

State of the Commonwealth Address – 2003

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On Monday (June 23, 2003), *USA Today* front-page headlines proclaimed “Bad moves, not economy, behind busted state budgets”.

According to the newspaper, “The financial problems racking many state governments this year have less to do with the weak national economy than with the ability of governors and legislators to manage money wisely.”

As I report to you today on the state of the Commonwealth it is apparent that Virginia suffers both from a sagging economy and from some unwise political decisions.

Remember how we got here. The nation suffered an economic recession in 1990 and 1991 that saw Virginia’s general fund revenue grow at less than one percent in the first year and actually declined by almost a half-percent in the second year. We were one of only two states to get through that recession without a tax increase. Some programs were cut by a third. College tuitions rose to be among the highest in the nation.

The good news at the time was the recognition that we were the best financially managed state in the Union. The next year we shared the honor of being the best financially managed state with Utah.

A sharp increase in the national economy in 1993 resulted in Virginia’s revenues exploding. From FY 1995 to FY 2000 Virginia experienced extraordinary revenue growth from the technology sector boom and the stock market. Three consecutive years ended with revenue growth above 10 percent per year.

Go from that to the current recession. With the current slump in the economy Virginia has had to cut six billion dollars from its \$50 billion biennial budget.

The *USA Today* article ranked Virginia as “fair” in its financial management. On a 12-point scale with Utah with whom we were previously tied getting the full 12 points and California the lowest with 2 points, Virginia scored 7 points.

Only 10 states have triple-A bond ratings. Virginia is one of the states, but it is distressing that Virginia has the lowest overall financial rating of those states.

From the best financially managed to only fairly well managed, what went wrong?

I believe in part the change occurred when we started buying into the latest political slogans. Politics overcame concern for policy.

Crime rates were up during the 1990-91 recession so we were prime targets for a no parole policy. Such a campaign carried George Allen into the governorship. Great idea! Keep criminals locked up, and the crime rate would go down. Only problem was that no one would talk about the cost; no provision was made for the programs’ funding. It came out of the existing budget. While we fund most of state programs at rates among the lowest in the nation, we are well above average in funding our corrections system.

Then there was the growth in public school enrollment- three to four thousand per year in Fairfax County alone- and the increase in requirements through the Standards of Learning. Do you know that we spend nearly \$50 million on SOL testing each year? Public schools alone accounted for 30 percent of the budget growth between 1994-2002, but that number only kept us essentially even.

And the second greatest growth in state spending during the period was Governor Gilmore’s car tax cut. It accounted for 15 percent of the state budget growth and at 70 percent took nearly a billion dollars to fund.

In addition during the period there were over 50 additional tax cuts or preferences totaling \$600 million.

Reducing college tuition and accounting for growth in higher education took another 11 percent.

As they say, it's déjà vu all over again. We are back with an economic recession, less than one percent general fund growth last year, sizable budget cuts with 4,200 state employees having been laid off, rising college tuition costs, and the other implications of cutting back.

There should be no surprise here! We have what businessman and Governor Mark Warner has pointed out at every turn as being a structural imbalance in the budget. We have been simply spending more than we have through various accounting maneuvers and short-term solutions. That's what the Virginia Business Council found in a study they had conducted in 1999. Governor Gilmore tried to suppress the report of the study because he found the results so contrary to his way of governing.

It's what I preached on the Appropriations Committee. They tried to deal with me by taking me off the Committee. But they haven't silenced me. Nor will they.

We are in a sorry state relative to our finances.

We need to restructure our revenues.

Virginia is considered a regressive tax state. We place a heavy burden on the sales tax that includes food although at a lower rate. Our income tax is almost a flat tax with the top rate of 5.75 percent starting at \$17,000.

The lowest 20 percent of the taxpayers in Virginia pay about 9 percent of their income in state and local taxes. Millionaires in Virginia pay less than 5 percent.

The issue of tax restructuring is dealt with in a political environment. The legislative majority lies in wait for Governor Warner to make any proposal. Then the chorus of "tax and spend" will begin.

Some want to restructure taxes in a way that would be revenue neutral.

Sounds great, but what about the budget imbalance? It will still be there. Unless someone is talking about cutting out some of the functions of government, and if so, they need to let us know what they will eliminate. Consider these situations:

Medicaid is one of the fastest growing parts of all state budgets. Virginia is no exception, but Virginia has tried to deal with the problem by repressing reimbursement rates to be 47th lowest in the country. Some nursing homes in the state have simply gone bankrupt as the reimbursement has not been adequate to cover costs.

At the same time, the Campaign for Tobacco-Free Kids, a non-profit group, estimates that smoking-related diseases add more than \$300 million to the Medicaid budget in Virginia each year. An increase in Virginia's 2½ cents per pack cigarette tax, the lowest in the nation, to the national average of fifty cents per pack would raise \$350 million. And the American Lung Association says at that tax rate no one would stop smoking. The tobacco industry would not be hurt. As I said to the House Finance Committee, call it a user fee.

For budget imbalance, the General Assembly's own studies indicate that we under-fund our colleges and universities by \$200 million per year when compared with peer institutions in other states. What did we do about this year? We cut their budgets by another \$150 million. That means for Virginia Tech, 450 fewer class sections next year. It means for the University of Virginia that UVA raises more from private citizens than from the state.

On K-12 funding, Joint Legislative Audit and Review Commission studies show that the state has been under-funding the SOQ formula by nearly a billion dollars per year. Through some accounting sleight of hand that number has been cut in half to look good in political campaign brochures, but the schools have

received no more money. The ironic good news this year is that we did not fall further behind in our funding.

And do not forget about the out-cry we are going to hear next year when as many as ten percent or more of the high school seniors will not receive their diplomas because they did not pass the SOL tests. For some there will be a demand for remediation programs to meet the needs of these students; others will predictably declare the public schools failures and demand tax credits and vouchers.

The transportation crisis seems to have been forgotten with the defeat of the sales tax proposal. We haven't raised the gasoline tax since 1986 and have the lowest rate in the mid-Atlantic region. A conservative Republican state senator introduced legislation to raise the gas tax by the rate of inflation or 10 percent. But that measure failed in the "no new taxes" climate.

Clearly, however, transportation problems will not be solved by money alone. We simply have to give localities more power to tie their land use decisions and transportation together. And we need to consider alternative means of transportation and mass transit. Look for a big decision on Dulles Rail in the next several weeks.

Our record on funding human services is abysmal. Funding for mental health and mental retardation programs is among the lowest in the nation. More than 2,000 people are on waiting lists waiting for services.

With all my concerns, let me report to you that there is also some good news. When *Newsweek* announced the 100 top public schools in the country, Virginia did very well – was among the leaders – thanks to Fairfax County Schools alone.

Our universities do well in national rankings although some slippage is feared.

Our electronic government is among the best of the states and among the best in the world. Remember to double-check – you may be able to conduct your DMV business on the Internet rather than waiting in line at a local office.

Virginia's diversity adds to its challenges. We are blessed to live in one of the wealthiest communities not just in the state but in the nation. Our adjusted median income for a married couple in 2000 was \$78,800. For the state it was \$56,530. The city of Richmond was \$53,709 and the City of Norfolk was \$39,498.

In Fairfax County, more than 55 percent of adults have college degrees. In southern Virginia, many counties struggle to get to that percentage of high school graduates.

In looking at local revenue capacity, a calculated number representing the ability of a locality to raise revenue, Northern Virginia's capacity is over \$1950 per capita; contrast that with Richmond at \$1450, Southwest Virginia at \$820 and Southside at \$947.

The political situation in the Commonwealth is unsettling. So effective was the redistricting of 2001 in determining the likely outcome of elections that 64 of 100 members of the House of Delegates are running unopposed. The Democratic Party has been weakened statewide, and the Republican Party is all but taken over by the neo-conservatives.

And so, that is the state of the Commonwealth: We have endured a drought, a record season of snowfall, a monsoon spring. Avian chicken virus. A tire fire. A terrorist attack. A sniper attack. Record revenue shortfalls. Drastic budget reductions.

That's the state we are in. That's Virginia today.

Although I am unopposed for reelection, I nonetheless plan a vigorous campaign. It will be a campaign of ideas. An opportunity to dialogue with the community on the difficult issues we face. Over the course of the campaign I will be talking and writing about:

- tax restructuring. Regardless of how difficult the task, we need to undertake developing a system of taxes that is fairer and that produces the needed revenue to support core services.
- broader plan for transportation. One that brings the stakeholders and community together. One that takes all modes of transportation into account including transit and Dulles Rail.
- re-examination of educational standards. The one-size-fits-all approach is not adequate to meet the needs of all students. Standards need to be set for individual children by parents and educators working together. Our bright students need to be challenged, and our most challenged students need to be able to be successful.
- advancing higher education. Our economic development will be successful to the degree that we are able to increase our investments in higher education.

It appears to me that there is no way to go but up. I'm sticking with the task. I pledge to you my best efforts to ensure that the quality of life in our community is preserved for us and for our children. And for your continued support, I thank you!