



COMMONWEALTH OF VIRGINIA
HOUSE OF DELEGATES
RICHMOND

APPROPRIATIONS COMMITTEE
13TH FLOOR, POCHONTAS BUILDING
CAPITOL SQUARE
POST OFFICE BOX 406
RICHMOND, VIRGINIA 23218
804-698-1590

S. CHRIS JONES, CHAIRMAN
ROBERT P. VAUGHN, STAFF DIRECTOR

**House Appropriations Committee Retreat
The Honorable S. Chris Jones**

November 14, 2017

Good morning, I would like to welcome the respective Committee members, invited guests and the general public to the 15th annual Appropriations Committee retreat.

In addition to the members of the Appropriations Committee, I am pleased that members of the House Finance Committee are in attendance. I want to personally thank Chairman Ware for the strong working relationship that he has helped forge between the House Finance Committee and the Appropriations Committee over the last four years. I would also like to recognize Chairman Danny Marshall and Speaker Bill Howell.

Over the next two days we will engage in several panel discussions in which the Committee staff, along with outside experts, will examine a variety of issues beginning first with the economic and budgetary outlook for the Commonwealth.

We will hear about Virginia's current economic performance and the budgetary challenges we continue to face as we close out the budget for fiscal year 2018 and build a budget for fiscal years 2019 and 2020. While Virginia's economy continues to improve, our rate of revenue growth remains below our historical trend. Clearly, continued federal budget uncertainty plagues our economy. Although, it appears that the defense spending bills in Congress may well translate positively to Virginia. While I do not write off the importance of the defense establishment in Virginia, I believe that prudence suggests that we continue to guard against the vagaries of Washington's vacillating budgetary policies.

The U.S. economy as measured by Gross Domestic Product have performed considerable better over the last 2 quarters, as the job market continues to strengthen and consumer sentiment approaches pre-recession levels.

Virginia typically out-performs the U.S. economy, and in fact, Virginia did not see the same level of job loss as the nation as a whole experienced during the recession. However, as federal budget sequestration began, we saw the negative consequences first hand as reflected in our job

growth. You will see today that our rate of growth slowed substantially relative to the nation from 2011 until about 2 years ago, when we again began to perform on par with the nation.

Clearly, Northern Virginia has long been the engine that drives Virginia's economy. But what drives the Northern Virginia economy...the federal government, which accounts for about 30 percent of economic activity in the region.

Likewise, Hampton Roads is also closely linked to federal spending, which accounts for about 40% of this region's economy.

Northern Virginia, which typically accounts for over half of the state's job growth, bounced back in Fiscal Year 2016 and 2017; and once again led all regions in terms of absolute and percentage job growth. However, the Hampton Roads economy continues to struggle with weak to negative job growth, clearly creating a drag to Virginia's economy. The negative growth in Hampton Roads has been countered by very strong employment growth in the Richmond region.

Many of you probably saw the October Revenue Report that came out on Monday. October was a good month. All told, year-to-date collections stand at 4.9%, versus a forecast of 2.7%. What is driving collections? Well, payroll withholding is out-performing the forecast. Through October withholding stands at 4.0% versus a forecast of 1.8%.

No doubt the fall re-forecast for fiscal year 2018 will look deeply at payroll withholding, corporate and sales tax collections and some upward adjustment to the forecast may be warranted.

As we embark on the 2018-2020 Biennial Budget, we expect to see below trend revenue growth, coupled with nearly \$1.6 Billion in mandatory spending pressures, primarily driven by Medicaid; additional waiver slots as part of the DOJ settlement; increases in Comprehensive Services Act funding; health care costs for state employees and inmates in the care of the Department of Corrections; and finally, the biennial re-benchmarking of the Standards of Quality for Public Education. In addition, there is over \$300 million in higher priority spending items that must be considered.

When you add all of this together, it would appear that revenues may fall short of meeting our mandatory and high priority spending requirements. So, difficult decisions will continue to be the norm.

In addition to the spending pressures we face, as I have been saying for the last several months, we need to further stash away dollars into the new Revenue Reserve Fund. This past Session we made a good start, with nearly \$160 million going into the Fund. However, as I have indicated, the goal is to create a Reserve Fund equal to 2% of general fund revenues or about \$400 million by the end of a 6 year period. This is not only necessary and prudent to guard against any unforeseen blip in our economy, but it is also expected by the Bond Rating agencies that Virginia's budget will improve its overall level of liquidity.

Over the last four Sessions I believe the House has taken a very prudent approach in developing its budget. That prudence allowed us to balance the budget. As the economy marginally improved, we were able to create a new Revenue Reserve Fund, advance the funding level of the Virginia Retirement System, and reward our state employees with a pay raise.

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. I know that this Committee will forge a plan of action that will address the priorities so important to our future.

Now, before we get underway, I would like to personally thank each and every member of the Appropriations Committee for your support and the privilege of serving as your Chairman. I am truly humbled by this responsibility.

I would also like to thank Robert Vaughn and his staff. I enjoy working closely with Robert and the staff, having the benefit of their sound counsel. The Commonwealth is truly blessed to have such dedicated, professional and ethical individuals working on its behalf. They are indeed a tribute not only to the Committee, but to the entire House of Delegates. Each and every one of us benefit from their tireless service.