

COMMONWEALTH OF VIRGINIA
Office of the Governor

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FOR IMMEDIATE RELEASE
December 17, 2007

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**GOVERNOR KAINÉ'S PREPARED REMARKS TO JOINT
MEETING OF THE SENATE FINANCE, HOUSE FINANCE
& HOUSE APPROPRIATIONS COMMITTEES**

RICHMOND – Governor Timothy M. Kaine today unveiled the 2008 caboose budget and 2009-2010 biennial budget that he will submit for consideration by the 2008 General Assembly during a speech to the Joint Money Committees. The prepared text of his remarks follows:

“Chairman Callahan, Chairman Chichester, Chairman Purkey, members of the General Assembly, ladies and gentlemen: Good morning.

Today is the last time I will address eight members of the Joint Money Committees in this setting, including Chairmen Callahan and Chichester, so I would like to take a moment to recognize and thank you for your outstanding service to the Commonwealth.

Vince Callahan has served the Commonwealth as a delegate since 1968. Over the past forty years, he has helped Virginia move forward in higher education, health and human resources, and the environment. His accomplishments include his work on the Higher Education Restructuring & Management Agreements, the 2002 Higher Education bond package, and his advocacy for the two-year college transfer grant program. The Chairman also worked to help secure a \$500 million investment to clean up the Chesapeake Bay.

Vince has also been strong advocate for Virginians with mental disabilities. Since he became Chairman, the General Assembly has added almost 2,000 additional Medicaid waiver slots for individuals with mental retardation, and he has consistently supported increased funding for community-based mental health services.

John Chichester has been a voice for fiscal responsibility in the Senate for nearly thirty years. He has helped Virginia retain its AAA bond rating and his fiscal stewardship has helped us keep our recognition as the “Best Managed State.”

As the Chairman of the Senate Finance committee, he has kept a steady hand on the state's finances, taking a long view, and making wise investments in Virginia's future. John will be remembered by many for his advocacy for public and higher education in Virginia. In 2005, John was named one of Governing Magazine's Public Officials of the year, confirming the trust we in Virginia have placed in him for so many years. He also held the chair of the Council of Governments and has been honored with many other national awards.

A few years ago, one of John's colleagues wanted to honor him for his service, and after giving it a lot of thought, presented him with a figure bearing the highest title he could think of. The inscription read simply "John Chichester, Virginian."

John and Vince, as you and the six other departing members of these committees – Senators Lambert, Hawkins, Potts, and Delegates Wardrup, Reid, and Welch – leave these halls to reclaim that honorable title – citizens of Virginia – we thank you for your years of devotion to the Commonwealth, and we wish you well in all that lies before you. I, along with all in this room, applaud you for your accomplishments.

When I stood before you in August, I projected that we would experience a \$641 million shortfall in the 07-08 biennial budget due to the slowdown in the national housing market. I also indicated that, in addition to compensating for the shortfall, we needed to make adjustments to our base spending to address a slower rate of growth for at least the first year of the next biennium.

As you know, fiscal year 2007 revenue growth was less than budgeted. In the private sector, a variance of 2 percent between projected and actual revenues is deemed to be excellent performance. In Virginia, we do even better – our average variance over the last 20 years has been 1.6 percent. Our 2007 forecasting variance of 1.5 percent continued our record for strong forecasting, but it does not erase the challenges caused by reduced resources.

The Virginia economy is continuing to expand as it enters the sixth year of growth, but it is expanding at a slower pace. The downturn in the housing market has continued and is expected to be a drag on job and income growth through the end of calendar year 2008.

Since June, we have gone through two detailed forecasting sessions, meeting twice with the Governor's Advisory Board of Economists and the Governor's Advisory Council on Revenue Estimates. As you know, the GACRE includes legislative representation, and the participation of General Assembly members enables us to reach a consensus on revenue forecasting. In our recent meetings, the consensus opinion has been that the Virginia economy will continue to expand over the next three years, but that the risks to the expansion – particularly tightening credit, increased foreclosures and higher energy prices – have greatly increased since we met at this time last year.

With the slow revenue growth in 2007, and five months of data for 2008, our revised revenue forecast now calls for a revenue shortfall, after balance and transfer items are considered, of \$618.3 million to address in the caboose bill.

I have taken steps to address this shortfall, cutting \$300 million from this year's budget and using \$96 million in savings that our agencies found at my instruction at the end of fiscal year 2007. In August, I informed you that we have met the constitutional triggers allowing a withdrawal from the Revenue Stabilization Fund. As part of the caboose budget, I am recommending a withdrawal of \$261.1 million to balance the 2008 budget. This withdrawal would still leave the Fund at a near record amount of over \$1 billion, more than twice the size of the Fund when I entered office less than 2 years ago.

Beyond 2008, the effort to develop the 2009-10 biennial budget has been challenging. While we predict slow revenue growth, the basic costs for our core and mandated services are going up. This year we must fund the rebenchmarking of the Standards of Quality for public education. In addition, due to population increases, inflation, and other factors, our Medicaid expenses, the cost of running our expanding prison and jail system, the cost of services mandated by the Comprehensive Services Act, and the rent, utilities, and gasoline costs for our agencies have all risen sharply. Taken together, the dollars used for just these increases account for over 90 percent of the new money available for appropriation during the biennium.

Given these cost escalations, I could have written a budget that changed nothing about what we do except to increase spending in these necessary areas. This would have been a "standing in place" budget— one with no innovation.

But a "best managed state" does not stand in place. A "top state for business" does not stand in place. If we want to continue to be successful, we cannot just stand in place because revenues are tight. We have to be smart, efficient, and fiscally responsible. We have to ask tough questions about everything we do. But we have to keep moving forward.

So, today, I am not presenting you with a "stand in place" budget. I have worked with my staff and cabinet to find fiscally responsible ways to accelerate Virginia's progress in key areas, even in a difficult time. I told my Cabinet Secretaries and agency heads: "Times are tight. There is no new money for new initiatives. But, bring me your best ideas for better service. You just have to tell me what savings you can achieve in other areas to fund any needed improvements." They have diligently followed my instructions and found ways to reprogram dollars to better serve our citizens.

Efficiency/Savings

We had a head start on identifying savings because of the work we did to address the shortfall in fiscal year 2008. The budget I present to you today carries nearly all of the 2008 reductions into 2009 and 2010, saving \$232 million in each year of the new biennium. We found additional biennial savings of approximately \$137 million by streamlining operations and reorganizations, thanks to the diligent efforts of our state

employees. We also used nongeneral fund monies wherever possible to cover costs and, in specific instances, we did cut services. These savings provide us both a cushion in a time of declining revenues and the ability to make targeted investments in areas where Virginia needs to improve.

I have also called for increased accountability in the Commonwealth's spending. Through my performance management initiative, we have established goals to measure how well our agencies are delivering services. Any citizen can see these goals by visiting the Virginia Performs website. As I developed this budget, I met with agency heads to discuss their performance against those benchmarks and to make sure we were targeting our resources to achieve those goals.

In addition, my budget proposal includes tools to begin collecting outcome data on several of the state's most critical funding commitments – the Comprehensive Services Act, Community Service Boards, and K-12 education. This information should help our agencies make wise choices that will better serve our citizens.

But gathering data about current performance is not enough. My budget takes important steps towards encouraging future-oriented performance improvement so Virginians need not wait for the next downturn in order for the state to seriously examine cost savings.

I have increased support for the Productivity Investment Fund which provides seed capital to state agencies for innovative ideas that will serve citizens better and more efficiently. The budget also includes language clarifying the use of the Public-Private Education Facilities and Infrastructure Act (PPEA) to encourage the private sector to introduce technology-driven transformational initiatives.

Due to our success in finding efficiencies and savings, I do not propose any tax increases to cover the cost of targeted service expansions. My proposed budget does include some minor fee increases, but where possible, I have tried to balance these with reductions elsewhere.

For example, in order to account for increased security costs required in issuing drivers' licenses at DMV, I propose to increase the once-every-five-year fee for license renewal by \$10.

But I am also introducing legislation this session to change our car inspection requirement from an annual to biennial inspection and raise the fee from \$15 to \$20. This will save our citizens \$5 per year, offsetting the annualized \$2 increase in the drivers' license fee. This proposal will also save everyone time, without compromising vehicle safety.

We have employed a fiscally conservative approach to writing this budget, targeting most of our investments in the second year and leaving an unappropriated balance that measures on the high side of the scale, historically speaking.

The steps we have made in the past two years toward performance-driven budgeting have given us the data and tools we need to target our investments in key areas. In this budget, I have focused my primary attention on three critical services – health care access, mental health reform, and educational improvement.

Expanding access to health care

Virginians are used to leading the way. Our unemployment rate is among the nation's lowest and our median income is among the nation's highest. Our education outcomes are strong. We are ranked with the leaders in management and business climate. But, there are some areas where we just do not measure up. The most significant is the health of our population.

One in seven of our citizens – over 1 million people – lack health insurance. Our infant mortality rate is 31st in the nation. We have slipped in annual state rankings of our citizens' health – from 10th in 1998 to 22nd today. We clearly have much work to do in this area.

I appointed a Health Reform Commission shortly after becoming Governor, and it has worked diligently to help Virginia improve our health. Last year, based on their recommendations, we worked together to advance a number of critical initiatives to expand the health care workforce. This year, I bring to you a series of recommendations from the Commission that will expand health care access to vulnerable populations.

First, my budget expands state-funded prenatal coverage for pregnant women. Targeted investment in prenatal care is the best single strategy to address infant mortality. I also include funds for significant expansion of breast and cervical cancer screening for low income women. Early detection can be a matter of life and death.

I propose significant additional funding to community-based health providers. The free clinics, health centers, local health departments, and other organizations that provide care to the uninsured compose a basic safety net serving tens of thousands of Virginians every year who, without them, would have no place to turn. These "heroes in health care" will use the new funds to stabilize their operations, expand access to health and dental care services, and coordinate services for uninsured Virginians. Additional safety net support is provided by a budgetary allocation to the Uninsured Medical Catastrophe Fund.

Finally, my budget includes an innovative approach to expanding health insurance to the working uninsured. Do you know that 70% of Virginia's uninsured work, or live with a worker? Most of the working uninsured work for small businesses that just cannot afford insurance. For these employers and workers, I have proposed a pilot health insurance assistance program, called VirginiaShare.

VirginiaShare is a basic health insurance policy for small businesses of fewer than 50 employees that have not been able to buy insurance for their workers. Under the program, eligible companies will be able to purchase insurance from the private market and the state will share in the premium with the employer and employee. Initially, we expect that over 5,000 Virginia workers will gain health insurance through this program. We will gather data on the success of this pilot and determine how it might be expanded to have even greater impact throughout the Commonwealth.

Strengthening mental health services in the community for adults and children

The events of this year drew unprecedented attention to another critical health care area—the state of our mental health system. As a result of the terrible shooting at Virginia Tech, we have an opportunity, indeed a responsibility, to bring light out of the darkness of this tragedy.

The Virginia Tech Review Panel has given us an excellent roadmap to reform. Their mental health recommendations serve as the basis for my budgetary proposals. It is noteworthy that these same initiatives have been discussed by legislative committees and by the Chief Justice’s Commission. I was very pleased to have so many of you stand with me last week as I announced these measures. There is bipartisan support for strengthening our mental health safety net, and a unique opportunity to show Virginians what we can accomplish when we all work together.

My proposals focus primarily on correcting the historic under-funding of community mental health networks and ensuring a greater focus on accountability and outcomes in our delivery of services.

Over 90 percent of Virginia community service board case managers have average caseloads that exceed the nationally recommended level of 25 patients. The average caseload in Virginia is 40 patients and, in some regions, case managers try to work with 70 patients at a time. I therefore recommend funding to increase the number of case managers statewide. I also propose increasing the number of clinicians and therapists who are available on an outpatient basis.

My budget also funds an additional 40 clinicians specializing in children’s mental health at local community service boards statewide, to support those children who are not eligible for services through the Comprehensive Services Act.

To ensure that individuals who are subject to temporary detention orders are receiving attention in a timely and focused manner, I recommend an increase of \$14.6 million in the biennial budget. These funds will support emergency mental health services, including around-the-clock emergency psychiatric consultation, emergency clinicians, and added crisis stabilization clinics. I have also recommended issuing bonds through the Virginia Public Building Authority to repair and renovate state mental health facilities in need, like the Central and Southeastern Virginia Training Centers.

Just adding funding and positions is not enough. We also know that service performance varies around the Commonwealth. As a state, we have failed to require proper and uniform standards of care. We are currently in the midst of writing new performance agreements with each of the state's 40 Community Service Boards. And, we have to dedicate the human resources to making sure that the agreements are met. To increase accountability, I propose funds to support four new positions to supervise performance of the local community service boards.

Since too many of our mentally ill citizens end up in jail, instead of receiving the treatment they need, I also recommend funding to expand a pilot program for jail diversion services and to expand training for law enforcement responding to crisis situations involving individuals with mental illness.

One way to alleviate the pressure on our adult mental health care system is to ensure that children who are at risk are helped when they are children, so that they never have to enter the system as adults. Last year, Attorney General Bob McDonnell pointed out a fundamental injustice – families seeking assistance for their children were often forced to relinquish custody in order for their children to receive appropriate mental health care. And this year, my wife Anne, working with the Annie E. Casey Foundation, has identified serious weaknesses in the way Virginia serves older children in the foster care system. We must do better by our young people.

My budget provides full state funding for all mandated at-risk youth and families projected to be served under the Comprehensive Services Act. But, nonetheless, we must make fundamental reforms to the way we provide service to these youngsters.

For this reason, I include significant new funding for initiatives to encourage community-based care and help children find permanent family connections. These funds include a 26 percent increase in foster care payment rates, and an increase in the state match for localities that place children in family-based rather than congregate care settings. While family-based care is preferable because it leads to better outcomes for children, it is also less expensive than congregate care. We project that this initiative will save \$12.5 million in a program that is otherwise expected to see 10 percent cost increases in each year of the biennium.

Finally, to ensure that at-risk children are being served in the most appropriate settings, I have proposed support for a data tracking system that will give localities the tools to make the best choices about the appropriate care for each child.

Education

A bright spot for Virginia's children is our superb educational system. By most objective measures—performance on nationally-normed tests, clear and rigorous standards, independent rankings of high school and college quality—Virginia has the ability to claim that we are the Education State.

But a favorable ranking relative to other states is no longer sufficient. Educational investments must now match up to fierce international competition, as nations around the world pour the energies and funds into training their young people for global success.

The investments we make in education are our most potent strategy for the long term economic vitality of the Commonwealth. We must be vigilant in ensuring that the quality of our schools and colleges remains high, that we are supporting our children as they strive to achieve excellence, and that we are giving children who are at-risk of not succeeding the help they need to be their best.

Our commitment to education is enshrined in the Constitution, and we will keep that commitment. My budget fully funds the rebenchmarking of the Standards of Quality, investing an additional \$943.4 million in K-12 education in the biennium. The total amount I recommend for our K-12 public education system in this budget is just over \$1 billion.

We all know that excellence in our education system is dependent on the quality of our teachers. During my administration, we have begun requiring regular, meaningful evaluations of our public school teachers' performance. We have also made strides towards raising teachers' salaries to the national average. Despite the challenging fiscal situation we are in, I propose continuing that progress in my budget, by funding the state share of a 3.5 percent pay increase for teachers and other instructional staff effective July 1, 2009.

We want to encourage our teachers to continue seeking professional development, and we want to continue to attract the best and the brightest to the profession. To support these efforts, I also recommend funding for bonus payments for teachers who achieve National Board certification and propose increased support for mentors for new "career-switcher" teachers.

Striving for excellence in education also means that we give our children the best preparation we can to move on into successful careers. This means that we must offer them the resources they need to support whatever career choices they may make. I have launched an initiative to develop Governor's Career and Technical Academies, modeled after Governor's Schools, to offer more options to those Virginia students who want to acquire the skills necessary to pursue technical careers. The first six programs designated as Governor's Academies will be named early in 2008.

In my budget, I have also included funding to support initiatives that will continue to increase the number of Virginia high school graduates who go on to achieve post-secondary degrees. These initiatives include funding for virtual Advance Placement courses, as well as support for the Career Coaches and Middle College programs.

To address our most vulnerable, at-risk students, I have recommended funding for innovative drop-out prevention programs, like Communities in Schools. I have

maintained all “At-Risk” funds directed to localities who serve a high number of special needs students. And I have recommended funding to give more at-risk children the best possible start on their education, by expanding the Virginia Preschool Initiative.

Research has conclusively demonstrated that high quality early childhood education has a significant impact on later student success, especially for at-risk children. The current VPI program, initiated by the General Assembly in 1997, now serves approximately 13,000 children statewide. In this biennial budget, I propose to expand funding so that we can serve nearly 20,000 children by the end of the biennium.

Like the current preschool initiative, my expansion plan serves at-risk students first. I propose making more four-year olds eligible to participate, by changing the eligibility criteria from free-lunch to free-and-reduced-lunch. And my plan also addresses the two reasons localities cite most often when they choose not to use all the available state-funded places: money and physical space.

As the recent JLARC report pointed out, many localities that have children eligible for the current VPI program do not participate fully because they are either struggling to find dollars for the required local match or because they find the per-pupil rate inadequate to fund the program. I have taken two steps in this budget to address these issues.

First, my plan allows localities to claim a state match for their expenses between the current per-pupil rate of \$5700 and \$6790, which is the average amount spent in existing VPI programs, according to JLARC’s estimate. My plan also ensures that the state pays at least half of the cost of providing pre-k by capping the composite index used for allocation of VPI dollars at .50. I am also ensuring that every locality is eligible for funding for at least one pre-k classroom.

To address the issues related to classroom space, I have proposed expanding the use of private providers to deliver pre-k to at-risk four-year-olds. Localities that choose to participate in the expansion will be required to partner with high-quality local private providers for at least 10 percent of any new slots created. They will be also be encouraged to develop local early childhood councils. These councils can create effective preschool networks at the local level, ensuring support services, like transportation, and maximizing collaborations with existing programs, like Head Start.

Research shows us that preschool is only really effective when it is high-quality. To ensure that what we offer through the expanded VPI program is high-quality, I have provided funding for the Quality Rating and Improvement System (QRIS). This system will measure and assign a quality rating from one to five stars to any program, public or private, that receives state pre-k funds. Private preschool programs can also receive a QRIS rating, offering parents more information about these programs and encouraging quality improvement in all of Virginia’s preschools.

As with K-12 education, the quality of the preparation we offer our at-risk four-year-olds is dependent on the quality of the teachers. To support high-quality teaching, I have recommended funding to support education and training scholarships for early childhood teachers seeking associate and bachelor degrees and specialized training in early childhood education.

This expansion of the VPI program will cost slightly over \$56 million – \$18.2 million in fiscal year 2009 and \$38.1 million in fiscal year 2010. Nearly sixty percent of the funding is from the biennial rebenchmarking of VPI cost as calculated by the State Board of Education. One quarter of the funding is from TANF dollars specifically designed to serve low-income children. Only \$7.6 million of the biennial cost is from new general fund dollars not earmarked to serving children.

The crown jewel of Virginia is our system of higher education. This has been made plain to me in recent path-breaking economic development announcements.

Rolls Royce will open an advanced manufacturing facility in Prince George County in tandem with the University of Virginia and Virginia Tech. We broke ground for SRI's new east coast campus in Harrisonburg because of the research institution's relationship with James Madison University. And last week, we celebrated the groundbreaking of two significant technology investments by Northrop Grumman and CGI in Russell County. A critical factor in the companies' decision to locate there was the strength of our higher educational system in the region, from UVA-Wise to the Virginia Highlands and Southwest Virginia Community Colleges.

These economic development partnerships are the wave of the future. If we want to make sure that Virginia's economy remains strong in the future, we must make strategic investments in higher education capacity and research.

In support of the operating costs of Virginia's colleges and universities, the budget includes an additional \$44.3 million over the biennium. It also includes an additional \$18.2 million for need-based student financial aid. This funding continues the state's commitment to provide assistance to students with the greatest need.

Last week, I announced that I would introduce a Higher Education bond package, investing \$1.6 billion into our campuses. The bond package will help support Virginia's research efforts, providing facilities across Virginia for researchers to develop new, cutting-edge technologies and turn them into commercial assets.

The package of 75 projects will significantly advance the training of a 21st century workforce in important disciplines—science, business, education, medicine and other health professions. If approved by the public, the dollars will be available just as the proceeds from the 2002 Bond Referendum are spent, enabling us to continue with a seamless expansion of our higher education system. The resulting debt service, which we can structure through a phased issuance of these bonds, is well within prudent debt limits

established by our Debt Advisory Committee. These facilities need to be built, and in a time of rising construction costs and favorable interest rates, we should act now.

The budget bill also includes a general fund research package, beginning with \$29 million in fiscal year 2009 to cover the third year of a three-year commitment to enhance research efforts at the Commonwealth's higher education institutions. To date, this state funding has resulted in an estimated return of \$150 million from federal and private research funding.

In addition, I have dedicated \$10.5 million of general fund support in the Commonwealth Technology Research Fund and authorized \$30 million across the biennium in Higher Education Equipment Trust bonds, distributing this funding on a competitive basis to those research programs specifically focused on the linkage between our higher education institutions and economic development.

Virginia's Research and Technology Advisory Committee has dedicated the better part of this current biennium to focus our efforts in areas with the greatest potential. Based on its recommendations, our proposed competitive grant program will reward university collaboration, private sector participation, and support for our economically-distressed regions across the Commonwealth.

In addition to these higher education-related projects, the budget includes a total of \$68 million in Governor's Opportunity Fund monies and funds dedicated to specific projects, to strategically expand economic opportunities throughout the Commonwealth. Virginia is the best state in the nation to do business. Together, we can keep it that way.

Conclusion

As I noted earlier, the budget I have presented today is not a budget that leaves Virginia at a standstill. We have worked to institute efficiencies, to find fiscally responsible ways to make smart investments, and to ensure that we are putting our taxpayers' dollars to best use. We have made conservative, targeted investments for improvement without raising taxes. And we have taken important steps to ensure that we continue our prudent fiscal stewardship through performance management.

Of course, there are numerous other items in the budget that I have not specifically discussed today. I have proposed a 3 percent salary increase for state employees in the second year of the biennium, increased funding to improve water quality by addressing non-point-source pollution, support for prisoner reentry programs to help lower recidivism rates, and capital investments in open space and renovations of state facilities. Working together, we can make the improvements we need to ensure that our Commonwealth continues to lead the way.

We have so much to be thankful for in Virginia. We have been blessed with tremendous resources, and it is up to us to make good choices and do the hard work to put them to best use. We owe it to our citizens to continue to improve the services they

rely on, even in tight fiscal times. I look forward to working with you and all members of the General Assembly in the coming months to keep Virginia moving forward.

I wish all of you and your families the very best during this holiday season and continued goodwill throughout the coming year. Goodbye, Chairmen Chichester and Callahan, and Godspeed.”

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