

OPENING REMARKS

**The Honorable Charles J. Colgan
Senate Finance Committee Retreat
Portsmouth, Virginia
November 19, 2009**

I'd like to welcome my colleagues and those in the audience to our annual meeting – this time in beautiful Portsmouth. The budget discussions that occur around this table will help to shape our thoughts and inform our actions in the upcoming General Assembly session. So, please ask questions, raise issues – we want to hear from everyone.

Let me also extend a special welcome to members of the Governor-elect's transition team who have joined us. The new administration has a tough job ahead. I know that a great deal about the budget can be learned from the retreat presentations and member discussions and hope that Governor-elect McDonnell and his staff find the information useful as they weigh the issues before us. On behalf of the Finance Committee, let me say that we stand ready to work cooperatively in taking on the significant challenges ahead.

Now, let's turn to those challenges. Over the next two days, what you hear will be both sobering and thought-provoking. In some ways, it's a continuation of the discussion that we had last year. We approached the 2009 session knowing that our work was cut out for us. Frankly, those of us on the Finance Committee were not surprised that revenues had to be taken down yet another \$882 million before we left the 2009 session.

It's no secret that we are in the longest and deepest economic downturn since the Great Depression – one that has lasted about

twice as long as the “typical” recession, if you believe that it “officially” ended last summer.

We are in uncharted territory on several fronts. For example, our general fund revenue drop last year of 9.2 percent was double our second worst year in history. And for the first time ever, we have seen quarterly wages and salary payments to Virginians actually go down from the prior year. That may be routine for many states in a downturn, but Virginia has been fortunate enough in the past to avoid such a circumstance.

But, I think that takes us to a point that needs to be made. Our experience is different this time because the fundamentals of this economic upheaval also are different from anything we have seen in the recent past. So, that makes it particularly hard to predict the “exit path” out of this downturn. We know that certain things are getting better and others will follow. **But, the bedrock issue is jobs** – and we haven’t yet turned the corner on that one.

This time, the economic recovery will be somewhat muted and drawn out, and that is the challenge we face in putting together the next biennial budget.

Fortunately, we had the advantage of federal stimulus dollars in the current budget to cushion the fall. But, those dollars are going away and revenue growth will not be robust enough to both replace the lost federal dollars and meet certain unavoidable cost increases.

Let me put the challenge in context for you:

Since we began putting together the current two-year budget in 2008, about **\$7.0 billion** has been removed from the general fund revenue stream – almost \$3.0 billion for last fiscal year and a little over \$4.0 billion for the fiscal year that began in July.

We essentially have lost five years of revenue growth. In response, spending in our current services two-year budget has been cut by \$5.0 billion. We have made up the difference with withdrawals from the Rainy Day Fund and other balances and one-time actions.

The one-time money is gone. The federal stimulus will be gone before our economy returns to robust growth. Some of our major budget drivers like the steep increase in Medicaid costs that linger after a downturn are not gone.

When we put all the pieces on the table, we could be looking at a budget shortfall of between \$3.0 and \$4.0 billion for the next biennium.

Extracting that much from a budget that already has been reduced by \$5.0 billion won't be easy. We will need to employ a variety of strategies to close a gap that size.

Unfortunately, there is no easy or popular solution when you consider that half of the state's general tax dollars are returned to localities – primarily for public education. The other half is used largely for higher education, Medicaid, and corrections.

We have been able to protect local aid programs so far because of the Rainy Day Fund and the federal stimulus. Unfortunately, we may not be able to leave them off the budget cutting table this time. Having said that, the state can't simply "push" all of its problems down to the local level. We need to have a good dialogue with our local government colleagues and keep those communication lines open.

If we are living in times of uncertainty and change, this may be the perfect opportunity to "think outside the box". For example, are there ways that we can provide more flexibility to our local

governments to make potential funding reductions easier to swallow? Can we encourage more cooperative local service options? Are there other aspects of the state/local government relationship that should be examined?

Many of these questions are long-standing, difficult issues. We likely won't resolve them all in the 2010 Session. But I think it's an appropriate time to at least start the conversation.

Clearly, difficult choices lie ahead. But, I like to think we have a history of making balanced and sound decisions to protect Virginia's reputation. We want to send a strong message to Wall Street that Virginia remains a "triple-triple A" quality state. **I have no intention of losing this rating on my watch.**

Our actions also must reassure current and prospective businesses and our citizens that we are committed to retaining our claims as the "Best State for Business" and the "best-managed" state in the nation.

Virginia also has been heralded as the state where "a child is most likely to have a successful life." **We need to work hard to maintain that distinction, too and retain the quality of life that sets us apart.**

Despite the tough times ahead, keep in mind that Virginia's "fundamentals" are solid. Our future is bright. I pledge to work with you all, and with the new administration to help guide us through these troubled times.

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