

The Honorable Lacey E. Putney
Comments to the Committee
House Bill 1500
February 6, 2011

Good afternoon. Today we meet to consider amendments to the current biennial budget which we adopted last year. Since we left last spring, the Commonwealth has continued to experience tremendous job growth resulting in revenue growth in excess of the forecast on which the budget was originally predicated.

Virginia's economy continues to out-perform the national economy. Our two primary sources, income tax withholding and sales tax, which account for 78 percent of total general fund tax revenues are performing slightly better than the economic indicators that form the basis of our revenue forecast.

During last fall's retreat in Lynchburg I remarked that as we looked 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.

Make no doubt about it, last Session we made some real spending cuts. We went through the budget and made painful choices between the "got-to-do's" and the "nice-to-do's". We eliminated programs, consolidated state agencies, and closed inefficient facilities.

At the same time we enacted fees to cover the cost of services, allowed our colleges and universities to raise tuition, altered revenue collections, and delayed reimbursements.

While these latter actions helped mitigate the impact of programmatic cuts, they also create an imbalance between ongoing revenues and ongoing costs as we move forward.

Simply put, our budget while technically balanced is not “structurally” balanced.

While our economy continues to grow, as reflected in the mid-session reforecast that gives us an additional \$152 million dollars to work with, the fact is that we must continue to be ever vigilant.

The reality is that we will need to continue to show restraint if we are to match our budget to the constraints of our ongoing revenue stream.

Leadership is measured by looking beyond today and recognizing that we must seize the opportunity and begin to correct many of the deficiencies in the budget that we adopted last year.

In the weeks leading up to this afternoon, the Committee engaged in a deliberate and inclusive process of identifying our goals and objectives in amending the budget.

In the game of golf, players occasionally take a mulligan – a “redo” if you will, a shot that is better than the first. In other words, our actions today should not be a signal that this is a return to business as usual. Instead, we must be committed to making difficult choices, some of which may not be popular with the advocates of particular causes. However, I believe that our actions today will better position us for next year, as we undertake the development of the 2012-14 biennial budget.

To that end, we conducted 9 separate meetings over the last 3 weeks designed to assess the thoughts of Republicans and Democrats, including both committee members and non-committee members.

The feedback received was very helpful and revealed a deep concern that we not exacerbate our structural budget problems, rather we should address them.

Specifically, members identified the need to:

- Address the funding of the VRS, while keeping our promise to state employees,
- Scrutinize any new spending,
- Use one-time savings to fund non-recurring costs or to unwind structural deficits,
- Minimize state debt,
- Set aside more funding for the Rainy Day Fund, and
- Reduce the burden on Virginia's businesses

I believe that the subcommittee recommendations that are before us adhere to that philosophy and have delivered what I consider a prudent budget that does not kick the can down the road.

Not to steal too much thunder from my Subcommittee Chairmen, I do, want to touch on several actions that underscore the fiscal acumen of all 22 members.

Specifically, the budget amendments that you adopt today will reduce the amount of previously authorized debt by nearly \$120 million.

The budget amendments also will roll back over \$4.0 million of previously authorized fees that hit our hospitality industry particularly hard. As a result, the cost of the annual Department of Health inspections went from \$40 to nearly \$300. At some point in time we must recognize that the best economic development incentive we can give is just getting out of the way and reducing the

burdens on our businesses. I am pleased that we have done just that in our amendments.

Likewise, last year out of necessity to balance the budget, we accelerated the collection of sales tax revenues that required nearly 9,000 retailers to pay July's sales tax in June.

While retailers recognized that this acceleration of taxes represented monies already collected, the fact remains that this one month acceleration was not the normal business practice and was yet another burden on our businesses. In adopting this measure, the General Assembly also adopted language that phases-out this practice beginning in fiscal year 2013.

I am pleased that our recommendations will immediately begin the phase-out this June, resulting in 98% of the impacted retailers not having to accelerate their sales tax remittance.

Last fall the voters of Virginia increased the amount of money that can be set aside in the Rainy Day Fund. While this cap does not change the calculation of the required deposits, their vote on this matter does serve as a reminder to us that the voters expect us to be prudent.

Well, prudence suggests that when you know that you have a pending obligation you should recognize it and take the steps to prepare for it. Our recommendation takes that important step by setting aside \$114 million toward the required \$228 million deposit the General Assembly will have to make in the next budget.

Addressing this issue now with some of the new resources reduces our burden when developing the 2012-14 budget.

While some, citing all of the other unmet needs, may prefer to take Scarlett O'Hara's approach and "think about that tomorrow," I believe in the end that everyone will thank us next year for being prudent this year.

Moving on to the Virginia Retirement System, I cannot think of any one issue that has been more misreported than this. In reading the Virginia Constitution it is clear that the General Assembly is responsible for maintaining a retirement system. We are the Trustees. Building on last year's successful adoption of HB 1189, which reformed the pension benefits for new hires, this year Delegate Jones and I, with the unanimous approval of this committee, have put forth an optional defined contribution plan for state employees. Clearly for those that support choice...this plan delivers.

Long-term, this plan will mitigate unfunded liabilities, while providing more options to meet the individual needs of our public servants.

State employees clearly recognize that the unfunded pension liabilities ultimately compete with funding that could otherwise be used for salary increases. Several years ago, JLARC underscored the disparity between benefits and salaries and recommended that the General Assembly should address this imbalance.

In order to be credible in our work, state employees must also have confidence in our actions. Not many of us were here in 1983 when the General Assembly suspended the scheduled pay raise and instead elected to pick-up the employees 5% contribution to the retirement system.

This proposal was put forward by then Chairman of the Appropriations Committee Dick Bagley. At that time, the action was a win-win for the state and the employees, in that the state did not

pay the cost of fringe benefits and employees received a true 5% increase in take home pay.

Well, as Yogi Berra said, “It's deja vu all over again”. Some 28 years later I’m still here and the General Assembly is going back to the future.

I believe that all employees should have a material stake in their retirement, as evident in last year’s decision in HB 1189 requiring all new hires to pay 5%. I also believe that the actions of 1983 must be recognized and that we should treat our employees in a fair manner. Thus we recommend balancing the employee contribution with a similar salary offset. I am confident that Delegate Jones’ subcommittee shared this goal and I am looking forward to receiving their recommendations.

Turning to our colleges and universities, I want to commend Governor McDonnell for his commitment to raising awareness of the importance of higher education to Virginia’s economic future. His “Top Jobs” legislation, spearheaded by Delegates Cox and Dance, brings to the forefront the need to address access and affordability. The Governor generously recognized that absent higher tuition increases, additional state funding was needed to meet these objectives.

Working within the parameters of the Governor’s Higher Education Commission, the budget amendments focus nearly \$100 million in general funds to:

- Improve affordability for in-state undergraduates
- Increase access for in-state students at UVa, Tech, JMU, and William and Mary
- Increase the number of STEM degrees, and
- Improve R&D opportunities

I want to thank Delegate Cox for his leadership in this effort.

While the guiding principle of our budget was to minimize new spending, our budget recommendations do reflect the long standing commitment of this Committee toward the families that have a loved one in need of waiver services. Specifically, the recommendations in Delegate Morgan's Health and Human Services subcommittee will affirm this commitment by providing 275 additional MR and 270 additional DD waiver slots to help meet the waiting list. In addition, funding will be provided for community based support and services that will allow for the discharge of 100 individuals currently in our training facilities. For those that attended the public hearings, waivers and community support for families was by far the number one priority for those that spoke.

In closing, the budget recommendations that will follow clearly and strategically focus our resources on keeping our promises to fund the core services of government. I believe, quite frankly, that the work of the subcommittees has achieved my goal. You did it right, and I thank you all for your efforts. I would also like to thank the staff for their hard work and devotion to good fiscal management.

I would like to receive the reports of the Subcommittees, beginning with Delegate Landes, Chairman of the Commerce, Agriculture and Natural Resources Subcommittee.