House Appropriations Committee Retreat

Remarks by The Honorable Lacey E. Putney, Chairman
House Appropriations Committee

November 16, 2010

Good afternoon. I would like to welcome the Committee members, invited guests and the general public to the eighth annual Appropriations Committee retreat.

As I reflect on the previous 7 retreats, I am reminded of the value that they have provided in preparing the Committee for the upcoming Session.

The retreat allows us the opportunity to explore a variety of emerging issues, many of which we will be asked to deal with during the upcoming Session.

While having a lock on knowledge may be good, I believe that the knowledge level should expand beyond 22 members. It is for that reason that I extended an invitation to the members of the House Finance Committee.

In addition to the members of the two Committees, I am pleased Speaker Howell has joined us.

Over the next two days we will engage in several discussions in which the Committee staff, along with outside experts, will discuss a variety of issues including the economic and budgetary outlook of the Commonwealth, along with the current conditions of the housing sector and consumer spending; a review of last Session's efforts to reform the Virginia Retirement System and lower both the pension liabilities and budgetary costs to the Commonwealth; a discussion of how other states have managed their K-12 spending and how Virginia's school divisions have managed their budgets during the recession. We will also discuss of

Medicaid and what is driving our costs and the impact of health care reform and what it means to Virginia and then we will finish off the retreat with a discussion of higher education funding and look at how our colleges and universities compare nationally in terms of costs and degree production.

Before we get underway, I would like to share my thoughts regarding the upcoming Session and the apparent growth in general fund revenues over and above the current fiscal year forecast.

National data continues to show that the U.S. economy is improving, albeit at a rate slower than seen in previous recoveries. Since December 2009, the private sector has added over 1.1 million new jobs. However, total job gains over this period has been just over 800,000, which reflects the loss of temporary census workers and a reductions in state and local government employment as the stimulus funds come to an end.

As you will learn today, Virginia's economy is recovering faster than that of the nation and nearly all other states. Of course, Virginia lagged going into this recession and its total job loss was not as severe. So in some respects, our starting point was perhaps better than other states. From peak to trough, Virginia lost 273,000 jobs.

Since March 2010, Virginia has experienced several months of job gains, having now recovered 111,500 jobs or 41% of those lost. On a year-over-year basis, through September job growth totaled 0.8%, in line with our economic forecast of 1% employment growth. In addition, the Northern Virginia/Washington MSA is ranked first in the country in job growth among all major metropolitan areas with nearly 2% job growth for the September-over-September time period.

Equally impressive is the fact that Northern Virginia has recovered over 50% of its jobs. This is good news, in that their salaries are nearly twice the state average, which translates into stronger tax withholding collections. However, the fact remains that job growth is occurring throughout the Commonwealth, with two-thirds of the state's total job growth occurring outside of Northern Virginia.

So is Virginia's job growth translating into stronger revenue collections? The short answer is yes. As you recall, Virginia finished fiscal year 2010 $228.5 million ahead of forecast. The vast majority of the strength was in corporate and nonwithholding taxes, with payroll tax withholding, which is 64% of total general fund revenues, growing less than one-half of 1%.

While growth in this source was the smallest in more than 20 years, a closer examination suggests a more robust growth rate. Since March of 2010 through the recent October 2010 revenue report, payroll withholding has grown 5.1%, twice the rate forecasted for fiscal year 2011. This rate of growth would appear to be consistent with our job recovery which also began in March of 2010.

Looking at sales tax collections, which represent 20% of our general funds, we are seeing a striking similarity. Since April we have seen 7 months of positive growth, with year-to-date collections running 5.3%, considerably ahead of the forecast growth of 0.8%.

So what does this all mean? While both the economic and revenue trends are pointing upward, I believe that prudence should still be the order of the day.

As we look ahead to the 2011 Session we should do so with cautious optimism, knowing that many budget challenges lie ahead. These challenges are not just the immediate, but will continue into the next biennium.

While we have balanced our current two-year budget, we have not done so in a "structurally" balanced manner. Make no doubt about it; we have made some real spending cuts. We have gone through the budget and made some painful choices between the "got-to-do" and the "nice-to-do". We have eliminated programs, consolidated state agencies, closed inefficient facilities, enacted fees to cover the cost of services, and allowed our colleges and universities to raise tuition in order to preserve academic access. Yet, despite these actions, a gap still existed.

Much like we did in the early 1990's, we have managed our way to a balanced budget. We did so by making decisions that altered revenue collections and delayed reimbursements. While these actions helped mitigate the impact of programmatic cuts, they also create an imbalance between ongoing revenues and ongoing costs. After the 1991 recession, it was not until 1996 that we achieved a structurally balanced budget by unwinding certain actions and our aligning spending with our revenues.

So while our revenue situation appears to be improving, with perhaps a modest increase in revenue in the offering, we must also be committed to making difficult choices, some of which may not be popular with the advocates of particular causes. One year from now we will be building the 2012-14 biennial budget. The reality of the situation is that we will need to continue to make budgetary adjustments. Restraint is necessary if we are to match our budget to the constraints of our ongoing revenue stream.

As we approach the 2011 Session I look forward to working with Governor McDonnell as he prepares his amendments to the budget. But I also want to remind each and every member, that the responsibility to balance our budget falls on the General Assembly. It is my hope that the collective "we" in this room will work together in a fiscally responsible manner with minimum rancor so that we can do the people's business.

Now, before we get underway, I would like to thank Robert Vaughn and the entire staff for their hard work in putting together their presentations.