

OPENING REMARKS

The Honorable Thomas K. Norment, Jr. Co-Chair

The Honorable Emmett W. Hanger, Jr. Co-Chair

Senate Finance Committee Meeting

Charlottesville, Virginia

Thursday, November 16, 2017

Remarks as prepared for delivery

Senator Norment

Good afternoon, ladies and gentlemen. Senator Hanger joins me in welcoming our colleagues and those in the audience to the first day of the Senate Finance Committee's annual meeting. We'd like to thank you for gathering with us here in beautiful Charlottesville, at the historic University of Virginia.

We also would like to offer a special welcome to the staff of the Governor-elect, as well as those of the current administration, Lieutenant Governor-elect Justin Fairfax, and any staff of the Attorney General, who may be joining us here today. In addition, I would like to thank Delegates Toscano and Bell for being with us.

Before we begin, I would like to take a moment to recognize and thank Betsey Daley for her 28 years of service to the Finance Committee and to offer our congratulations and best wishes to her in her new capacity as Associate Vice President for Government Relations and Special Advisor to the President at UVA. Please convey our appreciation to President Sullivan for having us here today.

Now, to the business at hand. Senator Hanger and I know how valuable these annual meetings are to prepare not just the Finance Committee, but the entire Senate for the tough fiscal choices that face us each session, and to prompt longer-term reflection on emerging issues. We are gratified that so many of you take the time to participate in these sessions. In doing so, you help keep the Senate a strong, well-informed, collegial body. We encourage you to ask questions and relay your views – we want to hear from everyone.

These meetings are intended to provide background, frame challenges, and suggest options for consideration as we begin focusing on the 2018 session. Our plate

will be full as we review the policy priorities of a new administration and handle two separate budget bills covering the three fiscal years from FY 18 through FY 20.

This afternoon's presentation on our biennial budget outlook will show a continuation of our slow but steady economic recovery. While the recent uptick in collections from key revenue sources is a positive sign, we remain cautious in light of the "see-saw" on collections we've experienced this biennium. The overall outlook is not particularly rosy, but it is not a retrenchment scenario. So, we face the next session with cautious optimism.

One of the reasons for this optimism is our recent hard work to improve the structural balance of our budget and diversify our economy. As a result of these prior efforts, we are better positioned to deal with modest overall economic growth as we build the 2018-20 budget. For example:

- We reached 100 percent of the actuarially determined contributions to the Virginia Retirement System for state employees two-years ahead of schedule;
- We advanced regional economic growth strategies through investments in GO Virginia and in the commercialization of cutting-edge research coming out of our colleges and universities;
- We invested in our public sector workforce through a three percent salary adjustment for state employees, and requisite contributions for state-supported local employees, and undertook a major effort to provide competitive adjustments for public safety personnel and certain high-turnover positions at our mental health hospitals; and
- We increased cash liquidity by establishing a Revenue Cash Reserve which will better enable us to respond quickly to any unexpected downturns in the economy.

As with so many of the policy decisions we make every year, it will take time to realize the full return on these investments. However, some of our past efforts are beginning to bear fruit. For example, Virginia was recently named one of the "Top States for Doing Business" by *Area Development* magazine for the first time since 2010.

And, our recent meetings with the three national bond rating agencies confirmed that our long history of proactive and conservative financial management is viewed favorably, as Virginia's triple-triple A credit rating was recently reaffirmed. However, some concern was raised about our continued reliance on federal spending and the limited availability of liquid cash assets - and we remain on negative outlook from one of the three rating agencies.

In order to manage these headwinds, we must continue to build upon the structural budget reforms undertaken last year along with growing our overall liquidity position through deposits to the Rainy Day Fund and other cash reserves.

The truth is that, despite our low unemployment rate and recent uptick in withholding revenue, Virginia still lags our regional peers in GDP growth. Our economy has been negatively impacted by sequestration, and that remains a factor on the horizon as uncertainty persists at the national level and on other fronts.

So, while our fundamentals are sound, our economy is becoming more diverse, our financial management practices are strong, and our major revenue sources are showing improvement, we still must be cautious and maintain a conservative posture in our revenue and spending projections for the 2018-20 biennium.

Based on our staff analysis, about \$1.7 billion in resources will be available in the next biennium above the amount required to support the current two-year base budget ...this is **good** news. The reality, however, is that budget pressures for mandated, high-priority programs such as Medicaid and K-12 re-benchmarking will consume about \$1.2 billion of these resources. Therefore, 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 last year's surplus and our better than expected collections year-to-date.

That being said, agencies have submitted about \$2.5 billion in requests for programmatic investments in areas such as higher education, public safety, and economic development, as well as for investments in the replacement and modernization of aging IT applications that are critical to running the day-to-day operations of state government. As always, priority will be the order of the day.

I want to thank you, again, for joining us here today. I am confident that our track record of collaboration in addressing emerging challenges will serve us well in the months ahead.

Senator Hanger

I also would like to welcome everyone and thank you for your attendance at our 2017 Annual Meeting here in Charlottesville. In my memory, many of our shared priorities have flowed from the exchange of ideas at these meetings, and that is a good thing for the Commonwealth and the citizens we serve.

While the primary focus of this meeting is background for development of the next biennial budget, we will discuss a variety of topics over the next two days. Tomorrow, we will explore in-depth our two primary budget drivers -- Medicaid and K-12 re-benchmarking. In addition, we will get updates on the progress that has been made to date on compliance with federally-mandated reductions in nutrient and sediment loads in the Chesapeake Bay as well as our progress towards reducing the cost of higher education. These topics have been thoughtfully explored by the respective subcommittees over the past several months.

Today we will focus on the fundamentals of the state and regional economy and what that means for our general budget outlook. After that, we will have our first deep-dive into challenges facing our local governments with an update by Adam Rosatelli on regional fiscal stress and some options that might help alleviate that stress. As many of you know, the Special Joint Subcommittee on Local Government Fiscal Stress has been meeting over the last six months and Adam will help bring us up to speed on the results of their deliberations.

Following Adam's presentation, members will have the ability to choose between two break-out sessions -- one focused on strategies to address the increasing costs of inmate medical care, and one focused on UVA's research commercialization programs, with a particular focus on the area of cellular therapies. You can see from the agenda that both sessions feature distinguished panelists who will have much knowledge to share.

The inmate healthcare panel features a discussion of recent trends and best practices in correctional healthcare spending at the state and national levels, as well as a

conversation about what opportunities may exist to strengthen the model. The panel will be moderated by the Committee's newest Legislative Fiscal Analyst for the Public Safety Subcommittee, Caitlin Kilpatrick, who joined us this summer from the Department of Planning and Budget.

The University of Virginia research panel will include an overview of the research activities here at the University, the funding of research, strategic hiring opportunities, and the use of cellular therapy to treat cancer along with the future production of treatment therapies at UVA. This panel will be moderated by April Kees.

As you have heard, we have a busy two days ahead of us. So, let's roll up our sleeves and get to work. Again, we encourage you to ask questions and share your thoughts.

Now we will hear from Mark Vitner, a managing director and senior economist at Wells Fargo Securities. Mark is responsible for tracking U.S. and regional economic trends. Based in Charlotte, N.C., he also writes for the company's monthly economic outlook report, the Weekly Economic & Financial Commentary, and provides regular updates on the housing markets, commercial real estate, regional economies, and inflation. Mark's commentary has been featured in the New York Times, Wall Street Journal, Bloomberg, and many other publications, and he currently serves on the Commonwealth's Joint Advisory Board of Economists.

So let us begin... Mark, welcome.