



# COMMONWEALTH of VIRGINIA

## Office of the Governor

Robert F. McDonnell  
Governor

April 13, 2010

TO THE HOUSE OF DELEGATES

HOUSE BILL 30

I approve the general purpose of this bill, but I am returning it without my signature with the request that 96 amendments be adopted. I am grateful to all members of the House of Delegates and the Senate for the excellent work you did during the Session to create House Bill 30. Despite the global economic downturn that has resulted in job losses, reduced incomes for Virginians in every city and county, and substantial reductions in state revenue, you took the necessary actions to close an historic shortfall of \$4.2 billion. Like all families and businesses across Virginia, you made the very tough choices which were required. In the end, the General Assembly provided proactive and responsible fiscal stewardship, and produced a budget which included no tax increases, restored personal property tax relief and critical public safety programs, maintained funding for transportation and higher education, and provided new financial resources to jump start our job creation and economic development efforts -- for which I and the citizens of Virginia are most appreciative.

Although the enrolled bill addresses most of what I requested of you, I am returning it to you with amendments addressing three overarching themes: economic development and job creation, the provision of critical services, and technical amendments. These spending amendments totaling \$42.1 million are offset by amendments that will result in \$51.0 million in savings or additional revenue over the biennium, the excess to cover the \$8.7 million created by my amendments to HB 29. Included in the category of technical amendments are some actions that are necessary to address state and federal issues that have occurred since you adjourned in March. You will also find that the majority of the amendments in this category are language amendments. Many amendments were made at the request of members or Committee staff to address various issues.

### **Economic Development and Job Creation**

Since January 16, I have made state economic development and job creation my Administration's number one priority. Consistent with this goal, the General Assembly in a bipartisan manner provided a significant additional funding to jump start numerous job creating initiatives. The enrolled budget bill includes substantial investments in funding for the

Governor's Opportunity Fund, employer tax credits, critical tourism marketing efforts, and the Governor's Motion Picture Opportunity Fund. I applaud your efforts and all Virginians appreciate the diligence with which the resources in HB 30 were identified and appropriated for these purposes, to help combat our unacceptable 7.2 percent unemployment rate.

However, in reviewing HB 30, three major economic development and job creation categories were identified as requiring additional funding to meet our job creation objectives. These include the Internal Revenue Code (IRC) Section 199 Domestic Production Activity Deduction, the Governor's Opportunity Fund, and economic development commitments to major employers entered into by the prior administrations.

The IRS Section 199 provision encourages domestic manufacturing and subsequently quality jobs. Any proposal to eliminate this deduction is essentially a tax increase on eligible Virginia businesses. Moreover, this deduction affects private businesses' decision making regarding whether or not to locate and bring jobs to Virginia. Therefore, I recommend an amendment to provide the funds to maintain this important deduction at the current six percent rate.

In addition, I am proposing an amendment to restore the \$6.0 million reduction in the Governor's Opportunity Fund. This additional funding will send a clear signal to the business and economic development community that Virginia is committed to creating jobs through attracting, developing, and growing business as a public policy priority. I plan to focus on this issue during the full course of my Administration. Yet, if we are to succeed, it is critical that a fully funded arsenal of economic development tools be available to us so that we can compete nationally and internationally in business development and job creation.

Finally, I propose amendments that meet the existing commitments to SRI, Bank of America, and the Biofuels Production Incentive Grant program in support of a non-advanced neat biofuels production facility -- who committed to grow or bring jobs to Virginia. These commitments were started under a prior administration, and we need to maintain our end of the agreement as the affected parties continue to meet their side of such agreements. By taking such actions, the business world will take note that Virginia keeps its word even in difficult economic times which only reinforces our well-earned reputation as a truly business-friendly state.

### **Maintain Critical Health and Human Resource and Public Safety Services**

The second category of my spending amendments focus on the provision of critical services -- primarily human services and public safety. The additional funding proposed in these amendments is about 30 percent of the total proposed spending amendments. The major proposed human service spending amendments will ensure that critical child support enforcement activities will continue unabated despite the loss of federal funding. In addition, I

propose an amendment to provide a transition period for rates paid to providers of intensive in-home services for children at risk of being moved from an in-home treatment setting.

Regarding public safety, which is a primary responsibility of government, I propose an amendment to fund the continued operation of all Department of Corrections' facilities in fiscal year 2011. Given the number of state correctional facilities closed by the prior Administration, and the current backlog of state inmates in local jails, maintaining our state prison capacity will provide us with the necessary flexibility to appropriately manage the inmate population at both the state and local levels in a safe and efficient manner. Companion amendments create a task force to evaluate the impact of modifying the definition of state responsible inmates and, at the same time, require the Department of Corrections to conduct an assessment of the correctional facilities that might be appropriate to close next year. Taken together, these amendments will ensure that any closure actions proposed in the future are based on the results of a complete and systematic evaluation of all factors, including the projections from the 2010 inmate forecast and the results of the task force evaluating the definition of state responsible inmate.

#### **Technical and Issues Since Adjournment**

The majority of my other amendments are technical in nature including revisions to clarify legislative intent of various language provisions in HB 30. Some of these other amendments also address issues that have occurred or changed since the General Assembly adjourned on March 14. For example, one amendment simply provides sufficient flexibility to ensure that the total of all restorations contained in HB 30 that are contingent on potential extensions of additional federal FMAP funding actually match the amount of funding the state eventually receives. Finally, other changes are recommended merely to enable state agencies to administer affected programs consistent with the actual funding provided in the enrolled budget.

One issue that has been pushed to the forefront since the General Assembly adjourned in March is the passage of federal health care reform. The magnitude of what the state will be required to implement and fund, while likely to be substantial, is mostly unknown at this point. Accordingly, I have proposed an amendment to move Virginia forward with an established best practice to help transition the state to a more cost-effective health care model in anticipation of federal Health Care Reform. Put simply, the world of health care delivery is changing and we need to position ourselves to deal with that change.

HB 30, as enrolled, contains provisions related to the Virginia Information Technologies Agency (VITA) that do not reflect the significant advancements that have been recently initiated with respect to this agency and information technology services in general. I thank you for passing legislation giving me the direct ability to begin the important reforms necessary at VITA to improve state information technology services. These reforms include the appointment of a new Chief Information Officer and better oversight of the IT contract between VITA and private sector partner Northrop Grumman. As I briefed many of you last week, negotiations completed

last month resulted in contract revisions that resolve all outstanding performance and financial contractual issues between the Commonwealth and the company, and set much clearer contract performance expectations and enforcement provisions for the vendor. In the process, I have made it clear to all parties that my expectations are that going forward there will be dramatic improvement in IT functions for all state agency customers.

Given the significant improvements already made and the need for flexibility to respond to other issues as they arise, I am proposing modest changes to the reporting language in IIB 30 concerning VITA oversight by the legislative department. I believe my proposed changes are consistent with legislative intent embedded in the new legislation and that they will provide the relevant information in a timely manner as requested by the General Assembly. Yet, I also believe my changes will provide significant flexibility for nonpolitical professionals to manage ongoing information technology functions on a daily basis. At the end of the day, balancing legislative reporting requirements proposed in HB 30 with improved operations of VITA will benefit agencies and citizens.

Finally, I propose an amendment that will prohibit a locality from charging retirement expenses to current local government employees, including teachers, police officers, sheriffs and others in cases where the locality has previously opted to cover the cost of such expenses. The amendment will ensure that current local employees are treated the same as current state employees in the funding of their retirement plans.

### **Recommended Resources**

Given that some of my amendments increase spending, I am also offering amendments to HB 30 to provide the necessary resources to finance those proposals. The majority of resources come from three amendments. The first adjust the fines for speeding from \$5 per mile over the posted limit to \$6. This fine has not increased since July 2003, and this action will adjust it commensurate with the rate of inflation. Secondly, I am proposing another amendment to capture some funding in the Compensation Board that is in excess of what is needed to meet required retirement reimbursements and the elimination of a 90-day vacancy and turnover savings requirement for constitutional officers. Finally, I am proposing a minor reduction (one percent the first year and two percent the second year) to the Comprehensive Services Act funding. This action is consistent with expected savings from the ongoing cost containment controls you implemented earlier in the current biennium. Past changes have had positive effects in limiting uncontrolled growth in the program, and I am confident my proposed changes will continue that trend.

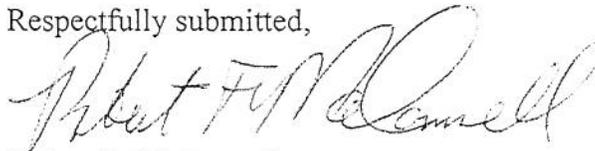
The budget you presented me left \$6.8 million unallocated. I am returning amendments to you, which if enacted, will leave a total uncommitted, unappropriated balance of approximately \$7.0 million to provide a reserve for unforeseen circumstances (such as a natural disaster). This is in line with previous unappropriated balances. I have proposed no change to

the \$50 million reserve the General Assembly created as a down payment for future deposits to the Revenue Stabilization Fund, and have proposed no new fees.

Attached to this letter are my proposed amendments. In your review of these proposals, I think you will find they are consistent with the objectives that we both have strived for since January 16. Moreover, they improve what was already a good budget enacted by the General Assembly.

I respectfully request your adoption of these amendments so that they may be incorporated into the Appropriation Act for the 2010-2012 biennium.

Respectfully submitted,



Robert F. McDonnell

Attachments