House Appropriations Committee Retreat
The Honorable Lacey E. Putney

November 15, 2011

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

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

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 federal deficit reduction efforts in Congress and what it could potentially mean to Virginia's economy as well as programs funded in partnership with the federal government. We will also have a discussion of the economic and budgetary outlook for the Commonwealth. Finally, the staff will present information on some of the major cost drivers that will impact the 2012-14 budget, including: Virginia Retirement System contribution rates, rebenchmarking of public education, and funding increases in Medicaid.

While the U.S. economy technically has emerged from the great Recession, it appears that the recovery will be long, gradual, and uneven. All told, consumer confidence remains weak; and, while job losses have abated, the national economy has recovered only about 25%, or 2.1 million jobs out of the nearly 8 million jobs lost. The rate of job recovery from the 2007 recession is perhaps the worst compared to all previous recessions.

While Virginia typically out-performs the U.S. economy, you will see today that our rate of growth has slowed substantially relative to the nation. Clearly there are several reasons for this. First, Virginia lagged going into the recession by about 6 months and did not suffer the same level of job losses compared to other states. Second, Virginia's economy began to recover jobs at a much faster rate than did the nation. A year ago Virginia had recovered nearly 21% of the total jobs lost, compared to only 7% nationally.

Finally, as we look at Northern Virginia, that region typically accounts for over half of the state's job growth. During the recession, Northern Virginia experienced lower job losses than any other region. In other words, Northern Virginia accounted for 26% of the state's total jobs lost, but has 36% of the state's total employment.

Northern Virginia has recovered about 75% of its job losses; however, more recently job growth has flattened. A year ago the Washington region ranked number one in job growth for metropolitan areas greater than one million in population. Today it ranks 22 out of 26.

Clearly Northern Virginia is the primary engine that drives Virginia's economy. But what drives the Northern Virginia economy…the federal government, which accounts for about 36% of economic activity. Likewise, Hampton Roads is also closely linked to federal spending, which accounts for about a third of that region's economy.

So, as Congress finally begins to get its fiscal house in order, we must recognize the potential impact on these two regions. I believe that the economic forecast being developed by the Governor will most likely take into account a slowdown in job growth in Northern Virginia and Hampton Roads. Some of the slowdown we are currently seeing may very well be attributable to the "chilling" effect of the budgetary uncertainty being played out in Congress. Until Congress acts, the true impact of federal spending cuts on our economy, primarily in defense, will be unknown. However, I believe a cautious outlook for those two regions is warranted.

While Virginia employment numbers have softened, you will learn from today's presentation that year-to-date collections for net individual income taxes are running ahead of forecast. The largest component, payroll withholding, is currently growing around 4%, ahead of the forecast, but below our historical growth of 6%. The other major component of individual income taxes, estimated payments, it well above forecast. However, this is one of the most volatile sources, so some caution to any upward revision is warranted.

Sales tax collections are running slightly below the forecast, but the last two months have shown some improvement. I suggest that we need to get through the holiday shopping season in order to fully assess whether any revisions may be warranted.

While the current economic indicators continue to show a zigzagging economy, money in the bank is also a strong measure as to how we are performing relative to the forecast. Clearly, year-to-date revenue collections would suggest that upward adjustments to our fiscal year 2012 revenue forecast may be warranted and we most likely could see some revisions in the Governor's budget amendments on December 19th.

As we look ahead to fiscal years 2013 and 2014, which form the 2012-14 biennial budget, the outlook points to a growing economy, albeit at a slow pace. This makes it feel as if the economy is still in a recession even though growth is advancing.

Last Session I believe the House took a very prudent approach in addressing many of the structural problems that were embedded in the budget originally adopted during the 2010 Session. While fixing the structural problems were not as sexy as spending on new programs or restoring previously imposed cuts, the fact is that through our fiscal stewardship budget amendments we adopted resulted in a more structurally balanced budget. As a result we are in a stronger position than we could have otherwise been as we develop the 2012-14 biennial budget.

However, as we continue to experience below trend-line revenue growth, we have to face the continued challenge of aligning our spending with our revenue. As you will learn today, revenue growth in fiscal years 2013 and 2014, while sufficient to meet our base budget requirements, will not be sufficient to meet the expected cost increases in Medicaid, public education, and VRS contribution rates.

Clearly the budget is about choices and while we all would like to do more, it is times like this that remind us that we have an obligation to get back to the basics of government -- to prioritize what government should do, what programs work best and to identify programs, that while worthwhile, can no longer be afforded.

After 50 years in the House I can attest to the fact that there is no such thing as a perfect budget. But, I submit to you that the budget developed by the House Appropriations Committee will be crafted on a bi-partisan basis, with an eye towards minimizing the impact to services for our most needy citizens.

In the House, we will start examining all programs and all initiatives, especially programs that began within the last five years, and look at making targeted budgetary reductions, not rely solely on across-the-board cuts. Several other strategies we will employ to balance the budget in a responsible manner include: level funding essential programs to the extent possible; and, reducing or eliminating programs that are not meeting their original legislative intent.

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 could be reduced or eliminated. What I don't want is generalized statements of cutting waste and eliminating inefficiency. Neither of those are line items in the budget.

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. Together, we will forge a plan of action that will address the core services so important to our future.

Thank you for allowing me the opportunity to share my thoughts with you today and I look forward to our continued relationship.

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.

First up, we have Marcia Howard, Executive Director of the Federal Funds Information for States. She will discuss the Budget Control Act of 2011. This is the federal legislation that sets up the process for addressing the federal budget deficit. As you will learn today, how Congress gets there and what it means to state and local budgets is anyone's guess.

Following Marcia, will be Dr. Stephen S. Fuller. Dr. Fuller is a Professor and Dwight Schar Faculty Chair at George Mason University, where he also serves as the Director for the Center for Regional Analysis. Dr. Fuller is an expert on federal spending and its impact on the Northern Virginia economy. Dr. Fuller is a former member of the Governor's Advisory Board of Economists.

Thank you both for participating at our retreat. Welcome.