

Senate Finance Committee
Recommendations on SB 29 & SB 30, as introduced
February 18, 2018

The Honorable Thomas K. Norment, Jr., Co-Chairman

Ladies and Gentlemen of the Committee,

Before we begin, I would like to thank each of the members of the Committee for their hard work this session. Once again, each subcommittee carefully deliberated the difficult choices about how to best use limited public resources. As the hour is late, my remarks, and the remarks of each subcommittee chairman, will be brief.

Our primary task this year was to focus on the most critical issues facing Virginia today, while at the same time looking out for the long-term fiscal health of the Commonwealth. The actions we propose in areas such as employee compensation and higher education are painful, but the Committee believes they are in the best long-term fiscal interest of the Commonwealth. By making these tough choices we are able to redirect funding to the Committee's priorities; maintaining a strong cash position while continuing our efforts to fight the opioid crisis, improving services for the mentally ill, ensuring adequate resources to address civil disturbances, and making prudent infrastructure investments that best position our Commonwealth for future economic growth.

The subcommittees carefully reviewed all discretionary items in the introduced budget. In doing so, we were able to recommend resources that allow us to maintain an aggressive approach to establishing a revenue reserve that, if current economic conditions prevail, should reach a full two-percent of annual general fund revenues by the end of the biennium. The recommendations we make today, dedicate approximately \$336.4 million to the Revenue Cash Reserve. Maintaining this funding will enable us to better withstand unanticipated fluctuations in revenues, tempering the need for draconian reductions to state government in the future.

As you have heard since our retreat in Charlottesville in November, the bond rating agencies have repeatedly signaled to the Commonwealth that we must improve our cash position in order to better withstand unanticipated shortfalls in revenue without repeatedly accessing our Constitutional revenue stabilization fund.

While year-to date tax collections are ahead of forecast, there remains significant uncertainty in the revenue outlook due to changes at the federal level. We expect the

federal Tax Cuts and Jobs Act will have a positive impact on Virginia, but we are concerned that much of the growth in income tax collections this year may be transitory.

Unfortunately, until May, we will not know how much additional revenue we may have as taxpayer behavior and refunds begin to settle out. At that point, we will begin to decipher how much additional revenue we may have and how that will impact our revenue forecast for the long-term.

Although there is some outstanding revenue uncertainty, providing stable and ongoing compensation actions for Virginia's dedicated workforce remains a priority. In November, JLARC recommended a long-term approach; and while we do not provide any compensation actions in this biennium, we stipulate that all future Governor's introduced budgets include compensation actions, prior to addressing any other discretionary spending, when revenues allow.

Turning towards the resources assumed in our budget proposals, the revenue forecast remains conservative, reflecting a modest growth in the three and one-half percent range for both this year and next. Adjustments to the resources identified by the Committee reflect the impact of legislation, balances transferred to the general fund, and the continuation of current tax policy decisions implemented last year to limit the historic rehabilitation and land preservation tax credits.

Senator Hanger will now provide some specifics on the Committee's budget recommendations. Before I turn to our Co-chairman, I would like to thank him for his hard work this session. I sincerely appreciate his dedication to producing a fiscally sound budget that, while not addressing everyone's top priorities, is something we should all be able to endorse.

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The Honorable Emmett W. Hanger, Jr., Co-Chairman

Thank you Senator Norment,

Many of the budget issues before us this year were not dramatically different from last year. Although we have enjoyed some modest revenue growth, the critical and mandatory funding requirements for K-12 rebenchmarking and Medicaid inflation, consume most available funding.

We wrestled throughout the session with the decision on if, or how, we should expand the healthcare safety net programs provided through Medicaid. And, if we did expand, how to pay for these critical services. As you are well aware, while we all agree that something must be done, there is no easy solution or path to consensus.

This budget does not include provisions to expand Medicaid, and I know this does not please every member of this Committee. We have restored the \$421 million in assumed savings from Medicaid expansion that was included in SB 29 and SB 30 and reject the proposed hospital provider assessment. However, I am encouraged by the productive discussions we continue to have and am certain those discussions have not yet reached conclusion.

In the area of health and human resources, our recommendations endorse and enhance funding for mental health and addiction treatment. These investments will continue our efforts to address the challenges across the spectrum of mental health needs. Similarly in public safety, resources are prioritized primarily around mental health and substance abuse issues.

In public education, our focus is on preserving rebenchmarking funding. We assume some additional resources from forecast growth in Lottery collections, we largely dedicate that funding to addressing critical needs in at-risk and early childhood programs. And, we recommend continuing funding for those school divisions, primarily in Southside and Southwest that continue to see significant enrollment losses. In higher education, the subcommittee focused mainly on redirecting funds while maintaining some new allocations for base operations and financial aid.

Turning to Natural Resources, we prioritized opening two new State Parks for public use; the recently constructed Widewater in Stafford County and Seven Bends in Shenandoah County. Both of these facilities have long been under development and will provide Virginians with the opportunity to take advantage of our prior decisions to acquire and develop these facilities.

Focusing our resources on maintaining a healthy bottom line through our aggressive deposit to the revenue reserve will help protect our priorities against potential revenue shortfalls, and reduce our reliance on the Rainy Day Fund. While it's tempting to spend every additional dollar identified, our recommendations today are fiscally conservative and best position our Commonwealth against future uncertainty.

These are a few highlights of the Finance Committee's budget recommendations. We will now hear briefly from the chairs of our subcommittees. Before we turn to the subcommittee reports, I wish to thank our co-chairman, Senator Norment, and each member of the Committee for an outstanding job in bringing together our budget recommendations. The subcommittee members are willing to ask tough questions about every spending decision and work together to build a consensus as they developed these recommendations.