

Remarks of the Honorable Robert F. McDonnell  
Governor of the Commonwealth of Virginia  
To the Joint Meeting of the Senate Finance, House Appropriations and House Finance  
Committees  
Richmond  
December 17, 2012

Thank you.

Chairman Stosch, Chairman Putney, Chairman Purkey, members of the General Assembly money committees, ladies and gentlemen: good morning. While I come to present to you an update on the fiscal health of the Commonwealth and make recommendations for mid-year budget adjustments, I realize that this important business pales in comparison to the tragic events that occurred Friday in Newtown, Connecticut. Most Virginia mothers and fathers were prompted to weep or pray for all those affected. On behalf of all Virginians, I called Governor Malloy to express our sorrow and to offer any assistance that we could possibly provide to that community.

I want to thank you for your ongoing work through the session, regular meetings and retreats to ensure that our state remains a national model of fiscal responsibility. Over the years, we have passed significant reform legislation to make state government more efficient, effective and accountable. Last session, for example we overhauled our underfunded retirement system to reduce \$9 billion in unfunded liabilities, and charted a new course for higher education to reduce soaring costs that have caused tuition to double over the last 10 years. The more than \$230 million in new money in FY 2012-2014 led to the lowest average tuition increase in 10 years.

As the federal government drifts perilously close to the “fiscal cliff” in 14 days, again hitting the debt ceiling and endangering the jobs up to 200,000 Virginians, we followed a different path to work across party lines to solve our problems. Thank all you for representing the people of this Commonwealth in the traditional Virginia way.

At the beginning of our administration, we faced a \$1.8 billion shortfall for the remainder of the FY 2010 budget, and stood at the edge of another \$4.2 billion shortfall for the then upcoming FY 2010-2012 biennium. Through our consensus process of conservative revenue forecasting, focusing on core government services, reforming burdensome bureaucracy and ineffective spending, successfully incentivizing state employees to save dollars with a 3 percent performance-based bonus paid out in 2010 and again just a few weeks ago, we turned those shortfalls into three consecutive revenue and savings surpluses totaling nearly \$1.4 billion over the past 3 years.

By adopting creative agency savings plans and focusing on productivity and government reform, I have introduced savings and cost avoidance proposals totaling nearly \$1.12 billion.

In these amendments to the biennial budget I present to you \$92.7 million in new reforms, efficiencies and other strategic savings for your consideration taken in part from the 4 percent

agency spending reduction plans I requested. Fortunately, you have accepted many of these plans in the past to reshape our government into a wise and frugal one as the Founders intended.

We have also quietly provided targeted tax relief to Virginians. Since the beginning of my term, you have approved \$559.4 million in cumulative tax relief, which includes both budget and separate legislative actions.

Solving major challenges takes bipartisan effort and leadership in both branches to make the difficult choices and set the right priorities. Two major policy challenges I want to address in budget and law with your help are to reform and better fund transportation infrastructure, and K-12 public education. This budget and this session should be aimed at fixing problems in these two areas, and laying the foundation for Virginia's future opportunities to ensure that our citizens have an even better quality of life and greater access to the American Dream.

It starts with creating and growing good jobs. Despite the unprecedented uncertainty and some unfriendly business policies on the other side of the Potomac, we have made it clear that we are wide open for business, and that Virginia government is a friend of the free market, small business owners, entrepreneurs and job creators, as recently reconfirmed by Forbes, CNBC, Pollina Research, the US Chamber of Commerce, and others.

Since the beginning of our administration, the unemployment rate has dropped from 7.2 to 5.7 percent, and the number of unemployed Virginians has decreased by 19 percent. When we took office, 45 of Virginia's 134 localities had unemployment rates in the double digits. Today, only six do. We are tied for 10<sup>th</sup> lowest unemployment in the nation (with Kansas and New Hampshire), and have the 2<sup>nd</sup> lowest east of Mississippi River (behind Vermont).

In this budget and this session, we must continue our focus on job creation, retention, expansion and recruitment – as well as addressing the need for a skilled and adaptable workforce for the high-quality, high-skilled jobs in our innovative economy.

Our targeted economic development incentives and policies continue to work, as nearly 41,000 new jobs and \$7.43 billion in new investment has come just from the incentives you approved in the past three years. Earlier this month, we announced Intelsat - the world's leading provider of satellite services - will bring over 400 new jobs to Fairfax County with the relocation of their U.S. headquarters. At the end of November, we announced another expansion for Phoenix Packaging in Pulaski – this project brings Phoenix Packaging's job creation to nearly 500 since May 2010.

Looking ahead, the consensus opinion heard from the Joint Advisory Board of Economists and the Governor's Advisory Council on Revenue Estimates was one of caution as the economy continues to slowly recover, and because the “fiscal cliff” looms large.

After reviewing the Tax Department forecast based on Global Insights budget model, and incorporating the opinions of JABE and GACRE, we are adopting the standard minus revenue forecast in the budget amendments today.

While the economy has expanded for 13 consecutive quarters, the pace of the expansion has been quite modest and slower than traditional recoveries. Current national indicators suggest that we will continue to see slow economic growth until the unprecedented uncertainty surrounding the fiscal cliff is resolved. We cannot predict what new tax policies or spending cuts a federal plan will contain, and if it will even be agreed upon before our nation goes over the cliff in 14 days.

In the official economic outlook for Virginia, employment is expected to increase 1.2 percent in fiscal year 2013 and 1.4 percent in FY 2014. Wages and salaries are expected to increase 3.7 percent and 3.9 percent, respectively. The revised revenue forecast with a standard minus outlook adds \$103.4 million to total revenue in FY 2013, and raises growth from 2.9 percent to 3.6 percent. However, in FY 2014, growth is expected to slow from 4.5 percent in the official forecast to 3.8 percent. Total general fund revenues and transfers are increased by \$117.6 million over the 2012-2014 biennium.

All told, I am recommending general fund spending amendments to the existing 2012-2014 biennial budget of \$215.1 million, which includes \$92.7 million in budget reductions and reallocations. These spending amendments are financed by an additional \$102.1 million from FY 2012 general fund balances and \$117.6 million in revenue and transfers over the two-year period. The unappropriated general fund balance is \$10.8 million.

### **Transportation**

A comprehensive solution to our transportation needs has been elusive for years. Working across party lines in the 2011 session, we passed Speaker Howell's major bond and infrastructure bank bill which injected more than \$3.3 billion into transportation, jump starting hundreds of projects around the state and making the largest single investment in transportation in a generation. There is a record \$14 billion in projects on the street now, and many megaprojects in Hampton Roads and Northern Virginia are under way leveraged by our model PPTA.

Still, construction and maintenance needs outstrip our resources, and the maintenance deficit is \$363.5 million now and will be \$500 million by 2019. The amount of crossover required for the maintenance program by 2017 is expected to virtually consume the construction budget. We need to act.

The 2011 Texas Transportation Institute ranked the Washington, D.C./Northern Virginia metropolitan area as the most congested area in the nation in terms of commuter delay, and Hampton Roads isn't far behind.

The gas tax's buying power has declined by 54 percent since it was set at 17.5 cents per gallon in 1986. Increasing fuel efficiency standards and use of alternative fuel vehicles have reduced the number of gallons of fuel consumed per vehicle. At the same time, the number of vehicles traveling Virginia's roadways has exponentially increased. Therefore, we have a math problem, and ultimately a jobs problem.

To successfully address transportation, we must be able to come together across regional boundaries to implement a workable solution. While we will certainly require additional

resources dedicated to transportation, prioritization of some existing revenue for transportation is both a practical and necessary component of a comprehensive solution.

I will soon be submitting a full transportation funding and reform package for your consideration. We will generate more than \$500 million in total new revenues annually by 2018. This plan will eliminate the maintenance shortfall and add funds for new construction, as well as transit, passenger rail and multi-modal solutions.

Since the general fund use affects the budget, it must be discussed with you today. Beginning July 1, 2013, I am recommending that 0.05 percent of the current 5-cent sales and use tax rate be used to add revenue to the Highway Maintenance and Operating Fund for transportation maintenance. Thus, my budget recommendations move a modest \$48.1 million in FY 2014 from the general fund to the highway maintenance fund.

I emphatically reject the contention that some have made that a small general fund amount cannot be used for transportation. You have repeatedly approved just such a policy for specific projects such as Route 58 in 1991 and other transportation initiatives in 2000, 2003, 2005 and 2007, because we all agree that building and maintaining transportation infrastructure is a core function of government. More importantly, at a time when we are generating an average of \$450 million in surpluses annually, even in a sluggish economy, it is just plain false to say that an additional \$50 million per year for several years cannot be spent on transportation. It must and will be part of a comprehensive transportation solution.

## **Education**

There is no more significant investment we can make than in the education of young Virginians. If we do not ensure that our young people are career ready or college ready upon high school graduation, then you and I and they have failed. There are no other good options. That is why the second major focus area of my budget amendments is to support funding of Virginia's K-12 educators and programs.

## **K-12**

There is much we can do to make K-12 education more effective through innovation, choice, accountability, incentives, and funding changes. Our proposed reforms are first and foremost based on efforts to support teachers and educators as the very important professionals they are. Great teachers in great schools produce great students and citizens. We announced the first of these reforms last Thursday, earning the support of virtually every leading education association and business group in the state.

I have long-advocated that 65 percent of state funding for K-12 should be directed toward classroom and instructional programs, up from 61 percent. Currently, we are at nearly 64 percent. These proposals will help.

Last year, you provided a 2 percent salary increase to state employees and others. We must now take care of our teachers and educators!

The last state-supported salary increase for public school teachers of 3 percent occurred on December 1, 2007. My budget recommendations provide an additional \$58.7 million in FY 2014 to support the state share of a 2 percent salary increase for funded SOQ instructional positions, effective July 1, 2013. The pay increase includes teachers, guidance counselors, librarians, instructional aides, principals and assistant principals. Participation by localities requires the standard SOQ driven local match to receive the state-incentive funding.

I have also recommended an additional \$15 million in FY 2014 to award competitive grants to school divisions for the design and implementation of strategic compensation systems that are tailored to each participating school division's goals. Based on a successful model in Salem, Virginia and other states, this creative incentive model will reward great teachers for excellent performance in meeting the divisions' critical strategic goals such as helping students make significant academic progress, assisting in school leadership, serving as instructional coaches or professional developers, serving in hard-to-staff or low-performing schools, or teaching critical shortage areas such as mathematics and special education. We must do better to provide incentives to keep our best teachers in the classroom.

My proposal also includes \$708,000 to attract, recruit, and retain high-quality individuals to teach science, technology, engineering, or mathematics (STEM) subjects in Virginia's middle and high schools by providing eligible teachers with a \$5,000 initial incentive award after the completion of the first year of teaching with a satisfactory performance evaluation and a contract for the following year, and an additional \$1,000 incentive award for each year the eligible teacher receives a satisfactory evaluation. Our STEM Summit informed us of the importance of exposing our young people to the STEM careers in middle and elementary schools.

I also propose to use more than \$220,000 to establish the Governor's Center for Excellence in Teaching. The center will offer a series of residential summer professional development academies for exemplary teachers in addition to providing graduate course credit in educational policy and instructional leadership.

I thank delegates Kirk Cox and Dickie Bell, and Senator Newman for their leadership on these initiatives.

The Standards of Quality model calculates special education teacher positions by school using special education child counts and special education staffing standards for both resource and self-contained special education students. Of the 17 special education disability codes recognized in the SOQ model, blind and visually impaired is the only code that has not been funded.

Therefore, I have included an additional \$4.9 million in FY 2014 to fund the staffing standards for the Blind and Visually Impaired students recommended by the Board of Education, which will lift another unfunded local mandate. I thank Delegate Bob Brink for his recommendation.

My amendments also include an additional \$1.4 million in FY 2014 for the state share of cost to provide one reading specialist in the 38 per elementary schools that scored below 75 percent on the third-grade reading Standards of Learning test. This will build on our major achievement last

year to end promotion for third graders who cannot read at grade level, and the nearly \$8 million we authorized for reading remediation. I thank delegate Steve Landes for his leadership here.

Finally, I am recommending \$210,000 in FY 2014 to establish Summer Regional Governor's Schools for entrepreneurship to provide middle school students a focus on entrepreneurship, globalization, project management, product design, and leadership.

I previously proposed removing all funding for the cost-of-competing adjustment (COCA) for support positions in the budget bill I introduced last December. The purpose of the COCA is to facilitate competitive staff salaries in higher cost areas such as Northern Virginia. There is little compelling evidence of the continued need for COCA for non-instructional or support staff. As the December 10, 2012 JLARC Draft COCA Report states, "Most school districts, including those in NOVA, can effectively recruit and retain staff based on current salaries offered."

Last session, you placed COCA on a phase out path by adding \$28 million in FY 2013 and \$12 million in FY 2014. I am recommending again that this funding be eliminated in FY 2014, in favor of providing for instructional personnel pay increases statewide and greater overall support for instruction.

### **Higher Education**

In the 2011 session, you unanimously passed our sweeping Top Jobs 21 Higher Education Opportunity Act. We subsequently budgeted more than \$100 million per year in the 2012-2014 biennium to make college degrees more affordable and accessible, and to put in place new incentive and initiative formula funding to enhance studies in science, technology, engineering, math and health care, to promote research and development, to increase financial aid, and to further our goal of awarding 100,000 additional degrees over 15 years. Enrollment is increasing, and we just enacted the lowest average tuition increase in a decade at 4 percent.

I am recommending that we add an additional \$30.8 million of new funding in FY 2014 using a modified percentage allocation. This includes an additional \$4.2 million to cover the interest and credit card rebates to institutions of higher education, \$4.9 million to fund enrollment growth, \$7.8 million in incentive funding to support degree completion, \$3.9 million for base operating support, \$1.9 million to supplement financial aid, and \$1 million for research and other initiatives.

I am also recommending increasing the TAG grant from \$2,800 to \$3,100 per student in FY 2014 to help those attending Virginia private higher education institutions. The grant for undergraduate students reached its peak in FY 2008 at \$3,200 per student, but that award was subsequently cut back to \$2,600 per student during the recession. We can pay for the increase by using unspent 2013 balances, approximately \$3.7 million. It is estimated that the \$3,100 award for FY 2014 will benefit up to 21,216 undergraduate students.

### **Healthcare**

Last year Virginia entered into an agreement with the U.S. Department of Justice (DOJ) relating to the residents of our Training Centers for the Intellectually Disabled. This agreement

establishes a long-term roadmap to transition most of our institutionalized intellectually disabled population to less restrictive, yet equally effective, treatment settings in the community.

To meet the requirements of the agreement, I have included \$1.25 million in my amended budget to develop crisis services for children with intellectual and developmental disabilities, and an additional \$3.8 million to supplement existing funds for adult crisis services in FY 2014. I have also directed the department to proceed with a proposal to establish supplemental payments for those leaving our institutions who have exceptional medical or behavioral needs. I am also recommending an additional investment of \$230,000 in FY 2013 and \$1.1 million in FY 2014 to enhance financial oversight, audit capabilities and quality management to these programs.

In accordance with federal requirements that all eligible children from birth to three years of age with disabilities receive early intervention services, if appropriate, this budget provides an additional \$3 million per year to help meet that need. These funds, along with the \$17 million in state and federal funds already dedicated, will provide needed resources to 40 local lead agencies.

Fortunately, some programs in Health and Human Resources are actually expected to cost less. As a result of previous reforms, our formula updates now show that the CSA program continues to see declines in the cost both to the state and localities. Over the 2012-2014 biennium, we expect a reduction of more than \$40 million in needed funding for the CSA program, as caseloads continue to grow at lower than historical rates.

The Department of Social Services also has experienced a decline in Title IV-E Foster Care expenditures. Based on biennial expenditure trends and the impact of recent child welfare policy changes, it is estimated that the current budget can be reduced by \$3.6 million over the biennium. It is important to note that with both CSA and foster care, the reductions are formula-driven savings, not cuts in services or recipients.

The ultimate goal for any child in our foster care system is to place them in a permanent loving family setting if his or her biological family does not support the child's best interests. To that end, I am recommending \$2.3 million total funds to implement innovative pilot projects aimed at providing adoptive parents with financial assistance and partnering with non-state entities to enhance the state's child welfare system. We anticipate that \$1 million will be used to provide a one-time incentive payment of up to \$1,000 per child to offset adoption costs. Another \$1.35 million will be used for the agency to contract with external organizations to implement on-going post-adoption supportive services and improve adoptive parent recruiting efforts. Through this pilot, up to 1,000 children currently in foster homes may find permanent homes.

Medicaid is the second largest program in our general fund budget. It has grown exponentially at nearly 1,600 percent over the past 30 years to now consume nearly 21 percent of the state budget, before any impacts from the Affordable Care Act. The forecast for Medicaid calls for an additional \$114.6 million in general fund for the 2012-14 biennium. However, there is some good Medicaid news. A \$62 million cash balance in the Health Care Fund along with additional expected revenue of \$140 million, mainly from pharmacy rebates, will more than offset the increase in the Medicaid forecast.

Going forward, Virginia and the nation will be faced with the challenge of implementing the Affordable Care Act. It is expensive, bureaucratic, tax-raising and inflexible, and two-and-a-half years after its passage, many important policy questions remain unanswered. To date, however, all mandatory requirements of the Affordable Care Act have been implemented. These include the changes to pharmacy rebates, providing coverage of freestanding birthing centers and smoking cessation for pregnant women, eliminating payments for certain hospital-acquired infections, and changes to insurance laws.

As I stated last Friday in a letter to HHS, I cannot recommend to you the establishment of a state-based health benefits exchange. No funding is included in this budget for the establishment of such an exchange. Additionally, no funds for the optional expansion of Medicaid are included in this budget.

The state has already dedicated \$19 million in general funds to draw down over \$100 million in federal funds for the infrastructure to support health information technology and to modernize the eligibility system for Medicaid and other Health and Human Services programs. In addition, these information technology investments will allow the state to handle electronic health records and to interact with a health benefits exchange if and when one becomes operational.

### **Natural Resources/Chesapeake Bay**

Virginia is blessed with a bounty of natural resources that provide an unrivaled quality of life for our residents, and attracts tourism dollars from around the globe. That is why I am proposing amendments that will further protect the Chesapeake Bay and improve our environment.

Virginia's Watershed Implementation Plan (WIP) requires full implementation of specific pollution reduction goals by 2025, with at least 60 percent of the plan in place by 2017. Since 1998, the Commonwealth has provided almost \$750 million through the Water Quality Improvement Fund (WQIF) to match local government funding for upgrades to wastewater treatment plants. The current balance of known pending grant agreements with local governments paid through FY 2016 is \$193 million, leaving a shortfall of \$101 million to meet current and projected new agreements.

I am proposing a \$200 million bond package to address critical water quality needs to help achieve WIP goals. Of the total, \$101 million is for WQIF grants to address anticipated water quality funding needs through FY 2016, \$5 million for Hopewell (as supplemental to WQIF grant funding), \$35 million for urban storm water (non-point), and \$59 million for combined sewer overflow projects for Richmond and Lynchburg. The \$16.9 million from surplus funding from the WQIF will go toward combating non-point source pollution through local storm water programs and agricultural best management practices.

### **Public Safety**

We have worked hard to ensure public safety and improve our criminal justice system. As a former Virginia Beach prosecutor, I know how hard the men and women in these positions work. The starting salaries for assistant Commonwealth's attorneys are no longer marketplace competitive to allow us to recruit and retain experienced and talented prosecutors. Therefore, I

have added \$2.1 million to support an increase of \$3,300 for all assistant Commonwealth's attorneys in FY 2014. However, my goal is to provide an equal amount the following fiscal year. This proposal will place and keep the most capable prosecutors in our courtrooms, which will best support the criminal justice system.

In a similar way, vacant judgeships in recent years have put an undue burden on certain districts and circuits, slowing down the administration of justice. For FY 2014, I am proposing necessary budget amendments that identify \$3.7 million in general fund appropriation authority to fill 15 select vacant judgeships based on heavy case workloads, comprised of \$675,000 in additional general fund support and \$3 million in identified savings and resources from the court system. I am also proposing improvements to our corrections system.

First, inmate medical costs are on the rise and reform is needed. The rate of inpatient admissions for Department of Corrections' offenders decreased 12 percent for the period of May 2011-April 2012 from a similar period immediately prior, yet the cost per admission increased 11 percent. Thus, last session I included \$15.1 million in FY 2013 for inmate medical costs. Although we intend to use our present Medicaid program for some of our offenders, we will still need to add \$14.1 million in FY 2014 to support these rising costs.

The second area involves our effort to reduce the number of juvenile correctional facilities by repurposing one in Hanover and closing one in Chesterfield to save \$7.1 million. Due to other vacancies in the Department of Juvenile Justice, we expect layoffs to be minimal. Changes are needed because we have aging facilities that require constant maintenance and do not fit the current operational requirements, and changing staffing requirements due to new upcoming regulations related to the implementation of the federal Prison Rape Elimination Act.

The third area involves our new River North Correctional Center (RNCC) located in Grayson County, near the town of Independence. This new facility was completed in 2011 with over 1,000 beds. Due to budget constraints, we have mothballed this facility at a cost of over \$700,000 per year.

I have proposed a \$14.3 million amendment to the budget to open this facility by January 2014 to reduce crowding in our prisons, and move some backlogged state-responsible prisoners from jails into the Department of Corrections. We will easily fill these new 1,000 beds with half of the inmates coming from our state-responsible population in local jails, and half from DOC prisons.

As an aside, on Friday I toured the Greensville Corrections facility with Delegate Bev Sherwood, Secretary Decker, and Chief of Staff Kent. Our reforms to dramatically improve our prisoner reentry system are working.

### **Maintaining Flexibility and Structural Balance in the budget**

The unprecedented uncertainty that we face on the fiscal front from Washington requires that Virginia maximize both liquidity and budgetary flexibility. As a result of high concentrations of federal government employment and procurement, we face disproportionate risks from federal downsizing. Thus, flexibility, eliminating structural imbalances, and increasing reserves are fiscally responsible actions for the foreseeable future.

To this end, we will enhance our budgetary flexibility and liquidity by doubling the size of our rainy day fund from \$304 million on June 30, 2012 to about \$690 million by the end of the biennium, June 30, 2014. As an additional safeguard, I am recommending that we also put another \$50 million in the rainy day fund to guard against potential fiscal cliff fallout, and as an advance for the significant constitutionally required deposits we anticipate being made to our Revenue Stabilization Fund in the 2014-2016 biennial budget.

We will also bolster the new FACT fund initiated by Chief of Staff Martin Kent and Secretary of Finance Ric Brown. Instead of \$20 million from the sale of the Brunswick prison, which was targeted for the general fund, we are now planning to assign any proceeds in excess of \$10 million from the sale to the FACT fund. This will reduce our risk to the general fund in case it does not sell in this biennium. This is in addition to a potential \$20 million deposit currently designated for the FACT fund should we attain certain surplus thresholds.

I am also taking another step to eliminate the ill-advised accelerated sales tax policy gimmick, which speeds up the deposit of sales taxes collected from dealers in June. Previously, we had reduced this acceleration by \$45 million in FY 2011 and \$50 million in FY 2012. My budget recommendations will reduce the accelerations by another \$20.8 million in FY 2014. After this adjustment, 98 percent of the 9,696 businesses that originally come under this provision will no longer be required to make the accelerated sales tax payments.

Due to budgetary constraints over the last few years, the state has dipped into cash reserves in the state employee health insurance fund (HIF) in order to pay a portion of the higher costs of health insurance. In essence, cash balances in the fund subsidized the premiums paid by state employees and the Commonwealth. To reverse this trend, I am recommending a net \$64.4 million from the general fund in the second year to pay for the cost of state employee health insurance and end the subsidy. My recommendation will also help rebuild the claims incurred but not reported reserve fund over a five-year period so that the health care fund is in a much more stable position going forward.

Finally, there is an item in the budget known as the Aid to Locality Reversion Clearing Account. This item was inserted into the budget during the midst of the Great Recession. It was a block budget reduction on localities which gave them the flexibility to say where those cuts would be, taken from a list of programs. If any locality did not want to cut the listed programs by the full amount of its reduction target, it could send the state a check to make up for the difference. Now that we are running surpluses again, it is time to end this policy.

The Virginia Municipal League and the Virginia Association of Counties representatives have assured me that eliminating the Aid to Locality Reversion Clearing Account from the budget was the top priority of their membership. Therefore, I have included \$45 million in the second year of the budget to fully eliminate this policy and help local governments. I thank Chairman Putney for recommending this action,

### **Government Reform**

Our current government reform efforts focused on streamlining bureaucracy, eliminating redundancy, and reducing waste across all agencies has resulted in \$92.7 million in savings. Through the ongoing work of the Governor's Commission on Government Reform and

Restructuring, we have identified boards, commissions and agencies that could be eliminated or combined to save taxpayers millions. I thank Senator McDougle for successfully carrying that legislation. By providing incentives to agencies and employees to improve efficiency and to spend less, we have saved hundreds of millions the past 3 years that has been reinvested in core services, and has provided funding for two employee bonuses to reward them for their cost saving entrepreneurial efforts.

These proposed budget amendments capture savings from additional reforms that allow us to reallocate it to other needed areas, and mitigate the financial uncertainty we face.

This budget captures \$30 million over the biennium in debt service savings generated from effective management of the state's debt obligations. These savings are generated from a delay in the 2013 sale to support the purchase of equipment through the Virginia College Building Authority, lower than anticipated debt service payments, adjusted issuance assumptions to better reflect anticipated spending, and a reduction in the variable interest rate in FY 2013.

We will also encourage the use of electronic filing to increase efficiency within the Department of Taxation. We will establish an e-file program for the processing of Pass-Thru-Entity returns, taking steps toward e-government and eliminating a paper-driven, inefficient process. However, to achieve this reform, we must invest \$389,440 up front in FY 2014 and \$72,462 in FY 2015. Beginning in 2016, the agency will start to realize savings.

We will also mandate electronic filing for all withholding tax and W-2 forms beginning in July 2013. This will save \$180,000 in FY 2014.

To improve our accountability and build upon our reputation as being one of the best managed states in America, the proposed budget provides \$1.2 million and new positions needed to replace the Commonwealth's outdated 34-year old general ledger, the Commonwealth Accounting and Reporting System (CARS), with the Cardinal System to reduce the risk of system failure, improve reporting capabilities, enact standardization across agencies, integrate with other applications, and add functionality.

Lastly, we will improve the administration of the Comprehensive Services Act, by providing a comprehensive data analytics package in FY 2013 that will integrate multiple data systems from within and external to the Office of Comprehensive Services. The impact of the data integration and analytics will be realized in FY 2014 with a projected reduction in CSA expenditures by \$9.8 million per year through recovery of fraudulent payments, avoidance of duplicate reimbursements, improvement in local-decision making, and identification of vendors with rates that exceed regional and state norms.

The proposed budget also funds efforts across the state to implement an electronic health records system in public and private healthcare facilities.

The Department of Behavioral Health and Rehabilitative Services is procuring and implementing an electronic health records system for the DBHDS state facilities. The majority of the \$34.2 million cost of implementation will be paid in nongeneral funds provided through a Medicare incentive program. You have already appropriated \$6.3 million general fund and \$20.5 million non-general fund revenues for the 2012-2014 biennium.

DBHDS determined from review of existing systems that more adequate IT staffing at the facility operations level would be required to successfully implement the new electronic health records system.

I have funded four positions at \$375,000 in FY 2014 to assist in implementation and maintenance of the new system to ensure that Virginia does not lose incentive payments for the cost of implementation from Medicare, and protect our ability to collect federal reimbursement.

### **Capital Outlay**

In the area of capital outlay, I am proposing to use \$272.4 million in tax-supported debt and \$72.8 million from balances in previously authorized debt to continue planned capital outlay projects and to supplement existing capital outlay projects. Of this total, \$9.6 million will be used for maintenance reserve repairs at the state's consolidated laboratory, state parks, the Science Museum rotunda and Fort Monroe. Another \$262.8 million in tax-supported debt will be used to allow projects that have completed detailed planning go forward to the construction stage. These recommendations focus on fixing things that are broken and completing projects already begun, rather than starting any new projects. I thank Senator Walter Stosch for his efforts to fund capital improvements.

### **Conclusion**

I have tried to accurately lay out some of the challenges of the day and our past joint accomplishments. However, the challenges brought before us this year due to the fiscal uncertainty at the federal level are greater than usual as we work together to update our budget and navigate the future. However, just as in past years, I believe that we can work together to mitigate this uncertainty, provide the balanced budget required by law, and successfully address pressing issues in transportation, K-12 education and other problems facing our Commonwealth.

We have proven time and again that the Virginia way of working across parties and chambers, focusing on the core services, and being responsive to our citizens can address looming challenges and result in a more efficient, effective government.

Virginia has been a national example in making the tough decisions in weathering our nation's Great Recession.

We finished FY 2012 on target, with a modest revenue and savings surplus, despite very uncertain economic conditions. This performance is a credit to Virginia's consensus forecasting process, and your leadership and discipline.

We've turned \$6 billion in shortfalls into three-straight surpluses totaling nearly \$1.4 billion. Our unemployment rate has fallen to 5.7 percent, second lowest in the East.

We've put the most new funding into transportation in a generation.

We've invested significantly in higher education, resulting in the lowest annual increase in tuition and fees at our public colleges and universities in over a decade, while expanding enrollment and STEM-H focus.

We've facilitated economic growth and we haven't raised taxes.

We've made Richmond more efficient through government reforms.

We will continue to offer new ways to create savings and efficiencies, and we will continue to invest in education, transportation, public safety, healthcare and economic development, the core government functions. In the upcoming session, our budget and legislative priorities will all be aimed at laying a solid foundation for growth and opportunity in the future.

Throughout the past three years of acrimony and uncertainty in Washington you have been tremendous partners and leaders in managing the budget. Together we have provided responsible fiscal stewardship of the 485 billion in biennial resources entrusted to us by over 8 million Virginians, and we are laying the foundations for a bright and successful future for our great Commonwealth.

I wish you and your families a blessed Christmas, Happy Hanukkah, and a great New Year. Rest up for January, give your kids and grandkids an extra dose of love this year, and thanks for all you do for Virginia.