

The Honorable Vincent F. Callahan, Jr.
Comments to the Committee
House 1650
February 4, 2007

Good afternoon. Today we meet to consider amendments to the current biennial budget which was adopted last June. Since we left last spring, the Commonwealth has continued to experience tremendous job growth resulting in additional revenue growth in excess of the forecast on which the budget was originally predicated.

Virginia's economy continues to out-perform the national economy. The two primary sources, income tax withholding and sales tax, which account for 78 percent of total general fund tax revenues are performing consistent with the economic indicators that form the basis of our revenue forecast.

Similar to the federal government and other states, Virginia has seen extraordinary growth in both corporate tax collections and estimated payments from individuals. In fact, the majority of the Governor's revenue adjustments this past December were in these two sources.

This past week, Secretary Wagner briefed me on year-to-date revenue collections. At this point, it would appear that no additional revenue adjustments are warranted. However, she did express concern with the pace of collections in estimated tax payments. While the Department of Taxation is still analyzing the January payments, at this point they are unable to specifically determine whether the smaller payments reflect the prudent use of the "safe harbor" rule which could ultimately result in larger final payments in May, or whether this is a sign of trouble.

Clearly, we won't know for certain until May, however, I continue to believe that the fundamentals of the economy are sound. But, as is the case in any business cycle, our economy has matured and is now entering a period of trend-line growth. Said another way, don't expect 8 percent revenue growth. Historically, trend-line growth has produced revenue gains in the mid-5 to 6 percent range.

Over the last several weeks, there have been some who have questioned the fiscal acumen of the House. Their statements suggest that we don't always properly analyze our fiscal choices.

As I indicated at our Retreat, it is extremely important that additional fiscal year 2007 revenues in excess of the current forecast **not** be carried into fiscal year 2008 and spent on ongoing programs. This would have the effect of doubling up spending that can not be supported within the longer-term revenue framework.

I believe that the subcommittee recommendations that are before us adhere to that philosophy.

In fact, as an extraordinary measure of fiscal prudence, we are recommending the set aside of \$50 million in a reserve fund. If not otherwise needed to offset a shortfall in estimated tax payments, these funds will be targeted to moderate tuition increases at our colleges and universities.

The majority of the Committee's other funding recommendations are targeted to meet our core commitments in transportation, cleaning up the Chesapeake Bay, adding mental health and mental retardation services through more waiver slots, increasing access to health care through provider reimbursements and providing additional compensation adjustments for our state employees, teachers, and state-supported local employees.

Last Session, one unaddressed area of the budget was transportation. I am very pleased that we have legislation moving through the House that addresses, on a statewide basis, the needs of all construction districts, including the jump-starting of critical transportation projects through a \$2.0 billion bond package. I am also pleased that the legislation includes authority for self-help for the specific needs of our two most congested regions of the state. Consistent with House Bill 3202, the recommendations before us will provide \$566.0 million in onetime general fund support, of which \$227 million represents 50 percent of excess revenues this year that we pledged to appropriate to transportation at the beginning of the Session.

With regard to cleaning up the Bay, I am pleased that the recommendations before us today will make another deposit of \$50 million towards our \$500 million commitment. I would like to thank Delegate Cox for his leadership in this area.

While the guiding principle of our budget was to avoid starting new programs, our budget recommendations do direct additional funding to add 160 MR waiver and 100 DD waiver slots. These slots, together with 170 already in the budget will provide 330 new slots in addition to the slots approved last year. For those that attended the public hearing in Northern Virginia and in Richmond, this was by far the number one priority for those that spoke.

Finally, throughout this process we were mindful of the men and women who serve the Commonwealth as highway workers who build and maintain our roads; as correctional officers, state troopers, and deputy sheriffs that protect us; as the individuals who provide care and services to those most in need; and as educators who teach our children. These are the faces of government who, unlike the policy makers, actually have to implement programs and do them in a cost effective and efficient manner.

I am pleased that our budget recommendations include funding for an additional second year salary adjustment for all of the employee groups.

In closing, the budget recommendations that will follow clearly and strategically focus our resources on keeping our promises to fund the core services of government. I believe, quite frankly, that the work of the subcommittees has achieved my goal. You did it right, and I thank you all for your efforts. I would also like to thank the staff for their hard work and devotion to good fiscal management.

I would like to receive the reports of the Subcommittees, beginning with Delegate May, Chairman of the Transportation Subcommittee.