

**Governor Tim Kaine's Prepared Remarks
For the Joint Meeting of the General Assembly Money Committees
General Assembly Building
Friday, December 15, 2006 9:30 am**

Chairman Callahan, Chairman Chichester, Chairman Purkey, members of the committees, ladies and gentlemen: good morning. I'm happy to stand before you and discuss Virginia's revenue forecast and my proposed amendments to our biennial budget.

Virginia's Economic Outlook

The forecasts that support my budget amendments are the result of collaboration between the executive and legislative branches, private business leaders and economic advisors from across Virginia.

I thank the General Assembly for supporting our efforts to improve the process used for decades to forecast revenue. This year, I accepted legislative nominees to expand the Board of Economists that verifies our basic economic assumptions. I held a meeting with legislative members of the Advisory Council on Revenue Estimates to explore areas of concern and provide current information for your money committee retreats. I will make the detailed material provided to the Council publicly available on my Finance Secretary's website. These improvements will help foster confidence in the accuracy and timeliness of revenue forecasts.

Our current forecast calls for measured growth in both jobs and income. With slowdowns in the housing market and volatile energy prices, our advisors recommend caution as we move forward. We are heeding that advice, especially in the forecast for corporate income tax and recordation tax collections. These unpredictable revenue sources account for one out of every ten state tax dollars.

Even with uncertainty surrounding particular revenue sources, current trends justify a projected growth in general fund revenue of 6.5% in FY07 and 4.0% in FY08. Such growth, combined with certain expense savings, create \$690 million in general fund resources above the amounts allocated in the biennial budget. This is a tribute to the fundamental strength of Virginia's diverse economy.

In addition to the \$690 million in general fund resources, there is an additional \$339 million in surplus funds identified in the budget introduced one year ago. Those monies, intended to address one-time transportation needs, were never allocated by the General Assembly in 2006. Thus, the total amount considered in these budget amendments for the remainder of the biennium is slightly over \$1 billion.

Goals of the Administration's Budget Amendments

The people of Virginia expect us to use their hard-earned tax dollars in a way that delivers results. They want us to avoid the myopic traps of appearing to solve one

problem, while in the process, creating other problems. We have an obligation to provide long-term solutions to long-term problems, like transportation – just as we have an obligation to make wise public investments that deliver tangible results.

In deciding how to propose the allocation of these new dollars —and many of you have offered helpful advice in the task – I have followed a few basic principles:

First, we should all be proud of the fact that, for the first time in our history, Virginia’s “Rainy Day” fund is fully funded. My budget amendments ensure that the fund will remain at the Constitutional maximum for both years of the biennium.

Second, the vast majority of this money is non-recurring surplus funds. So, to the greatest extent possible, I propose to fund non-recurring one-time uses. Nearly 3/4 of my amendments are for one-time items and capital expenditures, largely to advance education and transportation.

Third, I have restricted recurring expenses to targeted priorities that move Virginia forward in meeting health care, education, public safety, environmental and economic development objectives. Earlier this year, I ordered all state agencies to articulate and prioritize their core functions, along with benchmarks that would allow for an objective measure of their effectiveness. Those priorities guided my decisions regarding budget requests.

And finally, I have sought to provide targeted tax relief for Virginia’s working families.

Moving Forward on Transportation

Transportation remains the most urgent problem facing Virginia today. Across the state, Virginians are frustrated with the failure to reach a comprehensive solution in 2006. That failure had a price: escalating project costs, growing areas of congestion; and delay in providing emergency evacuation routes.

In the absence of a legislative consensus, my administration is continuing to enhance the accountability of our transportation agencies through better performance; more reliable planning; creative public/private partnerships; the elimination of obsolete functions; and the consolidation of operations. We have protected transportation funds from being diverted. And, we have made significant strides toward better integration of transportation and land use planning through VDOT’s pioneering work on traffic impact statements. We will continue these efforts, but our 21st century needs will continue to outpace the resources generated by our 1986 funding formulae.

While we may disagree over how to pay for transportation, there is unanimous agreement that we need sustainable, long-term funding for our transportation system. Together, we must end the annual practice of raiding the Six Year Transportation Improvement Program to pay debt service on the \$1.1 billion in bonds sold since the use

of this debt was authorized by the 2000 General Assembly. We must put transit and highways on a more equal footing, so that replacing an old railcar or bus is not a major uncertainty. And we must face up to the fact that we are robbing our highway construction program to pay for highway maintenance, at a cost of \$450 million this year alone.

Unfortunately, the strength we see in general fund revenues this biennium does not extend to transportation revenues. Our maintenance and construction funds are down from a year ago and the revenue forecast projects a further decline of \$110 million by the end of the biennium. Declining revenues are further compounded by rapidly increasing material costs, requiring an additional \$19 million for maintenance just to keep pace with what we planned six months ago.

Because transportation is such a critical priority and we have funds available for one-time expenditures, I propose to spend \$500 million, nearly half of all available funds, on targeted transportation enhancements. These amendments are focused on relieving congestion and furthering economic development. While these dollars are certainly beneficial, it's important to keep in perspective that this money allows us to fund one-time enhancements at a level only slightly higher than this year's maintenance deficit.

I recommend that we commit \$305 million to support PPTA and design-build projects on the Capital Beltway; the Hillsville Bypass on Route 58; the I-64/I-264 interchange; and Route 50 in Fairfax and Loudoun Counties. While the final dollar amount for each project will be a matter of negotiation, this funding level should permit completion of these critical projects.

I also recommend that we commit \$125 million to rail and transit capital investments that will expand VRE passenger service along I-95 and will take trucks off of I-81. These amendments will also bring new railcars to the Metrorail and VRE and Norfolk light rail systems.

To continue the growth of our world-class ports, I am recommending \$50 million to complete the Route 164 rail relocation in South Hampton Roads and to begin the planning and engineering for the Craney Island expansion.

Lastly, I recommend that we set aside \$20 million to create a one-time technology innovation grant program for Hampton Roads and Northern Virginia. Let's challenge our vibrant technology sector to bring forward creative ideas to reduce congestion and increase transportation options.

While my budget amendments represent significant progress on specific transportation projects, no one can claim that this one-time package meets Virginia's ongoing transportation needs.

These amendments contain nothing to meet the need for a third crossing or an enhanced Route 460 in Hampton Roads. In Northern Virginia, this package provides

nothing for Metro operations, I-66 improvements or the massive investment needed to accommodate dramatic defense expansions planned for Fort Belvoir. Sizable sections of Route 58 still await funds to complete long-promised improvements. There are no funds here for the Coalfields Expressway. This package does nothing to address the growing annual maintenance deficit – which now stands at \$450 million.

The truth is, one-time surplus monies are insufficient to meet these needs. These and many other necessary projects across the state need long-term, sustainable transportation revenue. Without that reform, Virginia’s transportation network will be unable to meet the 21st century demands of Virginia’s businesses and families. I remain dedicated to finding the long-term, sustainable revenue necessary to move Virginia forward, and I will pursue it legislatively in the upcoming session.

Transportation is Virginia’s most urgent challenge, but it is not our only challenge. We cannot progress as a Commonwealth by paying for transportation at the expense of our General Fund priorities: health care, education, economic development, our outdoors and public safety.

Moving Forward on Health and Health Care

Another challenge that demands our best and immediate efforts is the status of Virginians’ health and health care. While Virginia ranks in the top ten states in so many areas – from business environment to employment to academic success – Virginia ranks nowhere near the top in health care.

- One million Virginians lack health insurance. 70% of those people work full-time – often for a small business.
- Two babies die everyday in Virginia – making ours one of the worst infant mortality rates in the nation.
- Since 1990, Virginia’s obesity rate has climbed 154% - driving up the statistics on weight-related problems like diabetes, which affects hundreds of thousands of Virginians and is our 6th leading cause of death.

Many of our health care challenges require long-term strategies – and my bipartisan Health Care Reform Commission is working on those. But I believe there are important steps we can and should take now to make progress in this area.

In total, my budget adds more than \$100 million for health care, mental health care and other human service improvements.

Access

With one out of every seven Virginians lacking health insurance, the need to expand access to affordable health care is compelling.

I am proposing important investments in our Medicaid programs, beginning with pregnant women and children – where modest investments matched by federal dollars

can prevent infant deaths. My proposal would provide coverage to pregnant women who lack insurance today – and may forgo prenatal care altogether. I am also proposing a budget amendment aimed at encouraging more women to participate in DMAS’s high-risk maternity program.

I am also proposing that we give the Secretary of Health and Human Resources funding to develop incentive grants to assist small employers in providing insurance. This and other recommendations by the Health Reform Commission will be revisited in next year’s budget. This will enable us to take planning steps to address what many Virginians see as a one of their top needs.

I am also suggesting funds for community organizations, such as St. Mary’s Health Wagon and the Virginia Health Care Foundation, which continue to strengthen our safety net as we address this problem.

Long-Term Care

Half of all Virginians who reach age 65 will need some form of long-term care. The fact that we lack a sustainable public strategy to address that need is even more daunting when you consider that Virginians over the age of 85 are the fastest growing segment of the Commonwealth’s population.

I appreciate the support the General Assembly gave me in establishing the Program for the All-Inclusive Care of the Elderly. The program allows seniors to receive long-term care in coordinated, nurturing, and cost-efficient ways. I am proposing additional start-up funds for a site in Northern Virginia this year.

I am also offering budget amendments to improve the quality of care Virginians receive in nursing homes. The first amendment would pave the way for DMAS to establish skilled nursing facility pay-for-performance standards. With these criteria in place, the state can create a financial incentive for facilities to achieve and maintain high-quality care.

The second amendment would implement a registration process for nursing home employees who administer medication. This would ensure that they are credentialed and have received appropriate training.

After hearing from seniors across Virginia, I agree that we need to increase our Medicaid personal needs allowance – which was last raised in 1988. I am proposing to increase the allowance by \$10 a month.

I am also proposing a \$700,000 increase in funding to support our local areas on aging in their efforts to delivered meals to Virginia seniors at home.

Serving Virginians with Mental Disabilities

I believe our shared efforts to transform Virginia's system of care for people with mental disabilities are making a difference, and I want them to continue.

With state funding of \$5.3 million, we will draw another \$5.3 million in matching federal Medicaid funds to serve 170 additional mentally retarded persons under the MR waiver program. While these people are eligible for institutional care, these funds would expand their community-based service options.

My budget recommendations also advance services for younger emotionally disturbed children. I've added \$16.3 million for the Comprehensive Services Act (CSA) for At-Risk Youth and Families, to keep pace with growing demand and cuts in federal funding for that program.

Quality & Transparency

Enhancing health care access also requires removing some of the mystery surrounding it. Despite having the world only a mouse-click away, information about the price of health care procedures or the success rates of individual providers is hard to find.

That's why I am proud that Virginia is the first state to partner with federal Health and Human Services Secretary Mike Leavitt's transparency initiative. This budget continues to devote resources toward expansion of electronic health records. When health care providers can access a patient's information quickly, they can make better treatment decisions – improving the quality of that patient's care.

We are also partnering with the Medical Society of Virginia, the Old Dominion Medical Society and others to see that individuals have more information when selecting a health care facility and practitioner for services. We have extensive consumer research for buying cars, computers, washing machines, televisions, or even hand soap. At a time when individuals are being called to take more responsibility for their health care, we need to ensure they have the information they need to make good decisions.

Prevention – Encouraging Healthier Lifestyles

And we need to offer other forms of support to Virginians in their efforts to keep themselves healthy. America spends more of its GDP on health care than any other nation. In fact, we spend twice as much on health care as we do on food. Yet, our lives are shorter and our newborns die more often than many other developed countries.

We do a great job in Virginia of treating people when they are sick, but we fail when it comes to keeping people well.

The first step is to eradicate disease whenever possible. We can prevent cervical cancer by offering the cervical cancer vaccine to women and girls who are otherwise ineligible to receive the vaccine for free. This vaccine is an important breakthrough in prevention we must embrace.

And finally, with the Commonwealth being such a large employer, we must set the example when it comes to promoting good health in the workplace. We have already begun this effort by banning smoking in nearly all state buildings. I am proposing that we lift the cap on wellness benefits so that state employees seeking to improve their health will have the opportunity to do so.

We will also continue to work with our partners in the private sector to share solutions to this common challenge. There are so many threats to our health that we cannot control; we all must take greater responsibility to positively affect the ones we can.

Workforce

Access to health care services relies on having enough health care providers. Virginia is currently facing a nursing shortage – especially in our rural areas. If we do nothing, Virginia will have a shortage of nearly 16,000 nurses by 2015. With nurses in greater and greater demand, fewer nurses choose to become nursing educators, leaving us unable to teach enough nurses to meet our growing needs.

To break this cycle and expand our training of nurses, I am proposing a 10% increase in the salaries we pay to nursing faculty in conjunction with advanced degree scholarship programs. This will not only help our efforts to retain existing teachers, but also attract other nurses, retired, practicing, or new graduates to begin teaching as well.

Moving Forward in Education

This is an example of how our education system touches every aspect of our lives, which is why this is such an important priority. From pre-kindergarten through post-graduate degree programs and beyond, it is important to think of public education as a continuum. My education budget amendments span this continuum.

Neuroscientists have concluded that about 90% of brain development occurs in the first five years of life. The development that takes place during those early years has a profound impact on a child's capacity for development in later years. Across the world, more and more communities realize the wisdom of this investment and are making it a key priority. Virginia, too, will be part of this revolution in education. The question that faces us today is: Will we be leaders or laggards in this key reform?

I believe Virginia should lead. And I propose a voluntary quality ratings system or QRS to measure and improve the quality of early childhood programs in public and private settings, such as child care centers and preschools. This will result in a quality rating on a five-star scale that will make it easy for parents to identify high-quality programs.

We should also work to increase the quality and capacity of our statewide preschool network. I propose a number of starter projects to work with existing public and private providers to identify the most efficient and effective way to meet this goal.

Further, I propose to expand the Early Reading Intervention program to cover 100 percent of eligible first- and second-graders. I also propose to expand the Algebra Readiness program to ensure that every child is prepared for Algebra by the eighth grade.

The most important component of a student's success is his or her teachers. Thank you for your support last year in moving the salaries of our public school teachers closer to the national average, and creating a process for regular performance evaluations for those who teach in our public schools. Together, we can continue that momentum. I propose to increase teacher salaries an additional 1.5% from amounts currently in the budget, to align the teacher raises with the 3% raises already in the budget for the entire state workforce.

I am also proposing additional need-based financial aid at our public colleges and universities, and additional support for operations at the higher education institutions to help keep tuition costs down. These increases are over and above significant funding for next year that is already contained in the biennial budget.

I am also proposing to increase access to postsecondary education in Southern Virginia through additional degree programs and outreach at the New College Institute in Martinsville, the Institute for Advanced Learning and Research in Danville and the Southern Virginia Higher Education Center in South Boston.

I am recommending funding for high-priority capital projects at our colleges and universities, including support for equipment and furnishings for new buildings that are scheduled to open during this biennium, and planning funds for key projects to meet the educational and workforce needs of the Commonwealth.

Moving Forward on Economic Development

Just as we must continue to improve our education system to stay competitive, we must be equally vigilant in our support of economic development opportunities. We all have reason to be proud of Virginia's reputation as the best state in the nation for business. But we face aggressive international competitors and cannot be complacent. In the 21st century, standing still is falling behind.

Through my amendments, we can address targeted economic development opportunities. Specifically, I included \$12 million to jump start the research efforts of the independent, non-profit SRI International in the Shenandoah Valley. This research investment will pay dividends for all of Virginia and our academic institutions for years to come, as SRI is an international leader in advanced drug research, biotechnology, and other key emerging technologies.

Further, I am proposing additional investments in research, including funding for the Christopher Reeve Stem Cell Research Fund to support adult stem cell research conducted in the Commonwealth's institutions of higher education. This work gives us hope in our fight against cancer, diabetes, MS, spinal cord injuries and a series of other diseases and disorders.

In Russell County, Northrop Grumman and CGI are seeking hundreds of highly-skilled software engineers to work in their new facilities. To meet the workforce demands of these two fast-growing companies, I included funding to assist in the completion of the Southwest Virginia Technology Development Center in Lebanon, a state-of-the-art workforce training facility.

I also propose \$4 million in additional funding for Virginia's enterprise zone grant program and \$4 million in additional funding for the Workforce Service Jobs Investment Program. Through these successful incentive programs, we use grants to leverage private investment and create jobs in distressed communities across the state.

Moving Forward on Outdoors Stewardship

In addition to our obligation to keep the economy healthy, we all share responsibility for our stewardship of the unique natural blessings of our Commonwealth.

Water Quality

I propose \$7.5 million to encourage best management practices on farms and other rural areas. These dollars will help us improve water quality through control of non-point source pollution.

Additionally, I am pleased to announce that we will propose a \$250 million bond package for upgrading wastewater treatment plants across the Chesapeake Bay watershed. I want to thank Chairman Callahan and Chairman Chichester for agreeing to sponsor the bond legislation. This package will dramatically accelerate our efforts to meet sewage plant discharge requirements set forth in the Chesapeake Bay Agreement.

Land Conservation

This past spring, I announced a goal of conserving an additional 400,000 acres across Virginia during my four-year term in office. This basically means doubling our efforts to conserve open space.

I propose in this budget that we dedicate \$20 million for land conservation. This includes \$13.7 million for the Virginia Land Conservation Foundation – which buys lands and easements – and \$5 million to partner with localities for farmland preservation efforts. This appropriation is a four-fold increase in the amount currently available to buy land and easements.

Moving Forward to a Safer Virginia

Just as we share an obligation to protect Virginia's natural resources, we share the responsibility of protecting Virginia families from crime and other emergencies. To fulfill that responsibility, I am including a series of amendments to help our law enforcement agencies attract and retain the best and brightest officers in an increasingly competitive field.

I propose to increase retirement benefits for state troopers by increasing their retirement multiplier, beginning July 1, 2007. Similarly, I aim to encourage better retirement for Virginia's deputy sheriffs by providing funding to localities that enroll their deputies in the Law Enforcement Officers' Retirement System or a comparable equivalent.

Understanding the vital – and often unsung – role they play in making our communities safer, I am also proposing salary enhancements for correctional officers, juvenile correctional officers, forensic scientists and career assistant Commonwealth's attorneys.

And, I propose an increase to "599 funding" that will allow the state to fully comply with our funding obligations to localities that operate police departments.

Emergency Preparedness

In Virginia, we understand the vulnerabilities we face as a result of geography and the presence of particular assets. And we continually work with our public and private partners to further our culture of preparedness.

Our preparedness agencies are in the midst of an intense review designed to identify gaps in our planning, in our coordination with local partners, and in our communication with the public in time of crisis.

As that analysis unfolds, there are steps we can take now to reduce our vulnerability. I propose \$7.6 million in budget amendment that address critical needs. This commitment will expand sheltering capacity; improve our ability to communicate with Virginians in emergencies; upgrade equipment long overdue for replacement; and conduct innovative disaster planning.

I also propose we purchase and stockpile the maximum recommended amount of influenza antiviral treatments for the citizens of the Commonwealth. Unfortunately, we live in times where the threat of pandemics is real; and we must be prepared.

Moving Forward on Tax Fairness

I remain mindful that the money our government spends is not its money. It's the people's money.

I am proud of Virginia's acknowledged position as a low tax state. And I'm proud of the work we have done together to eliminate the estate tax, create a "Back to School" sales tax holiday and give home owners more information about how their property taxes are calculated. Our current revenue position gives us a chance to continue that progress.

I propose that we provide meaningful tax relief for thousands of Virginia households by increasing the filing threshold on the state income tax from \$7,000 to \$12,000 for an individual and from \$14,000 to \$24,000 for a married couple. According to tax data from the year 2004, this change would mean that 176,000 people, who now have to file the paperwork to prove they owe no taxes, would no longer have to file. And another 147,000 Virginians would no longer have to pay any state income tax.

Conclusion

In closing, my proposed amendments afford us a unique opportunity to deliver tangible results to the people we serve. We can find some transportation relief by completing key projects. Hopefully, we will also give citizens more reliable solutions by committing to the revenues necessary to do the job long-term. And, through targeted investments in education, health care, economic development, environmental protection and public safety, we will maintain our wonderful quality of life. I look forward to working with the members of the General Assembly to move forward on these initiatives.

While we will debate over the details of the solutions we seek, let us take heart in that which unites us this time of year. As we enjoy the holiday season with its quiet moments, family dinners and fellowship opportunities – we can all give thanks for the many blessings we enjoy every day as Virginians. And we should recommit to using our blessings to serve others.

Thank you for your time and attention. I wish you a Merry Christmas, a happy holiday season and a safe and prosperous New Year.