

House Appropriations Committee Retreat
The Honorable Lacey E. Putney

November 17, 2009

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

As I reflect on the previous 6 retreats, I am reminded of the value that they have provided in preparing the Committee for the upcoming Session.

The retreat allows us the opportunity to explore a variety of emerging issues, many of which we will be asked to deal with during the upcoming Session.

While having a lock on knowledge maybe good, I believe that the knowledge level should expand beyond 24 members. It is for that reason that I extended an invitation to the members of the House Finance Committee.

In addition to the members of the Committee, I am pleased that Speaker Howell and Majority Leader Griffith have joined us, along with the Chairman of the House Finance Committee Bob Purkey.

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 including the economic and budgetary outlook of the Commonwealth, along with the current conditions of the housing sector and consumer spending; State Debt management practices; a comparison of the Virginia Retirement System benefits to other states and what other states are doing in terms of benefit modifications; and, we will finish off the retreat with a discussion of health care reform and what it means to Virginia

Before we get underway, I would like to digress a moment to last Session. You may recall that last winter the Appropriations Committee remained concerned with the fiscal 2010 revenue estimates, which were revised downward by the Governor during the mid-session reforecast in February from 6.7% to 4.4%.

Sensing that the economy would remain sluggish and employment losses would continue, the General Assembly prudently set aside about \$150.0 million or 1% revenue growth.

Of course, as it has turned out, that was clearly not enough buffer. We finished fiscal year 2009 \$300.0 million less than forecasted and fiscal 2010 has been revised downward to negative 1.6 %.

Since the 2008-10 budget was first introduced in December 2007, we have dealt with a cumulative revenue shortfall of approximately \$6.3 billion.

While the U.S. economy technically has emerged from the great Recession, it would appear that the recovery will be long, gradual, and uneven.

All told, consumer confidence remains weak and while job loss is abating, the fact remains that consumers are still worried about more job losses over the next 12 months.

While Virginia typically out-performs the U.S. economy, it is not immune from the nation's problems.

Although the Governor revised the fiscal year 2010 revenue estimates in August, there are many that question whether the revenue decline will get worse.

As you will learn from today's presentations, Virginia's economy is still in transition and that our payroll withholding, which represents 60 percent of the state's general fund revenues, is currently at negative

growth. It appears that for the first time ever payroll withholding growth may actually be less than the previous year, or at the very least, flat.

Based on year-to-date revenue collections, it would appear that further revisions to our fiscal year 2010 revenue forecast will be warranted and we will see those revisions in the Governor's budget amendments on December 18th.

While the Governor has used his executive authority to reduce spending in fiscal year 2010, the reality is additional reduction will be necessary in order to close out the budget for the current fiscal year.

Many of the Governor's September reductions were onetime actions, which mean we will be structurally out of balance going into the 2010-12 budget.

So, the reality of the situation is that we will need to continue to make adjustments to the current year budget and brace for a sizeable budget gap in the 2010-12 biennium.

It will fall on the General Assembly to continue to make significant reductions that are ongoing and structural.

Much like we did in the early 1990's, we will need to manage our fiscal situation. During the 1991 recession, it was not until 1996 that we achieved a structurally balanced budget.

So, we must be committed to making difficult choices. Many of these choices may not be popular, but, will be necessary if we are to balance our budget within the constraints of our available revenue stream.

As we approach the 2010 Session, it is my hope that the collective "we" in this room will work together in a fiscally responsible manner with minimum rancor so that we can do the people's business.

I would implore all the members of the House to provide me their input as to how we balance this budget and what specific programs should either be reduced or eliminated. What I don't want is generalized statements of cutting waste and eliminating inefficiency. Neither of those is a line item in the state budget.

It is my hope that Members that submit amendments for spending or program restoration will also submit a corresponding amendment to reduce spending.

I look forward to working with Governor Kaine in the closing months of his administration as he prepares his final budget and I also look forward to working with Governor-elect McDonnell and all of the Members of the General Assembly in developing long-term structural reforms in state spending without a tax increase, which would just further burden the consumers during this economic downturn.

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

Now I would like to introduce our keynote speaker, Dr. Jeffery Lacker, President of the Federal Reserve Bank of Richmond.

Jeffrey Lacker took office as president on August 1, 2004 as the seventh chief executive of the Fifth District Federal Reserve Bank, and began serving as a voting member of the Federal Open Market Committee in 2009.