COMMONWEALTH OF VIRGINIA
HOUSE OF DELEGATES
RICHMOND

APPROPRIATIONS COMMITTEE
13TH FLOOR, POCAHONTAS BUILDING
CAPITOL SQUARE
POST OFFICE BOX 406
RICHMOND, VIRGINIA 23218
804-698-1590

S. CHRIS JONES, CHAIRMAN
ROBERT P. VAUGHN, STAFF DIRECTOR

House Appropriations Committee Retreat
The Honorable S. Chris Jones

November 19, 2019

Good afternoon, I would like to welcome the respective Committee members, invited guests and the general public to the 17th annual Appropriations Committee retreat.

In addition to the members of the Appropriations Committee, I am pleased that members of the House Finance Committee are in attendance. I want to personally thank Chairman Ware for the strong working relationship that he has helped forge between the House Finance Committee and the Appropriations Committee over the last six years. I would also like to welcome Speaker Cox, Speaker Designee Filler-Corn, Delegate Kilgore and Delegate Herring to our annual gathering.

This retreat provides the opportunity to explore a variety of emerging issues, many of which the Committee will be asked to deal with during the upcoming Session.

We will hear about the economic outlook as our economy continues to grow at a steady pace. The U.S. economy as measured by Gross Domestic Product has slowed down, primarily driven by trade uncertainty.

However, the consumer remains engaged thanks to a strong job market that continues to grow at an average rate of 166,000 jobs per month, which has produced the lowest unemployment rate in over 50 years. Real wages are also growing, along with a record high stock market. Indeed, the consumer is keeping the U.S. economy growing.

In Virginia, we experienced strong financial performance in Fiscal Year 2019, ending the year with a surplus of approximately $800 million. After setting aside $455 million into the Taxpayer Relief Fund for rebates that the taxpayer received in October, we prudently directed all excess revenues, after mandatory deposits to the Rainy Day Fund and Water Quality Improvement Fund, into the new Cash Revenue Reserve Fund.

In total, by the end of the next biennium, the Rainy Day Fund and the Cash Revenue Reserve Fund will have over $1.6 billion in it. This is very good news, as evidenced by the rating agencies reaffirming our Triple-A bond rating, but we are only halfway there, as the goal should be to have the combined totals of reserve funds to be 15% of our General Fund Revenues.

As we look at job growth, Northern Virginia continues to be the engine that drives our economy. While Northern Virginia led in overall job growth, Virginia also saw strong job growth throughout the state. In fact, through the first quarter, 25% of the year-over-year job growth occurred outside the "golden crescent". We are also seeing job growth dispersed throughout many of our industry clusters such as manufacturing, construction, and professional services.

Virginia's economy is becoming more diverse and it is a positive sign that we are seeing strong job growth outside our more federally-dependent regions.

While it appears that Virginia is in the midst of a transformation economically, I do not dismiss the importance of the defense establishment in Virginia. Federal procurement spending is increasing in Northern Virginia which fuels some of the highest paying jobs.

Likewise, Hampton Roads, which has been lagging, has seen positive job growth, and the outlook is particularly good with regard to naval defense spending.

However, prudence and good management suggests that we continue to guard against the inconsistencies of Washington's vacillating budgetary policies which, as you know, can halt our economic progress.

Virginia's revenues continue to show strong growth. October was a good month. All told, year-to-date revenues stand at 8.5% versus the 1.2% growth rate required to meet the revenue assumption in the Appropriations Act. What is driving collections?

Well, payroll withholding is out-performing the forecast and accounts for 60% of total general fund revenues. Through October withholding stands at 5.7% versus a forecast of 4.2%. Likewise sales tax is growing well above forecast.

No doubt the fall re-forecast will look deeply at this and as you will see in the staff outlook, an upward adjustment to the forecast will result in additional revenue in the caboose budget.

The good news is as the 2020-22 biennial budget is built it will start with a structurally balanced foundation. This means the current fiscal year revenues are aligned with the current year spending, which hasn't always been the case in the past.

In planning the 2020-22 Biennial Budget, below trend revenue growth is expected. However, it appears projected revenue growth will be sufficient to cover the over $2.8 billion in mandatory and high priority spending items that the staff will discuss shortly. In fact, it appears that for the first time in a while, this budget will allow some additional flexibility.

While this is all good news, I think it is important to remember that while key economic indicators point to continued, but slower growth, we must bear in mind that the U.S. economy is now in its 10th year of expansion. In fact, this is the longest economic expansion in history. In some experts opinion, of which I share, we are overdue for a correction.

With such long-term growth, it is easy to forget that recessions do happen, and that Virginia must prepare for such events. Recessions, like natural disasters, require a great deal of planning and preparedness. That responsibility falls on all of us. Preemptive actions today can make the difference as to how Virginia weathers a fiscal shock.

I have been a member of the Appropriations Committee for 18 years. I have seen 2 economic downturns in which we had to scramble to balance our budget. In 2004, after the recession, I was 1 of 17 Republicans to vote for a tax increase.

I, like the other 16 members, put my responsibility as a legislator above my party because I knew it was the right thing to do in order to save Virginia's Triple A rating and continuation as a well-managed state.

The great recession hit a few years later and again Virginia was faced with difficult choices. Those choices included drawing down our Rainy Day Fund from \$1.2 billion to under \$300 million. We slashed agency budgets, cut support to higher education, used cash that had been dedicated to capital projects, transferred balances from non-general fund agencies, eliminated inflation adjustments to our hospitals, and we accelerated sales tax payments.

As the recession's grip tightened, we deferred funding a portion of our VRS contribution rate, exacerbating our unfunded liabilities.

Indeed, recessions can be painful and even debilitating. However, if we stay the course and maintain fiscal discipline, structural balance and exercise prudence in our spending decisions we can minimize the negative impact to the Commonwealth when another recession occurs.

Over the last six years I have had the honor to be your Chairman. When I began my tenure, I didn't fully appreciate the magnitude of the responsibilities of being Chairman, as well as the breath of areas I needed to educate myself. However, serving 12 years prior to my chairmanship gave me a strong foundational understanding of the complex and diverse areas this committee is responsible for. As I have said in past presentations, I believe the budget is the most important bill because it is the roadmap for the Commonwealth's future.

With the help of many, I believe the House has taken a very judicious approach in developing its budgets. We have been conservative in our revenue forecasting and have made sensible budget decisions. That diligence allowed us to structurally balance the budget by not leaving gaping holes to be filed in the future from unrealistic revenues expectations.

The Committee has resolved many of the structural imbalances and implemented practices to weather a future recession. They include:

- Fully repaying the millions of dollars in deferred contributions to the Virginia Retirement System, including expediting the full funding of the contribution rates one biennium early;

- Eliminated the requirement that all but the largest retailers accelerate their June sales tax payment;

- Reduced our reliance on transfers of non-general funds to support general fund spending;

- Invested in higher education, by providing funding to schools to produce specific degrees to meet the jobs our economy needs…And we were able to freeze tuition for the first time in 20 years; and, finally

- We created a secondary Revenue Reserve Fund that complements our Rainy Day Fund and gives the Governor and General Assembly not only another revenue cushion, but additional flexibility to address shortfalls which the Rainy Day Fund should not be used to address.

The actions listed above allowed us to build a structurally sound budget which saved Virginia's fiscal reputation as a well-managed state. This resulted in reaffirmation by all three rating agencies of Virginia's "Triple-triple A" bond rating.

I would like to personally thank each and every member of the Appropriations Committee for your dedication and commitment to the Commonwealth, and the privilege of serving as your Chairman. I have been truly humbled by the honor and trust.

Finally, I would like to call attention to the hard work of the Appropriations Committee staff. I have enjoyed working closely with Robert and his team, having the benefit of their sound counsel over the years. 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.

I know that the next Chairman, Luke Torian, will equally benefit from the experience and knowledge they bring to the discussion.

To the staff, words are inadequate to truly express my appreciation for your support and patience during my tenure as your chairman. I have been marveled as well as humbled by your intellect and sacrifice working long hours dealing with complex issues. Succeeding in meeting impossible deadlines to ensure that the work of the Commonwealth is done, all the while maintaining professional and principled relationships.

Now we will hear from Robert.