



COMMONWEALTH OF VIRGINIA
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House Appropriations Committee Retreat The Honorable S. Chris Jones

November 13, 2018

Good afternoon, I would like to welcome the respective Committee members, invited guests and the general public to the 16th 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 two years. I would also like to welcome Chairman Danny Marshall, Chairman Kilgore, Leader Toscano, and Delegate Herring to our annual gathering.

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 strength as our economy appears to be hitting its stride. The U.S. economy, as measured by Gross Domestic Product, has performed considerably better over the last 2 quarters as the job market continues to grow over 200,000 jobs per month and consumer sentiment is well above pre-recession levels. The U.S. economy now has over 7 million job openings and unemployment is at its lowest level in 49 years. Also, the number of part-time employees due to economic reasons is at a 17 year low.

In Virginia, we experienced a strong financial performance in Fiscal Year 2018, ending the year with a surplus of \$550 million. Prudently we directed all excess revenues, after mandatory deposits to the Rainy Day Fund and Water Quality Improvement Fund, into the new Cash Revenue Reserve Fund. In total, by the end of the biennium, the Rainy Day Fund and the Cash Revenue Reserve Fund will have over \$1.0 billion in it. This is very good news, as evident by the rating agencies reaffirming our Triple-A bond rating.

As we look at job growth, Northern Virginia continues to be the engine that drives our economy. While Northern Virginia led in overall job growth, Virginia also saw strong job growth throughout the state. In fact, over the last 3 months the greatest percent job growth has occurred in the Charlottesville, Staunton and Lynchburg MSA's. We are also seeing job growth dispersed through many of our industry clusters such as manufacturing, construction, and financial services.

Virginia's economy is becoming more diverse and it is a positive sign that we are seeing strong job growth outside our more federally dependent regions. While it appears that Virginia is in the midst of a transformation economically, I do not write off the importance of the defense establishment in Virginia. Federal procurement spending is increasing in Northern Virginia which fuels some of the highest paying jobs. Likewise, Hampton Roads, which has been lagging, has seen positive job growth, and the outlook is particularly good with regard to naval defense spending. However, I do believe that prudence suggests that we continue to guard against the vagaries of Washington's vacillating budgetary policies which, as you know, can tap the breaks on our economy.

Virginia's revenues continue to show strong growth. October was a good month. All told, year-to-date revenues stand at 4.5%, versus the 1.5% growth rate required to meet the revenue assumption in the Appropriations Act. What is driving collections? Well, payroll withholding is out-performing the forecast and accounts for 60% of total general fund revenues. Through October withholding stands at 4.1% versus a forecast of 2.6%. In fact payroll withholding revenues appear to be out performing the economic variables of job and wage and salary growth. So, why then is there such a disconnect between job growth and payroll withholding? The staff has a good theory on this, which we will hear shortly.

No doubt the fall re-forecast will look deeply at this and some upward adjustment to the forecast will result in additional revenue in the amended budget.

The good news as we go into the 2019 Session is that the biennial budget we adopted 6 months ago is not only structurally balanced, but our actions last Session focused on fully funding needs in both years of the biennium; so adjustments to spending should be limited to the must do and not to the like to do items. Just to remind everyone, the adopted budget provides a pay raise for all employee groups effective July 1, 2019. We also fully funded our re-bench marking obligations for K-12; along with fully funding our goal of sending back 40% of the Lottery profits directly to our schools without strings attached. The adopted budget also provides \$130 million in funding for higher education, including \$28 million in the second year target for STEM-H degree production.

Amendments this session will be reserved for items that require consideration and action by the General Assembly in 2019. The largest of which is driven by Medicaid. Susan Massart will walk us through the forecast changes. However, it is important to note, that these pressures are within the existing Medicaid program and have nothing to do with expansion. For those that may have forgotten, Medicaid expansion is being paid for by a hospital assessment and will have no general fund impact on our budget.

Over the last five Sessions I believe the House has taken a very prudent approach in developing its budget. We have been conservative in our revenue forecast and have made sensible budget choices. That prudence allowed us to structurally balance the budget. Not leaving gaping holes to be filled in the future from unrealistic revenues.

In closing, I want to reiterate my pledge that we will continue to work together in a cooperative fashion as we make adjustments to the budget. 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.