RICHMOND - Governor Mark R. Warner today presented his executive budget for the 2004-2006 biennium to the joint money committees of the General Assembly. The Governor's proposed Commonwealth of Opportunity budget and tax reform plan, which will be introduced as House and Senate Bill 30, achieves four key objectives.

1. Continues Virginia's long tradition of fiscal responsibility and restores structural balance to the budget.
2. Maintains core services in the areas of public education, higher education, law enforcement and corrections, social safety net programs, and transportation.
3. Begins to replenish the "Rainy Day" Revenue Stabilization Fund, which Wall Street bond rating agencies monitor as a sign of stability.
4. Keeps statutory commitments in the areas of food tax relief, car tax relief, and the dedication of a portion of revenues from insurance premiums to transportation.

"We have grappled with more than $6 billion in shortfalls, and worked hard to streamline government and change the ways it does business," said Governor Warner. "Now we have come to a place where state government must begin to meet its commitments fully. Every child's success depends on quality schools and our Commonwealth's success depends on a well-trained workforce and the intellectual capital developed at our colleges and universities. Today we embark on a course to meet Virginia's needs for years to come."

Fiscal Challenges

This budget has been prepared against the backdrop of continued fiscal uncertainty and stress, not only in Virginia but in other states as well. Prior to this budget, Governor Warner and the legislature have worked to close more than $6 billion in budgetary shortfalls. To achieve these savings, important projects have been stalled; new initiatives designed to give taxpayers a better return on their investment have been launched; more than 50 agencies, boards, and commissions have been eliminated; approximately 5,000 positions have been eliminated from state
government; and reductions have been made to every state agency's spending - except public education - by an average of 20 percent.

"In the first 23 months of this administration, we have worked to restore the fiscal integrity of Virginia, to make government more efficient, and to promote new economic opportunities for our people," said Governor Warner. "These would be ambitious goals in the best of times - but these have not been the best of times."

"Two years ago, we passed legislation that required all governors to prepare and present a six-year financial plan," said Governor Warner. "I think of it as a business plan for state government. The baseline projection for the six-year plan is sobering. The policies we must craft will shape Virginia's future for years to come. It would be wrong to deny our responsibility to our children and grandchildren by taking the easy way out and continuing to ignore the problem."

On the revenue side, the six-year projection shows clearly that even with an economic recovery, and even with no economic slowdown for the next six years - Virginia still faces substantial budget shortfalls through at least the end of the decade.

At the same time, on the spending side, the six-year projection shows that shortfalls persist even with no new programs or commitments, no major new funding for higher education or transportation, and without moving the car tax relief to 100 percent or making any additional food tax reductions.

**Highlights of the Governor's budget**

**Public Education**

- Provides $761.5 million in new funding for Elementary and Secondary Education.
  - Updates Standards of Quality funding, including funds necessary to educate the more than 31,000 new students entering public schools during the biennium.
  - Funds the pooled retirement rate for the Virginia Retirement System - by combining the state workforce with the teacher workforce, Governor Warner was able to reduce the cost of retirement contributions to local school boards by $20.8 million in FY 2005 and $21.3 million in FY 2006. The decision to provide a premium holiday on group life insurance contributions saves localities an additional $8.5 million in FY 2005 and $8.6 million in FY 2006.
  - Funds the Board of Education's recommended SOQ prevention, intervention and remediation program ($41.2 million).
  - Funds an increase in the English as a Second Language program to better reflect prevailing staffing ratios ($19.7 million).
  - Funds the final phase of the Cost of Competing Differential for Northern Virginia ($7.1 million).
  - Provides $118.1 million in technology funding for the new biennium.
• Allows localities to deduct a portion of the Title 1 funds being used to support programs for at-risk four-year-olds.
• Continues efforts to ensure that high school seniors have the best chance to meet all the requirements for graduation and for receiving their diplomas.
• Meets all current requirements for the National Board Certification bonus program for teachers and continues the program at revised award levels going forward.
• Meets federal reporting requirements from the No Child Left Behind Act.
• An additional $50.9 million is provided in Central Appropriations as the state share of a three percent salary increase for public school employees funded through the Standards of Quality, effective December 2005.

Higher Education

• Provides $144 million in new funding for Higher Education.
  o Recognizes the need to fund base adequacy and enrollment growth in our institutions of higher education, while calling upon those institutions to award 10,000 additional degrees ($72.6 million).
  o Reduces the need for institutions to rely on increases in tuition by providing significant new state funding.
  o Supports outstanding research programs and the development of research capacity ($13.3 million).
  o Provides financing for $104.4 million in instructional and research equipment during the biennium.
  o Provides resources for additional student financial aid ($9.1 million).
  o Meets commitments to historically black colleges and universities through the Office of Civil Rights Accord ($12.4 million).
  o Provides funds to operate and maintain new buildings, including the Northern Virginia Medical Education Campus ($12.9 million).
  o Increases the Tuition Assistance Grant (TAG) program for students attending private colleges and universities in each year ($4.5 million).
  o Provides for Military Tuition Waivers ($2.0 million).
  o Funds the Institute for Advanced Learning and Research in Danville ($3.1 million).
• An additional $12.0 million is provided in Central Appropriations as a general fund share of an average three percent increase in salaries of faculty, effective November 25, 2005.

Public Safety/Law Enforcement

• Provides $179.1 million in new funding for Public Safety/Law Enforcement.
  o Addresses adult prison capacity issues through a variety of approaches ($97.0 million).
  o Strengthens security statewide by funding the State Agency Radio System (STARS), funding additional law enforcement deputies (1:1,500 ratio),
providing matching funds for the federal SAFER program, and strengthening training for Commonwealth's Attorneys ($11.3 million).
  o Meets public safety commitments by fully funding HB 599 payments ($35.6 million), funding the Criminal and Involuntary Mental Commitment program, providing deputies for new jail facilities, and providing juvenile detention center payments ($64.7 million).
  o Funds the Virginia State Police trooper retention program ($5.0 million).

**Safety Net Programs/Health & Human Resources**

- Provides $942.4 million in new funding for Safety Net Programs/Health & Human Resources.
  - Funds Medicaid utilization and inflation ($707.8 million in new funding).
  - Provides additional funding for the Comprehensive Services Act ($46.8 million).
  - Addresses shortfall in revenues at mental health facilities ($29.6 million).
  - Provides support for increasing caseloads and expenditures for adoption subsidies and foster care ($25.5 million).
  - Addresses shortfall for needy families with dependent children ($20.7 million).
  - Adds support to reflect increased enrollment in the Commonwealth's Medicaid children's health insurance program and Family Access to Medical Insurance Security Plan ($31.3 million).
  - Increases payments to nursing facilities ($9.7 million).
  - Increases the hospital adjustment factor from about 72 percent to 75 percent ($9.1 million).
  - Provides staffing for the civil commitment of sexually violent predators program ($9.1 million).
  - Provides services consistent with the Olmstead decision ($27.5 million).
  - Provides funding for involuntary mental commitments ($3.1 million).
  - Provides $22.2 million for Child Care Assistance, to replace unrealized revenue maximization funds, and to provide for the Electronic Benefit Transfer contract increases.

**Transportation**

- Provides $391.0 million in funding for Transportation.
- Provides funding from the insurance license tax to the Priority Transportation Fund ($272.0 million in general funds).
- Funds additional Federal Highway Reimbursement Anticipation Note bonds debt service to cover the cost of the FRANs that were issued to replace Transportation Trust Fund dollars diverted to the general fund ($9.0 million in general funds). There is an additional $65.8 million for FRAN debt service in the base.

The Tax Reform package includes a one-time benefit for the Transportation Trust Fund from the repeal of the Accelerated Sales Tax ($26.0 million).
Eliminates $87 million in transfers to the general fund.

**General Government**

- Provides $260 million for personal property tax relief.
  - Provides $103.4 million to continue personal property tax relief at the 70 percent level.
  - Includes $156.6 million to increase reimbursements to localities for car tax relief to 77.5 percent in calendar year 2005 and 85 percent in calendar year 2006.
- Provides $87 million to deposit in the Revenue Stabilization Fund.

**Employee Compensation**

- Provides $42.0 million for 3.0 percent salary increase (effective November 25, 2005) for State employees and faculty.
- Provides $50.9 million for the state share of a 3.0 percent salary increase (effective December 1, 2005) for public school employees.
- Provides $12.4 million for a 3.0 percent salary increase (effective December 1, 2005) for state supported local employees such as constitutional officers, local social services employees, election board employees, local health employees, and local juvenile justice workers.
- Provides $66.0 million for the state share of employee health insurance coverage increases.
- Provides $17.3 million for increased costs in the state employee sickness and disability coverage.

**Natural Resources and Economic Development**

- Deposits funds for point source pollution control and non-point source cleanup ($7.7 million).
- Provides technical and financial assistance to localities to develop water supply plans ($1.0 million).
- Creates a special fund for natural and historic resource purposes from the state recordation tax fee ($30.2 million).
- Funds the advertising and marketing of the Jamestown 2007 commemoration and creates a partnership leveraging program ($2.0 million).
- Provides funds to market distressed areas to attract business ($2.0 million).
- Funds the Solar Photovoltaic Manufacturing Incentive Grant Program ($1.9 million).

**Capital Outlay**

- Governor's first priority is to complete the $1.9 billion in tax-supported debt authorized in the past two sessions - an additional $170 million is needed to bring these projects on line in this biennium.
The Governor's 2004-2006 biennium capital budget provides $1,241.5 million from the general fund, state debt (including both tax-supported and non-tax-supported debt), and nongeneral fund sources to construct, renovate, repair, or maintain state-owned buildings.

In addition, a separate bill authorizes, contingent upon the passage of tax reform legislation, $273.3 million in capital projects.

Finally, a separate bill authorizes, contingent upon the passage of tax reform legislation, a $159.3 million financing for the STARS radio system for law enforcement.

The Commonwealth of Opportunity Budget and Tax Reform Plan

The Commonwealth of Opportunity budget and tax reform plan, which was announced on November 24th, will generate approximately $500 million a year in new revenue to fund existing commitments in education, health care, and transportation. The plan includes the following specific elements:

- Lowers the income tax for most Virginians.
- Finishes the promise to reduce the food tax by 1.5 cents, and adds one penny to the sales tax.
- Closes corporate loopholes.
- Increases Virginia's lowest-in-the-nation state cigarette tax to pay for health care needs.
- Finishes the promise to end the car tax.
- Eliminates the estate tax for working farms and family-owned businesses.
- Ends the unfair accelerated sales tax collection from retailers.
- Provides incentives for small businesses to invest.
- Eases the tax burden on military, reservists, and National Guard families.
- Commits Virginia to participation in the bipartisan, multi-state Streamlined Sales Tax Project for Internet and catalog purchases.

Sixty-five percent of Virginians will pay less under this plan in 2006 - the first full year of implementation - than they do now. These estimates are based on conservative methods, using the best available data, and only count as "winners" those who would pay at least $50 less in overall state taxes in 2006 than they do in 2003. Moreover, the methods used to reach that calculation on the income tax, sales tax, and car tax have been carefully reviewed and judged to be sound by leading independent economists:

- Dr. Al Broaddus, President of the Federal Reserve Bank of Richmond, who had economists from his staff at the Federal Reserve Bank conduct an independent assessment of our methods;
- Dr. Roy Pearson, Professor of Business at the College of William & Mary, former director of the College's Bureau of Business Research and past president of the Virginia Association of Economists;
- Dr. Steven Fuller, Dwight Schar Faculty Chair and University Professor, and the Director of the Center for Regional Analysis at George Mason University; and
• Dr. Christine Chmura, President and Chief Economist of Chmura Economics and Analytics;

All four economists have provided economic advice and expertise to governors and legislators from both political parties.

**Tax Reform Calculator**

For those who want to see the impact of the tax reform plan on their own finances, the Department of Taxation has developed a Web site calculator. The site can be accessed at taxreform.governor.virginia.gov, or by entering "tax reform" and "Virginia" into any search engine.

**Economic Impact of Plan**

By lowering the tax burden for low- and middle-income families, Governor Warner's plan will stimulate consumer spending and job creation. Investments in education, both at the K-12 level and in higher education, will help attract employers and investors.

As President Bush's own Assistant Secretary of Commerce for Economic Development has pointed out, "The essential quality of a modern, growing, prospering economy is a well-educated, versatile workforce ... To an unprecedented degree, intellectual capital drives economic prosperity."

Additionally, by acting to preserve Virginia's coveted AAA bond rating, investors will be assured of the Commonwealth's commitment to conservative financial management.

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