

# Virginia could be facing much bigger budget shortfall than expected



By [Laura Vozzella](#) and [Gregory S. Schneider](#) August 24 at 6:54 PM

RICHMOND — Gov. Terry McAuliffe (D) will announce a larger-than-expected shortfall in the Virginia state budget Friday, possibly in the range of \$1.5 billion, according to several people familiar with the figures.

Two people with knowledge of the budget situation said the governor was expected to announce a projected shortfall of about \$1.5 billion in its current two-year, \$105 billion budget.

Both people spoke on the condition of anonymity because they were not authorized to disclose the projected shortfall. One of the two said the budget hole is expected to be “at least” that big.

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The shortfall would be among the biggest in state history. The worst was in 2010, when the General Assembly had to confront a \$4.5 billion hole.

Virginia braced for an expected \$2.4 billion shortfall under McAuliffe in 2014, but the revenue projections turned out to be more than \$500 million too pessimistic. The

actual shortfall that year was about \$1.9 billion. The shortfall expected this year will force the state into making tough choices, one of the two people familiar with the situation said.

“We are going to try to hold teachers’ salaries, but other than that, everything is on the table,” that person said.

“I have been briefed on the shortfall,” said S. Chris Jones (R-Suffolk), chairman of the House Appropriations Committee, who did not disclose the specific number. “And as we did two years ago, we’ll be working cooperatively through the cuts and adjustments to the budget that need to be made.”

Sen. Charles William “Bill” Carrico Sr. (R-Grayson), a member of the Senate Finance Committee, said he had no official word on the size of the shortfall but that he understood that McAuliffe would be unveiling a very large number.

“I think they’re finally admitting what we have been saying all along: You’re going around announcing you’ve brought more jobs to Virginia, yet you’re losing more high-paying jobs than any governor,” Carrico said. “And that’s where you see a decline in income-tax revenue and you see a decline in spending [through lower sales-tax revenue].”

Brian Coy, a spokesman for McAuliffe, said the governor’s office is still working on the numbers. “The governor will deliver the yearend financial report to the General Assembly on Friday,” he said.

But Coy acknowledged that the state is grappling with difficult economic conditions in which growth isn’t translating into as much revenue as it might have in the past.

“We’re in a position where the governor has said we need to continue to diversify our economy and generate new economic activity so we can grow our way past things like the recession and sequestration,” Coy said, referring to the federal government’s limits on spending, which has hit Virginia’s government contracting industry.

“We’re making progress, but there is still work to be done,” Coy said.

In July, McAuliffe announced a shortfall of \$266 million in the budget for the past

fiscal year, which ended June 30. He noted that payroll- and sales-tax receipts came in below expectations even as the state took in a record \$18.3 billion in revenue. That amount was a 1.7 percent increase in revenue, far less than the 3.2 percent increase the state budget office anticipated.

The problem, experts say, is that while Virginia's economy is growing faster than the national rate, the jobs being created are not necessarily full-time or as high-paying as those that were lost in the recent recession.

And as the federal government has tightened spending, the state's government-contracting sector has not enjoyed the same boom times it once experienced.

The good news is that the professional and business-services sector, the part of the economy most tied to government work, has resumed healthy growth after a period of uncharacteristic decline, said Ann Macheras, an economist at the Federal Reserve Bank of Richmond.

"It has come back. There is some stability in federal government contracting, but not a lot of growth," said Macheras, who also has served on the governor's Joint Advisory Board of Economists.

That board advised McAuliffe on the projections he will cite Friday, although Macheras was speaking broadly about the state economy and not the governor's announcement. McAuliffe will release his budget projection to a joint meeting of the House and Senate Money Committees.

Laura Vozzella covers Virginia politics for The Washington Post.

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