



Keeping Promises

The first permanent English settlement in America, Jamestown, was founded upon the belief that the New World offered unlimited promise to those brave enough, diligent enough, and innovative enough to capitalize on the wondrous resources available in the new land.

At the beginning of the 21st Century, Virginia is diverse, innovative, entrepreneurial, and a world-renowned technology leader. Virginians of all regions, races, and economic circumstances are helping to fulfill the promise of progress and prosperity that Virginia has represented to the world, beginning with its humble founding at Jamestown in 1607 through today. Governor James S. Gilmore, III, entered office in 1998 with a bold agenda to make the opening of the new century a “Time for all Virginians.” This agenda is centered around his vision that Virginians should be empowered to seek the quality of life they choose as they unite around common goals.

The Governor established his Administration’s goals of first-quality education, tax relief for Virginia’s citizens, in-

clusiveness, economic development, and government reform.

Education remains the highest priority. In K-12 education, the Governor pledged to set and maintain high standards for public education and to provide localities flexibility to meet unique needs. He has ensured that Virginia’s higher education system affordably delivers a quality education, promotes economic and technological innovation, and produces graduates capable of competing in the world economy.

The Governor promised to continue building a strong economy and to bring prosperity to every part of Virginia. In the last few years, Virginia has become widely known as a national information technology leader. In order to improve the economic well being of Virginia’s families, he committed himself to lowering the tax burden on working families and businesses.

In fact, the Gilmore Administration has pledged to use technology to help Virginians. By maintaining Virginia’s lead-

ership in the technology industry, the Governor has sought to use technology in innovative ways to improve the quality of life for everyone.

In the area of transportation, the Governor has sought to improve the effectiveness of the Commonwealth’s transportation systems to promote economic growth, protect natural resources, and improve the quality of life. The \$3.2 billion “Innovative Progress” transportation program adopted by the 2000 General Assembly promises to improve transportation for everyone who travels in and through the Commonwealth.

Finally, Governor Gilmore committed to uphold the financial integrity of the Commonwealth by reducing burdensome taxes, prudently managing the state’s resources, and supporting a state government workforce that is motivated and productive.

Continuing the agenda with budget amendments

The Governor's 2000-2002 budget amendments continue his Administration's record of keeping the promises he has made to Virginia's citizens by placing the highest priority on education, maintaining tax relief, and responsibly managing the state's limited resources.

Because Virginia's economy is not currently growing at the same rapid pace of recent years, developing these budget amendments meant facing tough choices to implement these priorities. The proposed budget amendments continue car tax relief for Virginians, avoid tapping into the Commonwealth's Revenue Stabilization Fund, and maintain essential government services.

The Governor has made the difficult choice of deferring the expansion of some programs, trimming some of the growth in other programs, and seeking efficiencies throughout government. His proposals achieve reductions in the least painful ways while preserving critical services affecting public health and safety, as well as aid to citizens and localities.

Achieving a record of accomplishment

Heading into his final year in office, Governor Gilmore is successfully fulfilling many of the promises made to Virginia citi-

zens. Working cooperatively, the Governor and General Assembly have to date:

- ▶ provided significant, meaningful, and responsible tax relief by reducing or eliminating 16 major taxes, including the burdensome car tax,
- ▶ budgeted nearly \$114 million to Virginia school divisions to integrate technology in the classroom, while strengthening instructional, remedial, and testing capabilities of the Standards of Learning,
- ▶ increased funding for Norfolk State and Virginia State Universities by 52 percent since taking office,
- ▶ reduced tuition and mandatory fees at public colleges and universities by 20 percent for in-state undergraduates and continued the tuition freeze instituted in 1996,
- ▶ enhanced funding for mental health and mental retardation services, significantly decreasing waiting lists for community mental retardation services,
- ▶ established an elder rights center as the single point of contact for older Virginians for legal assistance, consumer protection, and long-term care services and programs,
- ▶ established the nation's first Cabinet-level Secretary of Technology benefiting the citizens and businesses

in Virginia by providing direct contact with a technologically advanced state government,

- ▶ enacted the Virginia Transportation Act of 2000, which provides nearly a \$1.5 billion increase in funding for transportation projects this biennium and \$3.2 billion in new money for transportation over the next six years,
- ▶ established the Priority Transportation Fund, an innovative funding mechanism that will enable critical transportation projects to be identified and built faster,
- ▶ announced the creation of 45,950 new jobs and the investment of \$3.5 billion in capital in the Commonwealth in fiscal year 2000,
- ▶ strengthened Virginia's economic development efforts through aggressive recruitment of businesses and industries, implementation of a comprehensive economic development plan, and creation of a new workforce training system designed to meet the needs of small businesses,
- ▶ expanded the Commonwealth's tourism efforts by working with the General Assembly to establish African-American Heritage Trails and by budgeting \$1 million for the National Slavery Museum at Jamestown,

- ▶ enacted SABRE (Substance Abuse Reduction Effort) to enforce and strengthen Virginia's drug trafficking laws and deter the illegal use of drugs, while providing drug treatment and education programs,
- ▶ introduced a productivity savings program to increase efficiency and effectiveness in state government, and,
- ▶ implemented a new state compensation plan to provide agencies with more flexibility to reward employee performance.

Confronting the challenges of the future

Building on the momentum of these results, the Governor's proposed amendments to the biennial budget continue to aggressively address the challenges facing the Commonwealth. Upholding Virginia's tradition of sound financial management practices, this budget efficiently uses the state's resources to pursue effective and innovative initiatives and solutions. Most notably, this budget supports the Governor's priorities by:

- ▶ maintaining the state's commitment to fully fund the Standards of Quality and incentive-based educational programs,
- ▶ continuing and expanding meaningful tax relief for

Virginia's working men, women, and businesses,

- ▶ providing funding for reduced class sizes and achieving the Governor's goal of 4,000 new teachers,
- ▶ providing additional funds for salary increases for higher education faculty,
- ▶ implementing a major capital program to provide funds for capital needs and maintenance reserve needs at our institutions of higher education,
- ▶ providing funds for PowerUP, a cooperative effort between the Commonwealth and America Online (AOL), the Case Foundation, and other key non-profit organizations to provide Internet access to local communities,
- ▶ restructuring inpatient mental health care by transitioning acute psychiatric services to community services,
- ▶ funding a new building for the Museum of Natural History in Martinsville,
- ▶ supporting the renovation of the Finance Building to provide additional state office space in the Capitol Square area,
- ▶ providing salary increases for state employees and funding to implement compensation reform for classified employees, and developing ways to im-

prove productivity and reduce the size of state government through targeted and across-the-board budget reductions.

Keeping promises to the people and managing the Commonwealth efficiently and responsibly are principles that have served Virginia well and placed it in a leadership position among the states. Throughout the last decade, a succession of rating programs, most recently *GOVERNING* magazine, in conjunction with Syracuse University, have judged the Commonwealth to be one of the best managed states in the nation.

In addition, the three major bond-rating agencies continue to give the state's long-term general obligation debt a "AAA" rating. These same wise financial practices also engender taxpayers' confidence that they are getting the most for their tax dollars.

Adapting to changes in the economy

Virginia has enjoyed several years of unparalleled growth and prosperity, making possible tax reductions of about \$1.3 billion over the last three years. During this time of prosperity, Governor Gilmore believed the benefits of these good times should be shared with taxpayers in the form of tax relief. The Governor set about eliminating the car tax and reducing other burdensome taxes while

providing funds for needed services. Although Virginia's overall economy remains strong, in recent months conditions have resulted in less revenues than were anticipated when the 2000-02 budget was adopted.

Nationally, a 'soft-landing' is expected

In recent months, economists at the national level have observed trends that indicate a moderating economy. The Federal Reserve Board's aggressive interest-rate hikes over the past year and the explosive growth in oil prices are expected to temper economic growth. Economists anticipate that the Federal Reserve will maintain a more stable interest rate environment for an extended period.

In Virginia, growth still outpaces national average

The Commonwealth should outperform the nation in terms of job growth and wages and salary growth over the next two years. Here is a look at what economists are predicting:

- ▶ Total personal income in Virginia is forecast to grow at 6.2 percent and 5.9 percent in 2001 and 2002, respectively. Wages and salaries, the largest portion of personal income, are expected to increase 6.8 percent in 2001 and 6.7 percent in 2002.
- ▶ In 2001, Virginia is expected to add 70,900 non-

agricultural jobs. The service sector is expected to lead job growth with gains of 41,300 jobs. Wholesale and retail trade is expected to add almost 12,100 jobs.

- ▶ Job growth is expected to be slightly faster in 2002, growing by 2.3 percent.
- ▶ Virginia's manufacturing sector is expected to slightly decline in 2001 before rebounding in 2002.

Revenues continue to grow

Over the last few years, a booming economy has led to double-digit growth in Virginia's revenues. Although revenues continue to grow, the current rate of growth is not as robust as in previous years. The Gilmore Administration anticipated this deceleration in these budget amendments, and has planned for it accordingly. Revenues in the 2000-02 biennial budget, enacted in April 2000, were estimated to grow 5.5 percent in 2001, as compared to 10.5 percent in 2000. This budget makes further adjustments for decelerating rates of tax revenue growth while continuing to implement the priorities of the people of the Commonwealth.

Preparing Virginia's families for changes in the economy through tax relief

The longest economic expansion in the nation's history has enabled other

states to follow Virginia's lead in reducing taxes. The National Conference of State Legislators reported that taxes have decreased collectively in the states each of the last five years.

In 1999, Florida passed the largest tax cut in that state's history – over \$1 billion. Colorado and Texas have passed significant tax cuts as well. Even "high-tax states" such as Connecticut and New York have decreased taxes. In 2000, several states (including Missouri, Minnesota, Oregon, and Wisconsin) have given citizens tax rebates.

In Arizona, Colorado, and Michigan, lawmakers passed triggers that will activate tax rebates or reductions under certain economic circumstances. In all, over \$16.4 billion worth of tax cuts in 31 states have been enacted in the last two years.

Had Virginia not returned tax dollars to the taxpayers, these funds would surely have been allocated for additional government spending rather than being more appropriately put to use by Virginia's citizens in a manner of their choosing. Instead, Virginia's working families will be better positioned to effectively deal with a changing economy, because Governor Gilmore returned tax money to them through his tax relief programs. In keeping with its promises, this Administration will continue to maintain its commitment to tax relief.

Meeting the challenge of a changing economy through strong leadership

Governor Gilmore's budget amendments propose the necessary actions to actively and responsibly meet the challenges posed by the recent changes in economic conditions. These actions include:

- ▶ Increasing funds for higher education and K-12,
- ▶ Continuing repeal of the car tax by increasing the rate to 70 percent in tax year 2001 and 100 percent in tax year 2002,
- ▶ Making the 2001 and 2002 deposits to the Revenue Stabilization Fund,
- ▶ Protecting the investment in Virginia's higher education and other facilities by utilizing Virginia's exceptional debt capacity,
- ▶ Realizing substantial productivity and executive management savings in state government by reducing certain expenditures, and
- ▶ Setting tough spending priorities to reduce waste.

K-12 Education: keeping our promise to help kids and schools

As Governor Gilmore enters the final year of his Administration, he continues his strong commitment to quality education—his highest priority—through initiatives ensuring that Virginia's children receive a quality education that is rigorous, meaningful, and innovative.

The Governor has maintained and strengthened the Standards of Learning (SOL), one of the most important educational reforms in the country. He has implemented the measurement of student performance using SOL scores as baseline data.

In keeping with the Governor's ongoing commitment to K-12 education, his original proposed budget for the 2000-2002 biennium added \$547.2 million for K-12 education and continued implementation of the Standards of Learning. This year's amendments to the biennial budget build on this commitment. First, he further strengthens the SOL by expanding readiness and remediation programs. Second, the Governor fulfills his campaign promise of hiring 4,000 new teachers.

In addition, the budget amendments expand the Governor's Academic Challenge Program, which provides funding for additional instructional time for schools that are

"Accredited with Warning" in math or English, to include other low-performing schools. Finally, these budget amendments provide funding for the Standards of Quality and incentive-based education programs, and distribute excess Lottery funds to local school divisions.

Continuing the Standards of Learning reforms

Five years ago, Virginia started one of the most ambitious instructional and standardized testing standards programs in the country. The SOL set minimum student requirements in each grade level, kindergarten through grade 12, and in the core subject areas of English, math, science, and social studies. These standards will ensure that schools give students the basic knowledge, skills, and abilities required to maintain a knowledgeable and economically competitive citizenry.

In addition, the Standards of Accreditation (SOA) set expectations and criteria to ensure that student progress on the SOL is measured, and that school boards, administrators, and teachers are held accountable. These standards demonstrate to citizens that school boards, administrators, and teachers are using state funds efficiently and effectively.

The Governor believes that implementing these high standards are essential. He is also committed to addressing the concerns of students, parents, and school boards regarding

their implementation, and to ensuring that no student or school is left behind as the state continues this major reform effort.

These budget amendments propose the expansion of the Algebra Readiness Program by \$2.6 million, as well as funding the continuation of SOL remediation recovery programs in the amount of \$543,553 and SOL Emergency Retakes Programs in the amount of \$914,863. The SOL Remediation Recovery Program enables students who fail a SOL test but still move onto the next grade to retake the test if they participate in a remediation program. The SOL Emergency Retakes Program enables students who narrowly miss passing the end-of-course SOL tests, but pass the related course, to retake the test in an expedited manner.

Fulfilling the promise of 4,000 new teachers by expanding the Algebra Readiness Program

Crowded classrooms test the limits of even our best teachers and shortchange students' opportunity to gain an education. Governor Gilmore has worked tirelessly to reduce class sizes and to increase the learning opportunities for all of Virginia's school children.

The Algebra Readiness Program provides incentive payments to local school divisions for providing math intervention services to students in grades 6, 7, 8, and 9 who are at risk of failing the Algebra I

end-of-course test. The Governor proposes an expansion of the program by adding \$2.6 million for schools to strengthen remediation, hire teachers, and improve students' passing rates.

The Governor's proposed amendment fulfills his promise for reduced class sizes by reaching the goal of 4,000 new teachers.

Expand the Academic Challenge Program

In October 2000, the Governor initiated his Academic Challenge Program. This program funds additional instruction time for schools that are "Accredited with Warning" in math or English. Every participating school receives at least 150 hours of additional instruction. Those schools that have larger student bodies will receive more funding for more instruction. Each school will develop its own plan for success, based on its own needs and circumstances. The Governor's proposed budget amendments provide an additional \$6.0 million to expand the program.

Fully fund SOQ and incentive-based educational programs

The state Standards of Quality (SOQ) and incentive-based formulas are updated every fiscal year based on several components that impact state funding, including average daily membership, sales tax estimates, lottery proceeds estimates, and participation

rates in incentive-based educational programs.

In order for the state to meet its commitment to the SOQ and its existing incentive-based programs, these budget amendments reflect the most recent information in determining the cost of these programs. The Governor ensures that the state meets its commitment to fully fund its share of the SOQ and incentive-based educational programs by providing an additional \$851,908.

Higher Education: keeping the promise to enhance opportunities

Governor Gilmore has continued Virginia's tradition of excellence in higher education by supporting initiatives that ensure that quality higher education in Virginia is accessible, affordable, and accountable. Today, Virginia higher education institutions are equipping over 300,000 students with the knowledge and skills necessary to work in and contribute to American society in the 21st Century.

Governor Gilmore has supported Virginia's strong tradition of excellence in higher education in a variety of ways. He has significantly increased support to Virginia's public historically black universities – Norfolk State University and Virginia State University. In his proposed budget for the 2000-02 biennium, the Gover-

nor provided \$6.7 million to each of these two institutions to improve the quality of academic programs, enhance library services, expand research efforts, and complete technology upgrades.

He has increased state funding for higher education to support maintaining average faculty salaries at the 60th percentile of peer institutions nationwide.

The Governor also implemented a 20 percent tuition rollback at Virginia public colleges and universities for in-state undergraduate students. With continued funding for 2002, over 300,000 students will have benefited from this tuition and fee rollback. Following the rollback, the Governor froze tuition at the lower level. Further, he supported increased appropriations to support Tuition Assistance Grants for students attending Virginia's private colleges.

Governor Gilmore has made a commitment to make Virginia the only state in the nation to provide the 100 percent state match of federal funds under the cooperative extension and agricultural research program for 1890 land grant schools. The Governor proposed that the 100 percent state match be phased in over a three-year period beginning in 2000. Currently, \$1.2 million of state matching funds is appropriated toward this goal. These budget amendments recommend an additional \$900,000 in the biennium, so that the 100

percent state match can be realized, as promised, in 2002.

Finally, the Governor established an innovative \$13 million Technology Research Fund. Public institutions of higher education can receive awards from the fund to:

- ▶ match competitive federal or private research grants in technology and the hard sciences,
- ▶ upgrade the national ranking of key academic departments to attract more public and private research funding, and
- ▶ upgrade key academic departments to induce industries to locate and expand in Virginia.

This year the Governor will do even more to maintain and enhance Virginia's tradition of excellence in higher education. First, he proposes maintaining faculty salaries at the 60th percentile, as well as providing administrative and part-time faculty and graduate teaching assistants with cost-of-living pay increases.

These budget amendments also provide funding for enrollment growth, student "true need," and the GEAR UP federal grant matching requirement.

Virginia's colleges and universities are facing growing enrollments and the demand for expanded or enhanced programs with infrastructure and building systems that need continual

attention and maintenance. In the past, annual appropriations for maintenance have funded just a small portion of the total need and the remaining need has grown yearly. In these proposed amendments to the biennial budget, Governor Gilmore is proposing \$61.8 million in additional funding for maintenance on higher education facilities.

In addition, the amendments fund significant construction and renovation projects at all Virginia colleges and universities. Together with the funding for maintenance reserve projects, the Governor's budget amendments propose a total of \$249.6 million in new funding for higher education facilities. This funding will support projects such as construction of classroom buildings, renovation of libraries and academic facilities, and renovations to heating, ventilating, and air conditioning systems. With this major infusion of new funds, Virginia's institutions of higher education will be better prepared to meet the demands of the coming decades.

Maintaining faculty salaries at the 60th percentile

The 2000 Appropriation Act provided institutions of higher education sufficient funding in 2001 to maintain the average salary of teaching and research faculty at the 60th percentile of their peer institutions across the nation. The act provided administrative faculty, part-time faculty, and graduate

teaching assistants with a three percent cost-of-living increase in 2001, but no additional salary increases in 2002.

Continuing to fulfill his promise of ensuring that Virginia higher education institutions attract and retain highly qualified faculty, the Governor proposes an additional \$5.9 million in 2002 to ensure instructional faculty at colleges and universities are paid at the 60th percentile of each institution's peer group. He also provides \$6.9 million for a 3.5 percent cost-of-living increase for administrative faculty, part-time faculty, and graduate teaching assistants.

The Governor is also recommending funds for higher education enrollment growth amounting to \$6.5 million in this year's budget amendments.

Phase-in funding of 'true need' for student financial assistance

Although the Commonwealth of Virginia has traditionally established the goal of funding 50 percent of "remaining need" for Virginia's students, evidence shows that this amount often falls short of meeting students' true needs, forcing them to seek less desirable funding sources. By funding "true need," the Commonwealth seeks to reduce students' reliance on such sources and achieve the Governor's goal of increasing all Virginians' access to higher education. These budget amendments provide \$5.8 mil-

lion, meeting the first one-third of the total estimated "true need" amount for Virginia students at all 17 Virginia higher education institutions.

In addition, the Governor will propose a merit-based New Century Scholars scholarship program during the upcoming legislative session.

Fund state match for GEAR UP

The State Council of Higher Education was notified in September 2000 that its grant proposal for the federal Gaining Early Awareness and Readiness for Undergraduate Program (GEAR UP) was awarded funding of \$10.4 million, to be provided over a five-year period. The purpose of this program is to assist in eliminating the "digital divide" among students, provide scholarships to students from low-income families, and to increase the rate at which students from low-income families enroll and succeed in college.

The federal program requires that a 50 percent state match be provided by the Commonwealth at some time over the five-year period of the grant. The Commonwealth will use the required state match monies for student scholarships. This funding assumes state funding of nearly \$1.1 million each year for the five-year period of the grant award. These state matching funds will be deposited to the Virginia Education Savings Trust (VEST) and will yield interest, thereby increasing the

amount of scholarships that can be awarded to students.

Provide additional funding for indigent care at VCU Health System Authority

Virginia Commonwealth University Health System Authority is the primary provider of care to the indigent population in the Richmond area and in the Commonwealth. For 2001, the Governor and General Assembly provided \$22.0 million to fund services to indigent patients. This year the Governor is recommending fully funding VCUHSA's 2002 indigent care costs with a mechanism to provide \$25.1 million in new funding.

Continuing meaningful tax relief

When Governor Gilmore took office, he promised to eliminate the personal property tax on personally-owned vehicles valued at \$20,000 or less. The Governor has kept that promise. By 2002 the tax will be eliminated on these vehicles, resulting in annual personal property tax relief to the people of Virginia of more than \$1 billion. The Personal Property Tax Relief Act of 1998 is the largest tax relief plan in Virginia's history.

The Personal Property Tax Relief Act phases in this historic reform over five years. Virginians first received reductions in calendar year 1998, and

those reductions continue until 2002 when the car tax will be completely eliminated on the first \$20,000 of a vehicle's value. In 2001, car tax relief will increase to 70 percent and rise to 100 percent in 2002.

Continuing deposits to the Revenue Stabilization Fund for use during tough times

Prior to 1990, a general fund revenue reserve was routinely appropriated as part of the biennial budget. As part of its study of the executive budget process, the Joint Legislative Audit and Review Commission proposed a constitutional amendment to create a revenue stabilization fund as a permanent part of the Commonwealth's budgeting system. The constitutional amendment was agreed to by the General Assembly in its 1991 and 1992 sessions, and was ratified by voters in November 1992. The amendment became effective January 1, 1993.

The 2000 Appropriation Act includes \$163.1 million in 2002 for the required revenue stabilization fund deposit. Under the statutory formula, an additional \$24 million must be deposited into the fund to meet the mandatory deposit (\$187.1 million) called for in the Constitution of Virginia. The total deposit made by the Commonwealth to the revenue stabilization fund will be \$290.4 million for the 2000-2002 biennium.

The amount in the fund by the end of fiscal year 2002 is estimated to be more than \$900 million including interest.

The Governor's budget amendments continue the payments to the fund. The Governor believes that now is not the time to tap into the fund. Revenue growth may have decelerated, but growth still continues. The fiscally prudent course of action is to reserve the fund for more difficult times should the economy take a strong downward turn. The Commonwealth, like any family dealing with its personal finances, should not take from its "emergency savings" until necessary.

Protecting the investment in Virginia's facilities

Over the years, the Commonwealth has invested taxpayer funds in a vast array of capital goods, such as office buildings, higher education, mental health, mental retardation, correctional facilities, and museums, among others. The Commonwealth has also furnished such structures with the systems and equipment needed to permit people to work or live in such facilities in comfort.

To protect the taxpayers' investment in state facilities, millions of dollars are appropriated annually for the repair and maintenance of state-owned buildings. This funding is designed to repair or replace

obsolete or inoperable equipment, utility systems, and components of structures such as windows, roofs, and lighting.

As state buildings have aged and more efficient technologies for heating and cooling have developed, the need for their maintenance or upgrade has grown. To keep pace with a growing need, maintenance reserve funding has increased 68 percent, from \$59.7 million in the 1996-98 biennium to \$100 million in 2000-02.

While protecting and enhancing older facilities, the state has also had to address the need for additional capital investments such as additional classrooms, technologically sophisticated laboratories, and upgrades to institutions for people in the state's care. To meet these needs, the state has engaged in an ongoing capital improvement effort to fund, construct, and maintain state facilities.

'Pay-as-you-go' vs. 'Pay-as-you-use' funding

Paying expenses from current revenues, or cash, is known as "pay-as-you-go" funding.

Debt, which involves financing expenses over an extended period, is used for expenditures for long-term capital assets, such as land and buildings. This option is referred to as "pay-as-you-use," because payment extends over the useful life of the asset.

Thus, those who use the asset pay for it over time. Home-owners and businesses commonly use this method of financing large projects.

The principal method of debt financing is long-term bonds. The use of bond proceeds gives the Commonwealth flexibility to pay for much needed capital outlay expenses without affecting priorities in the operating budgets of state agencies that provide vital services to citizens.

Governor Gilmore is proposing a bond issue of approximately \$600 million to allow agencies and institutions of higher education to address pressing needs for both new construction, existing or previously approved projects, and to address maintenance and repair needs.

Among the projects to be funded from this bond issue are new classroom buildings and library renovations at institutions of higher education, new museum buildings and parking decks, major renovations and adaptation of existing facilities to new uses, and the construction of a new Veterans Care Center in Richmond. The bond package will provide significant funding to address the capital needs of the state agencies and institutions and guarantee that Virginia's capital assets will be prepared to meet the needs of future generations.

Tobacco Master Settlement Agreement Funds

The Governor proposes using a financing mechanism involving Tobacco Settlement funds, consistent with sound financial practices, to help provide additional resources for the 2000-02 biennium. He proposes that the Commonwealth's portion of the Master Settlement Agreement (MSA) between participating cigarette manufacturers and many states be sold to a special-purpose entity. The Commonwealth will receive a lump sum payment, rather than continuing to receive multi-year payments. This approach provides an upfront payment, anticipated to total approximately \$1.2 billion.

The payment will be deposited as follows: to the Tobacco Indemnification and Community Revitalization Endowment (50 percent of the allocation), to the Virginia Tobacco Settlement Endowment (10 percent), and to the general fund with an appropriation to the Higher Education and Economic Development Trust Fund (40 percent).

The earnings and a portion of the principal will be applied as follows: (1) in the case of the Tobacco Indemnification and Community Revitalization Endowment, to the Tobacco Indemnification and Community Revitalization Commission, for the purposes set forth in current statutes, and (2) in the case

of the Virginia Tobacco Settlement Endowment to the Virginia Tobacco Settlement Foundation, for the purpose of discouraging, eliminating, or preventing the use of tobacco products by minors as set forth in current statutes and for health care purposes.

The general fund amount appropriated to the Higher Education and Economic Development Trust Fund will be used to support a new program to accelerate a large number of projects for Virginia's colleges and universities as well as for economic development. The funding will pay the debt service on obligations to be issued by the Virginia Public Building Authority and the Virginia College Building Authority for higher education and economic development projects, including those in the \$600 million bond package that the Governor is proposing.

Realizing productivity and executive management savings

The taxpayers of the Commonwealth deserve the most efficient government possible. One of the principal objectives of the Gilmore Administration is to encourage state agencies to develop innovative and effective ways to deliver services to the people of the Commonwealth in the most efficient way at the least cost.

In his 2000-2002 biennial budget, the Governor asked agencies to develop specific

plans for achieving savings through the increased use of technology and other efficiency-enhancing methods. He challenged agencies to find ways to not just to save money through traditional one-time actions, but to operate government “smarter.”

This year, the Governor presented his plan for achieving these productivity savings. These initiatives, based largely on many excellent ideas proposed by state agencies, will foster a smarter and more effective state government, while at the same time providing better service delivery to the citizens of the Commonwealth. Governor Gilmore sees improving productivity savings as an ongoing exercise. During the remainder of his Administration, he intends to continue to explore ways in which state government can become more productive and better serve the people of Virginia.

Agency innovations generate productivity savings

The Governor’s productivity savings initiatives included in these budget amendments incorporate many innovative strategies and ideas generated by agencies to create efficiencies in operation. These strategies can be classified into three broad categories: technology enhancements, more efficient business practices, and cost containment actions. Technology enhancements account for 20.2 percent or \$18.5 million of the total savings, 49.4 percent or \$45.3 million is from efficient

business practices, and 30.4 percent or \$27.9 million is from cost containment actions.

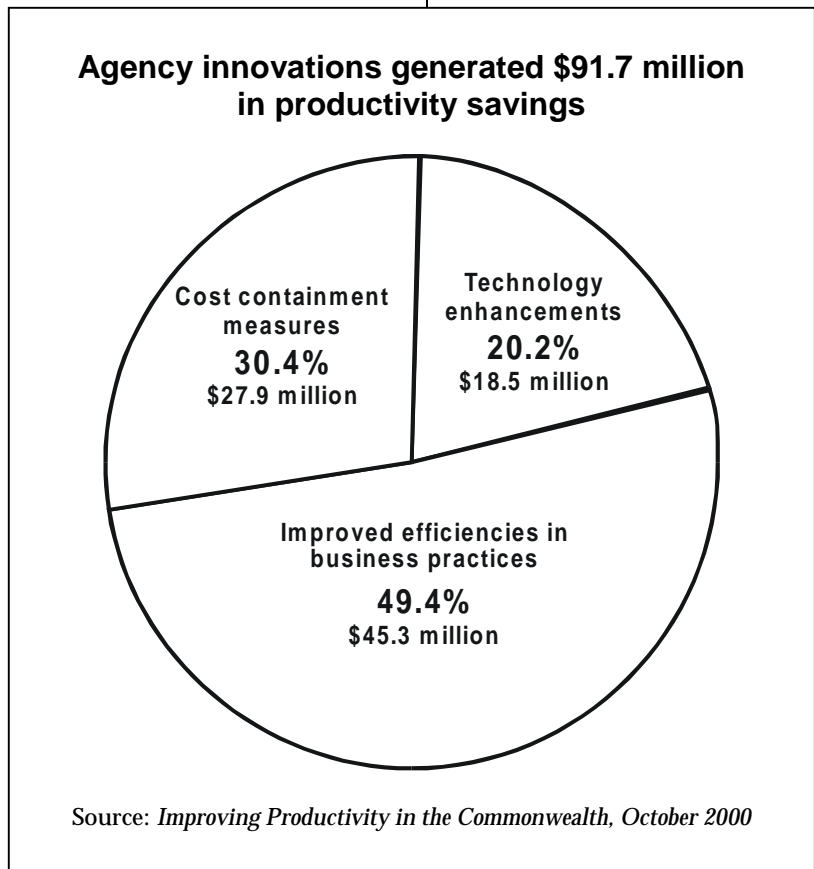
Executive management savings produce further efficiencies

For a state government to maintain the trust and confidence of its citizens, it must soundly and prudently manage the state’s financial resources and systems. In today’s times of economic and technological change, it is imperative that Virginia’s state government respond accordingly. Managing change requires careful planning and execution on the part of state employees.

The Governor has provided state agencies a savings target

and the flexibility to determine the manner through which these savings are generated. These strategies are expected to yield nearly \$68 million in additional savings in the 2000-2002 biennium. In addition, the introduced amendments to the biennial budget contain targeted budget reductions of over \$138 million.

Certain programs and activities are exempted from reductions, including aid to localities, debt service, and high priority programs such as mental health and law enforcement. The Governor’s proposed budget amendments maintain spending for critical, high-priority services for Virginia’s citizens.



The achieved savings across state government can be used for addressing other priorities in education, health and human services, and economic development.

Additional spending priorities continue Governor's agenda

The following sections outline the Governor's remaining spending priorities for the remainder of the biennium. These priorities reflect the pledges made by the Governor to Virginia's citizens throughout the course of his Administration, holding true to his priorities of improving education while providing meaningful tax relief.

Technology: realizing the promise of the 'Digital Dominion'

Virginia is a world leader in technology. Heralded as the "Internet Capital of the World," the Commonwealth is home to a variety of major technology industries, including semiconductor and other electronics manufacturing, biotechnology, commercial aerospace, systems integration, advanced materials, intelligent transportation systems, and wireless communications.

More than half of the world's Internet traffic travels through Virginia. Northern Virginia has the highest per-capita usage of the Internet in the nation. The state is home to

many of the world's leading Internet companies such as America Online (AOL) and MCI Worldcom.

Virginia also stands as the architect of a model for governing in the Internet age. Called "The Digital Dominion," this entirely new concept is writing the future of a more advanced Virginia. No other state has approached government in this way. The advent of the Internet age demands and justifies a new approach to the old, timeworn ways of the past. "The Digital Dominion" is built upon the foundation of triangular relationships -- facilitating the growth and development of technology between government and industry, industry and citizen, and citizen and government.

Under the leadership of Governor Gilmore, Virginia state government is using technology to improve and bring government to its citizens, with a technology infrastructure that enables fast, efficient, and accessible services. Here's a look at accomplishments so far.

- ▶ The Governor established the Office of the Secretary of Technology to improve state government through the use of technology, and to create policies that increase the use of technology outside government;
- ▶ Governor Gilmore issued two Executive Orders representing the cornerstone of the Commonwealth's electronic government initiatives. These orders instruct

executive branch agencies and institutions of higher education to institute and expand the delivery of services through the Internet to ensure broader citizen access to government;

- ▶ The Governor established the Council on Technology Services (COTS), comprised of state and local government representatives, to guide Virginia in the use and acquisition of technology to increase the efficiency of state government. Among other initiatives, COTS has begun implementation of a statewide "seat management" contract as a new approach to technology acquisition. This approach standardizes all government technology, reduces antiquated equipment, facilitates asset management, and provides newer, more productive services;
- ▶ The Governor's Commission on Information Technology (GCIT), a group of representatives from private industry, the Virginia General Assembly, and members of the Governor's Cabinet, was created to recommend policy on how to best improve the environment for the use, expansion, and exploitation of technology throughout the Commonwealth;
- ▶ The Gilmore Administration spearheaded legislation known as Virginia's Internet Policy Act, six

pieces of legislation that address many technology issues, including spamming, child pornography, criminal use of encryption, and privacy;

- ▶ Issues related to the Year 2000 date change (Y2K) forced government entities to examine current ways of doing business and to explore new, more effective approaches to planning and management. The Commonwealth experienced no serious computer problems resulting from Y2K; and
- ▶ The Governor implemented new initiatives designed to address the digital divide by creating more "digital opportunities" for communities of under-served or disadvantaged populations to gain access to the Internet and new technologies.

Although significant success has already been achieved in technology, much more can be done. State agencies are continuing to use technology to improve efficiency and increase performance through productivity savings strategies that will be implemented as part of these budget amendments. The Governor is also committed to providing all Virginians with opportunities available from technology. The Governor's proposed amendments include two initiatives to continue this effort.

Increasing community access to computers and the Internet

Governor Gilmore is committed to an overall strategy to overcome the Digital Divide by reaching out and creating digital opportunities. PowerUP is a public-private partnership developed in consultation with America Online (AOL), the Case Foundation, and other key nonprofit organizations. Under the concept proposed by the Secretary of Technology, new Internet-ready computer centers will be created across Virginia. These centers will give under-served youth access to new technology and hands-on guidance on how to use it. If these first sites prove successful, AOL is willing to establish up to 100 sites in Virginia. The Governor proposes phasing-in the program by providing \$1 million in 2002.

Virginia Voter Registration System

The Governor's budget amendments provide \$2.1 million in additional funding to continue the systems development and implementation initiative to replace the Virginia voter registration system. This technology upgrade will insure state-of-the-art technology for Virginia's voter registration efforts.

Human Resources: caring for those less fortunate

Virginia has an obligation to work diligently to improve treatment and care for citizens who cannot care for themselves. Initiatives in the Governor's amendments to the 2000-02 biennial budget include efforts to restructure Virginia's mental health system, to make adjustments to Medicaid funding, to ensure funding for special education and foster care, and to provide an improved information management infrastructure for health departments.

Restructuring the mental health system

The Governor's "Five Point Plan for the Future of Mental Health in Virginia" was based on creating increased quality and quantity of community services and improved quality of care for those requiring facility-based treatment and protection, as well as requiring accountability of providers. As part of the Governor's five-point plan, these budget amendments fund the Mental Health Restructuring Strategy. Governor Gilmore's budget amendments provide a total of \$4.6 million to begin restructuring Virginia's mental health system.

Mental health Medicaid match

The Department of Mental Health, Mental Retardation and Substance Abuse Services has projected its federal Medicaid

collections to be \$224 million in 2002. In order to receive these Medicaid payments, the department must have a sufficient amount in state general fund match.

This budget action will ensure that the mental health system will have a sufficient amount in state general fund match so that the state can receive Medicaid facility payments. The Governor's budget amendments provide \$12.7 million for this purpose.

Medicaid utilization and inflation

Mandated Medicaid funding needs to be adjusted for the 2000-2002 biennium to reflect the most current changes in the use of authorized services by recipients and increases in charges for those services. Medicaid funding includes funding for general Medicaid, mental illness services, and mental health and mental retardation community services.

These budget amendments fully fund the estimated need for 2001 and three-fourths of the estimated need for 2002. This budget action will ensure that the Department of Medical Assistance Services has sufficient funds to address its needs through the end of 2001 and enough funds in 2002 to cover expenditures until the next consensus forecast is completed. The Governor's budget amendments provide \$96.5 million for this purpose.

Special education and foster care services

The Comprehensive Services Act provides funding for mandated special education and foster care services for Virginia's children with emotional and behavioral problems. The program is a state and local partnership in which localities, on average, pay 37 percent of total costs. In order to provide the highest quality of services and ensure the program is implemented in accordance with legislative intent, the Governor's budget amendments provide an additional \$60 million.

Fund increases in foster care and adoption payments

In keeping with Governor Gilmore's commitment to helping Virginia families, this Administration has supported stronger efforts in local foster care and adoption programs. With the goal of a loving, caring family for every child, local social service agencies have increased the number of adoption placements by 18 percent over the past three years.

Often, families who are willing to provide foster care or to adopt a child face additional financial difficulties, particularly if the child has special needs. Foster care maintenance and adoption subsidy payments make it possible for a child to be cared for in a family environment. In order to meet the needs of the children and their families, Governor Gilmore has included \$11.7 million to cover expenditure increases in 2002.

Department of Health information management infrastructure

Additional funding is necessary to support the Health Department's essential information management infrastructure. This infrastructure is the backbone of agency operations and supports every program and service provided by health departments. This action provides funding sufficient to meet existing biennial obligations and stabilize the current network structure. For 2002, \$3.0 million is recommended for this initiative.

Food Stamp Electronic Benefit Transfer System

In keeping with the Governor's emphasis on technology and in compliance with federal welfare reform law, Virginia will implement a statewide bankcard system for delivering food stamp benefits. This new system will provide a more effective and efficient way of delivering food stamp benefits to recipients. These budget amendments recommend \$2.1 million to implement this system by October 1, 2002.

Medicaid claims processing system

The Medicaid claims processing system is another approach that uses technology to improve the way Virginia does business. Governor Gilmore is providing \$1 million in these budget amendments to ensure the completion of the new Medicaid Management Information System at the Depart-

ment of Medical Assistance Services, as well as to address certification and post-implementation enhancements. Once the new system is implemented, the Commonwealth will be able to better provide quality care to those receiving Medicaid services in a more cost-effective and efficient manner.

Child support enforcement

Maintaining the state's commitment to child support enforcement is a top priority. The Department of Social Services collects payments from non-custodial parents and distributes them to custodial parents and guardians. The budget amendments propose an additional \$1.9 million to continue funding operations.

Economic development: maintaining a commitment

Economic development continues to be a strong focus of the Gilmore Administration. During 2000, Governor Gilmore announced the creation of more than 45,000 new jobs and the investment of more than \$3.5 billion in capital. These announcements benefited not just one industry or one region, but the entire economy and every Virginian.

Virginia's economy is dependent on industries that provide good jobs. Modern busi-

nesses require employees with excellent skills. To encourage companies to do business in Virginia, the state helps with the cost of training new workers employed by companies that locate or expand operations here.

Workforce services

The workforce services program provides an incentive for businesses making location decisions to choose Virginia, for expanding businesses to stay in Virginia, and ensures that Virginia's workforce is adequately prepared and trained. This proposal provides funding for workforce services projects. The Governor's budget amendments ensure that the Department of Business Assistance has sufficient funding to meet active and pending project commitment, in 2001 (\$4.5 million).

Virginia Advanced Shipbuilding and Carrier Integration Center

The Virginia Advanced Shipbuilding and Carrier Integration Center (VASCIC) was established in 1998 with authorization of up to \$58 million for investment grants and \$40 million for operating grants. The Commonwealth has fully provided for the construction of the center by paying the debt service on bonds issued by the Newport News Industrial Development Authority to complete construction of the facility. These budget amendments provide

\$10.9 million in funding in 2002 for operating expenses.

Improving environmental quality

Water Quality Improvement Fund (WQIF)

Virginia and its neighboring states are committed to reducing the amount of nitrogen and phosphorus entering the Chesapeake Bay. The Commonwealth makes grants from the Water Quality Improvement Fund for the installation of nutrient removal equipment at wastewater and sewage treatment plants and for the adoption of best management practices by landowners. These budget amendments recommend a deposit of \$2.7 million to the fund dedicated to the combined sewer overflow control projects in the cities of Richmond and Lynchburg.

Other initiatives

Local juvenile detention facilities

The Commonwealth and its localities share the costs associated with the construction, enlargement, and operation of local secure detention facilities for juvenile offenders. The Commonwealth provides about 50 percent of these costs, including the debt service on the facilities. Funding for 2002 is recommended at \$9.3 million for operation of detention facilities. The Governor is also proposing using the Virginia

Public Building Authority to finance the state's share of the construction costs for juvenile facilities. This funding, which is consistent with how adult facilities are financed, will allow localities to proceed with planned construction and the operation of the facilities.

Funding for local and regional jail inmates

The Compensation Board reimburses local and regional jails on a per diem basis for housing local and state-responsible inmates. The current appropriation for this activity in 2001 is \$46.5 million and \$46.3 million for 2002. The Governor's budget amendments recommend an additional \$13.8 million to address a need in total biennial funding.

Recognizing the value of the state workforce

The delivery of state government services depends greatly upon the quality of state employees. To attract and retain an educated, dedicated, and motivated workforce, state government must be competitive in its salary structure and benefits. State employees have been challenged to be more innovative and creative and to continue to deliver quality services. Governor Gilmore recognizes the value of the state workforce.

The Commission on Reform of the Classified Compensation Plan was created to examine and implement methods

that can be used to help attract and retain qualified state employees, reward sustained high performance, and support management in accomplishment of organizational objectives. The Commission determined that a pay plan must be implemented that uses a less structured organization, allows agencies the flexibility to apply pay adjustments or pay practices when and where needed, and bases pay adjustments on employee performance.

Under compensation reform, employees can receive salary increases in one of two ways:

- ▶ A performance-based structural adjustment as a result of annual performance evaluation or
- ▶ A base adjustment or one-time bonus under new "pay practices" guidelines. The pay practices include both monetary and non-monetary spot awards that can be used to recognize good performance.

Governor Gilmore supports state employees and compensation reform in his proposed amendments to the 2000-02 biennial budget. He recommends funding an average statewide pay-for-performance adjustment of 3.5 percent beginning in November 2001. Salary adjustments for individual state employees can range from zero to 8.75 percent based on performance. Over \$38 million is included for this purpose. Over \$5 million is included to fund new pay

practices for classified employees as recommended by the Commission. In addition, the introduced amendments provide over \$15 million to cover the general fund share of employee health insurance increases.

Providing tax relief and strong financial management to better prepare Virginians for a bright future

Since Governor Gilmore's inauguration, his Administration has pursued an aggressive and inclusive agenda of change. His vision, to empower all Virginians to seek the quality of life they choose and to limit the intrusion of government into their lives, has been the beacon. In spite of the moderate slowdown in the nation's economy, Governor Gilmore has presented a fiscally sound budget for Virginia that sustains tax relief and adequately funds the Commonwealth's needs, while controlling the growth of government spending.