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House Appropriations Committee Retreat
The Honorable S. Chris Jones

November 18, 2014

Good morning, I would like to welcome the Committee members, invited guests and the general public to the 12th annual Appropriations Committee retreat. This retreat started under the Chairmanship of Delegates Callahan and Dickinson. It continued under the able leadership of my friend and mentor Lacey Putney. So, I am indeed honored to follow in the footsteps of our former Chairman.

For the first time this retreat is being held west of Roanoke. Frankly I believe it is important that this Committee travel such far distances in order to get a better understanding of the challenges and opportunities that face Southwest Virginia.

In addition to the members of the Committee, I am pleased that members of the House Finance Committee are in attendance. 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 starting with the economic and budgetary outlook for the Commonwealth. The staff will also present information on the Myths and Realities of the Federal Budget Control Act.

We will also hear about Virginia's strengths and weaknesses as we find a different pathway from federal spending dependency. Make no mistake about it, Virginia is in the midst of a transformation economically. While I do not write off the importance of the defense establishment in Virginia, I believe that prudence suggests that we guard against the vagaries of Washington's vacillating budgetary policies. Likewise, as we will hear from Retired Admiral Harvey, the impact of Pentagon decisions can have as much influence on defense spending, irrespective of the efforts to control federal spending.

While the U.S. economy has now recovered the jobs lost during the Great Recession, it took nearly 5 years for that to occur. Concurrent with employment gains, the US unemployment rate has dropped from a high of 10%. However, as we take a deeper look at the US employment numbers, they would suggest the national economy still has a ways to go. Individuals employed part-time due to economic reasons remains high, and many economists would argue mask the true unemployment rate.

While, consumer confidence has improved over the last several months, much of that is driven by the collapse of oil prices, which are down over 30% and are at levels last seen in 2010. A recent report from the U.S. Energy Department forecasts that gas prices will remain below $3 a gallon, resulting in $61 billion in savings for the consumer. These "dividends" should be good news for business so long as consumers redirect the savings to other spending.

While Virginia typically out-performs the U.S. economy, you will see today that since 2011, our rate of growth has slowed substantially relative to the nation and we continue to lag the U.S. economy in job growth. Interestingly enough, however, so has Maryland. The common denominator for both states is federal spending.

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 36% of economic activity in the region. Likewise, Hampton Roads is also closely linked to federal spending, which accounts for about 40% of that region's economy.

Northern Virginia, which typically accounts for over half of the state's job growth, accounted for only 19% of the jobs in Fiscal Year 2014, that is down from 65% of Virginia's total jobs in Fiscal year 2012. A couple of years ago the Washington region ranked number one in job growth for metropolitan areas greater than one million in population. Today it ranks 26th out of 27 -- thank goodness for Detroit!

In Fiscal Year 2013, Hampton Roads accounted for 27% of Virginia's job growth. In Fiscal Year 2014, employment in the region essentially remained flat.

So, as Congress finally begins to get its fiscal house in order, we must recognize the potential impact on these two regions. The economic forecast developed this past summer forms the basis of the current revenue outlook for the 2014-16 biennium and took 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 remains warranted.

Many of you probably saw the October Revenue Report that came out last Thursday. October was a good month. All told, year-to-date collections at this point are up about $300.0 million. However, I would suggest that many more data points are needed to properly assess were we are. The next 3 months are important to look at and analyze.

Corporate and individual extension filers had until October 15th and November 1st, respectively to file their returns. Historically, November and December are significant months for corporate refunding.

While Virginia's employment numbers have softened, you will learn from today's presentation that year-to-date collections for payroll withholding taxes are surprisingly above the current forecast. However, it should be noted that payroll withholding was ahead of forecast this time last year. Another point to note is that October's payroll withholding growth was 3.4%, more in line with the forecast of 2.7% for the year.

The other major component of individual income taxes, estimated payments, is again showing strength. However, as we learned last May, what goes up can rapidly go down. Estimated payments are an extremely volatile revenue source, with approximately 40% of the revenues coming in as final payments. Last May final payments fell over 20%, nearly $400 million below the estimate for the year.

Sales tax collections are running within the forecast, so let's see if lower gas prices translate into a better holiday shopping season.

Last Session I believe the House took a very prudent approach in developing its budget. We planned from the beginning that revenues were shaky and that the forecast could very well be downgraded. That prudence allowed us to balance the budget in Chapter 2. However, the revised forecast in which HB 5010 is based on required further cuts. We no longer had the luxury of tapping the Rainy Day Fund. Real cuts were made to balance the budget. However, bear in mind that all of the work was not 100% finished. House Bill 5010 contains $50.0 million in additional unspecified cuts in Fiscal Year 2015 and $272.0 million in Fiscal Year 2016.

On top of finding a designation for those cuts, we have several budget requests that have been submitted to the Governor for consideration. In total nearly $460 million has been requested over the biennium. Peeling back the numbers, only about $200.0 million would fall into the category of mandatory spending. Within those numbers a lot of scrubbing will need to occur.

On the good news front, the Medicaid forecast will be coming down, resulting in about $200.0 million in general fund savings. Another major driver, public education, has about 1,500 fewer children than anticipated. The savings, while not large are nonetheless good news.

So while "money" in the bank is always a good sign, I believe that we must continue to demonstrate restraint. Keep in mind that based on the revenue forecast for Fiscal Year 2015 of 2.9% growth, the General Assembly will be required to make a constitutionally mandated deposit of $157.5 million in Fiscal Year 2017. If the Fiscal Year 2015 revenues exceed the forecast – even if the forecast is adjusted upward – the required deposit to the Rainy Day Fund will capture 50% of the increase. So, let's not start singing "Happy Days Are Here Again".

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 core services 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 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.