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House Appropriations Committee Retreat
The Honorable Lacey E. Putney

November 13, 2012

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

In addition to the members of the Committee, I am pleased that Speaker Howell, along with the Chairman of the House Finance Committee Bob Purkey and members of the Finance Committee have joined us. Welcome to all of you. Also, joining us today is the distinguished Minority Leader, Delegate David Toscano.

Over the next two days we will engage in several panel discussions in which the Committee staff, along with outside experts, will discuss a variety of issues. We will kick off this afternoon with a discussion of the economic and budgetary outlook for the Commonwealth, including federal deficit reduction efforts in Congress and what it could potentially mean to Virginia's economy. We will also discuss student financial aid and the ever increasing student debt load and we will get an update on our capital construction program and the Commonwealth's debt capacity.

Tomorrow we will begin at 8:30 and start off with a presentation on whether it there is a need for a statewide teacher health insurance plan. We will also discuss health care and the cost of expanding the Medicaid program in Virginia. We have joining us the Deputy Auditor of Public Account to bring us up to date on reporting requirements for the Virginia Retirement System. Finally, the staff will present information on Virginia's efforts in meeting our non-point pollution requirements.

Before we begin let me share my thoughts on the 2013 Session as it pertains to the budget.

While it has been 2 years since the U.S. economy emerged from the Great Recession, it appears that the recovery has been amongst the weakest in history. The recovery has been long, gradual, and uneven. While consumer confidence has improved, there remain many negatives, such as high debt burden, low home values, modest job growth, and the inability of the federal government to get its fiscal house in order.

While job losses have abated, the national economy has recovered only about 50%, or 3.8 million jobs out of the nearly 8 million jobs lost. The rate of job recovery from the 2007 recession is perhaps the worst compared to all previous recessions.

While Virginia typically out-performs the U.S. economy, you will see today that our rate of growth has slowed substantially relative to the nation. Clearly there are several reasons for this. First, Virginia lagged going into the recession by about 6 months and did not suffer the same level of job losses compared to other states. Second, Virginia's economy began to recover jobs at a much faster rate than did the nation.

Clearly Northern Virginia is the primary engine that drives Virginia's economy. But what drives the Northern Virginia economy…the federal government, which accounts for about 40% of economic activity. Likewise, Hampton Roads is also closely linked to federal spending, which accounts for about a third of that region's economy.

Employment in these regions is driven by Professional and Business Services. In Fiscal Year 2011, Professional and Business Services job growth accounted for nearly 50% of total job gains. In FY 2012, this employment sector accounted for 9% of the job growth. In Northern Virginia alone, growth in Professional and Business Services employment is down 50%.

Some of the slowdown we are currently seeing may very well be attributable to the "chilling" effect of the budgetary uncertainty being played out in Congress.

While the current economic indicators continue to show a zigzagging economy, money in the bank is also a strong measure as to how we are performing relative to the forecast. Clearly, year-to-date revenue collections would suggest that upward adjustments to our fiscal year 2013 revenue forecast may be warranted.

However, as Congress finally begins to get its fiscal house in order, we must recognize the potential impact on Virginia. I believe that given the uncertainty, it would be prudent to revise downward the job growth forecast and the forecasted rate of growth in payroll withholding in FY 2014. As you will recall, payroll withholding accounts for about 60% of our general fund revenues.

Until Congress acts, the true impact of federal spending cuts on our economy, primarily in defense, will be unknown. However, I believe a cautious outlook is warranted.

Last Session I believe the House took a very prudent approach in addressing many of the structural problems that were embedded in the budget. While fixing the structural problems were not as sexy as spending on new programs or restoring previously imposed cuts, the fact is that through our fiscal stewardship we adopted a more structurally balanced budget.

As we approach the Session, we will be faced with some on-going budget pressures from several of the usual budget drivers. However, it would be my hope that if a modest amount of revenue is available that we look to unwind some of the remaining structural imbalances in our budget.

One of those budget actions effects our local governments. I'm sure that many of you have heard from your local governments on the issue of reverting $50 million back to the State Treasury. In FY 2014 that amount drops to $45 million. It would be my hope that we could further reduce the local aid reversion. Balancing our state budget by relying on local governments to send back a portion of the money we give them does not make much sense at this juncture. While we imposed this strategy several years ago in lieu of specific programmatic cuts, we now need to either unwind this local aid reversion account or make specific cuts in its place, because passing money back and forth doesn't seem right.

Last week the Governor asked that all state agencies submit plans to reduce spending by as much as 4%. While exemptions to these reduction plans will most likely be made to Medicaid and education, these plans would provide us a road map of about $150 million in savings strategies.

These strategies may not be needed to balance the budget this Session, given the prospect of a modest increase in expected revenues coupled with limited spending pressures. It is clear however, that having these plans in hand would make the job easier if the economy reverses course as a result of federal government actions to reduce spending.

Clearly the budget is about choices and while we all would like to do more, we have an obligation to remain fiscally prudent so that we do not exacerbate the structural imbalance that we still have. In other words, let's not act like Congress.

After 51 years in the House I can attest to the fact that there is no such thing as a perfect budget. But, I submit to you that the budget amendments adopted by the House Appropriations Committee will be crafted on a bi-partisan basis.

In closing, I recognize that the economic future remains a bit cloudy. But one thing is certain, in Virginia, the Governor and the General Assembly will continue to work together in a cooperative fashion. We will forge a plan of action that will address the core services so important to our future.

Thank you for allowing me the opportunity to share my thoughts with you today and I look forward to our continued relationship.

Now, before we get underway, I would like to thank the entire staff for their hard work in putting together the various panel discussions as well as their own presentations.

Likewise, I would like to thank the entire group of distinguished panelists for agreeing to participate in the House Appropriations Committee retreat.

Now sit back and enjoy the retreat and learn a little.