Good morning, I would like to welcome the Committee members, invited guests and the general public to the 13th annual Appropriations Committee retreat. It is good to be back in Northern Virginia, the anchor of the Commonwealth’s economy.

In addition to the members of the 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.

Over the next two days we will engage in several panel discussions in which the Committee staff, along with outside experts, will discuss a variety of issues starting with the economic and budgetary outlook for the Commonwealth. In particular, I am pleased that Dr. Steve Fuller has joined us to kick off our meeting with a discussion of the Northern Virginia economy.

We will hear about Virginia’s strengths and weaknesses as we find a different pathway 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.

While the U.S. economy has now recovered all of the jobs lost during the Great Recession, and in fact total employment now stands over 4.0 million above the pre-recession level. However, as we take a deeper look at the US employment numbers, they would 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, and many economists would argue mask the true unemployment rate. Also, the workforce participation numbers are too low, which effectively artificially reduces 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.

While Virginia typically out-performs the U.S. economy, you will see today that our rate of growth has slowed substantially relative to the nation and we continue to lag the U.S. economy in job growth.

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 2015; and once again led all regions in terms of absolute and percentage job growth. Keep in mind however, that measure is against the previous year of negative job growth.

A couple of years ago the Washington region ranked number one in job growth for metropolitan areas greater than one million in population. Today it ranks 30th out of 30.

Several weeks ago 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 is good news for defense spending I would like to make a couple of observations. First, Congress has yet to allocate the budget increase so we do not know what this means for Virginia. 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. It should also be noted that the decline in the spending caps takes effect in the second year of our 2016-2018 budget.

Some of the slowdown in Northern Virginia and Hampton Roads was attributable to the “chilling” effect of the budgetary uncertainty being played out in Congress.

I would say that this uncertainty will continue because the true impact of federal spending cuts on our economy, primarily in defense, will be unknown. So I believe a cautious outlook for those two regions remains warranted.

Many of you probably saw the October Revenue Report that came out last Friday. October was not a good month. All told, year-to-date collections are up one-half of one percent. While the decline is largely due to one less deposit day. However, I would suggest if you look at payroll withholding and adjust for the deposit day, year-to-date growth is just over 3 percent.
No doubt the forecast adjustments for FY 2016 will translate into additional resources, but the take away for me is that our revenues continue to perform at below trend levels.

Over the last two Sessions I believe the House has taken a very prudent approach in developing its budget. We planned 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, unwind some of the structural deficiencies in the budget, and reward our state employees with a pay raise.

As we embark on developing the 2016-18 biennial budget I believe it is imperative that we show continued restraint and not engage in new spending. We still have several structural imbalances embedded in our budget, such as the Accelerated Sales Tax Collections. We still have not met the 100% funding requirement for the VRS, and our Medicaid budget continues to dominate state spending.

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 core services 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 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.