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**For Immediate Release:** August 26, 2016

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## Governor McAuliffe's Year-End Address to the Joint Money Committees of the General Assembly

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*As Prepared for Delivery*

Chairman Norment, Chairman Hanger, Chairman Jones, Chairman Ware, members of the General Assembly, ladies and gentlemen: Good morning.

And to my wife, First Lady Dorothy McAuliffe, Attorney General Mark Herring and members of my cabinet, thank you for being here today.

First, I thank all of you for gathering early for this occasion so that Dorothy and I can attend our son's graduation at Dam Neck later this morning.

I know how much Virginians love our military.

Let's give a round of applause to all of the men and women who serve or have served in our armed forces.

While I am in Hampton Roads today, I want you to know that I'll also be announcing a major milestone in our work to make Virginia the most veteran-friendly state in the nation.

This afternoon, we will announce that the new Hampton Roads Veterans Care Center will be located in Virginia Beach.

As you know, Virginia has been working for nearly a decade to provide this important service for our veterans.

Virginia has the fastest growing population of veterans in the nation.

And we have a responsibility to serve those who have served our country.

This has been a team effort, and I thank Delegates Kirk Cox and Chris Jones, and Senator Louise Lucas for working with us.

Over 2 years, we worked closely together to reach this goal, budgeting \$66.7 million dollars in 2015 and a final installment of \$29.3 million dollars earlier this year.

After years of deadlock while we waited for federal funds, we are now moving forward with 2 new 120-bed

veteran care centers in Northern Virginia and Hampton Roads.

These accomplishments are a reminder of the legacy that we are capable of building together as long as we remain focused and disciplined during the highs and lows of our economic cycles.

Those cycles have gotten shorter and more unpredictable lately.

As you recall, we experienced our first shortfall together at the end of fiscal year 2014.

That dip was mainly the result of changes in federal tax policy that stacked up capital gains in tax year 2012 but depleted nonwithholding income tax revenues in tax year 2013.

That issue was temporary.

Our main concern was automatic federal budget cuts, which savaged the Commonwealth's economy, reducing military contracts to Virginia firms by \$9.8 billion dollars between 2011 and 2013 and threatening to eliminate 115,000 jobs in the Commonwealth.

These cuts continue to reverberate through our economy.

Given the uncertainties we faced, we took a conservative approach to the 2015 budget, and we ended the fiscal year with a record surplus.

At the time, we could feel Virginia shaking off the lingering drag from the recession.

With our economy strengthening, we took aggressive action to maximize the opportunity presented by a 2-year reprieve from sequestration.

Our expectations for employment growth in 2016 were accurate.

We ended the fiscal year with 86,200 more jobs in Virginia than the previous June.

After 5 straight years of job growth hovering around 1 percent, Virginia saw a 2.3 percent gain in 2016.

That's the strongest rate since fiscal year 2005, and it tops the national growth rate of 2.0 percent.

However, that trend was not reflected in wages and tax revenue, which grew, but at a slower rate than anticipated.

The loss of high-paying jobs due to sequestration and defense spending cuts has changed the employment mix in Virginia.

Recent job gains have been in lower paying job classifications.

This phenomenon is also driven in part by demographics.

Baby boomers are retiring, leaving behind a younger workforce that is still building up seniority.

However, we also see a more challenging element at play -- one that may be frustrating, but one that also reinforces the urgency that we feel as we work together to build a new Virginia economy.

The fiscal year 2016 wage and revenue figures underscore the large number of temporary employees in the workforce, a likely sign that our businesses are still looking for assurances that our national recovery is sustainable.

Unlike in the past when solid job growth resulted in significant revenue gains, fiscal year 2016's revenue growth resembled what we typically experience in tougher economic times.

Total general fund revenues rose by 1.7 percent in fiscal year 2016, for a total of \$18 billion dollars, but fell short of our forecast of 3.2 percent growth by \$268.9 million dollars.

Almost all of the shortfall was due to poor performance of withholding and sales tax collections, the 2 revenue sources most closely tied to current economic conditions.

In addition, transfers to the general fund fell \$10.4 million dollars short of the forecast, mainly as a result of lower sales tax receipts.

Thus, the combined shortfall including general fund revenue and transfers in fiscal year 2016 totaled \$279.3 million dollars.

Virginia is not alone in this situation.

Many other states are experiencing similar budget challenges.

We have been advised that Maryland is seeing weak collections in the same 2 revenue sources: withholding receipts and sales taxes.

New York officials this week reported that their state's tax collections declined by \$1.1 billion dollars over the past 4 months compared to last year, primarily due to weak personal income tax revenues.

Moreover, the federal deficit is coming in higher this year than expected.

The Congressional Budget Office attributes this primarily to lower than expected receipts coming into the US Treasury.

Just because other governments are experiencing revenue difficulties does not mean that Virginians will be satisfied to be part of the pack.

We must focus on the budget actions necessary to keep our Commonwealth moving forward.

State law requires me to prepare a re-estimate of general fund revenues for the current biennium and the next if total individual income, corporate income and sales taxes collected in fiscal year 2016 are 1.0 % or more below the budget estimate for those taxes.

Since fiscal year 2016 revenue collections were lower than this threshold, I am required to revise the official estimate of general fund revenue collections based on a review by an advisory council of revenue

estimates.

As part of this process, the Joint Advisory Board of Economists met on July 15 to discuss two economic scenarios going forward: the IHS Economics' May standard forecast and an alternative pessimistic outlook.

The consensus of the Board was that the economic forecast for both the U.S. and Virginia should be the May standard outlook.

The Governor's Advisory Council on Revenue Estimates met last week, and after much discussion, a clear majority of the board members selected the May standard outlook as the most likely economic scenario for the Commonwealth.

It was recommended that we be conservative and use a standard minus economic scenario given the current political uncertainty and the current mix of new jobs that is more heavily weighted toward lower wages.

The revised revenue estimates I report to you today have been further reduced to reflect the belief that the trend toward lower paying jobs will continue in the short-term, as well as our concern about next October's sequestration trigger.

The revised Interim forecast reduces revenue from that contained in the currently enacted Appropriation Act by \$564.4 million dollars in fiscal year 2017, as growth falls from 3.2 percent in the official forecast to 1.7 percent.

The Interim forecast also projects total revenue growth of 3.6 percent in fiscal year 2018 compared with 3.9 percent in the official forecast, a reduction of \$632.7 million dollars.

In total, the Interim forecast reduces the official revenue estimate projected in the current Appropriation Act by \$1.2 billion dollars over the biennium.

Now, we know at this point on Aug. 26, that we do not have a full picture of the economic conditions that will impact our Commonwealth's finances.

More detail will come into focus over the coming months, enabling me to provide you with a comprehensive response in the budget I will release in December.

We have worked closely with the leaders of the legislative money committees and your staff to keep everyone informed, and we will continue to do so.

Our first task must be to address fiscal year 2017.

I can tell you that we already have options to make a substantial down payment on the shortfall for fiscal year 2017.

First, pay increases for state workers, faculty, teachers, deputies and other state-supported local employees remain a priority for all of us, but as you know, those raises were tied to revenues in the appropriations act.

We will direct \$125.1 million dollars from amounts reserved for pay increases in fiscal year 2017 toward the

shortfall, as required by law.

Next, we have the option of using approximately \$378.2 million dollars from the Revenue Stabilization Fund to address the imbalance in fiscal year 2017.

Combined, these 2 actions could address more than half of our immediate problem in the first year of the biennium.

Nevertheless, we cannot assume that the remainder of the fiscal fix will be easy or cheap.

We must prepare ourselves for tough decisions ahead.

Once we have a firm grasp on required actions for fiscal year 2017, by early October, we will tackle remaining issues with the 2018 budget year.

Coach Vince Lombardi once said, "Winners never quit and quitters never win."

We began this administration with a goal to build a new Virginia economy and a plan to get there.

Through all of the ups and downs over the past 31 months, we've worked our plan each and every day, and we've never quit.

When I talk about building a new Virginia economy, I am talking about creating a business climate that will generate high-paying jobs and strengthen our financial footing so that we can power through the headwinds stirred up by national and global events.

We must continue to work harder and smarter to get those top jobs.

It is our responsibility to demonstrate that we can swiftly resolve the short-term challenges that inevitably arise without being distracted from our long-term goals.

We must not allow ourselves to be held hostage by an outdated and rigid view of our economic fate that ties our fortunes to the turmoil in Washington, D.C.

We must have the courage to embrace innovation and grow in new directions.

We must move forward with our blueprint to develop a skilled workforce, redesign our high school education system and construct the world-class infrastructure that will put Virginia at the top of every CEO's wish list.

It would be counterproductive to set those types of initiatives aside until a more prosperous day arrives.

Those initiatives are our pathway to prosperity.

And friends, we have already made great strides down that pathway.

Let's not forget what we have accomplished together so far.

I am proud to tell you today that we've had 784 economic development announcements over the past 31

months bringing in a record \$13.77 billion dollars in capital investment that will benefit our Commonwealth for many years to come.

We have made historic job announcements that are giving communities across our Commonwealth a new confidence in themselves and their futures.

We were in Norfolk in March to announce that ADP, the global payroll processing giant, will invest \$32.25 million dollars to establish a regional customer service center there, creating 1,800 new jobs.

Former Mayor Paul Fraim described this expansion as Norfolk's largest job announcement in a generation.

On that very same day, we crossed the state to announce that Eldor Corporation, an international leader in the automotive business, will invest \$75 million dollars to bring its first U.S. production plant to Botetourt County.

This tremendous project will create about 350 new high-paying jobs thanks to the relationships we developed during our 2015 trade mission to Europe.

We were on a roll, and 7 days later, we were back in the Roanoke Valley to put an exclamation point on the week with the announcement that Deschutes Brewery will invest \$85 million dollars to establish its Eastern U.S. brewery in the City of Roanoke.

Virginia successfully competed against North Carolina and South Carolina for the project, which will create 108 new jobs paying above the average prevailing wage in the region.

We've continued to score one major job-creating project after another.

An additional 178 jobs in Botetourt.

600 jobs in Chesapeake.

A total of 716 jobs from 2 projects in Arlington.

And 145 jobs in Dinwiddie County.

As exciting as each of those projects is, the overall impact is even more satisfying.

Ladies and gentlemen, I am pleased to tell you that the number of jobs in Virginia has grown by more than 147,700 during this administration.

The Commonwealth has enjoyed 28 consecutive months of positive year-over-year employment growth.

Our unemployment rate is 3.7 percent, the lowest since April 2008 and the lowest in the Southeast.

Remember that the unemployment rate was 5.4 percent at the start of this administration.

Friends, that represents the steepest decline in the unemployment rate at this point in a governor's term in 32 years.

In comparison, the national rate is 4.9 percent.

We made tremendous progress during this year's legislative session, culminating in a solid budget with a coherent strategy for continuing our work to build a new Virginia economy.

First, we passed legislation to create the nation's first pay-for-performance workforce development system that will help us to close the skills gap in our Commonwealth.

Workforce remains the core of our economic agenda, and with good reason.

Just this week I was in Abingdon to see a commercial driver's license program offered by Virginia Highlands Community College and an affiliate of Roger's Trucking.

Nationwide, we need an additional 48,000 truckers to handle demand for commercial hauling.

People are lining up for the 6-week training program in Abingdon because it gives them access to trucking jobs in Southwest Virginia with starting salaries that range from \$30,000 to \$45,000.

And thanks to our Workforce Grant Program, the cost for participants to get this training has been cut by two-thirds.

Now, the challenge we face today is not a failure to create high-paying jobs.

I can tell you that we are bringing those jobs to Virginia every day.

But that's only half of the equation.

The truth is that there are 36,000 high-paying jobs in Virginia today that are open because we don't have workers with the right computer and math skills to fill them.

Those jobs have a starting salary of \$87,600, with total annual wages of nearly \$3.2 billion dollars.

If filled, those jobs would generate more than \$100 million dollars in state tax collections.

This is the reason that our partnership on workforce development is so crucial to building a new Virginia economy.

Nationally, we know that 1 in 4 jobs requires a specialized credential.

The Bureau of Labor Statistics tells us that the median weekly earnings for full-time workers with a certification or license are 34 percent higher than earnings for full-time workers without a credential.

We're talking about \$1,000 a week compared to \$747.

And the men and women who hold a credential have a 2.7 percent unemployment rate compared to a 6.1 percent jobless rate for those who lack that additional training.

Workforce is the final, essential mile of the talent pipeline, but we recognize it's only one piece.

We made education at all levels our top priority this year, and I tell you this morning that we will continue to keep that focus.

The First Lady and I have visited many schools across the Commonwealth, and we are so impressed by the students, teachers and staff in every community.

We want to give them the tools and the freedom to reach their full potential.

We don't want to weigh them down with marathon standardized tests that rattle nerves and drain brains.

That's why we worked together this year to limit Standards of Learning tests to a maximum of 2 hours.

We also passed legislation to modernize our high school curriculum and put a greater emphasis on hands-on learning, internships, early college courses and industry credentials, rather than classroom seat-time.

And I thank the First Lady for the more than 4 million additional meals served during the last academic year.

2016 will also be remembered as a milestone year for transportation.

In February, we reached a historic agreement that enabled us to move forward with improvements to Interstate 66.

We just broke ground on the first phase of that enormous project earlier this month, and we are wasting no time getting down to business.

I can promise you that Northern Virginians will see the benefits of this crucial project starting next year.

The Interstate 66 plan is a game changer for commuters and for our economy.

Taken as a whole, it is the most significant plan for congestion relief on I-66 in the 30-year history of this interstate.

But we didn't stop there.

We announced last month that Virginia won a \$165 million dollar federal grant to finally break the gridlock on Interstate 95, the most heavily congested corridor on the East Coast.

That represents 20 percent of the total \$800 million dollars that was available through the federal FASTLANE program for the entire nation.

Together, these megaprojects fulfill our promise to unlock all of Virginia from the congestion that has been strangling us for decades.

But that's just the beginning.

The \$1.4 billion dollar Atlantic Gateway project is literally going to transform how people and goods move through the Commonwealth.

It includes 55 miles of benefits touching all modes of transportation.

We're talking about 14 miles of additional railroad track, 17 miles of extended Express Lanes and the Rappahannock River Crossing.

And as part of this project, Virginia will secure ownership of the S-line from North Caroline to Richmond.

With that key stretch of rail in our possession, we will lay the groundwork for higher speed rail throughout the Commonwealth and the Southeast.

It is astonishing to think how far we have come in just the past 6 months.

Today we are burning rubber and leaving Maryland to eat our dust.

We're also at a pivotal moment with the Port of Virginia.

With your support, we approved \$350 million dollars in terminal expansions that will grow the port's capacity by 46 percent.

It's estimated that the improvements will result in 120,000 new jobs across the Commonwealth, more than \$460 million dollars in state and local taxes, and \$16 billion dollars in additional spending.

Our timing could not be better.

Last month, the first ship called on the Port of Virginia after passing through the newly-expanded Panama Canal.

At 10,000 TEUs, it was also the largest ship to call on the port in its history.

I can tell you that it will be the first of many Post-Panamax ships that we will see in the months and years ahead.

If we stand back and look at all we've accomplished, we can be confident that we are in a very different place today than we were 2 years ago when we confronted our 1st budget shortfall.

Virginia is already a new and stronger Commonwealth because of the wise decisions and investments that we have all made together, and we are on a clear course to sustain that progress.

There are a couple of federal revenue items I want to call to your particular attention.

First, with the passage of the Marketplace Fairness Act, now stalled in the U.S. House of Representatives, we could collect an additional \$250 to 300 million dollars in revenues for transportation projects.

And second, we could soften this budget shortfall significantly if Virginia agrees to expand Medicaid and accept federal dollars that remain on the table waiting for our decision.

Those funds would go a long way in relieving some of the difficult budget actions that lie ahead.

It's disappointing to me to think about the \$7.95 billion dollars in federal funds that the Commonwealth has forfeited since the start of Medicaid expansion.

Those are dollars that we can never get back.

But there are still billions of dollars available to us every year moving forward if we work together on an efficient and sensible solution to our health care and budgetary needs.

Ladies and gentlemen, the true test of leadership is how we respond to the unexpected, to external forces that are beyond our control.

I say to you today: We must continue to build a new and innovative economy that will serve future generations of Virginians.

Mr. Chairman and members of the committees, I thank you in advance for your cooperation as we move forward together to address the fiscal issues at hand.

Let's promise today that we will work together and remind the world that Virginia truly is the greatest state in the greatest nation in the world.

Thank you.

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## GOVERNOR TERRY MCAULIFFE

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