

Budgeting in the post-recession era: not business as usual.

- **Caution** remains part of Virginia's budget vocabulary as the economic drag from constrained federal spending plays out.
 - Planning becomes more difficult; forced to a shorter time horizon.
 - Difficult to fund investment in education, innovation.
- Revenue growth has trended down over time; in recent years, prior to 2014, growth averaged 5.5 percent.

Virginia Average Revenue Growth Rates, by Decade

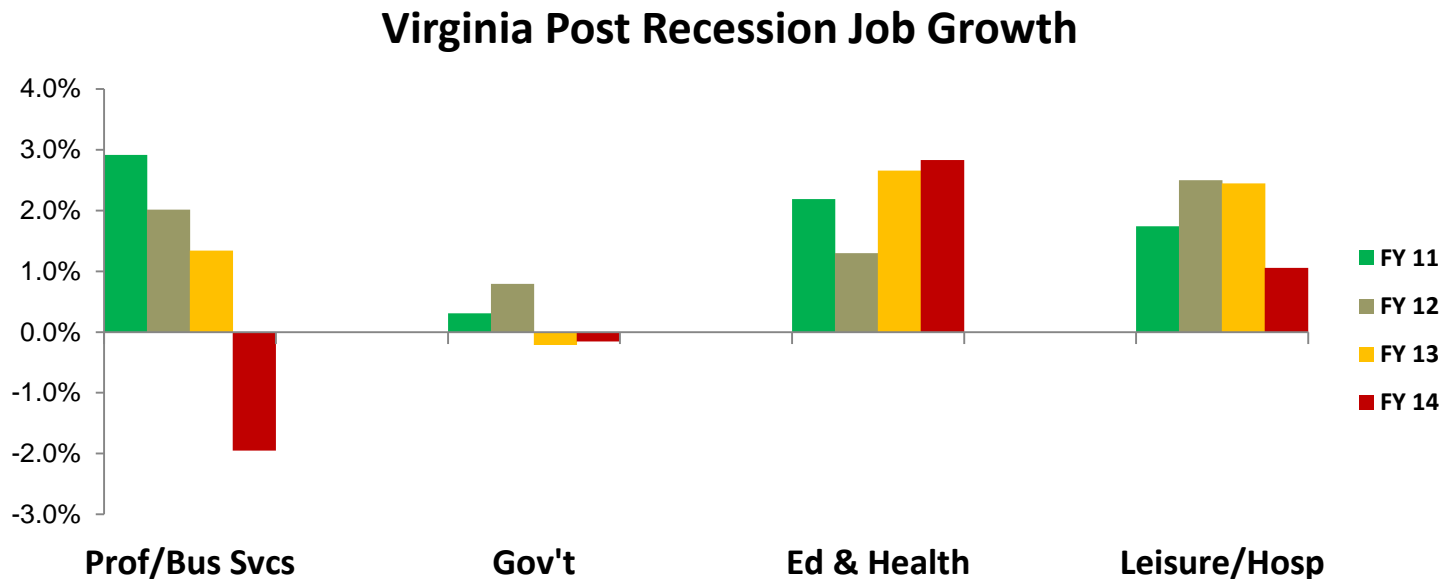
(Omits Recession Years)

1980-89	1990-99	2000-09	2010-14
10.4%	7.5%	7.6%	3.9%

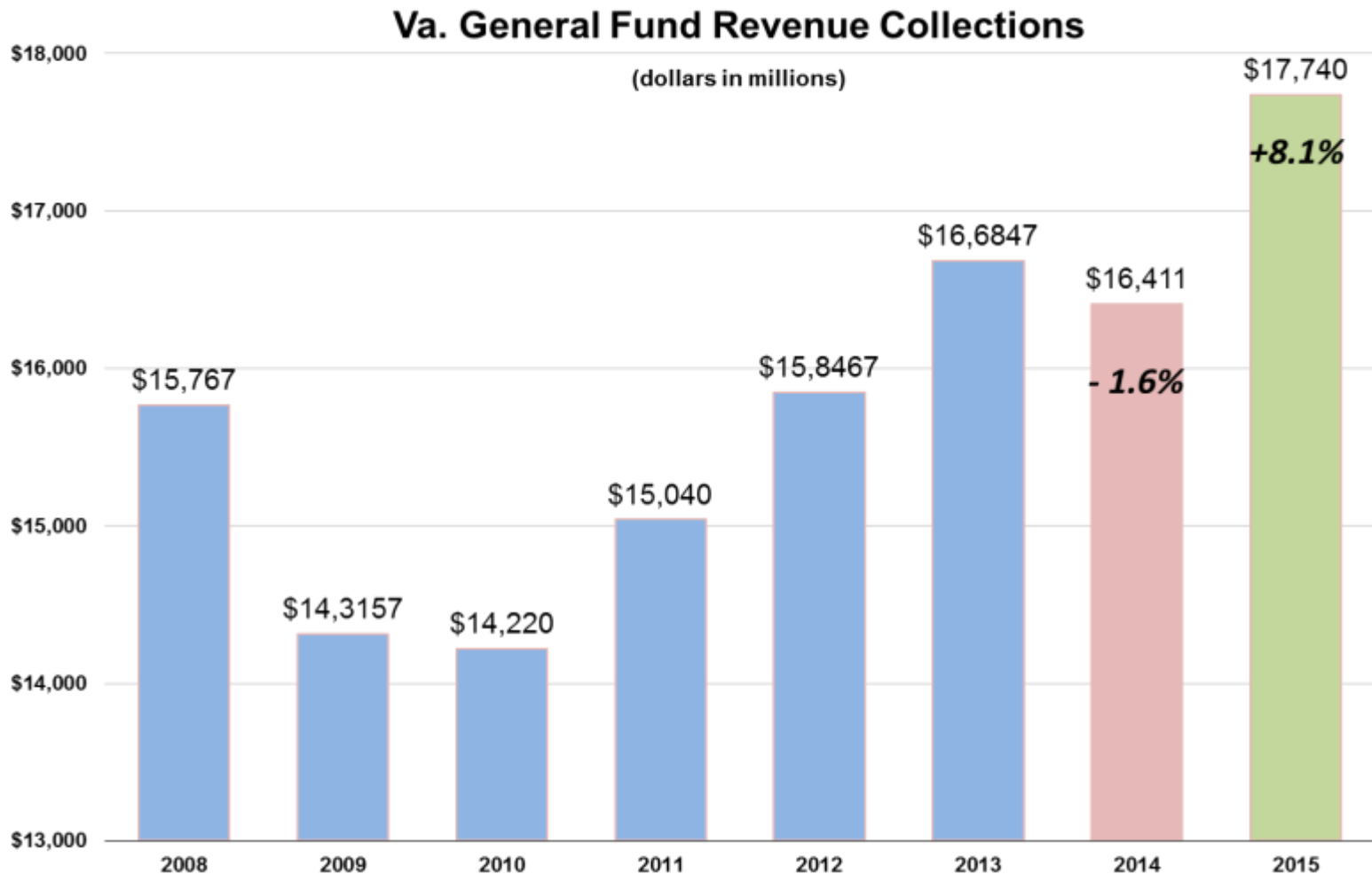
- Historically, Virginia's economy typically **out-performed** the national economy. That trend is changing -- response cannot be "business as usual".

Sequestration complicates the recovery -- changes in the composition of the economy.

- **Wage growth remains sluggish, six years after the end of the recession.**
 - Revenue driven about 90 percent by individual income and sales tax.
 - Virginia's mix of jobs has shifted toward lower paying ones, as defense contractors have "leaned out" their operations.



General fund revenues: shortfall in FY 2014, surplus in FY 2015?



How is Virginia budgeting in this protracted era of uncertainty?

- **Maintaining “structural balance” in the budget.**
 - Using unanticipated revenue growth for one-time uses, capital projects. Unwind “gimmicks” used to address budget shortfall.
 - Surplus largely directed to Rainy Day Fund.
 - *Helps maintain Virginia’s “triple-triple A” bond ratings.*

- **Paying down out-year obligations.**
 - Adopted pension reform in 2012; continue to repay diversions from retirement system ahead of schedule.

- **Avoiding the creation of new obligations.**
 - Directing new resources to core services (K-12, Medicaid, corrections).
 - Addressing employee compensation and compression.



How is Virginia budgeting in this protracted era of uncertainty?

- **Making smart investments in roads, ports, job creation, targeted incentive programs.**
 - Cautious about tax breaks or tax policy changes that redirect general fund revenues.

- **Taking steps to diversifying Virginia's economy.**
 - Lessen dependence on federal spending; repurpose available skills and knowledge base to private sector employers.

- **Candid in conversations with local government, higher education, other entities, about the difficulty of planning.**
 - Encourage collaboration and dialogue on how entities can be more resourceful with fewer state dollars.