



Recommendations on
SB 29 and SB 30, as Introduced

Senate Finance Committee
Virginia General Assembly

February 21, 2016

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

Before we begin this afternoon, I would like to thank the members of the Committee for their hard work this session. Our subcommittee chairs hit the ground running, with the veterans on the Committee working closely with our new members. As a result, I believe the Committee has produced another solid budget. The recommendations before you reflect a structurally balanced budget that includes conservative revenue forecasting and investment in our workforce, our schools and colleges, public safety, and our healthcare system.

As always, each subcommittee spent many hours deliberating and making careful choices about how best to use the resources of the Commonwealth. The subcommittee members heard from key players in the various budget areas, but more importantly, spent a great deal of time discussing how the Committee's priorities should be translated into the budget plan.

The subcommittee chairs clearly took to heart the charge that Senator Hanger and I gave them at the beginning of the Session, and I would like to thank them for their diligence and tenacity.

Namely, they were asked to direct dollars to one-time spending, to reduce the amount of state-supported debt, and to avoid creating new out-year spending obligations. Each subcommittee took a sharp pencil to the discretionary spending items proposed by the Governor, and in so doing, redirected resources to the key issues identified as priorities of the Committee.

Fortunately, the budget as introduced was structurally sound, incorporating several actions to unwind budget-balancing actions, addressing our unfunded liabilities, and using cash for a portion of the capital outlay plan. We have retained these items, and enhanced them, where possible.

Along these lines, you may recall the discussion at our annual meeting about the nonwithholding revenue that remains unrecognized, or "collared". The amount in question could be in the neighborhood of \$180 million this fiscal year, and roughly the same amount in each of the next two fiscal years.

We recommend that these dollars, as they materialize, be used to supplant general fund-supported debt. This contingent action will drive the dollars to

one-time uses, and will lower our outstanding debt obligations. We believe this is the most prudent use of these resources.

Regarding the revenues assumed in the budget, you will see no adjustment to the "bottom line" of the official forecast, although the Governor recommends adjustments among the individual sources. The forecast remains conservative, reflecting modest growth in the 3 percent range for this year and the next two. Any additional resources identified by the Committee reflect the impact of legislation or adjustments to such items as ABC profits and Lottery. Those incremental resources largely were not directed to additional spending, but reside in our unappropriated balance of over \$55 million.

Senator Emmett Hanger will now provide some specifics on the Committee's budget recommendations. Before I turn to our co-chairman, I would like to thank him for his hard work this session. I sincerely appreciate his dedication to producing a sound budget that we can all endorse.

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

Good afternoon, members of the Committee.

As Senator Norment observed, the budget presented today endorses actions to improve and maintain a structurally balanced budget. Although our revenue situation is stable at this time, we want to be postured to respond to the next downturn, when it comes. A balanced budget that does not rely on one-time resources, with a good portion of one-time spending items, serves to enhance our budget flexibility.

We agree that the Commonwealth must explore ways to “reinvent” our economy in a post-sequestration environment. The budget before you supports significant investment in research, economic development, and job creation through regional collaboration. Our subcommittees closely evaluated the various proposals in these areas to determine those opportunities with the greatest upside potential.

In addition to meaningful funding, our budget recommendations include guidance on the governance structure for these various initiatives, along with measures for assessment and accountability. It’s critical that this level of investment be targeted wisely, in a way that maximizes the Commonwealth’s return on investment.

These initiatives to broaden and revitalize our economy require a sustained commitment to a competitive, talented workforce. Our investments in the area of K-12 and higher education are vital to ensuring educational opportunity and workforce preparation for our citizens.

In addition to fully funding the Standards of Quality for public education, our recommendations direct additional resources to the classroom, with flexibility for school divisions to determine how best to deploy these resources.

We continue our support of expanding access to higher education through increased funding for financial aid and improving college completion. We also recommend a significant new investment in workforce training and credentialing.

In the area of health and human resources, we continue to address the challenges of transitioning individuals from our training centers to the community, and ensuring that the appropriate resources and supports are available. The budget recommendations before you also build upon our efforts in recent years to increase mental health services for those in need, especially children.

Last year we made progress on regaining lost ground on compensation with a package that addressed salary compression and targeted increases to employee groups with high turnover. We don't want to see these gains eroded, so the budget before you moves the proposed salary increase into the **first year of the budget**. We believe our hard-working teachers, faculty, and state employees should not have to wait two years before seeing another salary increase.

Our budget recommendations include a 2 percent increase for state employees **in the first year**, with a similar increase for our state-supported local employees. For our colleges and universities, we propose funding in an amount equal to a 2 percent increase for faculty **in the first year**, which they may allocate based on their individual pay plans. And, for teachers, we are providing the state share of a 2 percent increase **in the first year**.

We also recommend funding for the next step in addressing salary compression issues in the ranks of our state troopers, and to support these hard-working men and women. And, our recommendations include funding to improve staffing levels for key State Police operations.

These are but a few highlights of the Committee's budget recommendations. We will hear more details from the chairs of our subcommittees.

However, before we turn to the subcommittee reports, I wish to thank our co-chairman, Senator Norment, and each member of this Committee for an outstanding job in bringing together our budget recommendations. I have been impressed by the willingness on the part of the subcommittee members to ask tough questions about every spending decision, and by the consensus building process they followed to develop their recommendations.