OPENING REMARKS

The Honorable Walter A. Stosch
Chairman, Senate Finance Committee
Charlottesville, Virginia
November 14, 2012

Good afternoon. I'd like to welcome my colleagues and those in the audience to the Senate's annual meeting, here in Charlottesville.

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 our newest member, Senator Alexander, was able to join us, along with some of the House members from the local delegation. You will find that this meeting is an excellent way to learn about the fiscal issues facing our Commonwealth, in a setting that encourages open communication.

I hope you will come to value these meetings as a way to help keep the Senate a strong, well-informed, **collegial** body. Please ask questions and raise issues – we want to hear from everyone.

This afternoon's presentation on our budget outlook will demonstrate that we are in somewhat of a holding pattern. Things are not dire, but they are not particularly rosy, either. We should be able to address our most pressing adjustments to the current budget, with a little left over, thanks to the "ripple effect" of our better than expected performance last fiscal year, along with some available balances.

Additional resources above the adopted budget total about $339 million, including staff recommended adjustments to the revenue forecast of $212 million. This adjustment is the "overhang" from last fiscal year, moderated slightly by a further softening in our economic growth.

High priority spending items total about $164 million, an amount that is smaller than we have seen in recent short sessions. In part, the lower amount is due to a moderation in Medicaid growth, along with savings from pharmacy rebates. One area that pulls us in the other direction is our employee health insurance. In recent years we have failed to fund the actuarially required rates for this shared employer/employee program. Now those costs must be paid.

Beyond the absolute "must-dos", we will have a limited amount of additional resources to address other funding "like-to-dos". But, we have to keep our wits about us and stay away from things like tax credits that limit our flexibility going forward by taking resources off the top before any other decision is made. Rather, in an abundance of caution, we should consider using these additional resources largely for one-time purposes, rather than building them into our base budget.

As we talk about amendments to our current budget, I think it is important to reflect on the substantial progress we made last session in stabilizing the budget and restoring "structural balance". Yes, we went into overtime on the budget last session, but I believe it was necessary to ensure that all voices were heard, and critical funding needs were met. Going forward, I hope we can build on this progress.

Our several accomplishments included:

- Rebuilding our cash reserves through deposits to the Rainy Day Fund;

- Restoring funds to the VRS through higher rates designed to cover the one-time savings we used to balance the budget in 2010;

- Beginning to address our unfunded liabilities by enacting meaningful pension reform and, most importantly, by committing to funding the Board-approved retirement rates; and

- Granting the first employee salary increases since 2007.

We also made critical new investments in higher education for the first time in many years. Between the new operating support and additional financial aid, this year's tuition increases were the lowest we have seen in recent years.

Needless to say, the progress we made was not without its challenges. In order to meet our obligation to the VRS, to fund K-12 rebenchmarking, and to address our Medicaid forecast, we took action to achieve targeted savings in our most expensive programs – Medicaid and public education.

Given the slow, protracted nature of this economic recovery, we should feel positive about where our budget is positioned. Unfortunately, the specter of the federal "fiscal cliff" looms large.

We know that potential cuts in both defense spending and nondefense spending will have direct and indirect impacts on Virginia's economy. The staff has been drilling down into the various reports on the cuts to assess the impact on our revenues. But the truth is that we can't really plan for these cuts, beyond what we have already done, without more specifics.

What we have done to prepare for the potential impact is establish the Federal Action Contingency Trust Fund, or FACT Fund. The up to $50 million fund is by no means big enough to absorb the entire potential impact of the Budget Control Act. However, given the timing of implementing further action, it likely is sufficient to handle the impact this biennium.

So, while the Commonwealth may be unable to control the cuts coming our way, we <u>can</u> begin planning for how we adapt to this new fiscal environment. It's important that we identify strategies to develop a strong and diverse economy that is not overly dependent on any one business sector.

We will begin this exercise today when we hear from Martin Briley, CEO and President of the Virginia Economic Development Partnership. Martin's presentation will help stimulate our thinking along these lines.

My hope is that Congress and the president can work together to eliminate the fiscal cliff, and develop a more thoughtful plan that shrinks our national debt, and grows our economy.

OPENING REMARKS

The Honorable Charles J. Colgan
Chairman Emeritus, Senate Finance Committee
Charlottesville, Virginia
November 14, 2012

Good afternoon. I'd like to join Senator Stosch in welcoming you to this meeting. I have had the honor of chairing this event four times, and I know well how these meetings leave us better prepared to deal with the budget issues we face each session.

One of the strengths of this committee is that we generally try to take the "long view" on issues. The presentations over the next two days will give you "food for thought" on a variety of issues – some that will be before us next session, and some that will take longer to develop.

As Senator Stosch said, this afternoon we will focus on our budget outlook, and how the federal spending reductions might impact our revenues. Clearly, this issue is of vital importance to the Commonwealth, especially to Northern Virginia. As they say, when Northern Virginia catches a cold, the rest of the Commonwealth gets pneumonia!

After we hear from Martin Briley on how we might begin to diversify our economy, we will learn about the significance of exports, imports and foreign investments to our economy, including details on our major trading partners and which commodities are driving growth, particularly in the export of Virginia's products and services.

We will close today's agenda with a conversation on transportation. The transportation challenges that we face are not new… and they aren't going away. In fact, as we wrestle with a vulnerability that has been exposed – our dependence on the federal government – it become even more critical to find that transportation solution so that we can market Virginia as being first-rate in <u>every</u> respect. To have a truly diverse economy, we must have a viable transportation infrastructure and mass transit to ensure that goods and people can move easily and quickly.

Tomorrow morning, we will continue our meeting with presentations on how we can provide additional flexibility to our public school, and how our can correctional system can deal with growing medical costs. We will also delve into the policy issues on higher education financial aid. And, we will learn about the pros and cons of expanding Medicaid under the Affordable Care Act.

As you can see, we have a full two days ahead of us. I'll now turn the meeting back to Senator Stosch.