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House Appropriations Committee Retreat
The Honorable S. Chris Jones

November 15, 2016

Good afternoon, I would like to welcome the respective Committee members, invited guests and the general public to the 14th annual Appropriations Committee retreat.

In addition to the members of the Appropriations Committee, I am pleased that members of the House Finance Committee are in attendance. I want to personally thank Chairman Ware for the strong working relationship that he has helped forge between the House Finance Committee and the Appropriations Committee over the last two years. I would also like to thank Chairman Danny Marshall for his suggestion that I invite to this retreat Committee Chairman that do not otherwise sit on the Appropriations or Finance Committee. A great suggestion I wish I had thought of myself.

Over the next two days we will engage in several panel discussions in which the Committee staff, along with outside experts, will examine a variety of issues beginning first with the economic and budgetary outlook for the Commonwealth.

We will hear about Virginia's strengths and weaknesses as we find a path away from federal spending dependency. Make no mistake about it, Virginia is in the midst of a transformation economically. While I do not write off the importance of the defense establishment in Virginia, I believe that prudence suggests that we continue to guard against the vagaries of Washington's vacillating budgetary policies.

The U.S. economy now has recovered all of the jobs lost during the Great Recession, and in fact total employment now stands over 6.5 million jobs above the pre-recession level. However, as we take a deeper look at the U.S. employment numbers, they suggest the national economy still has a ways to go. The reality is that if you measure the employment to population ratio, we still lag from the pre-recession levels. Also, the number of part-time employees due to economic reasons remains high, which many economists would argue masks the true unemployment rate. Combined with low workforce participation, these factors artificially reduce the unemployment rate. So, counting the number of jobs does not truly give an accurate picture of the health of the U.S. economy, or Virginia's.

While consumer confidence has improved over the last several months, much of that is driven by the collapse of oil prices, which are down over 50% from their all-time highs. These "dividends" should be good news for business so long as consumers redirect the savings to other spending. But, it would appear that may not be the case.

Virginia typically out-performs the U.S. economy, and in fact, Virginia did not see the same level of job loss as the nation as a whole experienced during the recession. However, as federal budget sequestration began, we saw the negative consequences first hand as reflected in our job growth. You will see today that our rate of growth slowed substantially relative to the nation from 2011 until about a year ago, when we again began to out-perform the nation.

Clearly, Northern Virginia has long been the engine that drives Virginia's economy. But what drives the Northern Virginia economy…the federal government, which accounts for about one-third of economic activity in the region. Likewise, Hampton Roads is also closely linked to federal spending, which accounts for about 40% of that region's economy.

Northern Virginia, which typically accounts for over half of the state's job growth, bounced back in Fiscal Year 2016; and once again led all regions in terms of absolute and percentage job growth. However, despite a rebounding job market, Virginia failed to meet the FY 2016 revenue forecast. The shortfall was driven largely by low payroll withholding, which accounts for approximately 63% of all general fund revenues.

So why then is there such a disconnect between job growth and payroll withholding? The staff has a good theory on this.

Last year Congress enacted The Bipartisan Budget Act of 2015, which did two things. First it suspended the debt limit until March 15, 2017; and, second, it increased discretionary spending caps by $50 billion in federal fiscal year 2016 and $30 billion in federal fiscal year 2017, split equally between defense and non-defense.

While this was good news for defense spending I would like to make a couple of observations. First, Congress has yet to adopt a budget for Federal FY 2017. Second, absent further action by Congress, the Federal FY 18 discretionary caps will decline for both defense and non-defense. In other words, sequestration continues to loom. So we clearly have a keen interest in what the new President and Congress might do in terms of defense spending.

Many of you probably saw the October Revenue Report that came out on Monday. October was a good month. All told, year-to-date collections stand at 3.5%, versus a forecast of 1.7%. What is driving collections? Well, payroll withholding is out-performing the forecast. Through October withholding stands at 4.3% versus a forecast of 3.0%.

No doubt the fall re-forecast will look deeply at this and some upward adjustment to the revised August forecast may be warranted. However, you will recall that the August revisions brought general fund revenues down $1.5 billion over the biennium. So, even with a nominal forecast adjustment for FY 2017, we will still face a challenge in balancing the 2016-18 biennial budget.

As we embark on the 2017 Session, we will also be faced with some spending pressures, primarily driven by Medicaid. When you add all of this together, we are looking at about a $1.9 billion biennial problem.

The Governor has proposed a variety of actions that largely balance Fiscal Year 2017. For the most part these actions resulted in small reductions to agency spending, thanks in large part to the Pay raise Reserve Fund we established, as well as use of the Revenue Stabilization Fund. While I am disappointed that the pay raise did not go into effect, the fact remains that the General Assembly was prudent to tie implementation of the pay raise to FY 2016 revenue performance.

Over the last three Sessions I believe the House has taken a very prudent approach in developing its budget. We knew from the beginning that revenues were shaky. That prudence allowed us to balance the budget. As the economy marginally improved, we were able to replenish the Rainy Day Fund, advance the funding level of the Virginia Retirement System, and unwind some of the structural deficiencies in the budget. We were also able to reward our state employees with a pay raise two years ago.

In closing, I recognize that the economic future remains a bit cloudy. But one thing is certain; in Virginia, the Governor and the General Assembly will continue to work together in a cooperative fashion. I know that this Committee will forge a plan of action that will address the priorities so important to our future.

Now, before we get underway, I would like to personally thank each and every member of the Appropriations Committee for your support and the privilege of serving as your Chairman. I am truly humbled by this responsibility.

I would also like to thank Robert Vaughn and his staff. I enjoy working closely with Robert and the staff, having the benefit of their sound counsel. The Commonwealth is truly blessed to have such dedicated, professional and ethical individuals working on its behalf. They are indeed a tribute not only to the Committee, but to the entire House of Delegates. Each and every one of us benefit from their tireless service.