm?id=1073

Table 7: Major Categories of State Aid to Localities, Original & Current General Fund Appropriations, FY 2010

Category	Original Appropriation ($)	Current Appropriation ($)	% Change	% of State Aid to Localities	% of Total General Fund
K-12 direct education aid	5,930,513,050	5,148,221,622	-13.2	71.0	34.3
Car tax reimbursement	950,000,000	950,000,000	0.0	13.1	6.3
Compensation Board	666,153,186	600,400,897	-9.9	8.3	4.0
Comprehensive Services Act	323,640,564	279,208,772	-13.7	3.8	1.9
Aid to local police departments	205,001,876	183,623,320	-10.4	2.5	1.2
Department of Juvenile Justice juvenile confinement/treatment	50,787,956	48,266,904	-5.0	0.7	0.3
Recordation tax distribution	40,000,000	40,000,000	0.0	0.6	0.3
Department of Criminal Justice Services administration of justice	21,908,828	23,408,828	6.8	0.3	0.2
Public library aid	17,378,628	16,509,697	-5.0	0.2	0.1
State Board of Elections	7,392,674	6,653,407	-10.0	0.1	0.0
Rolling stock tax	4,970,000	5,670,000	14.1	0.1	0.0
Department of Social Services general relief	3,458,455	3,458,455	0.0	0.0	0.0
Flexible state aid reduction	-50,000,000	-50,000,000	0.0	-0.7	-0.3
Total state aid to localities	8,171,205,217	7,255,421,902	-11.2	100.0	48.4
Total general fund appropriations	17,589,000,000	14,991,000,000	-14.8		100.0

Sources: Fiscal Analytics, Ltd. analysis of adopted appropriation acts from 2008 and 2009 sessions; Governor Timothy M. Kaine, *FY 2010 Reduction Plan* (September 8, 2009) http://dpb.virginia.gov/forms/20090908-1/Reductions2010.PDF

Local governments in Virginia need to prepare for further significant reductions in state aid.

forecast has declined by 22.7 percent or $661 million.[8] The state's six-year highway improvement plan has been reduced by over $4 billion, including:

- Cancelling $3.1 billion in highway and transit improvements
- Reducing public transit funding by 23 percent since 2008
- Eliminating all state and federal funds flowing through primary, secondary and urban formulas
- Cutting Virginia Department of Transportation (VDOT) employment by 1,000 full-time and 450 part-time
- Closing at least one-third of VDOT residencies and equipment shops
- Reducing annual maintenance spending growth to 3 percent including local maintenance payments
- Implementing reductions in mowing, safety service patrols and ferry service
- Closing 19 rest areas

Additional transportation reduction plans are still being formulated as a result of the August 19 interim revenue forecast reduction of $900 million over six years. Virginia currently does not have enough revenues to match all federal dollars and adequately fund the maintenance of its highway system.

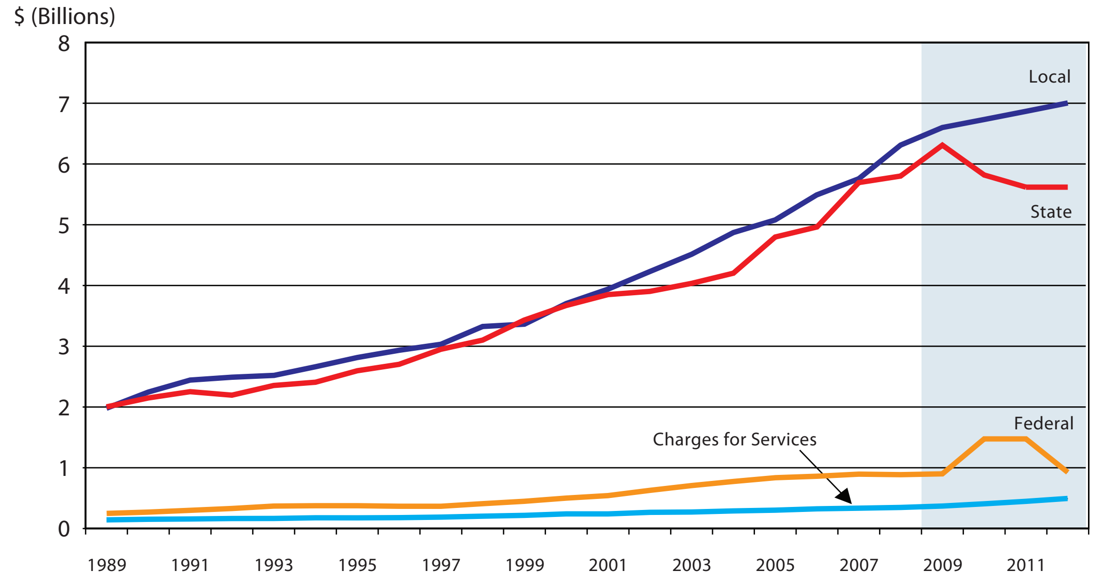
Implications for Local Government Budgets

State aid to local government comprises 48 percent of the general fund budget, with direct aid to public education comprising over 70 percent of the local aid funding. As shown in **Table 7**, current general fund appropriations for K-12 direct aid in FY 2010 have already been reduced by 13 percent or nearly $800 million from the original appropriation adopted in 2008. While federal stimulus funds have temporarily replaced $434 million of this loss in FY 2010, this will not be available by FY 2012. Local governments in Virginia need to prepare for further significant reductions in state aid.

Figure 2 represents the likely direction of public education funding in Virginia. Local governments already spend approximately $3 billion more than required by the Standards of

8 http://sfc.state.va.us/pdf/committee_meeting_presentations/2009/Interim%20Meetings/091709%20Meeting/No%204%20Transportation.pdf

Figure 2: Sources of Funds for K-12 Operating Expenditures, Actual FY 1989 t0 FY 2008 and Projected FY 2009 to FY 2012



Sources: 1989-2008: Auditor of Public Accounts, *Comparative Report of Local Government Revenues and Expenditures* http://www.apa.state.va.us/ComparativeReport.cfm and 2009-2012:FiscalAnalytics,Ltd.

"While the great recession of 2007-09 appears to be ending in a technical sense, the worst is not over for Virginia's state and local governments."

Quality.[9] This represents about 22 percent of all public education funding in Virginia. Expect local governments to have to shoulder an even larger share of public education funding in the future. Even with greater local support, public education will have to do more with less funding. Of course, the great recession also has struck major sources of local revenue, such as property and sales taxes, just as hard as state revenues. However, with local governments' front line responsibility for education, public safety, and health and welfare, major decisions on whether to raise local property taxes will likely become prominent headlines in the near future.

Conclusion

While the great recession of 2007-09 appears to be ending in a technical sense, the worst is not over for Virginia's state and local governments. State tax revenues will not experience a significant increase until employment gains resume and consumers begin to spend again. Local tax revenues are still falling, since real estate assessments are just now beginning to reflect the full impact of housing price declines experienced over the last two years.

Virginia was fortunate to have significant reserves along with the federal stimulus package to help balance its budget in the current biennium. While important reductions in operating spending have taken place, these reductions could have been much worse. Unfortunately, those reserves have now been depleted, and federal stimulus funding will dry up in the next biennium. The reality is that the 2010-12 biennium current services operating budget is still at least $3 billion above forecasted available revenues. Virginia's Medicaid budget alone will require all of the additional $2 billion in general fund revenues available in 2010-12 to keep the same eligibility and provider reimbursement policies we now have in place. Since Virginia already ranks 48th lowest in per capita Medicaid expenditures, it will be difficult to make significant policy changes without real harm to the program. The state's largest programs—aid to public education and aid for higher education—have already had their general fund support cut 13 percent. While $652 million in federal stimulus aid has blunted the declining general fund support for education in FY 2010, it is unlikely that federal funding can be replaced when the federal stimulus program ends in the 2010-12 biennium. In fact, there is every indication that general funds will be reduced even further.

What are our options? First, do everything possible to encourage job creation in Virginia by prioritizing Virginia's investments in education and improvements to our infrastructure. A healthy economy is the only long-term answer to a healthy public sector. Next, Virginia's government is going to continue to get smaller and even core programs are going to be reduced further. Finally, determine whether Virginia's tax structure and rates are adequate to sustain a high quality public education, public safety, health and welfare, and transportation system that Virginians have come to expect. This debate may result in the roll back of tax relief that has been provided over the last decade.

[9] Kent Dickey, Department of Education, Results of the Required Local Effort and Required Local Match Data, January 27, 2009.

ABOUT THE AUTHOR:

James J. Regimbal Jr. has 27 years of experience examining Virginia's budget and tax policies. In 1999, Regimbal co-founded Fiscal Analytics Ltd., which specializes in state budget and tax policy analysis, fiscal stress analysis, tax structure impact studies, and customized fiscal/demographic databases. These services have been provided for local governments, business groups, trade associations, and nonprofit organizations. Earlier, Regimbal served for 12 years on the staff of the Virginia Senate Finance Committee, where he provided the committee with expertise in state and local tax policy, transportation policy, and economic and revenue forecasting. He has also worked as a cash management analyst with the Virginia Department of Treasury, a senior economist with the Virginia Department of Taxation, and as an energy economist with Sierra Energy and Risk Assessment, Ltd. in California. Regimbal received a B.S. in economics from the University of Pacific in 1980 and an MBA from Virginia Commonwealth University in 1984.

If you would like to receive email notification of future web-based issues, please go to *The Virginia News Letter* web site to register for inclusion in our email distribution list:
http://www.coopercenter.org/publications/vanewsletter/subscription.php

VOL. 85 NO. 5 OCTOBER 2009

Editor: John L. Knapp Consulting Editor: Robert Brickhouse

The Virginia News Letter (ISSN 0042-0271) is published by the Weldon Cooper Center for Public Service, University of Virginia, P.O. Box 400206, Charlottesville, Virginia 22904-4206; (434) 982-5704, TDD: (434) 982-HEAR.