



COMMONWEALTH OF VIRGINIA
HOUSE OF DELEGATES
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The Honorable S. Chris Jones
Comments to the Committee
House Bill 1400
February 8, 2015

Good afternoon. Today we meet to consider amendments to the current biennial budget as adopted last year.

Since the budget was introduced in December, we have conducted 5 public hearings across the state to receive input from the citizens on the priorities they would like to see addressed.

Shortly after arriving last month, the Subcommittee Chairmen and I began to discuss the direction the Committee would take in crafting the House Budget.

The following week we engaged in small group briefings during which members from both sides of the aisle participated in an in-depth discussion of the proposed budget.

With this input, we charted several goals and principles that would lay the foundation for the Committee's budget deliberations this session.

We first agreed that although state revenues were beginning to grow, we needed to be mindful that the rate of growth is well below the historic trend growth of 6.0%. As such, it was imperative that we not initiate new programs, but instead focus on addressing previous commitments and priorities such as: funding infrastructure, addressing items that create a structural imbalance, investing in higher education, mental health, the environment, and our most valuable asset, our state employees.

Since last fall, the U.S. economy has continued to strengthen with accelerated job growth. Consumers are more confident than they have been since before the 2007 Great

Recession. They are more optimistic about current business and labor market conditions as well as the short-term outlook for the economy and their individual earnings.

The positive trend has rippled through Virginia's economy. Over the last two years, Virginia's economy has underperformed the nation, whereas we have traditionally outperformed the U.S. economy. However, it appears that we have hit the inflection point. Since late summer, our job rate growth has steadily improved, with both Northern Virginia and Hampton Roads leading the way.

While January's revenue report has not been released, it's fair to say that withholding taxes remain well ahead of the 2.9% growth rate. After conferring with the Administration, the Chairman of the House Finance Committee, and the Chairmen of the Senate Finance Committee, we are recommending an upward adjustment in payroll withholding tax of \$240.0 million over the biennium.

In addition to payroll withholding taxes, the Administration is recommending an upward adjustment of \$152 million in corporate taxes over the biennium. Other adjustments include a net increase of \$16 million in income tax refunds and insurance premium taxes. All told, general fund revenues will be adjusted upward by \$408 million.

While all of this is certainly good news, it is imperative that we set aside a portion of this revenue for an advanced deposit to the Revenue Stabilization Fund. As you may recall from the staff briefing at the beginning of the Session, 50% of any upward adjustment to withholding, sales or corporate taxes in fiscal year 2015 will be reserved for deposit in fiscal year 2017.

Accordingly the Committee's budget will recommend that \$99.5 million be set aside in advance of this required deposit.

Over the years the House has taken a very conservative and prudent approach in addressing many of the structural problems that were embedded in the budget. While fixing these structural concerns is not as enticing as spending on new programs, the fact is that through our fiscal stewardship we have adopted a sound and balanced budget.

The amendments proposed by the Committee today will continue to build on our previous actions. In addition to the deposit to the Rainy Day Fund, our amendments

will reduce the amount of debt proposed by the Governor by nearly \$43 million. We will invest nearly \$114 million in cash for capital projects and maintenance reserve. We will fund several construction ready renovation projects that have been planned by our universities. The renovation of these classroom buildings will provide for additional student capacity at these schools.

Another structural action contained in our budget is the allocation of \$42 million to accelerate the funded status of the State Employee Retirement System. Three years ago the General Assembly adopted legislation that put us on a pathway to funding at 100%, the contribution rates certified by the VRS Board of Trustees by the 2018-2020 biennial budget. The actions in this budget will move us from 80% to 90% of the funded status, ultimately allowing us to achieve our goal two years earlier. In addition, our budget will deposit a total of \$190 million to pay down the unfunded liability in the teacher retirement plan. This action will not only lower the contribution rates it will also reduce the amount of liability that will appear on our local government's financial statements.

Our final step in improving structural integrity is to increase the threshold from \$2.5 million to \$3.5 million for accelerated filing of sales taxes. Our actions will remove over 1,400 additional small businesses from this requirement.

The Committee amendments will continue to make major investments in a number of areas that have been a top priority.

Through the hard work of Delegate Cox and his subcommittee, an additional \$31.5 million will be invested in higher education. Included in this total is \$20 million to help offset a portion of the cuts scheduled for FY 2016, as well as moderate tuition at our colleges and universities by fulfilling our commitment to pay for enrollment growth at schools that have graduation rates above 60%. In addition, our amendments will provide funding to our remaining schools to target transfer students from our Community Colleges, including up to \$3,000 per eligible transfer student that meets the requirement under the Transfer Grant Program.

In the area of Health and Human Resources I want to thank the entire subcommittee led by Delegate Ingram. This is by far the most difficult subcommittee on which to serve. The needs are great and the issues very complex.

Last year the House, working collaboratively with the Senate and the Governor, made a very significant investment in mental health reform. The work we did together last year was not the end, only the beginning, as there is clearly more to be done. The Governor came forward with a plan, and while I object to the manner in which he proposed to unilaterally implement it, I do support his goal of providing additional services to this deserving population. Like last year, I am pleased with the work of the subcommittee in putting together a plan that will provide coordinated mental health services, including a pharmacy benefit to over 29,000 individuals that are at or below 80% of the federal poverty level. In addition to these services, our recommendations will double the current level of funding to the free clinics and the community health centers. We will also provide 2 additional PACT teams, expand access to drop-off centers, and increase funding for children mental health services by over 50%.

Finally, I want to turn my remarks to our most valuable asset -- our state employees, state troopers, correctional officers, state-supported local employees and our school teachers.

Behind every program we fund there is a public employee delivering much needed care, service, protection and education. While we often get the credit, without their dedicated service, there would be no programs to benefit our citizens.

You may recall last year our budget included a pay raise for employees. Unfortunately the raise fell victim to the budget shortfall. So after the budget was introduced, I, along with all members of this committee, felt it appropriate that as revenues began to improve, we should make, as one of our top priorities, the funding of a salary adjustment for our dedicated employees.

While our recommendations provide salary adjustments for all employee groups, unlike state-supported local employees and teachers, state workers only have the General Assembly to turn to for a salary adjustment. We are their employer.

I want to thank Delegate Poindexter and his subcommittee for addressing state employee salary compression.

As I learned from my previous stint as chairman of that subcommittee, salary compression occurs when salaries for new employees are set at a higher rate than for

more senior employees holding the same job. Not surprisingly, this can have a negative impact on morale.

Unfortunately, across the board cost of living adjustments alone do nothing to rectify the issue of salary compression. Likewise, the fact that employees have not seen a meaningful pay raise in several years only exacerbates the problem.

To address this, the Subcommittee has recommended a salary adjustment based on years of state service. Specifically, state employees with 5 or more years of service will receive \$80 for each year of service, up to 30 years of service. For our State Troopers this amount will be \$95 per year of service for troopers with 3 or more years of service. In addition, all employees will receive an across-the-board adjustment of 1.5%.

For our college faculty the state will provide funding for the equivalent of a 2% salary adjustment.

With regard to state supported local employees, I am pleased that the subcommittee is also recommending a 2% salary adjustment.

Finally, for our school teachers, the state will provide incentive funding for its share of a 1.5% salary adjustment. In order to provide additional help to our local schools, our amendments will allow the schools to receive 11 months of state funding as long as they provide the 1.5% increase no later than January 1, 2016.

In closing, I believe that our recommendations adhere to our commitment to conservative budgeting, and clearly and strategically focus our resources on keeping our promises to fund the core services of government.

In fact, general fund spending in our budget is nearly \$865 million less than that proposed just over a year ago in House Bill 30, which was the original 2014-16 biennial budget.

I believe the work of the subcommittees has achieved the goals we set out last month. I am honored to lead this committee of talented men and women who understand their responsibility to those they serve. You did it right, and I thank each of you all for your efforts, I know for my days serving on the subcommittees the amount of work required to get it right, which you have done!!

I would also like to thank Robert Vaughn and his staff for their dedication, hard work and devotion to the outstanding fiscal management of our Commonwealth. But, I must end with a shout out to Carla Karnes, who as we all know makes the trains run on time on the 9th floor. We truly would be lost without her.

Now we will receive the reports of the Subcommittees, beginning with Delegate Ingram, Chairman of the Health and Human Resources Subcommittee.