



Recommendations on
SB 29 and SB 30, as Introduced

Senate Finance Committee
Virginia General Assembly

February 19, 2012

Senate Finance Committee Recommendations on SB 29 and SB 30
Senator Walter A. Stosch, Chairman
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Before we begin, I want to thank the members of the Committee for their hard work this session. I would especially like to thank the new members and those who agreed to be subcommittee chairs.

As you no doubt have observed, the volume of legislation and budget work before this committee requires a huge commitment of time and energy, and I am grateful that each of you stepped up to meet the challenge.

Virginia's economy appears to be moving slowly, but hopefully surely, into a sustained economic recovery. Fortunately, crafting a new biennial budget has been somewhat easier than in prior years. The members of this Committee have deliberated and made reasoned choices about how best to direct the resources of the Commonwealth.

As was the case last year, you will see little in the way of new initiatives in these budget recommendations. What you will see is the limited restoration of funding reductions in the key areas of public education and health care, along with targeted new investments in higher education and economic development. These funding decisions reflect our twin objectives of investing in education and stimulating job creation, while maintaining a structurally balanced budget.

I sincerely hope that every member of this committee feels they had ample opportunity to voice concerns about the priorities in this budget and to ensure that the needs of all areas of Virginia were thoughtfully considered. Each Senate member's view is important and, where feasible, their concerns have been heard and reflected in these recommendations. A key example of our re-programming of priorities in response to member concerns was the decision to retain sales tax revenues for education and health and human resources.

While our revenue forecast for the next two years is positive, we are still seeing below-trend growth in our general fund sources. On top of that, the impact of reductions in federal spending has yet to be fully realized. As a result, the Committee felt that limited general fund resources could best be used to support investment in educating our next generation and providing a strong health care “safety net”.

Let me turn to some of the specifics of our budget recommendations.

Education remains vital to preparing our young people for meaningful jobs through developing a skilled workforce and strengthening our competitive position in the global economy. We have heard the concerns about the pressure on our public schools resulting from the increased VRS rates. To mitigate this additional pressure on localities without further harm to the VRS, we recommend a net \$165 million above the budget as introduced for public education. In addition to this relief, we support innovative approaches to ensure that our children are reading well by grade three, and strategies to produce more high school graduates ready for a career or college.

We are also recommending that the proceeds from the recent mortgage servicing settlement be used, in part, to reduce the “Aid to Localities” reversion of \$50 million included in the budget as introduced. This action will give greater flexibility and financial support to localities as they address the impact of the VRS rates and employee compensation actions.

For our public colleges and universities, our recommendations, along with the Governor’s budget proposals, will result in total new funding for the next biennium of over \$215 million. Our recommendations support the Governor’s proposed funding to implement the ground-breaking “Top Jobs” legislation we adopted last year. We also recommend over \$41 million for financial aid, a

portion of which will go toward addressing college affordability for middle income families.

We look to these institutions to produce the engineers, entrepreneurs, and teachers that stimulate Virginia's vibrant economy. To this end, we recommend reallocating a portion of the proposed funding for a 2 percent faculty salary increase effective June 25, 2013, in addition to a 3 percent bonus recommended for December of this year.

In the area of health and human resources, restoring funding for the health care safety net was a top priority. The committee's recommendations also attempt to stabilize funding for hospitals and nursing homes -- our key Medicaid providers, who are critical partners in delivery of health care services to many Virginians. The subcommittee focused on the "must do" items, but found some resources to improve children's mental health services and to expand health coverage for children and pregnant women.

Virginia has long enjoyed a reputation as being "open for business" and so our economic development recommendations support funding of \$125 million for incentives to grow new job opportunities. Small businesses are the key to Virginia's economic recovery and job creation; our recommendations include resources to stimulate investment in our smallest companies.

We also recommend substantial funding for point and nonpoint source water quality projects, land conservation, and restoring proposed cuts to our Natural Resources agencies.

Turning to moving people and goods, transportation drives our growing, vibrant economy. No one disputes that it is in fact a "core service" of state government, which is why the transportation initiatives of Senator Watkins and Senator Wagner garnered strong support in the Senate. The Senate has demonstrated, and will continue to demonstrate, leadership in this important area. The transportation budget recommendations fulfill our commitment to

Governor McDonnell's 2011 comprehensive reform legislation, and dedicate a portion of the 2011 undesignated general fund balance to support passenger rail service.

Our recommendations also include several actions on employee compensation. For our dedicated state employees and state-supported local employees, we recommend a 3 percent bonus in December, contingent upon a revenue surplus. We also recommend a 2 percent salary increase effective June 25, 2013. It is our sincere hope that we will be able to return to regular compensation increases for all employee groups in the years ahead.

Further, Senator Watkins' leadership on his VRS legislation should position Virginia's retirement programs for a healthier future. We are committed to moving toward payment of the full VRS board-approved rate in the years to come.

Finally, to stimulate our construction industry, we recommend a reasonable package of additional capital outlay projects. We worked to identify those projects that could have the biggest impact for our colleges and universities, and those projects that were ready to bid. We believe that prudent use of our debt capacity at this time will allow us to take advantage of low borrowing and construction costs, and prompt job creation.

In January, Senator Colgan, Senator Norment and I had the opportunity to meet with the three Wall Street agencies that rate Virginia's debt. Their opinion is very important to us as we remain one of a handful of states with a coveted triple A bond rating from each of the three rating agencies.

They shared with us their view that while Virginia is emerging from the great recession faster than many states, the uncertainty at the federal level casts some uncertainty our way. That's why they appreciate our commitment to rebuilding our Rainy Day Fund and the creation of the Federal Action Contingency Trust – the "FACT" fund, which we can use to help address cuts in federal spending.

These actions both support our Committee's important goal of a "structurally balanced" budget.

My colleagues and I took from those meetings the message that, fundamentally, the Commonwealth remains strong, as are our prospects for economic growth and vitality. I feel confident that the recommendations before us today will further strengthen our position in the nation and the world.

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. You have been thoughtful, responsible and inclusive and I applaud your accomplishments for the citizens of the Commonwealth.

