Good Evening. Before I begin my remarks about our budget, I must address a more immediate reality. For the past thirteen days, the series of random sniper attacks in and around Virginia has made us all concerned about the safety of ourselves and our families, and we must remain on guard. Our thoughts and prayers go out to the victims and their families.

Throughout this time, I have been in constant contact with state, local, and federal law enforcement officials.

We have made all state resources available to the manhunt, and our law enforcement officers are working night and day. Make no mistake about it: We will find those who have committed these crimes, and we will prosecute them to the fullest extent of the law.

But I asked for broadcast time tonight, because I want to talk to you directly about the significant financial challenge facing state government.

When I assumed office nine months ago, my business experience told me that there would be tough budget decisions to make. The roots of our budget problem were clear.

In the late 1990s, state spending grew significantly, and simultaneously more than 50 new tax breaks were enacted. In short, the state increased spending and cut revenues at the same time.

This could be sustained only as long as the record prosperity of the 1990s continued. But over the long term, businesses can't operate that way. Families can't operate that way. And state government won't operate that way.

As the economy cooled, the structural imbalance in the state budget became clear. The national recession and the economic effects of the September 11 attacks made the problems worse.

The budget shortfall I inherited totaled $3.8 billion when I took office. Working with the General Assembly - Democrats and Republicans alike - we balanced the budget on time. In doing that, we made many difficult choices.
We cut state spending. We used half of the state's "rainy day" reserve. We authorized tuition increases at public colleges and universities. We froze car tax reimbursements. We reduced contributions to employee retirement accounts. And we've shrunk the size of state government by more than 3,700 employees since January.

None of these actions was easy, but they allowed us to balance the budget and preserve critical state services.

This past spring, national experts said the economy was poised for recovery. But with corporate scandals and the plummeting stock market, the economy continues to struggle along.

In fact, last fiscal year, Virginia saw the largest decline in state revenues in the 40 years the Tax Department has kept records.

Virginia is not alone in this situation. Virtually every state - and nine of ten states in the southeast - saw record declines in their income tax collections this past spring.

By late summer, the state's leading business executives and our best economists advised me to lower our economic forecast, and I adopted their sound advice. This new forecast means we now must plan for $1.5 billion less revenue than we had originally projected for our current two-year budget.

In late August, I reported this shortfall to the General Assembly, and I set out a timetable with which to address the shortfall in a prudent, businesslike fashion.

In many ways, this latest $1.5 billion seems unreal - just like any large number on a page. So, perhaps two examples will bring it into scale.

To produce savings of $1.5 billion, we could have eliminated all funding for State Police, Sheriffs, local police, and all general district courts for the next two years. Or, we could have eliminated the state share of salaries and benefits for more than 59,000 public school teachers.

Obviously, we wouldn't do either of these, but they do illustrate the seriousness of the problem.

And unfortunately, the problem does not stop there. This is more than just a revenue shortfall problem.

There are also a number of spending issues we have very little control over - more students in our public schools and colleges, surging costs for medical care and health insurance, an increasing number of prison inmates, and the continuing cost of the most severe drought that Virginia has seen in decades.

When these costs are factored in later this year, the budget problem will exceed the $1.5 billion we're now facing.
After addressing the General Assembly in late August, I took a number of immediate actions. I imposed strict monthly and quarterly spending limits on every state agency and college. I restricted all new hiring of state employees and consultants. And I directed my staff to help my government efficiency commission - the Wilder Commission - to develop specific proposals for consolidating agencies or eliminating functions of state government, and that panel will report in December.

Finally, I directed state agencies to prepare three separate proposals to cut their own budgets by seven, eleven, and fifteen percent. I asked for these three levels so that I could assess the specific impacts of each cut proposed. By law, the Governor may not cut individual agency spending by more than 15% unilaterally. Anything above that level requires General Assembly approval.

State agencies have submitted detailed reduction plans that total more than 2,000 pages, and we have spent the last few weeks analyzing them line-by-line.

I have consulted with legislators from both parties, and my staff gave detailed briefings on the reduction plans to every legislator who requested one. I have asked legislators their views on what services should be protected and what services should be eliminated entirely. I am grateful to those legislators who took the time to be part of this process. Having their input has been very helpful.

This has been a careful and deliberative process. Because what's at stake are services we expect from state government, Virginia's financial standing, and the well-being of our state workforce.

Last week, I was gratified when all three financial rating companies re-affirmed Virginia's triple-A bond rating, the highest rating possible. In particular, these financial experts commended our pro-active, yet conservative, approach for dealing with our revenue shortfall.

Our priorities are clear in what we have protected from cuts, at least for now - State Police and local sheriffs, basic state support for public schools, long-term care for the elderly and disabled, and health care for low-income Virginians to note a few examples.

**Reductions Start at the Top**

So today, after completing this careful process, I directed state agencies to begin implementing budget reduction plans that will save $858 million over the next two years.

These cuts begin with the Office of the Governor, where I will reduce the budget of my office by more than 17 percent, and I will reduce my own salary by 20 percent.

The budget reductions for each agency average close to 11 percent and range up to 15 percent. Again, 15 percent is the maximum amount the law allows me to cut. Excluding state colleges, 63 of the 91 state agencies will have their budgets reduced by the 15 percent maximum amount in at least one year.
One thousand eight hundred thirty-seven (1,837) full and part-time state employees will be laid off - ranging from senior management to entry-level. All eligible employees will receive the full severance benefits they are entitled to under the law.

These totals do not include the impact on state colleges and universities, whose Boards of Visitors must approve their final reduction plans. Their preliminary plans indicate that about 4,500 additional layoffs could occur, but the colleges and universities may choose to raise tuition or use other balances to offset these cuts. That being said, layoffs in higher education will probably number in the thousands.

**Some Reductions Will Improve Efficiency**

Throughout this process, we have forced agencies to re-examine longstanding practices. We've tried to bring business principles to state government. Some of these reductions will actually improve the effectiveness of certain agencies.

By re-thinking the way we operate, we'll be able to eliminate redundant management layers in the Department of Environmental Quality and the Department of Corrections.

We'll consolidate payroll processing for over 40 agencies into a single small unit at the Department of Accounts.

We'll privatize mail service for a number of agencies using the Department of Treasury.

We'll make better use of the Internet in a variety of agencies to send out publications electronically instead of through print.

And we'll re-negotiate contracts in today's economic environment, when companies are willing to provide significant discounts to gain our business. The Department of Social Services did this recently, and they were able to save more than $800,000 on a single contract.

There obviously are other opportunities for additional long-term savings in the way state agencies buy goods and services - in the way the state acquires and uses computer technology - and in the way the state manages its personnel processes. We will continue to pursue these opportunities in the weeks to come, and we will offer specific proposals when we submit our budget in December.

**Preserving Services to People**

But most of these decisions have not been so easy, and they have often meant selecting the lesser of two bad choices. In the end, we have chosen to maintain direct services to people as our first priority.

For example, we decided to cut clerical staff for parole, so that we could maintain parole officers themselves - even though that decision will force parole officers to spend more time on administrative duties, and less time in the field.
We decided to cut pollution prevention activities, so that we could maintain actual water quality monitoring and testing. We decided to cut health education programs, so that we could continue actually providing health care and medical services.

In each of these areas, and many others, we were forced to make the painful choice to cut investments that may actually save money over time. I understand that, and I am committed to restoring them as soon as the economy allows.

**Budget Reductions Will Affect Vital Services**

At the end of the day, a budget shortfall of this magnitude cannot be solved with sound bites about "cutting the fat." These budget reductions will affect vital services that Virginians count on, and there should be no attempt to disguise that fact. Let me give you some specific examples.

Every DMV office across the state will close one day a week. Twelve branch offices will close permanently.

State support for local and regional libraries, and educational TV and radio will be reduced by 15 percent. The Library of Virginia will close one day a week, and many local libraries may shorten their hours as well.

State support for local and state museums and the arts will be reduced by 15 percent. Some state museums will close one additional day a week.

State support for cooperative extension will be reduced by 12 percent a year, eliminating 147 extension agents, faculty, and support positions.

Funding for state colleges will be further reduced from 9 to 13 percent. Cuts for each college and university will vary, based on tuition level and percentage of students from outside Virginia. The result will be larger classes, fewer course offerings, and for some students, perhaps additional time in order to graduate.

State assistance for students who attend private colleges will be reduced 13 percent.

State support for community mental health, mental retardation, and substance abuse services will be reduced 10 percent. I know community service boards will make every effort to preserve services for their clients with most urgent needs, but unfortunately thousands of Virginians will wait longer for the services they need or have their services limited.

State funding for Commissioners of the Revenue, Treasurers, and Clerks of Court will be reduced 11 percent, and Commonwealth's Attorneys will be reduced 7 percent.

Half of the funding designated for maintenance and roof repair in state facilities will be eliminated.

Capital grants for local and regional airport improvements will be reduced 15 percent.
State ABC stores will reduce their operating hours.

Funding for a salary increase for public employees in fiscal year 2004 will be eliminated, but I will continue to look for ways to restore this raise as the economy allows.

More than 140 other programs will see their funding reduced. Examples include - soil and water conservation districts - industrial site development - workforce training - animal welfare inspections - tourism promotion - small business development - ports and harbors - Area Health Education Centers - and indoor plumbing grants.

Dollar reductions for every agency will be available at the conclusion of my comments on the Governor's web site at www.governor.state.va.us

More Targeted Reductions Will Be Necessary

These $858 million in budget reductions will come close to balancing the budget for fiscal year 2003. We will also consider options such as reserves in the "rainy day" fund and other balances we can draw down. But when the General Assembly meets in January, more cuts will be necessary, particularly for fiscal year 2004.

Simply continuing to make each program leaner, however, will not solve our problem. We have to recognize that some programs and agencies will not be able to do their jobs if they are cut further.

It is therefore time to acknowledge that some programs and agencies will need to be fundamentally altered or eliminated entirely. So again, between now and my December budget proposal, I will submit my plans for consolidating agencies and eliminating programs to the General Assembly for its consideration and approval.

Finally, we have to acknowledge that some of the programs we have protected so far - like public schools and Medicaid - may have to be cut later on.

Conclusion

These decisions have not been easy, and I have not made them lightly. I know this is going to hurt, and that it will have a dramatic impact on many Virginians who depend on state services, on thousands of students in our colleges and universities, and on the state employees who will lose their jobs.

Now this process has been tough, and it may get tougher. I understand that many Virginians will disagree with the savings we have made, and they will do so publicly. That is the strength of our system.

But for those who are quick to criticize this situation solely for political gain, I have a simple challenge: if there is a better way - show us. For every budget reduction you disagree with, tell us where you would make an offsetting cut.
Virginia has weathered tough fiscal times before, and we will get through this one as well. The foundation of our economy is diverse and therefore strong, and we are poised for our nation's economic recovery. We have one of the best workforces in the country. And Virginia continues to offer an unparalleled quality of life.

As Virginians, we all take pride in the leading role our Commonwealth played in America's first century. I believe Virginia can lead America again in the 21st century. But to do so, we have to answer some fundamental questions about the very nature of what we expect from state government.

How do we educate our children and grandchildren for tomorrow's jobs?

How will we sustain the excellence we have come to expect from our colleges and universities? - How will we keep our communities safe?

How do we promote economic growth so that all Virginians can get good jobs?

How do we protect our environment and enhance the quality of life around Virginia?

What kind of transportation system - what kind of health care system - what kind of mental health system do we expect in the 21st century?

These are the kinds of questions that we'll need to address over the weeks and months to come. It's a conversation not just for elected officials, but for all of us.

Since taking office, I have pledged to work cooperatively with our other elected officials, and to talk straight with the people of Virginia. I believe that has been our record so far, and I intend to continue it. And as taxpayers, you deserve to know that your elected officials will act as good stewards of your tax dollars.

Virginians are heirs to a long tradition of fiscal responsibility, and tonight we re-commit ourselves to maintaining that tradition. By doing so, we will help build the foundation of a brighter economic future for all our people.

I appreciate the chance to speak with you tonight. Good night, and God Bless the Commonwealth of Virginia.

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