



Recommendations on
SB 29 and SB 30, as Introduced

Senate Finance Committee
Virginia General Assembly

February 21, 2010

Senate Finance Committee Recommendations on SB 29 and SB 30
Senator Charles J. Colgan
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Before we begin, I want to thank the members of the Committee for their work this year. As I said at the first committee meeting of the year, our task this session has been to make sure, at the end of the day, that we have made the best choices among what is a series of painful, difficult decisions. I can tell you that the budget before you is a result of healthy, strenuous debate about those choices.

The subcommittee reports that you will hear today reflect the varying priorities and concerns of the members of the Senate, and the diverse regions which they represent. This Committee has put in long, hard hours to achieve two central goals – first, to minimize the negative impact of budget cuts on jobs in the Commonwealth. We can't return to prosperity unless we keep people working.

Our second goal was to minimize the negative impact of this budget on services that we provide for children and our most vulnerable citizens. The subcommittee reports that you will hear this afternoon achieve those goals.

As you know, we are dealing with an unprecedented budget shortfall that exceeds \$4.5 billion. Last December, Governor Kaine presented us with a balanced budget to address this shortfall. To avoid making deeper cuts in core services, he proposed eliminating state funding for the car tax relief program. After much deliberation, we concluded that now was not the right time to eliminate this aid to our local communities.

But this choice was not without consequence. It left us with a Closing gap of \$2.0 billion to close, which is no easy task, especially when we are looking at spending cuts on top of those in the budget as introduced, and on top of what we have already had to cut the last two years.

The proposed budget before you closes this gap, but in a way that attempts to minimize further impact on our core services, and reduce further job loss. To do this, our budget employs the strategy recommended by Governor McDonnell related to employee retirement funding. For two years, we would pay less than the expected contribution rate to the Virginia Retirement System for state employees and teachers. This action results in two-year savings to the

state of over \$500 million, plus savings to local governments of another \$500 million.

We did not make this decision lightly. The Senate has long worked toward full-funding of the board-approved VRS rate recommendation. However, we weighed this short-term action against the longer term damage and job losses that would occur from further reductions to our core services. We believe that with prudent management of our debt and changes to the long term cost of our retirement programs, this action alone will not tarnish our reputation with Wall Street.

This funding strategy, combined with a boost in resources from examining revenue sources and user fees, helped minimize the additional cuts we would need to make to core services in order to balance our budget.

In public education, the net reduction is \$133 million for the biennium – a figure considerably lower than the \$730 million figure we heard last week.

A key feature of our public education recommendations is how we handled the Composite Index of Local Ability-to-Pay (known by many as the "LCI"). The introduced budget "froze" this factor for FY 2011, much to the consternation of the Northern Virginia localities.

When Governor McDonnell proposed unfreezing it - with NO "hold harmless" component -- we heard from other areas of the state. To alleviate some of the unprecedented stress on local budgeting, we recommend unfreezing the LCI in FY 2011 and providing a full hold harmless for all school divisions in both years of the biennium.

We were also able to moderate our reductions to health and human services programs. The proposed budget for HHR restores funding for Virginia's free clinics, community health centers and the Virginia Health Care Foundation to preserve access to health care and dental services. Finally, the budget identifies a number of reductions to provider rates and eligibility that will not go into effect if Congress passes a six-month extension of enhanced Medicaid funding.

Our recommendations with regard to the Compensation Board will have considerable impact on localities across the Commonwealth. Proposed budget cuts to the local officers would have resulted in the layoff of over 1,500 local employees. Most of these would have been deputy sheriffs, who protect the lives and property of our citizens every day. Many others would have been from those

who staff our Circuit Courts and prosecute criminal offenses – further weakening public safety.

Layoffs among employees of the three local financial officers funded by the Compensation Board would weaken local finances at a critical time. For these reasons, we recommend a net restoration of \$182.3 million for support of locally elected constitutional officers, and \$20 million in support of local police.

For our public colleges and universities, we recommend **no** additional reductions in FY 2012. And, we recommend restoring the \$18.8 million in auxiliary balance reversions proposed in SB 30. We rely on these institutions for workforce training and to produce the teachers, engineers, and entrepreneurs that stimulate Virginia’s vibrant economy.

I should also note that our budget includes \$72 million in economic development incentives designed to help stimulate our economy and lead to the creation of thousands of new jobs. The Senate has passed a total of fourteen economic development bills, ranging from green jobs tax credits to major business incentives that will attract new businesses to the Commonwealth and spur the creation of new job opportunities.

Finally, we are pleased to endorse the proposal of a 3 percent bonus for our hard-working state employees.

In conclusion, I have observed a great deal over my 35 years in office. While this economy presents huge challenges, we may be beginning to see the light at the end of the tunnel. The Commonwealth and its leaders demonstrate every day that we can deal with adversity. I am confident we will meet the current challenge, working together in the Commonwealth’s best interest.

Before we turn to the subcommittee reports, I want to again thank each member of this Committee for the outstanding job that you have done in bringing together our budget recommendations, especially in this challenging environment.