Governor Mark Warner's  
State of the Commonwealth Address  
January 14, 2004

Mr. Speaker, Mr. President, members of the General Assembly, ladies and gentlemen, good evening.

Since we met in this chamber a year ago, our nation and our Commonwealth have faced many challenges. Tonight, many of those challenges continue.

Our armed forces have fought a war, and many Virginians remain deployed around the world tonight. The bravery of our men and women in uniform, and their resolve, remain the world's most powerful weapon against terrorism.

I see that same resolve in the people of Virginia every day. I saw that resolve when I visited Specialist Darren Martin and the men and women of the 276th Engineer Battalion last month, as they prepared to go to Iraq.

I saw that resolve in the face of Mayor Gordon Helsel and the people of Poquoson when I visited two days before Christmas. They had come together at the high school to celebrate their pride in their community – pride that sustains them as they continue to rebuild, four months after Hurricane Isabel.

I saw that resolve in the faces of students like Reggie Johnson in Brunswick County. He needed extra help on the SOL tests. And once he got extra help from the summer academy we started, he passed the tests. And if you have ever seen a group of young people who have just realized they can succeed, you have seen Virginia's future.

Tonight, as we look to the future, we do so mindful of our past.

This year, America honors the 50th anniversary of the landmark Supreme Court decision in Brown v. Board of Education, the case that opened public schools to all children. Virginia's own Oliver Hill helped lead the legal team that won that case, along with Thurgood Marshall, whose son, John, now serves as Virginia's Secretary of Public Safety. No individual was more instrumental than Mr. Hill in the fight to give the promise of a quality education to all of Virginia's students. That's why he has been honored with the Presidential Medal of Freedom, America's highest civilian honor.
Tomorrow, Virginia will host the U.S. Martin Luther King Commission and begin a year-long commemoration of Mr. Hill's work and the Brown decision. Tonight, Mr. Hill is seated in the gallery with my wife Lisa and our three daughters. Please join me in honoring the resolve of a true Virginia hero.

**Cooperation is Key**

Tonight, we call upon that same resolve once again – and summon the spirit of cooperation that Virginians expect from their elected officials. When we work together, we can achieve important goals for the people of Virginia.

Together, we closed the largest budget shortfall in Virginia's history – making tough choices that reduced state spending in every state agency by an average of 20%. Together, with the help of an excellent state workforce, we are reforming state government and modernizing it for the Information Age. Together, we won passage of a bond package to upgrade our state parks, colleges, and universities.

In just two years, we have provided health insurance to more than 77,000 additional children. And we helped create more than 50,000 new jobs – even in a stagnant national economy.

These actions would not have taken place if we had allowed politics to determine our course. So tonight, I come before you as I did on my first day in office – committed to work with you to put Virginia first.

**Commonwealth at a Crossroads**

Now there are many important issues we will face this session, but none is more important than addressing Virginia's long-term fiscal condition.

Our Commonwealth is at a crossroads. Do we stand paralyzed? Or do we finally embark on a path that restores our fiscal integrity, invests in our core assets, and prepares Virginia for a brighter and more prosperous future?

How we answer these questions will determine the state of the Commonwealth not only for the next year, but for the next generation.

Our answers will determine:

whether our people have access to the skills they need to compete in a changing economy

whether we maintain tough academic standards in our schools and quality in our colleges

whether we can keep our communities safe and prepared

whether we help Virginia families with health care, especially our seniors
whether we are able to transport people and goods efficiently and safely

and whether we are able to tackle some of our biggest environmental challenges.

Two years ago, we approved legislation requiring governors to prepare a six-year financial plan that finally allowed Virginia to look beyond the two-year timeframe of our state budget. This reform was long overdue.

I have talked with many of you about what that projection shows. It shows clearly that Virginia faces continuing budget shortfalls at least through the end of the decade. We face those shortfalls:

- even with an economic recovery;
- even with no economic slowdown for the next six years;
- even with no new tax cuts;
- even with the car tax cut frozen at 70%;
- and even with no new government programs or commitments.

You all know the reasons why these shortfalls will continue.

For example, our Medicaid program is among the leanest in the nation. And yet, two out of every three patients in Virginia’s nursing homes now depend on Medicaid. With a graying population, those numbers will only increase.

Medicaid costs are now projected to increase substantially, mainly due to increases in the cost of medical care and prescription drugs.

In corrections, our prisons and jails are already seriously over-crowded, due to parole abolition and tougher sentencing. More inmates require more space.

And in an era of heightened terror alerts, canceled international flights, and random threats against our people, we face mounting security costs that were never considered just months ago.

In the car tax cut, even if the reimbursement level remains at 70 percent, the cost continues to increase because there are more cars on the roads, and those cars are worth more.

In transportation, our aging roads require more maintenance. Soon roadway maintenance costs will consume all funding for new transportation construction.
In education, 100,000 more students will enroll in our public schools by 2010. And if the state does not adequately fund its share of public education costs, it simply passes those costs onto local governments – and that means higher property taxes.

In higher education, 61,000 more students will seek to enroll in our colleges and universities during this decade – at the same time that tuition is rising, and some of our best and brightest faculty are being hired away by schools in other states.

**Protect Education**

As a businessman, I know the failure to invest in education affects the quality of our workforce. As Governor, I am reminded of it every time I meet with employers.

Some time ago, I met with executives from Master Brands Cabinets. They were looking for a place to locate a new manufacturing facility. They asked me some key questions. Tell me about your workforce. What are your schools like? What are your community colleges like? Is Virginia a good place to live?

I told them that our workforce is the best in America – because we have excellent schools, from pre-school to graduate school. I told them there's no better place in the country to live. I said, That's because those who came before us invested for Virginia's future.

They understood that message. And tonight, I'm pleased to announce that Master Brands Cabinets has decided to locate 745 new jobs in Henry County. This is the largest job announcement in Southside Virginia in more than 30 years.

The people at Master Brands know the value of a good education and creating a quality workforce. And the people of Virginia know that investing in education helps create jobs.

**Meet Core Commitments**

Protecting education is at the center of our budget and tax reform plan. Our plan does three things.

First, it allows Virginia to meet its core commitments, including a $774 million increase for elementary and secondary education and a $144 million increase for higher education. This is the minimum amount required to meet state government's share of education costs and to begin addressing chronic under-funding of our colleges and universities.

Our budget includes more than $870 million in new money required to cover increases in Medicaid, mental health, and health care for children.

Our budget increases transportation funding by $392 million – the equivalent of a 4-cent increase in the gas tax. While not covering all our transportation needs, this will allow us to expand transportation construction by more than 20 percent over the next six years.
Our budget starts to address Virginia 's long-standing position as dead last among the states in spending to protect natural resources.

Our budget strengthens state support for law enforcement and homeland security. Tonight, with more than 400 of Virginia's men and women in uniform fighting terrorism in the Middle East , and another 750 preparing to be deployed, I am not willing to tell them that we failed to do our part here at home.

**Make Taxes Fairer**

Second, our budget and tax reform plan makes Virginia 's tax system fairer. It does this by:

- lowering the income tax for most Virginians;
- by finally keeping the promise of the car tax cut and the food tax cut;
- by ending the estate tax for farms and small businesses;
- and by closing the loopholes that allow many major corporations to avoid paying their fair share.

It adds one penny to the sales tax, and it creates a new income tax bracket, affecting less than 8% of upper-income Virginians.

To me, it just doesn't make any sense that someone earning only $17,000 a year in Virginia should pay the same tax rate as someone earning $500,000 a year. This plan cuts taxes for at least 65% of Virginians – and our methodology has been endorsed by four leading independent economists, including the President of the Federal Reserve Bank of Richmond.

**Preserve Fiscal Integrity**

Finally, our budget and tax reform plan preserves our fiscal integrity and protects our AAA bond rating.

I cannot overstate the importance of that. Our AAA bond rating saves taxpayers millions of dollars in borrowing costs. The AAA bond rating is a recognized seal of approval that indicates to the world that Virginia is a good place to do business – and that means jobs for Virginians.

One of the things the national rating agencies and the financial world have told us is that our AAA bond rating is in serious jeopardy – and they could not have spoken more clearly about the reasons why. Over the years, they have seen too many budgets in Virginia based on promises made with no way to pay for them – too many accounting gimmicks – and too many one-time fixes. Resorting to those tactics again will not solve the problem. Instead, it will signal to the rating agencies that Virginia is just not serious about our finances.
Wall Street knows that if we do not reform our tax system this session, Virginia will face substantial budget shortfalls at least through the end of the decade. I spent two decades in business, and I know that on this matter, Wall Street is right.

The taxpayers of Virginia did not hire us to let that happen, and I will do everything I can to prevent it.

**A Time to Act**

Now ladies and gentlemen, I know that many excuses will be offered for why now is not the time to act. We have heard them all before.

Some will say we should cut spending. I agree, and we have done so. We have already done what any family would do when times are tough – we tightened our belt.

Since I have been in office, we have cut state government more than any administration in Virginia history.

We have closed the largest budget shortfall in Virginia 's history – more than $6 billion.

We have reduced state agency spending by 20% on average.

We have eliminated more than 50 agencies, boards, and commissions – and thousands of positions in state government.

And we are fundamentally changing the way we do business in government to achieve maximum efficiency and savings.

Some will say, "You can't tax your way to prosperity." We would all agree with that. After twenty years in business, I understand the importance of low taxes – but also of investing for the future. That's why this plan cuts taxes for 65% of taxpaying Virginians, and it will maintain Virginia 's status as a low-tax state.

Doing nothing means the state will continue to pass the buck to local governments who will have to raise property taxes – and that just isn't fair.

Some will say, "We can grow our way out of this problem." – and we all celebrate the fact that Virginia 's economy is improving. But it would take revenue growth rivaling that of the technology and dot-com boom to make that happen.

To bet our financial future that those days will return is a fool's wager.

Now, this is not a new issue.
Your own tax reform commission concluded its work last month. There was a report in 1995. There was a report in 1998. In 2001, there were two reports – from the Morris Commission and the Bliley commission.

Each of these commissions reached the same conclusion: Virginia’s tax system needs to be fixed.

The time to act is now. Do not send me any more studies. Do not send me another piecemeal approach that confuses tinkering with real reform.

Send me a bill that makes our tax system fairer for working Virginians – one that adequately funds education and our core commitments – and one that puts Virginia on the path to long-term fiscal stability.

Ladies and gentlemen, as we address tax reform, I think of another major battle from the past.

One that required us to put aside bitter rivalries. One that required people from opposite ends of the spectrum to come together for the good of the Commonwealth.

One that involved a whole lot of money. One that everyone said couldn't be done.

But they were wrong. And when the smoke cleared, Virginia Tech got into the ACC.

Reform — or the Cost of Doing Nothing

You know, for too long, Virginia has cobbled its budgets together. We have put off paying the bills. We have spent our savings. We have used duct tape to hold our budgets together.

As a fiscal conservative, I know it is time to put those days behind us.

I have proposed a budget and tax reform plan that makes Virginia’s tax system fairer – that will cover the cost of public education and other important priorities – and that preserves our long-term fiscal health.

I am willing to work with everyone in this General Assembly – no matter which house you serve in – no matter which community you represent – and no matter which political party you come from.

But let me be clear. At the end of the day

I will not accept a budget that uses inflated revenue estimates or accounting gimmicks.

I will not accept a budget that endangers the Virginia Retirement System or other employee benefit programs.
I will not accept a budget that fails to preserve Virginia’s long-term fiscal integrity and protect our AAA bond rating.

And finally, I will not accept a budget that fails to meet Virginia’s commitment to education.

This year, we have a unique opportunity to address Virginia’s fiscal problems. If we fail to do so, it may be a decade or more before we regain our AAA bond rating – because once you lose it, you can't get it back for a long time.

In addition, if we lose the national reputation of our colleges and universities, it will take years to earn it back. And most importantly, if a generation of students loses the chance for a quality education, they will simply never get it back.

If we fail to act this session, it could be years before the resolve needed to tackle tax reform presents itself again. If you believe that we can wait – look around. Businesses that failed to get their finances in shape – have gone out of business.

In the past six months alone, states around our nation have lost their AAA bond ratings. Other states are borrowing money just to meet payroll. Other states have fired teachers. Other states have let prisoners out of jail early.

That's not the Virginia way – and it's not going to happen on our watch.

**Conclusion**

I spoke at the outset of the families in Poquoson who were hit hardest by Hurricane Isabel – people whose homes were not just damaged, but destroyed. And yet, despite their losses, the one thing they still worry about most – is their kids' future.

Because truly important goals never change.

They know they have hard work ahead, and so do we. They don't care about the political battles that go on inside this building. They don't care about who takes the credit, and frankly, I don't either.

So again, we find Virginia at a crossroads. Do we stand paralyzed? Or do we finally embark on a path that restores our fiscal integrity, invests in our core assets, and prepares Virginia for a brighter and more prosperous future?

Working together to put Virginia on sound financial footing is the right course for Virginia, and we have a responsibility to act now.

The people of Virginia did not elect us to take the easy way out. They elected us to chart a course for Virginia’s future. We have a lot of work – so let's get to it.
Thank you, and God Bless the Commonwealth of Virginia.