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)

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<tbody>
<tr>
<td>Growth</td>
<td>10.4%</td>
<td>7.5%</td>
<td>7.6%</td>
<td>3.9%</td>
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- 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.

### Virginia Post Recession Job Growth

- **Prof/Bus Svcs**
- **Gov’t**
- **Ed & Health**
- **Leisure/Hosp**
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.