OPENING REMARKS
The Honorable Charles J. Colgan
The Honorable Walter A. Stosch
Staunton, Virginia
Thursday, November 20th, 2014

Senator Colgan

Good afternoon, ladies and gentlemen. Senator Stosch, co-chair of the Committee, joins me in welcoming our colleagues and those in the audience to the Finance Committee's annual meeting. We'd like to thank Senator Emmett Hanger for inviting us once again to beautiful Staunton. I would also like to welcome any members of the Governor's staff who may have joined us today, along with a welcome to Senator-elect Rosalyn Dance.

As members of the Finance Committee, we are gratified that so many of you take the time to participate in these sessions. Hopefully, you have found this meeting to be an excellent way to learn about the fiscal issues facing our Commonwealth, in a setting that encourages open communication. Please feel free to ask questions and raise issues – we want to hear from everyone.

We will begin this afternoon with a presentation by Dr. Steve Fuller on how the changing economy in Northern Virginia is impacting our revenues. After staff presentations on the revenue and budget outlook, we will hear from Dr. Debra Ferguson, the new Commissioner of the Department of Behavioral Health and Disability Services. Following her presentation on our mental health programs, the members and staff will visit the newly constructed Western State Hospital facility.

Tomorrow morning we will begin with a twenty-year retrospective on parole abolition and our sentencing guidelines. Then, we will continue with our theme of the education pipeline and workforce development.

Two years ago in Charlottesville we spoke about the need to "diversify" Virginia's economy. It's important that we identify strategies to develop a strong and diverse economy that is not overly dependent on any one business sector. Last year, we turned our attention to investing in our workforce to enhance our competiveness in the nation and the world. This year, we've invited a panel of experts to help us continue our conversation about how we can create a new Virginia economy.

We have a busy two days ahead of us. As we roll up our sleeves and get to work, I again encourage you to ask questions and learn as much as you can.

Senator Stosch

Thank you, Senator Colgan. I, too, wish to welcome all of you to Staunton for this important meeting.

As we have discussed over the last several years, Virginia, along with the national economy, never came out of the recession in the robust manner that, heretofore, was typical of most recessions. With the zeal to rein in spending at the federal level, cuts to agencies and the military industrial complex are magnified in a state that has capitalized on federal contracts and military installations.

The direct and indirect impacts of a strong federal presence served us well for many years, driving our economy to out-perform the nation. We know from our prolonged budget sessions this year that the contraction in federal spending has indeed made its impact felt on our revenues. What once was one of our greatest assets now exposes the down side of overreliance on one sector of the economy.

Dr. Fuller will provide more detail on this story that has been taking shape for the last three years. Namely, that the fundamentals of our economy are shifting. We are seeing less growth in the job categories that support federal contractors, and more growth in lower paying categories such as education and health. This fundamental shift, combined with demographic changes, will be with us for many years.

Last year at this time, we thought our economy might be turning the corner. Now we know that's not true. The picture at that time was one of anticipating sufficient revenues to cover our mandated and high priority funding issues, with some left over for targeted investment.

Instead, we spent much of the year addressing what became a $2.4 billion budget shortfall. We made meaningful cuts – largely in incremental funding – in the budget we passed in June. Then, with a new, lowered revenue forecast, we trimmed another $851.0 million in targeted pots of funding cuts.

Based on our staff analysis of the economic outlook, we see that our economy continues to underperform that of the nation, with projected general fund revenue growth rates hovering around 3 percent for this year and next. We estimate, however, that we will have about $150 million in revenues above the current forecast for the biennium.

As always, there will be many demands against that revenue. For example, the budget that we adopted in September left a reversion account of $272 million in FY 2016 that must be filled with spending cuts. Additionally, earlier this month we came back and created a $49.8 million problem by undoing a portion of the transfer of sales tax to transportation.

Or, if we believe these obligations should be absorbed by spending cuts, then we could use the additional resources as a down-payment against a Rainy Day Fund deposit of $157 million that will be due in FY 2017.

However, the far more critical task before us will be the steps we take to guide and re-invigorate our economy. If the Commonwealth is to position itself to deal with our changing fortunes, we must be willing to take bold action to chart a new course for Virginia's economy – again, not business as usual.

We should challenge the notion that we are living in a "new normal" of lowered expectations and achievement. Our Commonwealth has too much on the ball to simply resign ourselves to anything less than excellence.

Despite some slippage in the other state business rankings, Site Selection Magazine ranked us the 5th most attractive state for new business to locate. Virginia's port and our newly invigorated transportation system will pay dividends for years to come. We have a workforce with relatively high educational attainment, and we enjoy the benefits of a great system of higher education.

But you will hear from our panel tomorrow that there are areas where we need to refocus our energies. We still lose too many of our young men and women in the education pipeline. We may be losing our competitive edge on educational attainment. And we sometimes use a scatter-gun approach to workforce and economic development.

If we can take these messages to heart, and refine, refocus, and re-invent our economy, then we will be able define our own future. We can no longer wait for things to change on their own; we need to determine which strategies in the areas of areas of education or workforce can make a real, meaningful difference in our economy.

The reality is, however, that we can no longer count on significant incremental revenue growth to provide for major investments, at least not in the short-term. And so to afford critical re-investment to strengthen our economy, we may have to take a hard look at the programs and services we currently provide.

Senator Colgan and I would like to challenge our subcommittee chairs to commit to a rigorous review of their budget areas during the upcoming session. And, because our time is limited during the session, to continue that review during the off-season in preparation for development of the next two-year budget.

In addition, we may need to take a serious look at our tax policies. Tax preferences that worked in prior decades may no longer be a good fit for our rapidly evolving economy.

Finding the balance between new investment and maintaining our core services is our responsibility, and our biggest challenge. The men and women of this Committee take this job seriously, and are up to the task.

Let me conclude, then, by again encouraging a "not business as usual" approach to our budget deliberations over the next two days, and as we begin our work anew in January.