Comments
Vincent F. Callahan, Jr.
House Appropriations Committee Retreat

November 15, 2005

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

The Appropriations Committee is fortunate to meet throughout the year and to conduct regional trips that expose the members to issues faced throughout the Commonwealth. While having a lock on knowledge may be good, I believe that the knowledge level should expand beyond 25 members.

Last year I extended an invitation to the House Finance Committee to attend this retreat and we had good response. I am pleased that this year we again have several members of the Finance Committee in attendance. I would like to extend a special welcome to Harry Parrish the Finance Committee Chairman who has been at all three retreats.

I would like to also welcome the House Leadership – the Speaker, the Majority and Minority Leaders, and the respective Caucus Chairmen.

As I reflect on the value of the retreat, I am reminded too often during a legislative Session how many issues we face without adequate preparation. The retreat allows us the opportunity to explore a variety emerging issues, many of which we will be asked to deal with during the upcoming Session.

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 ranging from the current economic outlook of the Commonwealth, to the impact that the BRAC recommendation will have in Northern Virginia and Hampton Roads, to the future of our mental health system.

As we do every year, we will hear a presentation from staff on the revenue and budget outlook for the upcoming 2005 Session.

Before we get underway, I would like to share my thoughts regarding the upcoming Session and the apparent surge in general fund revenues.

Every two years Virginia develops a new biennial budget. As a starting point, prior year spending, or the "base budget" is adjusted to reflect caseload and enrollment increases and other funding obligations driven by federal or state law. For the upcoming biennium, estimated funding increases for public education, public safety, Medicaid, higher education, debt service on voter approved bonds and previously approved economic development projects total more than $2.0 billion. The good news is that based on the preliminary economic outlook the Commonwealth should have sufficient revenues to meet these obligations.

But this does not mean we can act without restraint. Once core commitments are met, the state should use any remaining funds to invest in our infrastructure (transportation and capital facilities) and to continue cleaning up the Chesapeake Bay by making good on the commitment the House of Delegates made to invest $50 million annually over a 10-year period.

While Virginia's fortunes have turned around, I am mindful of the fact that the economy is like a roller coaster, what goes up eventually comes down. Over the 30 years that I have been a member of the Appropriations Committee, I have seen four recessions.

As Virginia finished fiscal year 2005 with another surplus, it is easy to forget the magnitude of the impact that the 2001 recession had on Virginia's finances. As Virginia's economy expands – faster than both the national economy and nearly all other states – it is important to keep in sight what is fueling our expansion so that we do not repeat previous post-recessionary mistakes.

Case in point: During the 1980s Virginia's economy soared as the defense establishment set up shop to build a 600 hundred ship Navy and create the Strategic Defense Initiative. In Northern Virginia, real estate development was buoyed by the need for office space and housing to accommodate the defense establishment. But like any good roller coaster, the steep climb eventually resulted in a precipitous drop. The Cold War ended, leading to a decrease in defense spending and increased unemployment. The resulting 1991 recession was characterized by a collapse in the real estate market which hit Northern Virginia hard.

After the 1991 recession, it took five years for Virginia to get its fiscal house in order. No sooner did we restore structural balance to the budget than the economy soared, fueled by an explosion in the information technology industry. The result was three years of double digit revenue growth.

While the Rainy Day Fund consumed some of this revenue, the fact remains we went on a spending spree; expanding existing programs, starting new ones, and cutting taxes. Money was coming into the treasury faster than the revenue forecasts predicted.

In 2001, the "bubble" burst, technology companies and dot.coms went bankrupt and the stock market retreated.

In fiscal year 2002, state revenues declined 5.5 percent below the fiscal year 2001 level and revenues remained flat during fiscal year 2003.

Over three legislative sessions the General Assembly had to deal with a cumulative revenue shortfall of $6.0 billion, stemming from lower revenue growth and increased mandatory spending in public education and Medicaid. It was not until fiscal year 2004 that revenues fully rebounded above the 2001 level.

So what caused this remarkable turn around? Simply put, the federal government. Virginia, or should I say Northern Virginia, has benefited greatly from federal spending which accounts for approximately one-third of the Washington metropolitan area economy.

To put this expansion into perspective, Northern Virginia has accounted for approximately 60 percent of the state's overall job gains. So while Virginia has outpaced the nation in job growth, the reality is that our current fortunes are inextricably linked to the federal government – much like in the late 1980's. Should growth in federal spending be reduced, the fortunes of Virginia may change.

As we look ahead to the 2006 Session we should do so with a commitment to maintaining our structural balance. In times of prosperity, we continue to face challenges. We must be committed to making difficult choices, some of which may not be popular with the advocates of particular causes, but restraint is necessary if we are to match our budget to the constraints of our ongoing revenue stream.

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.

Our first presenters will be Dr. Christine Chmura to discuss the economy.

Chris Chmura is the Principal and Chief Economist for Chmura Economics and Analytics. She is a familiar face in Virginia's financial circles and is a longtime member of the Governor's Advisory Board of Economists.