

OPENING REMARKS

**The Honorable Charles J. Colgan
Senate Finance Committee Retreat
Fairfax, Virginia
November 17, 2011**

Good afternoon. I'd like to welcome my colleagues and those in the audience to the Senate's annual meeting, here on the campus of George Mason University. This institution means a great deal to those of us from Northern Virginia, and we are proud to have this important meeting on its campus. This evening, we will be the guests of President Alan Merten and members of the Board of Visitors for a reception at the Center for the Arts.

As members of the Finance Committee, we are gratified that so many of you take the time to participate in these sessions. And we are very pleased that **all** of our Senators-elect have joined us. You will find that these meetings are an excellent way to learn about the fiscal issues facing our Commonwealth, in a setting that encourages open communication.

In other words, together we roll up our sleeves and explore ideas in a factual, common-sense way. I hope you will come to value these meetings as a way to help keep the Senate a strong, well-informed, **collegial** body. So, please ask questions, raise issues – we want to hear from everyone.

Our task over the next two days is to examine those things that drive our state budget -- the costs to re-benchmark the K-12 Standards of Quality, our health care programs, employee benefit costs, higher education, public safety, and the other vital services we provide. We also will discuss the state's use of debt, our transit and rail system, and the cost to clean up the Chesapeake Bay.

Alongside these budget drivers, we will examine expected revenue growth. When the costs and revenues don't align -- be it on the upside or the downside -- we talk about options.

No doubt, we will leave the room today in a somber mood because of the uncomfortable reality we face. We cannot be candid without acknowledging that uncertainty is all around us. We remain in **an economic recovery that is painfully slow and erratic**. This slow motion recovery is not going to end anytime soon, and that puts

us at great risk of some major negative event tipping us in the wrong direction.

Beyond this cloud of uncertainty, **there is one certainty** that all states soon will face – and Virginia likely will be impacted more than most. That is the **certainty** of federal spending cuts. While we don't know the exact prescription and dosage, **we do know that the medicine is coming.**

Virginia typically has “out-performed” the nation economically because federal spending was a large part of our economy, and that cushioned economic downturns. Today, we face a different reality, and already we are seeing a softening of our growth rate, most likely in anticipation of federal defense cuts approved last August along with the prospect of more to come. Currently, we would say that we are closer to “mirroring” the nation, rather than outperforming.

The challenge we face is quite clear when you consider that **two-thirds** of Virginia's job growth last fiscal year came from right here in Northern Virginia, **where federal spending has been a major driver of growth.**

In fact, direct federal spending is about 32 percent of Virginia's gross state product. And, we're number one in federal procurement spending and third in federal salaries and wages. **What has long been one of our chief economic strengths may become our greatest vulnerability in terms of dampening our job growth.**

The question for Virginia is not **if** cuts in federal spending will occur, but **when** and **how much**. Our focus should be on how we can position the Commonwealth to best respond to these cuts. We must consider which steps we should take to make our economy more diverse, to better absorb pending cuts.

Fundamentally, the federal government is trying to determine what services it must provide, and can afford to provide. Virginia must do the same thing.

Many of you probably thought that the years of making tough budget decisions were over. But, that is not the case. With low revenue growth with federal cuts ahead with an aging population that will demand more services in the future, we must continue to refine, and **re-define**, who we are as a Commonwealth. But as we undertake this self-examination, we must be mindful of our responsibility to our 8 million citizens.

Let me use one example to illustrate the complexity of budget choices. Everyone knows that our Medicaid program has been and continues to be our fastest-growing program.

Most of the growth in the past few years has been from increased enrollment of low-income families, as a direct result of the recession. This is a caseload that will stay with us until there are jobs again.

But, another steady increase of about 8 percent per year has been in the aged and disabled category that is by far the most expensive to serve. You will hear Joe Flores say that the aged and disabled represent 31 percent of our Medicaid clients but consume two-thirds of the Medicaid budget.

Does anyone think that trend is going to reverse as our baby boomers age out?

The reality is that we have chosen to make the Medicaid program accessible to middle-income taxpayers, who have not saved enough, and will run out of resources before they die and be forced to turn to Medicaid, if they need nursing home care.

Likewise, we have chosen to expand ID waivers for those who can be served in the community, and this will continue to grow our Medicaid budget.

These choices were the right choices to make for our citizens because our citizens pay federal income taxes, and if they reach a point of dire need in their lives, we want to draw the federal Medicaid dollars back into Virginia to help with their plight.

But the choices that we have made, when combined with demographic trends, means that Medicaid will continue to be a major driver of our budget. And so, we have to continually look for ways to accommodate that reality and still meet other needs of our citizens.

For example, how can we remain “the Best State for Business” if we can’t guarantee a well-educated workforce and an infrastructure that supports business needs?

In short, how do we continue to make progress as a Commonwealth, in this era of diminished economic growth? That’s our challenge, and that’s our opportunity. It is meetings like this one that help to stimulate creative thinking.

As we move through the afternoon, you will hear that budget pressures in the next biennial budget may exceed available resources by some \$600 million to \$1.0 billion. Balancing the budget will be do-able, but not without some pain. And, due to the timing of what's going on in Washington, we may find ourselves mid-Session reacting to cuts in federal spending.

Those of you joining us in the Senate next January will find that you have entered the legislature in challenging times. And those of you who will be joining us on the Finance Committee will soon learn that there is plenty of "heavy lifting" associated with this assignment!

As we said, the largest "shock" to our system stems from the potential outcome of the current federal budget debate, so we will begin this afternoon's program with Mr. Bill Hoagland, who will give us an overview of the budget deficit picture. Mr. Hoagland is Vice President for Public Policy at CIGNA. He has over 30 years of experience in government, including public policy analysis and management. He has served as policy advisor and top budget aide to former Senate Majority Leader Bill Frist, and served on the Senate Budget Committee under Senator Pete Domenici. A more detailed bio of Mr. Hoagland is in your notebooks.

I heard Bill speak at a meeting this summer and I thought you would appreciate his candor and perspective on this issue. Bill, we welcome your thoughts on how we got into this situation, and how Virginia might be impacted as this budget debate unfolds.