

Remarks of the Honorable Robert F. McDonnell
Governor of the Commonwealth of Virginia
To the Joint Meeting of the Senate Finance, House Appropriations and House Finance
Committees
Richmond
December 19, 2011
FOR PUBLIC RELEASE

Thank you.

Chairman Colgan, Chairman Putney, Chairman Purkey, members of the General Assembly money committees, ladies and gentlemen: good morning. Congratulations on your elections last month. As we meet a day before the start of Hanukkah, and six days before Christmas, I hope you get to enjoy some rest with your family and friends. I thank you for your service to the people of Virginia.

This is the second time I have appeared before you to outline budget recommendations for the upcoming session. Last year, I briefed you on amendments to the existing budget. This year, however, my recommendations cover amendments to the FY 2012 budget and, for the first time in my administration, a budget bill for a new biennium.

The budget bill that I am presenting today reflects the core priorities of government and our Administration. And it recognizes the realities of the unpredictable global economy. This is not a status quo period in Virginia history, thus, this is not a status quo budget.

The philosophy underpinning this budget is clear, and it was drafted with five core objectives:

One: We must prioritize spending on ideas and policies that promote job creation, economic development and entrepreneurship.

Two: We must reform, reallocate and reinvest in the programs that make government more efficient, effective and accountable.

Three: We must fund well the key budget areas that lay the foundation for the future for our people, like education and transportation

Four: We must solve specific big problems, like a near broken pension system, an underfunded transportation maintenance system, and a higher education system in which tuitions have more than doubled in the last ten years.

Five: We must build up cash reserves and liquidity as insurance to provide us flexibility to address the potential impacts of adverse future economic events, and to ensure positive evaluations by bond rating agencies.

This is a budget marked by tough decisions demanded by this difficult economy. Virginia citizens and businesses live on budgets and make tough decisions every day. Richmond must continue to do so as well.

I know some would prefer that government take the easy way out and raise taxes on our hardworking citizens even as they continue to recover from a crushing recession, to avoid having to set priorities and speaking honestly with the citizens about what we can and cannot afford.

You have seen this kind of approach in Washington D.C. and in states like Illinois and California. You have also seen the results. Businesses flee, spending growth continues, efficiency wanes, and accountability is a casualty. Virginia will not follow that example. We will live within our means. We will make the tough decisions and set priorities in state spending. We will make government work better for its owners, the hardworking taxpayers.

Some advocates of higher taxes believe it is the only way to get new revenue into a state budget. They are wrong. There is significant new revenue in this budget, and it comes from more Virginians working, and purchasing and innovating, and from our economy growing.

Working together over the last two years, across party lines, we have responded sensibly to the economic downturn, by advocating strategies for both revenue growth and spending reductions.

The work of the prior two years is the blueprint for the budget in front of you today.

You passed last year's budget unanimously, and I'd be delighted for you to do the same this year. Heck, I don't think there's even a need for any amendments!

This is what we did, together, over the last two years.

We eliminated \$6 billion in budget shortfalls, without raising taxes.

We turned those two shortfalls into two consecutive surpluses totaling \$948 million.

In the process we reduced state general fund spending to 2006-2007 levels, while still making new investments in transportation and higher education.

However, while we have made major spending reductions recently, and been responsible in our spending decisions, we must recognize that our work of the last two years is an anomaly when placed within the larger patterns of the last decade.

According to the recent JLARC report on state spending, over the past decade total state spending has still grown by 66%, a period that included the post 9-11 downturn and the recent recession. Spending has increased by 23% even when adjusted for inflation and population growth, as a result of both economic expansion and the record 2004 tax increase.

This spending growth rate trend holds true across virtually every area of state government. For example, in K-12 education, according to the JLARC report, total funding has grown 41% over the last decade, while student enrollment has only gone up 6%. Thus, the spending growth rate is nearly 7 times the enrollment growth rate. I wish I could say that the majority of our citizens have seen their incomes increase that much over the last decade, through good times and bad. But we can't.

What this all tells me is we still have much work to do. We should not subscribe to the theory that government can only get better if it gets bigger. I believe government must get more focused and effective.

That work must occur as we navigate through a financial world marked by crisis and insolvency in Europe, the rise of China and India, crushing debt, shutdown threats and unfunded mandates from Washington and our citizens rightful demand that government work better. As management expert and "Good to Great" author Jim Collins told our state managers at a retreat last week, we are entering a period where uncertainty and unpredictability are the new norm, again. He also noted that even in this environment, organizations that stick to their core values, assert great discipline, and are led by managers who are driven but humble, well thrive. Virginia must thrive.

The budget I put before you today is one reflecting our core values of accountability, responsibility, priorities, efficiency and reform. And it is a budget that maintains the high fiscal standards of Virginia.

Caboose Budget

In the Caboose Budget Bill our focus was on changes necessary to accommodate the reforecast of certain service demands and unforeseen costs for the remainder of the current biennium. I have also included appropriations for select items that were reserved from the \$545 million FY 2011 surplus as I advised you at our August presentation. These include \$67.2 million for transportation, \$30 million for the Federal Action Contingency Trust reserve, \$8.9 million for interest to the federal government on the Unemployment Compensation Trust Fund, \$7.5 million to meet our BRAC commitments at Oceana Naval Air Station and \$7.4 million in supplemental funding for local sheriffs' offices.

I have also added \$50 million to continue the phase out of the onerous accelerated sales tax policy. This action removes another 1,407 retailers from paying a double tax next June, for a total of 95.6% of businesses now removed from the punitive requirement. By the end of this fiscal year only 386 merchants will be still impacted, and I will make every effort to eliminate it entirely before I leave office.

Overall, general fund spending in the Caboose Budget Bill declines by \$157.8 million. On the other hand, available general fund resources increase by \$386 million primarily due to the balance carried forward from last year's surplus and an additional \$131 million from the revised general fund forecast for FY2012. The unexpended general fund balance in the Caboose Bill is a healthy \$546 million, which is carried forward to the next biennium.

The Next Biennium

Our budget for the 2012-2014 biennium appropriates \$84.9 billion for total state government operations. The general fund makes up approximately 41% or \$34.5 billion of this figure while the non-general fund portion is about 59% or \$50.3 billion. This continues the trend of non-general funds making up an increasing share of the total state budget.

General fund resources (including balance, revenue and transfers) exceed spending for the biennium. I have left an unappropriated balance on June 30, 2014 of \$31.4 million, which is significantly greater than the normal bottom line. This reflects the need for a greater cushion given our economic uncertainty, and I'm sure you may actually have a few spending ideas of your own! Virginia must have the liquidity and flexibility necessary to navigate through this tumultuous period, and to retain our critically important Aaa bond rating.

As all of you remember, in the midst of this summer's debt crisis, Moody's Investors Services placed the United States Government on its credit watch. On August 2nd, Moody's Investors Services affirmed the Commonwealth's Aaa bond rating but assigned the Commonwealth a negative outlook and agreed to review the assignment in 90 days. This rating was due to the indirect linkage of the Commonwealth to the federal government, given its significant presence and impact on the Virginia economy. We were not alone as four other Aaa states were also listed, including our neighbors to the north, Maryland.

Moody's Investors Service completed its assessments of the rating outlooks of the five Aaa-rated states, on December 7. The outlooks of Virginia and two other states, including Maryland and New Mexico, remain negative due to the Super Committee's failure and to the high concentrations of federal government employment and federal procurement. As a result, Virginia and the other two states are exposed to greater risks from the necessary and certain federal downsizing.

In order to reassure the bond rating agencies that Virginia will be proactive, innovative and responsible in the maintenance of our state finances, this budget contains the following items.

We will enhance liquidity by growing the Rainy Day Fund by \$132 million in FY 2013 and \$168 million in FY 2014 to a total of \$440 million by end of FY2013, and will likely double in size, exceeding \$600 million by end of FY2014.

We will also create a Federal Action Contingency Fund (FACT Fund), a cash reserve that can be used to mitigate a variety of negative impacts on Virginia related to likely future federal actions, which cannot be addressed by the Rainy Day Fund. In this budget I will ask you to increase the Fund total to \$50 million; consisting of the previously announced \$30 million in FY 2012 and an additional \$20 million in FY 2014. This Fund will be used to replace certain losses in direct federal grants; provide incentives to retain or consolidate federal facilities; address federal tax policy changes from conformity; and help businesses impacted by shrinking federal procurement.

This FACT Fund will play an important role in positioning Virginia for the long term changes ahead, as will our efforts to diversify the state's economy. I issued an Executive Order on economic diversification to facilitate this process, and I look forward to working with the Lieutenant Governor and others on this important issue for our future prosperity and competitiveness. And I look forward to joining your Committee leaders on a visit to New York City in a few weeks to visit all three rating agencies and tell them about the proactive steps we have taken in this budget.

On Revenues and the Economy

We finished FY 2011 pretty much on target, with a surplus of \$545 million, despite uncertain economic conditions. This performance is a credit to Virginia's consensus forecasting process, the bipartisan work of the legislature, the prudent expense control of our great state employees, and the hard work and risk-taking of the private sector.

The projected Tax Department revenue forecast was reviewed in October by the Joint Advisory Board of Economists (JABE), a group of business, academic, and legislative economists, and revised per their recommendations. These forecasts and revenue estimates were then reviewed last month by the Governor's Advisory Council on Revenue Estimates (GACRE), a group of business and legislative leaders. Their comments have been incorporated into the revenue estimate which serves as the basis for the revenue numbers in the budget.

Nationally, the economy has somewhat expanded for nine consecutive quarters, and current indicators suggest this modest expansion should continue. Recent developments are generally positive, depicting improving fundamentals and slightly stronger growth. Substantial drags on the economy remain, however, most notably the weakness of the European economy and major concerns about federal fiscal policy. Lackluster job growth, high unemployment rates, a weak housing market, and volatile stock prices are all dampening confidence and restraining growth.

In Virginia, we've also seen some positive signs of gradual recovery.

Job growth has picked up modestly from its sluggish pace over the summer and early fall. Since February 2010 unemployment has fallen from 7.2% to 6.4% today. In the official economic outlook for Virginia, employment is expected to increase 1.2 percent in fiscal year 2012, although I am hopeful our aggressive job recruitment efforts will pay back higher dividends. Wages and salaries are expected to increase 3.3 percent.

With global, national and state trends considered, as well as our good 5.9% growth rate in FY 12 to date, our revised revenue forecast adds \$131.8 million to total revenue in fiscal year 2012 and raises the projected growth from 3.7 percent to 4.6 percent. Total general fund revenues and transfers are increased by \$84.1 million in fiscal year 2012.

For the new biennium, general fund revenues are expected to grow 3.3 percent in fiscal year 2013 and 4.5 percent in fiscal year 2014. Adjusted for the accelerated sales tax adjustment and other policy changes, growth is expected to be 3.4 percent in fiscal year 2013.

VRS Funding

There is a critical need to fully fund VRS. As of the June 30, 2011 valuation, the funding status of the retirement system was 70.6 percent for state employees and 66.6 percent for teachers. According to JLARC's review of state and local retirement benefits released last week, VRS projections are that funded ratios for State employees' and teachers' plans could reach lows of 63 percent and 61 percent, respectively, in 2013. Also according to JLARC's review, in the past two years from 2009 to 2011 the gap between the VRS liabilities and assets on hand to pay such liabilities increased 69% from \$11.8 billion to \$19.9 billion. This is unacceptable!

Here's the simple truth: our state retirement system is underfunded, and this situation threatens the system's long term solvency. Our responsibility is clear. We must fund VRS at substantially higher levels so that we can guarantee all benefits will be there for our hardworking teachers, police officers, and other state and local employees. To help reverse this trend, our budget will propose the largest employer contribution to the Virginia Retirement System in history, recommending a total of \$2.21 billion in total funding to the systems for state employees and teachers. This much needed increase more than doubles the employer contributions from FY2011/2012.

We will fully fund the regular contribution rates assuming an 8.0 percent rate of return, 2.5 percent inflation, and 30-year amortization. And we will pay back, in full, deferred contributions to VRS for FY2013 and FY2014. Specifically, VRS will receive payback of deferred contributions of \$67.1 million for state employees and \$197.4 million for teachers during this upcoming biennium. This is part of the planned 10-year payback of the previously deferred contributions.

Now, I do want to address some of the unfounded criticism I have heard about the state putting the most new funding into VRS in history.

Much of this criticism seems to rely on a hope that everyone will forget how public education is structured in Virginia. Here are the facts. Public education in Virginia is carried out by 136 separate local school divisions under the authority of appointed or elected school boards. Public school teachers are local employees of the local school divisions.

In order to provide for consistency there is a statewide retirement plan for public school teachers, which covers all local school divisions and public school teachers. The Virginia Retirement System sets the contribution rates for the teacher retirement system so that it is adequately funded. The responsibility for paying this cost rests with the local school division. They are not state employees. They are local employees.

To assist local school divisions with the cost of teacher retirement, the state makes a set contribution through the standards of quality formula to the local school divisions. Therefore, historically this has been a shared cost. When costs go up it affects both state and local employer contributions. Our historic new contribution to VRS therefore puts no mandate on local government, but just continues their fair share of retirement for their teachers. Through our new funding, the state is helping localities with their requirement to the greatest extent in history.

This significant new funding for VRS is a major step towards reducing the system's unfunded liability and increasing the fund's long-term security and stability. We must act now and during the session we must pass other pension system reforms to permanently fix this system.

Higher Education

Last week I was joined by Presidents of major Virginia universities and colleges to unveil a new higher education funding package that is included in this budget. It is our responsibility to ensure that the opportunity to earn a college degree is there for every Virginia student who is prepared to take that step. After years of disinvestment we have seen college tuition double over the past decade. This is unsustainable and is putting more young people in crushing debt.

If we want to grow good jobs in Virginia we must produce more graduates prepared to fill them. Last year you unanimously passed the sweeping Top Jobs 21 Higher Education Reform Act. This year we are putting in place the new incentive driven funding formula created to support those great policies. It includes \$100 million per year to enhance studies in science, technology, engineering, math and healthcare (STEM-H), to make college degrees more affordable and accessible, and to further the goal to award 100,000 additional degrees in the next 15 years. This funding will strengthen Virginia's world class higher education system and reduce the explosive growth in tuition and fees.

The new funding model was created through advice from the Higher Education Advisory Committee (HEAC), the work group of legislators and business and higher education leaders required by statute. Among the areas to which this new funding will be dedicated are \$25.5 million per year to provide support for public higher education institutions' base operating costs, and \$20.4 million per year as incentive funding for public higher education institutions' efforts to graduate more students, graduate more STEM majors, graduate students in less time, and graduate more students in underrepresented groups based on age and income. We are also directing \$6.4 million per year to increase financial assistance to students, and \$5.8 million per year to increase the Tuition Assistance Grant (TAG) for students attending private, non-profit higher education institutions.

This new funding also comes with specific accountability and transparency requirements that must be met by our colleges and universities. I am directing each public higher education institution to designate the equivalent of three percent of its current general fund support (\$34.7 million) in FY 2013, and five percent (\$57.8 million) in FY 2014 and beyond, to reallocate toward the important policy goals of the higher education legislation. This reform and reallocation plan will reduce overhead and increase efficiency and must be approved by the Secretary of Education. This creates the healthy cooperative scenario in 2014 where for every

reallocated education dollar, two new state dollars will be leveraged to accomplish our agreed upon policy goals. We must be committed to doing everything we can to make the dream of a college education affordable to everyone who has the aptitude and desire to pursue it.

K-12 Education Funding

We must be equally committed to ensuring that our K-12 system is innovative, accountable, and well-funded. We must have a K-12 system that is producing students who are either career or college ready. Thankfully, in this effort, Virginia is blessed with so many great teachers who are dedicated to their profession and their students.

Over the past few years K-12 has faced some reductions in the midst of a decade-long increase in spending. That is why my budget provides \$438 million in total new state funding for public education for the next biennium. This funding recognizes the rising costs of certain requirements in the Standards of Quality, and demonstrates our strong commitment to improve the retirement system for teachers.

Beginning with this budget, we are going to further measure the effectiveness of our investment of education dollars. All school divisions will report the percentage of spending on instruction versus overhead in furtherance of our goal of getting 65% of all K-12 dollars into the classroom, where our students learn. Following on our approval last session of a merit pay program for teachers, we also are initiating funding to begin implementing new performance-based evaluation models for our public schools. Through this, we hope to ensure the most effective teachers are educating our children, and being rewarded for their service.

Transportation

Last year we worked together across party lines to create the foundation for nearly \$4 billion in new spending on transportation over the next three years, the largest amount of new funding for roads, rail, and transit in the past 25 years. It was a big accomplishment. Hopefully you passed a lot of orange cones and construction signs on your way here today. Progress is being made in every region of the state, and it's putting Virginians back to work.

Last year I heard lawmakers from both parties say clearly that transportation is a core function of government. So, in this budget, I am asking you to affirm that position through action.

Our current transportation challenge is to properly fund infrastructure maintenance, which has been draining over \$400 million from construction in recent years. To do this, through legislation I am calling for increasing transportation's share of year-end surpluses to 75 percent. I am also increasing the dedicated transportation allocation of the sales tax from the current .5 percent to .75 percent over the next 8 years. For this budget, the dedicated sales tax percentage will rise from .50 percent to .55 percent of the dedicated sales tax which will generate over \$110 million in new maintenance funding. We will make numerous other transportation proposals during the session.

Economic Development

We must continue to loudly shout that Virginia is open for business, and that our state government is a friend of the free market, small business owners, entrepreneurs, and job creators. Since the beginning of this Administration, over \$5.5 billion in private capital investment has been committed to be added in the Commonwealth and the Commonwealth has added 62,800 net new jobs. Unemployment has fallen to 6.4%, third lowest east of the Mississippi, and Virginia has been named the best state in America for business by both CNBC and Pollina Corporate. In fact Pollina said in announcing its ranking, "Virginia is the unquestionable brightest star on the American flag when it comes to pro-business. . . . Virginia is truly in a class by itself." That's not a Republican or Democratic claim. That's a Virginia accomplishment.

In order to continue to create new jobs in Virginia, over the last two years you have agreed to appropriate an additional \$100 million for targeted economic development efforts. My Chief Jobs Creation Officer, Lt. Governor Bolling, and I continue to focus on opportunities for job creation. Our trips this year to China, Korea, Japan, Israel and India, as well as other states, are already paying dividends. This budget requests almost \$40 million over the biennium to help continue our recovery. To continue the development and commercializing of products resulting from research, and remain a leader in technology, biotechnology, and nano-technology, we are requesting \$10 million over the 2012-2014 biennium to implement an innovative program to encourage collaborative research in the biosciences. This will involve a research consortium to be initially comprised of the University of Virginia, Virginia Commonwealth University, Virginia Tech, George Mason University and the Eastern Virginia Medical School, which will contract with private entities, foundations and other governmental sources to capture and perform cutting edge research in the areas of cancers, infectious diseases, neurodegenerative disorders, and allergy and inflammatory diseases.

We also want to continue to help localities develop sites for future economic development by adding \$2 million to the Major Employment and Investment Project Site Planning Grant Fund. To develop the best trained workforce possible, we request an additional \$2 million annually to support non-credit courses in the Virginia Community College System, and an additional \$250,000 in each year for the Jobs for Virginia Graduates Program. Together with the Tobacco Commission and the groundbreaking Commonwealth Center for Advanced Manufacturing we are requesting \$2 million for an advanced manufacturing development, training, and marketing program for the skills necessary to support workforce development.

We also want to take steps to attract new, and expand existing, agricultural and forestry industries. The budget includes \$2 million over the biennium to support the creation of the Governor's Agriculture and Forest Industries Development Fund. This new fund will be tailored to the unique characteristics of agriculture and forestry, Virginia's largest industries, to enhance rural economic development activity, tourism, ecosystem services, quality of life, and the fiscal strength of our localities.

We are also including about \$670,000 in new international marketing monies to continue our successful, proactive agriculture and forestry export initiatives. Our direct work with Virginia producers and exporters and foreign purchasers and importers has led to deals of over \$100 million in new agricultural exports from our ports since the beginning of our administration. In fact, just last week we saw a vessel carrying more than \$25 million in soybeans from Virginia

arrive in China. That's an export deal that we helped facilitate during our May trade mission to Asia, and the opportunity is there to do much more. For a relatively small investment by the state, we are generating millions in new agricultural export revenue, and creating good jobs and opportunities from our ports all the way to our farms.

We are also asking for a total of \$2.3 million in funding to vastly improve the Commonwealth's marketing to the growing cyber security industry and the burgeoning modeling and simulation sector. The modeling and simulation program will foster growth and diversification by leveraging resources from a variety of existing sources to support research and outreach activities. The Commonwealth's government assets, pro-business environment, and skilled workforce, place Virginia at the forefront of the cyber security industry. We should also be at the forefront of another growing part of the private sector: the space industry. We will introduce legislation to restructure the Virginia Commercial Space Flight Authority and turn it into a true independent agency to develop the Mid-Atlantic Regional Spaceport into the number one commercial space flight facility in the nation, and we have added \$4 million in targeted new spaceport investments in the budget.

State Employees Compensation and Benefits

We are having success in creating more private sector jobs for our citizens. We also benefit immensely as a Commonwealth from the very talented men and women who make up our public sector state workforce. From responses to hurricanes, earthquakes and crimes to major, new initiatives in health information systems and transportation, I've seen great things done the past two years. They have shown a tremendous ability to do more with less, and to be frugal and creative in how they deliver state services. Last December we were able to reward our state employees for their performance and efforts to save taxpayer dollars by providing a one-time bonus as a result of their saving \$175 million. Incentives work in the private sector; they can work in the public sector as well.

My proposed budget includes provisions for up to a three percent performance bonus to full time state employees on December 1, 2012. In order for the bonus to be paid, statewide discretionary unspent general fund appropriations on June 30, 2012, must meet or exceed twice the general fund cost of the bonus. Also, employees must have received at least a "meet expectations" rating in their latest performance evaluation and have no active standard of conduct violations in order to receive the bonus.

We will continue to demand and reward accountability and results in the effort to save taxpayer dollars and make government work better.

Health and Human Resources

Employee compensation; economic development; transportation; higher education and K-12; transportation, these are all areas where we can have some control over what is spent where. In other major areas of our budget like health care, we have far more limited authority. Increasing health care mandates in our state budget are driving a large portion of our growth in spending.

Medicaid spending from general and non-general funds in our state budget has exploded by a staggering 1600% in the last 27 years. State funding for DMAS / Medicaid has grown 80% from 2002 to 2011. Medicaid's share of state General Fund expenditures has grown from 15.8% in FY 2002 to 19.5% in FY 2011. In fact, much of the increase in the next biennial budget is continual growth in general and non-general support for Medicaid with 2014 being the big year due in part to the implementation of federal healthcare.

In this budget we will provide \$173 million in General Fund dollars in FY 2013 and \$477.5 million in General Fund dollars in FY 2014. That represents forecasted general fund growth of 11.4% in FY 2013 and 8.0% in FY 2014. As a result of federal health care reform, assuming it is not struck down by the Supreme Court of the United States next summer, the demand will be far greater in the years ahead. While Medicaid enrollment is projected to only increase 1.7% in FY 2013, it is expected to balloon by more than 40% in FY 2014 when the new Medicaid eligibility takes effect.

The federal health care law is yet another in the line of unfunded federal mandates that adds to our bottom line and negatively impacts our budget.

There are no provider rate reductions in this budget; however we could not afford to implement the inflation rate for providers. Also, the rental rate floor used for nursing facility capital rental rates will increase from 8.0 to 9.0 percent, which will increase reimbursement to nursing facilities by \$10 million (\$5.0 million GF) a year, as this sector cares for a large Medicaid population.

I have also included \$1.1 million in state funding to address the shortage of medical facility inspectors, allowing the Department of Health to hire 13 full-time inspectors.

I have provided \$6.4 million in FY 2012 and \$8.4 million in each year of the biennium to ensure that the adoption subsidy program has sufficient funding to anticipated expenditures for the next three fiscal years.

Finally, ensuring that individuals with intellectual disabilities have some choice and control over their own lives is something I have advocated since successfully introducing legislation over a decade ago to transition people from institutions to community based care. Last year, we invested nearly \$60 million in new resources to strengthen Virginia's community care capacity. As part of the investment, we infused \$30 million into the Behavioral Health and Developmental Services Trust Fund. Secretary Hazel authorized 60 new Home and Community Based Waiver slots, specifically for individuals ready to transition from institutions to the community, to be financed through the Trust Fund. I am pleased to say that through the work of the Department, training center staff, and dedicated parents and caregivers, our hope is that many of these individuals will be home for Christmas.

In the budget before you is an additional mental health investment of \$30 million. Virginia should continue the transition from serving individuals in institutions, and continue our investment in providing needed services in a less restrictive and less expensive community based settings. This will help provide every Virginian with the opportunity to live a full life, regardless of their physical or intellectual disabilities.

Natural Resources

Our budget also continues our commitment to the constitutional duty of ensuring that our environment is preserved and protected for future generations. Included in the budget are actions to improve water quality in the Commonwealth and neighboring waters. These actions position Virginia to achieve TMDL (Total Maximum Daily Load) goals reflected in Virginia's Watershed Implementation Plan (WIP), approved last year by the Environmental Protection Agency. We have directed \$50.3 million in surplus funds for the mandatory deposit to the Water Quality Improvement Funds with 90 percent, or \$45.3 million designated for reducing point source (wastewater) pollution.

In order to help preserve and protect Virginia's lands for future generations, and in pursuit of our goal of preserving an additional 400,000 acres of open space, the budget continues \$5.0 million over the biennium for land conservation in the Virginia Land Conservation Fund. An additional \$2.0 million over the biennium will be deposited to the Civil War Site Preservation Fund for grants to purchase and protect historic battlefield lands and easements. These monies will allow the Department of Historic Resources to leverage more than \$1.0 million each year in matching federal grants and private donations resulting in increased tourism, education, job creation and environmental benefits.

Other Budget Actions

In other budget areas I have recommended \$10 million in fee increases to fund DMV, which has lost significant revenue from a previous decision to grant 8-year licenses, and to make less expensive internet based transactions. DMV receives nearly all of its revenue from fees.

I have heard the call from localities for additional aid, and therefore, I am restoring \$25 million over the biennium of the previous \$60 million annual reduction to localities;

I am reducing state trooper vacancies by allocating an additional \$6 million in funding. I am also fully restoring the prior \$7.4 million annual reduction to Sheriffs for both FY2013 and FY2014.

I am also recommending an aggregate amount of \$12 million over the biennium to support innovative cancer research and treatment activities at Hampton University, the University of Virginia, the Massey Cancer Center at Virginia Commonwealth University and other institutions of higher learning.

Conclusion

Virginia has weathered the recent economic downturn better than most states. Unemployment is down. State revenue is up. More Virginians are working today. That has happened because we have worked in a bipartisan manner to be responsible in our budgeting, to make government more efficient and effective, and to keep taxes and regulations low. The formula is working. We must continue to stick with this formula of responsibility, restraint and accountability as our economy recovers.

This budget does that.

It is balanced, conservative and sets priorities.

It makes state government more accountable to our hardworking taxpayers.

This budget puts major new outcome-based funding into higher education, and helps reverse decline in our state retirement system. It directs new funding to K-12, along with more accountability and innovation. It makes transportation a priority. It directs funding to proven programs that help the private sector create new jobs for our citizens. And it funds operations through revenue growth and spending cuts without raising taxes.

This budget helps solve big problems, increases structured revenues, embraces reforms, and rejects the status quo in many state programs.

I believe it is a budget that will help ensure this continues to be a “Commonwealth of Opportunity” for all of our citizens for the next two years and beyond.

Have a blessed Christmas and a happy Hanukkah, and come back rested next month. I have an awful lot more I’m going to ask you to do in the months ahead!

Thank you.