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Governor Kaine Unveils Proposed Biennial Budget for 2010-2012

– Balanced budget preserves safety net programs, maintains Triple A bond rating, maintains position as national leader through combination of cuts and revenue –

audio of the Governor's speech can be heard [here](#)

RICHMOND – Governor Timothy M. Kaine today unveiled the 2010 caboose budget and 2010-2012 biennial budget that he will submit for consideration by the 2010 General Assembly during a speech to the Joint Money Committees. The prepared text of his remarks follows:

"Chairman Putney, Chairman Colgan, Chairman Purkey, and Members of the General Assembly: Good Morning.

Today marks the last time I will address the members of the Joint Money Committees as Governor. On behalf of seven and a half million Virginians, I thank and commend you for your service.

When I began my service as Governor nearly four years ago, I chose a motto for my Administration: 'Virginia Leading the Way.' It has inspired everything we do. Just as Virginia was the nation's leading state in the first 50 years of our country's life, we should be the leading state in America today.

When I chose that motto, I had no idea that we would be living through the toughest national economic conditions since the 1930's. When we saw the economy start to soften in March of 2007, few believed that the depths of the recession would be so profound. And yet our goal did not change.

I stand before you today to tell you that - despite our ongoing challenges - we have achieved our goal. In the vitality of our economy, in our hard-earned reputation for service delivery and fiscal stewardship, and in our excellent educational outcomes, we are a national leader and there is not a single state that has achieved the level of success in recent years that we have enjoyed in the Commonwealth. While this distinction would be meaningful at any time, I believe that the fact that we have gained this leadership position in a tough time is particularly notable.

Our economy is dramatically outperforming national norms. The Virginia unemployment rate has declined since its peak in June of this year and is now nearly 4 points less than the national average - the lowest rate among any of the nation's large states. Our median income is high. We have attracted \$13.5 billion in new economic investment in the last four years affecting every corner of the Commonwealth. Five Fortune 500 companies have relocated their headquarters to Virginia. We have been recognized as the Best State for Business eight times in the last four years. We have been singled out as one of the five best states to start a new business. We have tripled the participation of small, women, and minority businesses in state procurement. And, we have a larger percentage of our workforce in technology jobs than any other state in this country.

Our efforts to run government well have been recognized again and again. We are the Best Managed State in America. We have maintained the rare Triple A bond rating with all financial agencies during this time of economic turmoil. Even in areas where we have traditionally been weak - infant mortality, environmental stewardship, youth smoking, and the success of our foster care system - we have made huge strides forward by focusing on performance.

Our education system is recognized as one of the most innovative and successful in the nation. We have dramatically expanded early childhood education. The students in our K-12 system perform in the top tier of American states on AP exams, SAT exams, and the National Assessment of Educational Performance. The performance of our Latino elementary school students is the best in the nation. Growth in career and technical offerings has exploded in the last four years. And our system of community colleges and universities is widely recognized as one of the two or three best in the United States.

Why do I emphasize these successes?

First, because I am proud of Virginia's success and you should be too. These accolades and achievements do not happen by accident. They are the result of painstaking work, hard choices and significant teamwork. In a tough time, with much bad economic news, it is easy to overlook the things that are going well and miss the story that Virginia is now uniquely positioned as a leader in virtually every area.

But, I also mention these facts for a second reason, directly related to the budgetary task before us. Now that we have achieved a role of such significant national leadership, we have to hold onto it. We can't afford to mess it up. CNBC termed Virginia the state "most likely to emerge from an economy turned upside down" when it bestowed its top state for business award on us in 2009. This is a wonderful spot to be in. But, we will only enjoy the benefit of our position by making smart decisions, avoiding easy shortcuts, and rejecting the "government by sound bite" that characterizes too much of our political dialogue.

These thoughts have been foremost in my mind as I have prepared the budget that I deliver to you today. I have attempted to achieve three goals:

First, we have to make significant and painful cuts, but we need to make them in a way that preserves the core services that Virginians depend on. I am mindful of the fact that, at the very time revenues decline, our citizens have the greatest need for services. So, while we have made tough cut decisions that will be painful to virtually every governmental priority, we maintain the safety net that must be protected during these difficult times.

Second, the budget I deliver to you will preserve our Triple A bond rating. It makes the hard decisions and avoids easy gimmicks that can paper over fiscal challenges.

Third, the budget reflects the need to preserve Virginia's status as an economic and educational leader while we climb out of this national recession. If adopted, it will provide the resources that the Commonwealth needs in the future to tackle tough challenges and maintain our edge over other states and regions of the world with whom we compete every day.

The bottom line is this: we can keep "leading the way" if we are willing to make hard decisions in a tough time. The degree to which we will continue leading the nation as the economy improves depends upon our willingness to do the right things today.

VIRGINIA'S REVENUE OUTLOOK

In putting together the 2010-2012 budget, we begin with the revenue estimate. Leading economists, business leaders, and our combined finance teams have frequently met and discussed the outlook in the last six months - the revenue forecast for the Commonwealth takes their cautious tone into account. Our revenue forecast for the next biennium is either as conservative - or more conservative - than those projected by the staff of the money committees or the Governor's Advisory Committee on Revenue Estimates.

Since 1970, there have been 29 years in which general fund revenue growth on a year over year basis met or exceeded six percent. In fully 17 of those years, growth met or exceeded 10 percent. In sharp contrast, the revenue forecast I present today projects a revenue decline of 2.7 percent in FY 2010. This would represent the first time in recorded budget history when the Commonwealth would have experienced revenue declines in two successive years.

While the FY 2011 and FY 2012 projections offer some hope with projected revenue growth of 3.8 percent and 5.1 percent respectively - and FY 2012 projects the best growth rate since FY 2006 - this growth will be off a much lower base, resulting in less additional revenue than experienced in past economic rebounds.

With this revenue forecast, the budgetary challenge is daunting. If we just take the expense line items in the FY 2010 budget, already adjusted downward after \$7 billion in budget cuts, and project them forward with no increase and then add only items that are absolutely mandated in the new biennium - debt service payments, economic development contracts, increases in the state's Medicaid rolls - the budget gap in the upcoming biennium exceeds \$4 billion dollars. A significant part of that gap is created by the end of federal stimulus dollars in 2011. Closing that gap will require painful choices - choices that no one will like but that have to be made.

IMPACT OF THE RECOVERY ACT

Virginia has benefited greatly from the American Recovery and Reinvestment Act of 2009 (ARRA) and will continue to feel the positive impact of stimulus dollars in the next biennium.

Recovery Act funds helped us avoid even more painful cuts to education, health care, and public safety. Federal dollars prevented layoffs of teachers and police officers and protected the health care safety net at a time when Virginians need it most. At the same time, thanks to the Recovery Act, Virginia has created or saved thousands of jobs, weatherized 1,260 homes, broken ground on critical highway projects, contracted for repair or replacement of 119 bridges, and made forward-looking investments in a new energy economy. Our state agencies have received accolades for the management of more than \$5 billion in ARRA funds.

While I differed with some of you over your decision to reject \$125 million in stimulus funds for unemployed workers, I am grateful that this body accepted all other stimulus funds. You saw how tough the budget looked last year when I proposed it to you before the passage of the Recovery Act. You each know how critical these dollars have been in protecting Virginians during this most challenging time.

As we look ahead to the 2010-2012 biennium, we have put together a budget that ensures we are structurally-balanced now - and when ARRA funding disappears. This proposal balances the Commonwealth's budget in FY 2012 without using any stimulus funds, which would make Virginia the first state to reach that milestone.

K-12 EDUCATION

We all agree that education is one of the Commonwealth's highest priorities and most important responsibilities. As a reflection of this shared value, we have largely spared K-12 education in the previous rounds of budget cuts thru FY 2010, thanks in large part to federal stimulus dollars. However, as stimulus funds run out in the next year, even K-12 will be affected by the worst economic crisis in a generation. My budget makes a series of strategic, targeted cuts to K-12 that further focuses our limited resources on the classroom.

First, the budget continues a policy change that I proposed and that was approved by the General Assembly last year. The budget reduces funding for administrative and support personnel in schools and central offices by applying a funding ratio for these positions.

As a proud parent of two children currently in public schools and one who has already graduated from public school, I know how important administrative and support staff are to a child's educational success. However nothing in our schools is as important as teachers, and a ratio for support staff is not only consistent with a ratio for teachers and instructional staff that already exists - it will help protect our core priority, the classroom. The Board of Education has announced that they intend to continue to study and refine the strategy in the future, creating different ratios for different categories of administrative and support staff.

My budget also amends the current practice of funding localities for health insurance based on the total number of school personnel without regard to whether insurance is actually provided to individuals. This budget proposes to provide funds to localities for employee health insurance only for the actual number of employees insured through the locality.

Finally, recognizing that local school divisions need more certainty in a challenging time - especially in the near-term - this budget proposes delaying the scheduled change in the composite index of local ability to pay for one year, until FY 2012. Without this action, 97 school divisions would see increases in the share of education costs paid by their local governments and they would face greater losses of state revenue in the first year of the biennium.

The net effect of my proposed changes is significant. For the first time, the total line item for SOQ funding will be lower in the upcoming biennial budget than it was in the last budget. This is a tough decision to make, but the need to keep this budget in balance requires that we do so.

HIGHER EDUCATION

Similar to K-12 education, Virginia's higher education has been shielded from some of the most challenging cuts in FY 2011 thanks to available federal stimulus dollars. However, later in the biennium, higher education will face difficult reductions. As a stark consequence of sharply contracting revenues in recent years, the budget provides fewer general fund dollars to higher education in FY 2012 than were provided in FY 2006. At the same time, resource needs have grown, with an 11% increase in enrollment in our higher educational institutions since that time.

Virginia's colleges and universities have reduced expenditures and there will be more reductions under this budget. We have protected financial aid from all cuts and proposed that two-year schools received smaller reductions than our four year universities. But, we should not kid ourselves. Without some significant infusion of new revenue, tuition costs will likely rise in this biennium.

PUBLIC SAFETY

Some of the most difficult budget cuts come in public safety.

The Department of State Police will postpone two new trooper schools in the next biennium - a cost-saving strategy that meets our mandate for balancing the budget but will make it more difficult to fill vacancies as current troopers retire or leave the service.

In addition, local sheriffs' departments with law enforcement responsibility and police departments - largely protected from budget cuts last year - will face reduced state payments approaching twenty percent. These cuts may require layoffs at the local level to keep local budgets in balance. Cuts to local Commonwealth's Attorneys offices exceed sixteen percent, while Circuit Court Clerks face similar percentage reductions.

The Department of Corrections, now Virginia's single largest state agency, has already closed large facilities in Botetourt, Southampton, and Brunswick as well as many smaller facilities. At this point, additional closures would not be consistent with our public safety needs. But, we will continue to explore options - including contracting with other states to house some of their inmates - to manage our own inmate population while reducing costs.

HEALTH CARE

Among the greatest challenges in this budget is preserving the health care safety net for those citizens who are most vulnerable in these economic times. My administration has sought in previous rounds of reductions to protect critical services for Virginians managing through this economic crisis. Yet the depth and scope of the revenue shortfall for the 2010-2012 biennium mean cuts are required even to these programs.

One of the most important elements of the federal recovery package was increased funding for Medicaid. Although the Commonwealth maintains some of the most stringent eligibility criteria in the nation, the current economic downturn has resulted in dramatic growth in the number of Virginians who are eligible for Medicaid. The stimulus package was critical in helping us maintain services that must now be offered to a larger population of recipients.

As Recovery Act dollars cease to be available beginning in early FY 2011, health care for low-income Virginians will necessarily be affected. Medicaid expenditures are projected to increase \$778 million in response to rising caseloads and costs corresponding to the continued weak economy. In an effort to control these rising costs, this budget significantly limits services to individuals and reimbursements to health care providers by imposing reductions of \$419 million.

This budget calls for the temporary freezing of a number of waiver programs - Intellectual Disabilities, Developmental Disability, Day Support, Elderly and Disabled, and Alzheimer's waivers. The human consequence is that many people will remain on waiting lists until these programs can be reopened.

In addition, some Medicaid services have been reduced or eliminated in FY 2012, including physical, occupational, and speech therapy, as well as lower caps on the hours of respite care provided for the needy.

Meanwhile, many health care providers will see freezes - or even reductions - in state payments for providing services to Medicaid patients.

The painful reality of this budget will impact non-state partners that currently provide important health care safety net services, such as the free clinics and the Virginia Health Care Foundation. We have worked to make these cuts manageable, but they cannot be completely spared.

STATE EMPLOYEES

Our state employees are the reason why Virginia is the Best Managed State in America. State employees have not received any raise since December 1, 2007. There have been significant layoffs of state employees, totaling 1,651 since 2007. This budget continues the trend of shrinking the state workforce by proposing an additional 664 layoffs, as well as the elimination of an additional 1,879 vacant positions. The agencies most deeply impacted are the Department of Transportation, the Department of Behavioral Health and Development Services, the Department of Corrections, the Department of Juvenile Justice, and the University of Virginia.

My budget includes no pay increase for state employees in either FY 2011 or FY 2012. I have not, however, proposed any additional furlough days beyond the single day previously announced for May 2010.

The budget includes one significant change to state employee compensation that brings the Commonwealth more in line with other major employers and other states across the country that offer a guaranteed retirement benefit to their employees. Your own retirement system oversight agency, the Joint Legislative Audit and Review Commission, identified this change as an available option that would ensure more consistent funding for the retirement system.

Currently, the Commonwealth pays both the employer share and the employee share of retirement contributions. Beginning in FY 2011, all state employees will be required to pay one percent of salary as their share of the total contributions required for membership in the Virginia Retirement System defined benefit retirement program. This rate will increase to two percent of employee salary in FY 2012. The state will pay the remainder of the employee share as well as continue to pay the entire employer share. Local governments and school boards will have the option to require their employees to contribute at the same rate as state employees.

At the same time, the retirement age for newly hired state and local employees will be increased from age 50 to age 55.

Taken together, these changes put state and local governments in a position to preserve strong pension benefits, while prefunding the retirement system in the manner bond ratings agencies have come to expect from a Triple A state. But, we must also acknowledge that these changes impose additional burdens on governmental employees who have been doing more work with fewer people and seeing their take home pay reduced through increasing health care premiums and pension contributions. This is not what we hoped to announce, but these changes are necessary to manage through this very difficult fiscal situation.

TRANSPORTATION

As you know, Virginia's transportation budget is supported mostly by nongeneral fund revenue. These sources have been similarly impacted by a contracting economy as well as declining gas tax and automobile sales tax revenues. My budget reflects the continuing downward changes in the revenue forecast for transportation.

The Virginia Department of Transportation (VDOT) is continuing to reduce central office staff and streamline operations around the state to respond to the reduced revenue forecast. VDOT is in the process of reducing agency employment to 7,500 employees, down from a workforce that previously totaled more than 10,600.

Similarly, the Commonwealth Transportation Board continues to revise its Plan to balance proposed construction and maintenance expenditures against projected revenues. Given the Commonwealth's mandated prioritizing of maintenance of current infrastructure above other resource needs, there is very little revenue for new construction included in the CTB's current Six Year Plan. Thanks to the support of the President and Congress, we are undertaking a number of critical infrastructure projects through Recovery Act funding. But, those funds will dry up in 2011 and the ongoing road needs of Virginia face an uncertain future due to the unwillingness of state leadership, public and private, to support additional transportation investments.

LOCAL GOVERNMENT

Many of the changes that I have previously discussed have direct impact on the budgets of local governments. Support for local governments is the biggest single spending item in the state budget and there is no way to make budget proposals of this magnitude without having a direct impact on localities. I am mindful of the fact that local governments have revenue issues of their own as they rely on property taxes based on declining property values.

My budget includes one additional reform in the area of local finance. Given that the Commissioners of Revenue and Treasurers have the primary function of working in the area of local tax administration, the budget proposes that funding responsibility for these offices - other than the salary of the Constitutional officer - should rest completely with local government. This change to the current structure will enable local governments to have sole responsibility for planning and funding the fiscal side of local government operations.

Language in my budget also encourages localities to consolidate functions and look for opportunities for savings. State agencies are directed to work with local governments to implement these new strategies, which should be aimed at creating greater efficiencies at the local level and encouraging regional solutions where possible.

GROWING THE ECONOMY

Perilous economic times call for careful action and the appropriate balance between short-term imperatives and our long-term success as a Commonwealth. The economic future for Virginia citizens depends on continuing to attract new businesses and new jobs to the Commonwealth.

My budget continues to invest in economic development and job creation through the Governor's Opportunity Fund, the Virginia Investment Partnership program, and the Major Eligible Employers grant fund.

In the last decade, we have proven that businesses large and small want to locate in Virginia, and we must find the resources to keep such firms investing in our future. The budget fulfills our commitments to major new investors in Virginia like Rolls Royce, SRI, and the IGNITE Institute.

CAR TAX RELIEF

Without question, the cuts required in this budget and in previous rounds of balancing have been painful. Virginia has gone well beyond finding efficiencies and doing more with less - we have been forced to make cuts in programs that directly affect the lives of Virginians.

Even with the difficult cuts to programs and services included in the budget I have detailed today - \$2.3 billion in total on top of over \$7 billion previously announced - a significant shortfall remains for the next biennium. I have worked with my budget team over the last several months to determine the best way to fill that shortfall. I conclude that more cuts to education, public safety, health care, state employees and other core services would be directly contrary to the current and future needs of the Commonwealth. They would squander our leadership position and make it more difficult to achieve our goals as we climb out of the national recession.

And so, in preparing this budget, I have carefully analyzed one expense line item that has been untouched until now--the \$950 million annual payment we make to localities to offset some portion of local car tax bills for the first \$20,000 in value of personal vehicles.

I propose ending this payment because maintaining it is contrary to Virginia's best interests. The phrase "No Car Tax" fit on a bumper sticker, but it was poor state policy to use state tax dollars to pay down a local tax when local voters had the complete ability to influence local elected officials to reduce the tax if they saw fit. Taking \$950 million in state funds off the top every year to subsidize local tax collections has hampered the state's ability to invest in key priorities and weakened our ability to maintain structural balance in our budget. As one example, our funding to higher education - the single most important element in Virginia's economic future - is in decline at the time when it is most needed. And, our higher education tuition is now more costly than national averages and is likely to climb even further. We should be using the \$950 million annual car tax payment to advance our higher education investments and other core priorities.

While some of you might disagree with this proposal in your public statements, your actions have told the public that you do not place a high priority on the car tax payment either. The clear campaign promise of "No Car Tax" quickly became a byzantine phase-in of partial car tax relief as soon as the campaign was over. By 2004, you basically decided to stop at a decidedly reduced program whereby the state pays a smaller and smaller percentage of personal car tax bills on the first \$20,000 of the value of each automobile. In the nearly 6 years since that accord

was reached, not a single legislator of either party has ever come to me to say that we need to move forward and completely get rid of the car tax. Your unanimous decision to abandon the concept of full car tax relief speaks volumes.

As my budget team has looked again and again at each budget line item over the last two years, the absence of any advocate in this body for continued relief has been notable. This line item has stayed in the budget without any legislative champion for only one reason - political expedience. Well, in a time when tough choices have to be made to keep Virginia in a strong leadership position, political expedience is not a sufficient rationale for continuing this \$950 million folly. My budget does not make the payment and, by foregoing it, Virginians are spared even more draconian cuts to the services that they need.

Now, I am mindful of what happens if we do not make this payment. Local car tax bills will be issued without the reduction created by the state payment. And so, local taxpayers will receive higher car tax bills.

So, let me offer a second idea. Let's keep the promise. Let's get rid of the car tax on personal vehicles completely, but do it the right way. The car tax is particularly objectionable because it requires citizens to write a large check once or twice a year. The right way to eliminate this tax is to give local governments a better revenue source in exchange. We should impose a 1% income tax surcharge in Virginia and give 100% of the revenue to local governments in exchange for their agreement to completely eliminate the property tax on all personal cars, trucks and motorcycles. This will diversify local revenues in a way that will help cities and counties manage through some of the painful cuts we have announced here. It will create an additional base of state revenue that can be used to prudentially expand our ability to issue state-backed debt. And, it will show the citizens that we can keep a promise by getting rid of the car tax once and for all.

The budget will also include a number of other lesser revenue measures.

The proposed budget assumes revenue due to an increase in the monthly landline and wireless E-911 fees. The revenue from this fee will be used to fund the important benefits provided through the line of duty program for eligible public safety personnel and their dependents. Moreover, this revenue source enables this program to be funded through nongeneral fund sources - and on a prefunded basis - for the first time ever.

In addition, the budget captures revenue from a proposal to increase the insurance premium tax applicable to Property and Casualty insurance, using the additional revenue for the Virginia Public Safety Fund from which critical law enforcement and public safety services are funded.

As proposed in the last biennium, this budget incorporates a \$120 million savings by eliminating the "dealer discount" for retailers. While it once made sense to compensate merchants for the labor costs of collecting sales tax on behalf of the Commonwealth, the digital era has rendered this discount both unnecessary and archaic. Virginians pay sales tax with the expectation that their dollars are used to fund public services - this budget ensures the full amount of the tax payments will be used to support critical state programs.

Finally, Virginia will join 20 other states and deconform state taxes from the federal income tax deduction for domestic production activities allowed under § 199 of the federal tax code. In addition, we will propose moving the date of conformity to make it easier for taxpayers to file their taxes, and my budget proposal funds the recently enacted federal provision related to tax treatment of income for certain spouses of our military members.

FISCAL STABILITY: A VIRGINIA TRADITION

In previous rounds of budget reductions, we were able to meet our obligations to Virginians without using tax increases or other revenue measures - but we have reached a critical juncture for our economy and our Commonwealth. After more than \$7 billion in reductions to our biennial budget, cuts alone will not balance the budget in a way that keeps Virginia on the path to future success.

My proposal offers a blueprint for a balanced budget that is not dependent on stimulus dollars or one-time items. It relies on difficult, but necessary and responsible decisions about prioritizing the services that the Commonwealth provides to its citizens. It adheres to Virginia's tradition of sound long-term fiscal policy and protects Virginia's Triple A bond rating and reputation. Finally, the elimination of the annual \$950 million car tax expense creates an ability for the state to maintain its competitive edge through targeted educational and economic development investments.

Throughout the past four years, Virginia's government has worked proactively to make the budget adjustments necessary during the recession. In this budget, we have made a down payment of \$40 million on our future obligation to the Stabilization Fund that will come due in the next biennium. Thanks to our prudent approach, Virginia is in a better position than most states as we come out of the recession and begin to grow again.

While other states wrestle with much greater shortfalls this year - and will spend years wrestling with the legacies of short-term strategies and one-time fixes - my 2010-2012 introduced budget gives Virginia a firm foundation on which to build for the future.

CONCLUSION

These are extraordinary times for the Commonwealth and the nation.

The difficulties of the worst economy in a generation are matched only by the greatest opportunities in the last sixty years. We are on the verge of passing meaningful healthcare reform that will benefit the 1.2 million uninsured or underinsured Virginians. We are pursuing a cleaner energy economy through off-shore wind and nuclear energy that will address climate change while launching the next industrial revolution. We are implementing innovative approaches in our K-12 schools and colleges that will move our education system into the 21st century and expand the reach and impact of our workforce.

In a time of unprecedented challenge, Virginia has reestablished our status as a national leader both economically and educationally. We have kept the Commonwealth at the leading edge of American states, so that when we come out of the recession Virginia will be positioned at the front of the pack.

These achievements are not by accident or by fate. Virginia is a leader again by design. We owe it to our citizens and our communities to keep the Commonwealth on the path to success. We have come too far in recent years to fail in this time of trial. I trust - and our people demand - that you will rise to this challenge.

I wish each of you a happy and blessed holiday season and all the best in the New Year."

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