

OPENING REMARKS
The Honorable Charles J. Colgan
The Honorable Walter A. Stosch
Portsmouth, Virginia
Thursday, November 19th, 2015

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 Senate Finance Committee's annual meeting. We'd like to thank Senator Louise Lucas for inviting us once again to beautiful Portsmouth.

I would also like to offer a special welcome to the Senators-elect in attendance today, and to the staff of the Governor's office. At this point, I'd ask the members-elect, and any House members, to please introduce yourself.

One of the greatest pleasures of serving in a leadership position on this Committee has been our annual meeting. Senator Stosch and I are gratified that so many of you take the time to participate in these sessions. Hopefully, you have found these meetings to be an excellent way to learn about the fiscal issues facing our Commonwealth, in a setting that encourages open communication.

While this is not our first annual meeting in Portsmouth, we have not had the opportunity in our prior meetings to focus on the region. We will rectify that situation today by beginning with a presentation on the Hampton Roads economy by two members of the Old Dominion University College of Business. After a staff presentation on the revenue and budget outlook, we will board buses for a tour of the Port of Virginia. The Port is one of the major economic engines in the region, as well as for the Commonwealth as a whole.

Tomorrow morning we will focus on our major budget drivers – Medicaid, public and higher education and corrections. We will also review two major “nuts and bolts issues”: capital improvement and debt needs for the next biennium, and our information technology services.

We have a busy two days ahead of us. As we roll up our sleeves and get to work, I encourage you to ask questions and learn as much as you can. **And, most importantly, I ask that you pay attention!** Our speakers have worked hard on their presentations, and deserve your **full and undivided attention.**

I will now turn to Senator Stosch for his welcome and comments.

Senator Stosch:

Thank you, Senator Colgan. I, too, wish to welcome all of you to Portsmouth for this important meeting. And, as this is the last annual meeting that he and I will chair, I'd like to take this opportunity to thank Senator Colgan for his steady, supportive leadership of this Committee over the years. We have enjoyed working together, and endeavored to set a tone of collegiality and collaboration, which we know will be embraced by the leadership that follows us.

I also wholeheartedly agree with Senator Colgan about the importance of these annual meetings. Following the example set by the previous chairmen, **long-term thinking and planning has been the hallmark** of this Committee. Beyond the basics of the revenue and budget outlook, our goal has been to provide thought-provoking topics and presentations.

For example, over the years you heard numerous presentations at these meetings about the transportation needs facing the Commonwealth, long before our colleagues in the other body engaged on the issue.

Likewise, the mentally ill in our jails has been a critical issue with implications far beyond public safety. Again, our annual meeting has been, and continues to be, a forum for discussion of this important topic.

At our 2013 meeting in Williamsburg, and again last year in Staunton, we focused on ways to strengthen our economy, with a special emphasis on how our schools, colleges, and universities can best prepare our workforce.

I could go on, but I hope you see the benefit in focusing **beyond** the two-year horizon of a budget cycle, or even the four years of a Senate term. The analysis, insight, and discussion from these meetings translate into landmark legislation and innovative budget action. Whether it is shaping the Senate budget, crafting funding initiatives, or negotiating the budget conference, it's vital that we bring creative problem solving to the task. Working together as colleagues, we can develop real solutions for the citizens of our Commonwealth. When the elections end, thoughtful and creative governing begins.

Clearly our problem-solving skills have been put to the test as we've grappled with our budget situation in recent years. Last year we suggested that we should follow a "not business as usual" approach to developing the Commonwealth's budget. We know the fundamentals of our economy are shifting, with less job growth in the 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 to come.

However, we are seeing a few bright spots on the horizon in Northern Virginia with an uptick in business and professional jobs. And we will hear from the Old Dominion University faculty about what is taking place in the Hampton Roads region as it finds innovative ways to deal with the changing face of a defense-dependent economy.

Fortunately, as you will hear, there is some good news in the budget outlook for the 2016 Session. Last year at this time we had literally just completed our two-year budget, taking \$2.4 billion out of the spending plan. Those tough decisions came about in response to the FY 2014 revenue shortfall, when collections fell by 1.6 percent.

During the 2015 General Assembly session, we saw some improvement in our revenue picture, with additional resources of about \$624 million projected for the biennium. By the close of the year, total revenues for 2015 exceeded the forecast by about \$550 million. Given the volatility in the revenues, we directed the majority of these additional resources into one-time spending for capital outlay and to pre-paying our obligations to the Virginia Retirement System. We also set aside funds for our next deposit to the Rainy Day Fund. And, we recognized the contributions of our teachers, state employees, and faculty through various salary actions.

Based on our staff analysis of the economic outlook, we see that Virginia continues to underperform the nation – although the gap is narrowing. Our projected general fund revenue growth rate hovers around 4 percent this year, and between 3 and 4 percent for the next two fiscal years. We estimate that we will have around \$3.0 billion in available resources above what's required to fund our current operating budget.

As always, there are numerous demands against those resources. The cost to keep current our K-12 Standards of Quality funding is about \$477 million for the biennium. In contrast to last year, we are seeing an uptick in Medicaid

enrollments, requiring additional funding of \$789 million in the next biennium. We'll discuss both of these areas in more detail tomorrow morning.

Beyond the mandated, must fund items, resources should be sufficient to allow continued investment in our teachers, state employees, and college faculty. In addition, there should be resources available for funding of items that will maintain and enhance the "structural balance" of the budget. Finally, long-delayed investment in education, research, and other efforts to diversify our economy may be within reach during the upcoming session.

As Senator Colgan and I prepare to take our leave from the Senate, we encourage you to continue the philosophy of "not business as usual" Finding the balance between new investment and maintaining our core services will be your responsibility, and your biggest challenge. Senator Colgan and I are confident that the men and women of this Committee will take this job seriously, and are, as always, up to the task.