



An Enduring Legacy for All Virginians

Thomas Jefferson once wrote, “When a man assumes a public trust, he should consider himself as public property.” This sentiment is as true today as it was at the founding of our great nation.

Since becoming Virginia’s 68th Governor, James S. Gilmore, III has worked diligently to accomplish the important tasks the citizens of Virginia entrusted him to carry out.

Governor Gilmore entered office in 1998 with a stated agenda to make the beginning of the new century a “Time for All Virginians.” This agenda centered around his vision that Virginians must be empowered to seek the quality of life they choose as they unite around common goals.

The Governor established his Administration’s goals of providing top-quality education, tax relief for Virginia’s citizens, inclusiveness, economic development, and government reform.

Education stands out as the Governor’s highest priority. In K-12 education, Governor Gilmore set and maintained high standards for public education and provided localities flexibil-

ity to meet their unique educational needs. He has ensured that Virginia’s higher education system remains affordable and that it delivers a quality education, while promoting economic and technological innovation. The Governor’s efforts in this area have assisted Virginia’s colleges and universities in producing graduates capable of competing in the world economy.

The Governor has also worked to build a strong economy and bring prosperity to every part of Virginia. At the very outset of his Administration, Governor Gilmore made a commitment to lower the tax burden on working families and businesses and to improve the economic well being of all Virginians.

In the last few years, Virginia has become widely known as a national information technology leader and is frequently called the “Digital Dominion.” By maintaining Virginia’s leadership in the technology industry, the Governor has sought to use technology in innovative ways to improve the quality of life for every Virginian. He was the first Governor in the nation to appoint a Secretary of Technol-

ogy to exclusively oversee the coordination and utilization of technology statewide.

The Governor has also taken deliberate action to improve the effectiveness of the Commonwealth’s transportation systems, to promote economic growth and job creation, to protect natural resources, and to improve the overall quality of life for all Virginians.

Recently, the Governor joined with national, state, and local leaders to respond to the emerging needs of homeland security. He has worked tirelessly to deliver much-needed economic and public security assistance to help Virginia to recover from the effects of the terrorist attacks on America.

Finally, Governor Gilmore has upheld the financial integrity of the Commonwealth. He has prudently managed the state’s fiscal resources, supported a state government workforce that is motivated and productive, and provided meaningful tax relief to Virginia’s working families.

Building on a record of accomplishment

Completing his final year in office, Governor Gilmore fulfilled the promises he made to Virginia citizens. The Governor and General Assembly have to date:

- ▶ Increased state tax support of K-12 education by more than \$1.1 billion, an increase of 36 percent in just four years, while strengthening instructional, remedial, and testing capabilities of the Standards of Learning,
- ▶ Increased state tax support to operate our public colleges and universities by over \$500 million - a 48 percent increase,
- ▶ Earmarked over \$1.6 billion to improve our college campuses since 1997,
- ▶ Increased operating funding for Norfolk State and Virginia State Universities by 67 percent,
- ▶ Reduced tuition and mandatory fees at public colleges and universities by 20 percent for in-state undergraduates,
- ▶ Provided significant, meaningful, and responsible tax relief by reducing or eliminating 16 major taxes, including the onerous car tax,
- ▶ Increased spending on mental health services by \$213 million, or 49 percent, significantly decreasing

waiting lists for community mental retardation services,

- ▶ Established an elder rights center as the single point of contact for older Virginians for legal assistance, consumer protection, and long-term care services and programs,
- ▶ Established the nation's first Cabinet-level Secretary of Technology, benefiting the citizens and businesses in Virginia by providing direct contact with a technologically advanced state government,
- ▶ Enacted the Virginia Transportation Act of 2000 that provided nearly a \$1.5 billion increase in funding for transportation projects this biennium and up to \$2.8 billion in new money for transportation over the next six years,
- ▶ Established the Priority Transportation Fund, an innovative funding mechanism that will enable critical transportation projects to be identified and built faster,
- ▶ Supported economic development efforts that resulted in the investment of more than \$6 billion in capital for the Commonwealth in 2000,
- ▶ Strengthened Virginia's economic development efforts by aggressively recruiting businesses and industries, and implementing a comprehensive economic development plan,

- ▶ Created in 1999 a separate authority, the Virginia Tourism Authority, to encourage, stimulate, and support tourism in the Commonwealth,
- ▶ Expanded the Commonwealth's tourism efforts by working with the General Assembly to establish African-American Heritage Trails and by budgeting \$1 million for the National Slavery Museum at Jamestown,
- ▶ Protected the environment by providing over \$140 million for the Water Quality Improvement Fund for use in cleaning up the waters of the Commonwealth,
- ▶ Enacted SABRE (Substance Abuse Reduction Effort) to enforce and strengthen Virginia's drug trafficking laws and deter the illegal use of drugs, while providing drug treatment and education programs, and
- ▶ Implemented a new state compensation plan to provide agencies with more flexibility to reward employee performance.

Continuing Virginia's tradition of strong financial management

Under the management of Governor Gilmore, Virginia has consistently been named one of the nation's best-managed states by *Governing Magazine* and the Government Performance Pro-

ject. Wise financial management and fiscal innovation have enabled the Commonwealth to do more with less.

Governor Gilmore's commitment to sound financial management is evidenced by Virginia's Triple-AAA bond ratings, the growth of its Revenue Stabilization Fund, and the Governor's ongoing efforts to improve Virginia's financial system through initiatives such as the Governor's Commission on Government Finance Reform for the 21st Century.

"AAA" bond rating

Virginia's Triple-AAA bond ratings -- from all three major rating agencies -- reflect the Administration's commitment to sound financial management. Wall Street granted Virginia the bond rating reserved only for best financially managed states in the nation, and that confidence continues today.

Governor Gilmore's priorities for the budget

The Governor's budget recommendations for the remainder of fiscal year 2002 and the 2002-2004 biennium involve several overarching priorities. These include:

Meeting his promise to Virginians to eliminate the personal property tax on personally owned vehicles valued at \$20,000 or less. The Governor has included an additional \$111.3 million in 2004 to ac-

complish the final phase of the car tax relief program, beginning January 1, 2004.

Continuing Virginia's tradition of fiscal responsibility. Varying advice was received from economists and business leaders about the length and severity of the current economic recession in Virginia. Although his Advisory Board of Economists assigns a higher likelihood to a more optimistic forecast, the Governor used the most conservative revenue projections in his budget recommendations in order to be fiscally responsible in light of the uncertain conditions.

Recommending no tax increase in the midst of a recession. The Governor believes that a recession is no time to increase taxes. A tax increase would only dampen consumer and business demand at a time when the economy needs a spark.

Using the Commonwealth's Revenue Stabilization Fund as intended in the Constitution. The Commonwealth can use a portion of the balance set aside in the Revenue Stabilization Fund in the event that revenue collections fall significantly and unexpectedly from the amount included in an enacted budget. The current economic situation meets this criterion and the Governor proposes to use a part of the Revenue Stabilization Fund as intended.

Supporting homeland security, emergency preparedness, and response capabilities in the wake of the recent ter-

rorist attacks. The terrorist attacks of September 11 changed the way we go about our everyday business. It is now imperative that Virginians be made aware of the potential threats to their well-being and begin the process of dealing with the risks involved. The Governor has established two panels, the Virginia Preparedness and Security Panel and the Virginia Post-Attack Economic Response Task Force, to examine various issues associated with a coordinated state and local response to terrorism in order to enhance our economic and personal security.

In his budget for 2002 and the 2002-2004 biennium, Governor Gilmore establishes a fund to enable the Commonwealth to respond to terrorist events or any emergency arising from other-than-natural disasters, when such event or emergency results in loss of life and damage and destruction to property. These funds may be used for mitigation of biological attacks and hazardous materials, search and rescue operations, communications systems, security equipment, and disaster preparedness and prevention assistance to local governments that host port facilities throughout the Commonwealth. These funds may also be used to hire up to an additional 100 uniformed state police officers if needed for security and emergency preparedness related activities. This fund can be supplemented with federal and private dollars.

Recognizing the need for spending reductions to balance the budget, while protecting essential services. The budget must be adjusted to accommodate declining revenue collections, but higher-priority endeavors, such as public education, should be protected. Through his proposed budget, the Governor seeks to manage the limited fiscal resources of the state while continuing to implement the priority programs demanded by the people of the Commonwealth.

Using Virginia's excess debt capacity to further our progress in meeting major capital or facility needs. As noted earlier, Virginia holds a bond rating of Triple-AAA from all three major rating agencies. Moreover, Virginia has substantial excess bond issuing capacity because it has issued relatively little debt in the recent past.

The Governor desires to take advantage of the favorable interest rates prevailing in the current economy to move Virginia ahead with major investments in higher education, economic development, and transportation. He also proposes to release previously frozen capital outlay projects to promote an economic stimulus by getting these projects quickly under construction through debt financing.

Rewarding hard working state employees, public school teachers, faculty, and state-supported local employees. Providing salary increases despite challenging economic

times remained a priority of the Governor throughout the budget process. His recommendations provide for a two percent salary increase beginning in 2003. The Governor also proposes that if actual revenue collections exceed the budgeted amount, an additional salary increase be the first priority for the use of any additional funds.

Rectifying historical deficiencies at Norfolk State and Virginia State Universities. Governor Gilmore has taken great steps to guarantee the availability of quality higher education to all of Virginia's citizens. One of the key initiatives of the Gilmore administration has been to rectify the past historical deficiencies at Virginia State University and Norfolk State University, the state's two historically black universities. Since 1997, overall operating funding for the two universities has increased by 67 percent.

The Governor's proposed budget for the 2002-2004 biennium includes \$21.8 million in increased funding for 12 degree programs, including the purchase of supporting educational equipment for these programs, and further improvements to the infrastructure at both Norfolk State and Virginia State Universities. The new funds will allow added degrees in various disciplines including engineering, computer science, criminal justice, mass communications, and education.

The \$21.8 million increase, in addition to the enhanced

funding provided these schools during the four years of the Administration, illustrates Governor Gilmore's commitment to quality and equal educational opportunities for all of the Commonwealth's citizens.

Addressing changes in the economy

Virginia has enjoyed several years of unparalleled growth and prosperity, making possible \$1.3 billion of tax relief over the last three years. Governor Gilmore believed that, during this time of prosperity, the benefits of these good times should be shared with taxpayers in the form of tax relief. The Governor set about eliminating the car tax and reducing many burdensome taxes while providing funds for needed services. Although Virginia's overall economy continues to be in better shape than most states, economic conditions have declined in recent months, resulting in less revenue than was anticipated when the 2000-2002 biennial budget was adopted.

Nationally, the economy is weakening

The U.S. economy declined in the third quarter of 2001, its worst performance in a decade. To bolster consumer spending and combat a faltering economy, the Federal Reserve has cut its target for short-term interest rates ten times this year, three times since the September 11 terrorist attacks.

The terrorist attacks and hundreds of thousands of job cuts have dampened consumer spending, which fuels two-thirds of Gross Domestic Product (GDP), throwing the nation into a recession.

In October, more than 415,000 jobs were eliminated in the United States and the unemployment rate jumped to 5.4 percent from 4.9 percent in September, the biggest one-month surge in 21 years.

Balancing this scenario is the prospect of economic stimuli as the country rebuilds and girds itself for a protracted war on terrorism.

Virginia's economy is faltering, but still outpacing national average

Virginia's economy is wavering from a combination of manufacturing weakness, the severe decline in the Internet and technology market, and the economic shock caused by the September 11 terrorist attacks. The temporary closing of Reagan National Airport, which continues under restrictions, and the deployment of soldiers and sailors from the concentration of military bases in Hampton Roads have cooled consumer spending.

Economists are predicting that in fiscal year 2002:

- ▶ Total personal income growth in Virginia should fall sharply to a rate even lower than that seen in the last recession.

- ▶ Growth in wages and salaries is slowing considerably from its fiscal year 2001 pace, growing at 4.2 percent.
- ▶ Employment growth should remain barely positive, growing at 0.5 percent. Job growth in fiscal year 2003 will only be marginally better, with an expected growth rate of 0.9 percent.
- ▶ Virginia's manufacturing sector is expected to continue to decline.

Long-term help might be on the way as defense spending surges and Virginia seeks federal terrorism relief funds. Economists predict an economic recovery beginning in the middle of next calendar year.

Revenue growth slows

Over the last few years, a booming economy led to double-digit growth in Virginia's revenues. However, the terrorist attacks of September 11 have driven Virginia into a deeper recession, and revenue projections for fiscal year 2002 are expected to be over a billion dollars less than originally projected.

Thirty-two states have reported revenue losses that range from \$20 million to as much as \$10 billion, and the National Association of State Budget Officers predicts that the total revenue loss for state budgets could reach \$20 to \$30

billion nationwide if unemployment continues to rise.

The Gilmore Administration anticipated a reduction in revenues, and has planned accordingly. In October, the Governor's Advisory Board of Economists met to assess the situation. They projected that the recession would continue through the first two quarters of 2002 before moderate growth took over. Based on this scenario, general fund revenue collections were projected to fall \$890 million short of official budgetary projections for fiscal year 2002.

On November 19, the Governor's Advisory Council on Revenue Estimates, which is composed of business and government leaders in the Commonwealth, met and urged that business conditions warranted lowering the revenue estimates even further than the Governor's economic advisors had previously recommended. Their projections lowered the state's general fund revenues for the remainder of this fiscal year by another \$112 million, bringing the total recommended reduction in revenue to over \$1 billion.

In the face of these economic assumptions, the Governor selected the fiscally responsible approach in developing his budget, adopting the more conservative forecast put forth by the various groups. Accordingly, the Governor's budget makes adjustment for over a billion dollars of revenue loss this fiscal year and

lowers expectations for the next two years similarly.

This action required tough choices on the spending side of the ledger to balance the budget. However, should the economy rebound more quickly, as the Governor's Board of Economic Advisors predicted, hundreds of millions of dollars will be available for the priorities of the people of Virginia. These funds would be available for salaries for state employees, faculty, and teachers, as well as for other high-priority items.

Meeting Virginia's economic challenges with no tax increase

When Governor Gilmore took office, he promised to eliminate the personal property tax on personally owned vehicles valued at \$20,000 or less. Throughout his term, Governor Gilmore has worked hard to keep the promise he made to the citizens of Virginia. The Personal Property Tax Relief Act of 1998 constituted the largest tax relief plan in Virginia history. By 2002, 70 percent of the car tax was eliminated on qualifying vehicles, resulting in annual personal property tax relief to the people of Virginia of more than \$800 million.

With the deepening economic recession and declining state revenue, the need for a tax increase will almost certainly be debated. The Governor's position is that a tax increase in

the midst of a recession is the wrong course of action. The economy desperately needs a lift, not a greater tax burden.

As for car tax relief, the Governor points out that the money involved would have surely been allocated to additional state government spending had it not been returned to taxpayers. This increased spending would have resulted in corresponding larger "holes" in the budget. In effect, more government programs would have had to be reduced because of the recession. In contrast, the Governor believes that Virginia's working families are now in a better position to deal with a changing economy simply because additional money is being returned to them through his car tax relief program. This money makes a real difference to Virginia's working men and women.

Although revenues will not grow enough to meet the legal requirements to advance to the final phase of car tax relief next year, the last step in the car tax relief program remains a priority of the Administration. In keeping with his promise, the Governor has included an additional \$111.3 million in his introduced budget for fiscal year 2004 to accomplish the final phase of the car tax relief program.

Governor's Commission on Finance Reform for the 21st Century

Governor Gilmore appointed a high-level commission comprised of legislators,

local officials, and private-sector experts to recommend broad reforms to Virginia's taxing structure and its Constitution. Tom Bliley, a former Congressman, former House Commerce Committee Chairman, and former mayor of the City of Richmond, chaired the Governor's Commission on Government Finance Reform for the 21st Century.

The commission addressed the following issues and principles:

- ▶ State and local tax structures, including elimination of the personal property tax on vehicles and other tax reforms;
- ▶ The appropriate division between state and local governments for the provision of and funding for essential services, including education, public safety and social services; and
- ▶ Modernization of government, including improvements to the state budget process, continuity in public policy over time, and mechanisms for long-term strategic planning for the Commonwealth.

The commission presented a coordinated set of recommendations for reform and made a final report to the Governor on December 17, 2001.

Using the Revenue Stabilization Fund as intended

As part of its study of the executive budget process in 1990, the Joint Legislative Audit and Review Commission proposed a constitutional amendment to create a revenue stabilization fund as a permanent part of the Commonwealth's budgeting system. The constitutional amendment was agreed to by the General Assembly in its 1991 and 1992 sessions, and was ratified by voters in November 1992. The amendment became effective January 1, 1993.

The Revenue Stabilization Fund is intended to help prevent funding instability due to changing economic conditions. When Virginia's economy and revenues are expanding, the state deposits money into the fund. When Virginia's economy unexpectedly contracts, the fund is available to partially offset shortfalls in revenues.

In 1997, the state had about \$157 million in the Revenue Stabilization Fund. Since then, the size of the fund has grown tremendously. Several large deposits plus interest earnings will raise the Revenue Stabilization Fund balance to about \$940 million at the end of fiscal year 2002.

Because of the deepening recession attributable in part to the terrorist attacks of September 11, the Governor's recommended budget amendments

for fiscal year 2002 propose using some of the fund within the constraints set by Virginia's Constitution. Transfers from the Revenue Stabilization Fund are limited to no more than the lesser of:

- ▶ one-half of the amount by which appropriated revenue exceeds the revised revenue forecast, or
- ▶ one-half of the balance in the fund.

In 2002, the Governor proposes transferring \$467.0 million from the Revenue Stabilization Fund to the general fund.

Responding decisively to the September 11 terrorist attacks

The terrorist attacks of September 11, 2001, on the World Trade Center in New York City and on the Pentagon in Arlington, Virginia, resulted in significant loss of life and property. The terrorist attacks not only had an immediate and devastating effect on many Virginians and New Yorkers, but also significantly disrupted the nation's economy and sense of security.

Virginia suffered extraordinary losses due to its role as the home of Reagan Washington National Airport, the home of the Hampton Roads naval facilities, and close neighbor to the District of Columbia. When these effects are taken into account, the special damages to Virginia's economy, distinct

from those related to national economic activity, will probably amount to around \$1.8 billion. This represents a real hardship for the Commonwealth as the impact has resulted in economic dislocation for many Virginians.

Virginia Preparedness and Security Panel

To develop a blueprint for the protection of Virginians and their property from future terrorist attacks, Governor Gilmore created the Virginia Preparedness and Security Panel. The panel was charged with conducting a swift analysis of security threats within the state in order to identify risks to Virginians and vital properties. After this analysis, the panel examined Virginia's preparedness to respond to the identified risks and made recommendations to close the gaps in the state's ability to protect its people.

Virginia Post-Attack Economic Response Task Force

Governor Gilmore also worked quickly to establish the Virginia Post-Attack Economic Response Task Force to assist the workers and businesses in the Commonwealth in dealing with the adverse economic impacts of the September 11 terrorist attacks and the subsequent recession. The task force was charged with coordinating state government activities related to the Commonwealth's long-term economic recovery

efforts. Specifically, it was tasked with:

- ▶ Assessing the level and nature of impacts on the Commonwealth's economy, businesses, and workforce,
- ▶ Developing and implementing a long-term recovery strategy,
- ▶ Coordinating the provision of federal, state, and private funding,
- ▶ Providing technical assistance to affected businesses and communities, and
- ▶ Serving as a catalyst for public and private community partnerships to promote recovery.

Already the Governor and the task force have taken the following steps:

- ▶ Created the Governor's Emergency Opportunity Fund to attract new jobs to Virginia,
- ▶ Added \$600,000 in additional funding for the Virginia Capital Access Program to aid small businesses and entrepreneurs affected in the wake of the attacks, and
- ▶ Initiated a \$1.5 million advertising and matching grants program, "Virginia Stands for Freedom," to stimulate Virginia's tourism industry recovery over the short term.

Governor Gilmore also worked to assist thousands of Virginia airline workers who were laid off after the tempo-

rary closure of Reagan Washington National Airport. The Governor directed the Virginia Employment Commission to take all appropriate steps to assist workers displaced because of the airport's closing. Specifically, Governor Gilmore announced the establishment of an on-site help center to assist workers in securing benefits.

The Governor also, by executive order, suspended the waiting period for unemployment benefits, allowed employees to file a short form for unemployment insurance, waived the work search requirement until a decision was made to reopen Reagan Washington National Airport, and allowed for backdating of unemployment claims to September 9, 2001. Each of these measures facilitated the processing of benefits for those affected by the closing of Reagan National.

Governor Gilmore's 2002-2004 biennial budget proposes \$7.5 million in funding to support anti-terrorism initiatives in 2002, \$5.0 million in 2003, and \$7.8 million in 2004. These dollars can be used for a variety of purposes to respond to terrorist events or an emergency arising from other than natural disasters, when such event or emergency results in loss of life and damage and destruction to property.

State funding may be supplemented by federal dollars. The federal government is currently examining Virginia's

application for categorical assistance in this area.

Meeting the challenge of a changing economy through strong leadership

The Governor's 2002-2004 biennial budget fulfills his record of keeping the promises he made to Virginia's citizens by placing the highest priority on education, maintaining tax relief, and responsibly managing the state's limited resources.

Because of the September 11 terrorist attacks on the United States and the resulting economic recession, developing the 2002-2004 biennial budget meant making tough choices.

In order to fulfill his Constitutional obligation to balance the budget, Governor Gilmore included in this budget several strategies and ideas designed to save money and increase efficiency. These strategies can be classified into three broad categories: cost containment actions, targeted reductions, and across-the-board reductions. The Governor's targeted budget reductions, cost containment strategies, and across-the-board reductions are expected to yield over \$1.2 billion in additional savings in the 2002-2004 biennium. This translates into \$631.7 million in 2003, and \$593.7 million in 2004.

The Governor's budget is based on the most conservative estimate of revenue collections.

Recognizing that actual collections may exceed what has been included in his budget, the Governor has earmarked that any extra revenue be used to address four priority needs:

- ▶ Salary increases for state employees, faculty, public school teachers, and state-supported local employees,
- ▶ Grants to nonstate agencies not funded in 2002 because of the budget impasse,
- ▶ Up to \$30 million in additional maintenance reserve funding for state agencies and institutions of higher education, and
- ▶ Offsets to the across-the-board reductions.

Cost containment strategies

In order to address the immediate fiscal constraints dealing from September 11, the Governor has identified a number of cost containment strategies. The strategies will yield significant savings and allow the Governor to redirect resources into other priority areas. These strategies are not expected to significantly impact current programs or services.

Some of the Governor's cost containment strategies include:

- ▶ Closing an underutilized boot camp operated by the Department of Corrections at the Southampton correctional complex (\$2.1 million each year),

- ▶ Realizing savings from the reduction in workers compensation premiums. As a result of workplace safety improvements, a number of state agencies are experiencing a reduction in their premiums. A portion of the savings, 25 percent, will remain with these agencies as an incentive to maintain workplace safety (\$980,000 in 2003 and \$553,000 in 2004), and
- ▶ Maximizing federal financial participation by optimizing Medicaid claims, recovering costs, and reducing eligibility determination errors (\$19 million in both 2003 and 2004).

Targeted reductions

Some of the Governor's targeted reductions include:

- ▶ Eliminating duplicative funding for the Richmond Continuum project. A savings of \$783,600 each year,
- ▶ Transferring the Culpeper Juvenile Correction Center to the Department of Corrections (\$3 million in 2003 and \$6.1 million in 2004), and
- ▶ Sharing a portion of Virginia Geographic Information Network's operational costs between the Wireless E-911 Fund and the general fund (\$250,000 in both 2003 and 2004).

Across-the-board reductions

After double-digit increases in spending in recent years, the

Commonwealth is able to reduce spending by a small amount this year. Working families all across the state are making sacrifices during this extraordinary time; surely their government can do the same.

Selected agencies are required to reduce their spending by two percent this fiscal year. It is anticipated that the two percent reductions in fiscal year 2002 will save Virginia \$61.4 million from the general fund, and \$4.9 million in non-general funds.

In 2003 and 2004, the two percent savings instituted in 2002 will continue and an additional four percent will be imposed. This will save Virginia an additional \$380.9 million from the general fund, and \$29.6 million in nongeneral funds during fiscal years 2003 and 2004.

Governor Gilmore's proposals achieve reductions responsibly while preserving critical services affecting public health and safety, as well as aid to citizens and localities. Key public safety activities and public education were exempted from the across-the-board reductions.

Keeping promises to Virginians with the 2002-2004 biennial budget

Governor Gilmore's 2002-2004 biennial budget continues the necessary actions to actively and responsibly meet the chal-

lenges posed by the recent changes in economic conditions. Upholding Virginia's tradition of sound financial management practices, this budget efficiently uses the state's resources to pursue effective and innovative initiatives and solutions. These actions include:

- ▶ Increasing funds for higher education and direct aid to public education,
- ▶ Providing salary increases for state employees, elementary and secondary school teachers, and college faculty, and developing ways to improve productivity and reduce the size of state government through targeted and across-the-board budget reductions, and
- ▶ Protecting the investment in Virginia's higher education and other facilities by utilizing Virginia's exceptional debt capacity.

Helping schools and Virginia's children

As Governor Gilmore concludes the final year of his Administration, he continues his strong commitment to education through initiatives ensuring that Virginia's children receive a quality education that is rigorous, meaningful, and innovative.

Since 1997, the state has increased spending on K-12 education by almost \$1.1 billion dollars, or 36 percent. During the same period, state per pupil

spending for public education increased by 28 percent.

Since 1997, the Governor has maintained and strengthened the Standards of Learning (SOL), one of the most important educational reforms in the country. He has implemented the measurement of student performance using SOL scores as baseline data.

In keeping with the Governor's commitment to K-12 education, his proposed 2002-2004 biennial budget will add \$170.3 million in general fund support for public education and continued implementation of the Standards of Learning.

Governor Gilmore has also strengthened SOLs by expanding readiness and remediation programs, and hiring nearly 4,000 new teachers.

Continuing the Standards of Learning reforms

Six years ago, Virginia started one of the most ambitious instructional and standardized testing programs in the country. The SOLs set minimum student requirements in each grade level, kindergarten through grade 12, and in the core subject areas of English, math, science, and social studies. These standards have helped to ensure that schools impart to students the basic knowledge, skills, and abilities required to maintain a knowledgeable and economically competitive citizenry.

In addition, the Standards of Accreditation (SOA) set expectations and criteria to en-

sure that student progress on the SOL is measured, and that school boards, administrators, and teachers are held accountable. These standards demonstrate to citizens that school boards, administrators, and teachers are using state funds efficiently and effectively.

The latest test results clearly demonstrate that these landmark reforms are now paying off. This past spring, Virginia students made significant gains on SOL tests. Students improved on 25 of the 28 SOL tests taken by elementary, middle, and high school students compared with the results of tests given in the spring of 2000.

Additionally, since the first year of SOL testing in 1998, student achievement has increased on all tests, including double-digit increases on 23 of the assessments.

This strong performance of Virginia students has resulted in a dramatic increase in the number of schools meeting the Commonwealth's eventual standard for academic achievement. This year, 731, or 40 percent of Virginia's 1,839 public elementary and secondary schools, met or exceeded the 2007 standard for full accreditation, nearly doubling the number of schools that reached full accreditation last year. Student achievement at another 558 (or 30 percent) of Virginia's schools met or exceeded progress benchmarks for 2001 set by the Board of Education. Taken together, this means that seven out of ten schools meet or exceed the

or exceed the Commonwealth's current standard for student achievement, a dramatic improvement from three years ago.

The Governor continues to believe that implementing these high standards is essential. He is also committed to addressing the concerns of students, parents, and school boards regarding their implementation, and to ensuring that no student or school is left behind as the state continues this major reform effort.

Fully fund the Standards of Quality

The state Standards of Quality (SOQ) formula is updated every fiscal year based on several components that impact state funding, including average daily membership, the composite index of local ability to pay, and sales tax estimates.

In order for the state to meet its commitment to the SOQs, the 2002-2004 biennial budget reflects the most recent information in determining the cost of these programs. The Governor ensures that the state meets its commitment to fully fund its share of the SOQs and incentive-based educational programs by providing \$380.0 million in all funds.

Implementing web-based Standards of Learning technology initiatives

Two years ago, the Governor began an aggressive campaign to ensure that all high school children had access to

the latest technology tools in their classroom instruction. His web-based technology initiative set forth a goal of ensuring that all high schools had a ratio of one computer to five students, Internet ready access, and the ability to apply this technology to instruction and testing in the classroom. During the 2000 legislative session, the General Assembly and the Governor provided over \$114 million to school divisions to achieve this goal.

In his proposed budget for the 2002-2004 biennium, the Governor takes the next step in this ambitious initiative by providing another \$116 million to local school divisions to achieve the objectives of the program and to expand it to include middle and elementary schools as well. In addition, the Governor is providing \$6.4 million over the biennium to establish web-based testing of the Standards of Learning in all high schools.

Keeping the promise to enhance opportunities in higher education

Governor Gilmore has continued Virginia's tradition of excellence in higher education by supporting initiatives that ensure that quality higher education in Virginia is accessible, affordable, and accountable. Today, Virginia higher education institutions are equipping about 300,000 students with the knowledge and skills necessary

to work in and contribute to American society in the 21st Century.

Governor Gilmore has supported Virginia's strong tradition of excellence in higher education in a variety of ways. He has significantly increased support to Virginia's historically black public universities, Norfolk State University and Virginia State University. In his proposed budget for the 2002-2004 biennium, the Governor provides \$21.8 million to these two institutions to improve the quality of academic programs and address maintenance needs.

Making education more affordable

The Governor also implemented a 20 percent tuition rollback at Virginia public colleges and universities for in-state undergraduate students. With continued funding for 2002, over 250,000 students will have benefited from this tuition and fee rollback. Following the rollback, the Governor froze tuition at the lower level. Further, he supported increased appropriations to support Tuition Assistance Grants for students attending Virginia's private colleges.

After four consecutive years of freezing tuition, the Governor's proposed budget allows universities to raise tuition based upon an approved plan.

Fulfilling a commitment to match federal funds for land grant schools

Governor Gilmore has made a commitment to make Virginia the only state in the nation to provide the 100 percent state match of federal funds under the cooperative extension and agricultural research program for 1890 land grant schools. The Governor proposed that the 100 percent state match be phased in over a three-year period beginning in 2000. Currently, \$2.5 million of state matching funds is appropriated toward this goal. The 2002-2004 biennial budget recommends an additional \$1.8 million, so that the 100 percent state match can be realized.

Providing equipment to colleges and universities

Since 1986, the Virginia College Building Authority has issued \$484 million in bonds for the Higher Education Equipment Trust Fund to support the purchase of instructional and research equipment at Virginia's institutions of higher education. For the 2002-2004 biennium, the Governor continues support of the Trust Fund by including funding to finance the purchase of an additional \$50 million in equipment at Virginia's institutions of higher education.

Bringing more technology and research to Virginia

The Governor established an innovative Technology Research Fund. Public institutions of higher education re-

ceived awards from the fund to:

- ▶ Match competitive federal or private research grants in technology and the hard sciences,
- ▶ Upgrade the national ranking of key academic departments to attract more public and private research funding, and
- ▶ Strengthen key academic departments to induce industries to locate and expand in Virginia. The Governor's proposed 2002-2004 biennial budget continues funding for projects awarded funding under this program.

Significant new funding for much-needed capital improvements

In addition, the budget funds significant construction and renovation projects at all Virginia colleges and universities. The Governor's budget proposes \$560.6 million in new funding for higher education facilities. This funding will support projects such as construction of new classroom buildings, renovation of libraries and academic facilities, and renovations to heating, ventilating, and air conditioning systems. The Governor is proposing \$272.8 million to support projects delayed under Executive Order 74 (2001). The Governor proposes using a general obligation bond issue, to be approved by voters in a referendum, to support capital projects at higher education

institutions. With this major infusion of new funds, Virginia's institutions of higher education will be better prepared to meet the demands of the coming decades.

Phase-in funding of 'Ensuring Greater Access' for student financial assistance

Although the Commonwealth of Virginia has traditionally established the goal of funding 50 percent of "remaining need" for Virginia's students, evidence shows that this amount often falls short of meeting students' financial needs, forcing them to use less desirable funding sources, such as credit card debt and high interest loans. The Commonwealth seeks to reduce students' reliance on such sources and achieve the Governor's goal of increasing all Virginians' access to higher education. This budget provides \$12.7 million, beginning the phase in of meeting the total estimated "Ensuring Greater Access" amount for Virginia students at all 17 Virginia higher education institutions.

Fund state match for GEAR UP program

The State Council of Higher Education was notified in September 2000 that its grant proposal for the federal Gaining Early Awareness and Readiness for Undergraduate Program (GEAR UP) was awarded funding of \$10.4 million, to be provided over a five-year period. The purpose of this program is to assist in eliminating

the “digital divide” among students, to provide scholarships to students from low-income families, and to increase the rate at which students from low-income families enroll and succeed in college.

The federal program requires that the Commonwealth provide a 50 percent state match at some time over the five-year period of the grant. The Commonwealth will use the required state match monies for student scholarships. This funding assumes state funding of nearly \$1.1 million each year for the five-year period of the grant award. These state matching funds will be deposited to the Virginia Education Savings Trust (VEST) and will yield interest, thereby increasing the amount of scholarships that can be awarded to students.

Fully fund indigent health care costs at the Commonwealth's two teaching hospitals

The Governor recommends fully funding indigent care costs using a mechanism to provide \$29.3 million in fiscal year 2003. In addition, the 2002-2004 biennial budget includes \$34.7 million in additional state funds in 2004 to support indigent care at the state's two teaching hospitals, Virginia Commonwealth University Health System Authority and the University of Virginia Medical Center.

Recognizing the value of the state workforce

The effective delivery of state government services depends greatly upon the quality of state employees. To attract and retain an educated, dedicated, and motivated work force, state government must be competitive in its salary structure and benefits. State employees have been challenged to be more innovative and creative and to continue to deliver quality services. Governor Gilmore recognizes the value of the state workforce and the enormous contributions that they make.

The Commission on Reform of the Classified Compensation Plan was created to examine and implement methods that can be used to help attract and retain qualified state employees, reward sustained high performance, and support management in the accomplishment of organizational objectives. The Commission determined that a pay plan must be implemented that uses a less structured organization, allows agencies the flexibility to apply pay adjustments or pay practices when and where needed, and determines pay adjustments on employee performance.

Under compensation reform, employees can receive salary increases in one of two ways:

- ▶ A performance-based structural adjustment as a result

of annual performance evaluation, or

- ▶ A base adjustment or one-time bonus under new “pay practices” guidelines. The pay practices include both monetary and non-monetary spot awards that can be used to recognize good performance.

Governor Gilmore supports state employees and compensation reform in his proposed 2002-2004 biennial budget. He recommends funding an average statewide pay-for-performance adjustment of two percent beginning in November of 2002. Salary adjustments for individual state employees can range from zero to five percent based on performance. Over \$65 million is included for this purpose.

Should actual revenue collections exceed the amount budgeted, additional salary increases will be granted. In addition to the salary increases, the introduced budget provides over \$48 million to cover the general fund share of employee health insurance premium increases.

Caring for Virginia's less fortunate citizens

Virginia has an obligation to improve treatment and care for citizens who cannot care for themselves. Initiatives in the Governor's 2002-2004 biennial budget include efforts to strengthen Virginia's mental health system, to ensure fund-

ing for special education and foster care, to provide an improved information management infrastructure, and to fund Medicaid.

Continuing to improve care for the most vulnerable Virginians

The Governor's "Five Point Plan for the Future of Mental Health in Virginia" was based on creating improved quality of care for those requiring facility-based treatment and protection. As part of the Governor's five-point plan, this budget funds enhanced staffing at Southwestern Virginia Training Center, Central Virginia Training Center, Southside Virginia Training Center, and Southeastern Virginia Training Center.

Governor Gilmore's budget provides \$1.7 million in each year to improve the level of staffing, individualized service planning, active treatment, and professionally recognized best clinical practices at these facilities.

Addressing the needs of Virginia's mentally disabled community

Since the beginning of this Administration, the Governor has been committed to addressing the Commonwealth's mental health needs. Actions taken include continued support for the Mental Retardation (MR) Waiver.

The Governor's budget fully funds the projected needs of the current 5,386 MR Waiver slots each year of the biennium.

Approximately \$18 million is recommended for that purpose. In addition, the Department of Medical Assistance Services is seeking approval from the Centers for Medicare & Medicaid Services for an additional 150 MR Waiver slots. An additional \$5.8 million is recommended for this initiative.

Medicaid changes for utilization and inflation and to provide match for mental health facilities

The Department of Mental Health, Mental Retardation and Substance Abuse Services has projected its federal Medicaid expenditures to be \$224 million each year. In order to receive Medicaid payments, the department must have a sufficient matching amount from the state's general fund.

This budget action will ensure that the mental health system will have sufficient funds to support services in mental health facilities. The Governor's budget provides \$27.4 million for this purpose.

Mandated Medicaid funding needs to be adjusted for the 2002-2004 biennium to reflect the most current changes in the use of authorized services by recipients and increases in charges for those services. Medicaid funding includes allocations for general Medicaid, mental illness services, and mental health and mental retardation community services.

The Governor's budget fully funds the estimated need for the biennium by providing

\$586.9 million from the general fund for that purpose.

Services for at-risk youth

The Comprehensive Services Act provides funding for services to Virginia's children with emotional and behavioral problems. The program is a state and local partnership to offer the highest quality of services. To ensure that the state continues to support these mandated special education and foster care services, the Governor's budget provides an additional \$108.6 million.

Increases in foster care and adoption payments

In keeping with Governor Gilmore's commitment to helping Virginia families, this Administration has supported stronger efforts in local foster care and adoption programs. With the goal of a loving, caring family for every child, local social service agencies have increased the number of adoption placements by 34 percent over the past four years.

Often, families who are willing to provide foster care or to adopt a child face additional financial difficulties, particularly if the child has special needs. Foster care maintenance and adoption subsidy payments make it possible for a child to be cared for in a nurturing family environment. In order to meet the needs of the children and their families, Governor Gilmore has included \$38 million to cover expenditure increases.

Child support enforcement

Maintaining the state's commitment to child support enforcement is a top priority. The Department of Social Services collects payments from non-custodial parents and distributes them to custodial parents and guardians. The Governor's budget proposes an additional \$1.5 million to continue funding operations.

Department of Health information management infrastructure

Additional funding is necessary to support the Health Department's essential information management infrastructure. This infrastructure is the backbone of agency operations and supports every program and service provided by health departments. The action provides funding sufficient to meet existing biennial obligations and stabilize the current network structure. The Governor's budget addresses this critical need by adding \$6.0 million over the biennium.

Food Stamp Electronic Benefit Transfer System

In keeping with the Governor's emphasis on technology and in compliance with federal welfare reform law, Virginia will implement a statewide bankcard system for delivering food stamp benefits. This new system will provide a more effective and efficient way of delivering food stamp benefits to recipients. The Governor's budget recommends \$4 million

to implement this system by October 1, 2002.

Medicaid claims processing system

The Medicaid claims processing system is another approach that uses technology to improve the way Virginia does business. Governor Gilmore is providing \$1.2 million in this budget to ensure the completion of the new Medicaid Management Information System at the Department of Medical Assistance Services, as well as to address certification and post-implementation enhancements. Once the new system is implemented, the Commonwealth will be able to continue to provide quality care to those receiving Medicaid services in a more cost-effective and efficient manner.

Treatment for violent sexual predators

Violent sexual predators are a threat to society. Effective treatment, and therefore, a lower rate of repeat offenses, requires a combination of effective screening, comprehensive treatment specific to sex offenders, and intensive long-term monitoring. Governor Gilmore is committing \$1.3 million in 2004 to develop a secure program to identify, assess, and treat persons with violent sexual disorders.

Maintaining a firm commitment to economic development

Economic development continues to be a strong focus of the Gilmore Administration. Since 1998, Virginia's economy created more than 320,000 new jobs. These jobs benefited not just one industry or one region, but the entire economy and every Virginian.

Virginia's economy is dependent on industries that provide good jobs. To attract and encourage modern businesses in Virginia, the state helps with performance grant programs.

Grants under the semiconductor memory or logic wafer manufacturing performance grant programs are based on the volume of manufacturing and sales of memory and logic wafers, the amount of new investment, and the number of new jobs created.

The Governor's budget provides \$6.7 million in funding for the initial grant payments under the program.

Improving the quality of the Chesapeake Bay

Governor Gilmore initiated participation in the federal Conservation Reserve Program and has previously provided \$8.4 million. This multi-year project will provide incentive payments to landowners for cost-share in-

stallation of Best Management Practices and supplemental rental payments for land removed from agricultural production. The project also provides for the purchase of dedicated conservation easements on the established or restored land near streams and rivers to help reduce the runoff of nutrients from pollution sources by acting as a natural filtration system for ground water or as restored wetland.

This reduction in pollution will improve the quality of the natural life of the Chesapeake Bay. The Governor's budget provides \$6.1 million to continue this project.

Protecting the investment in Virginia's facilities

Over the years, the Commonwealth has invested taxpayer funds in a vast array of capital projects, including museums, office buildings, and facilities for higher education, mental health, mental retardation, and corrections. The Commonwealth has also furnished such structures with the systems and equipment needed to permit people to work or live in such facilities in comfort.

To protect the taxpayers' investment in state facilities, millions of dollars are appropriated annually for the repair and maintenance of state-owned buildings. This funding is designed to repair or replace obsolete or inoperable equipment, utility systems, and

components of structures such as windows, roofs, and lighting.

As state buildings have aged and more efficient technologies for heating and cooling have been developed, the need for their maintenance or upgrades has grown. To keep pace with growing needs, maintenance reserve funding increased 68 percent, from \$59.7 million in the 1996-1998 biennium to \$75 million in the 2000-2002 biennium.

While protecting and enhancing older facilities, the state has also had to address

the need for additional capital investments such as classrooms, technologically sophisticated laboratories, and upgrades to institutions for people in the state's care. To meet these needs, the state has engaged in an ongoing capital improvement effort to fund, construct, and maintain state facilities.

'Pay-as-you-use' funding

Debt, which involves financing expenses over an extended period, is used for expenditures for long-term capital assets, such as land and buildings. This option is re-

Proposed debt financing in the Governor's budget

Debt to be approved by voters

Higher Education	<u>\$608,190,000</u>
Subtotal voter-approved debt	\$608,190,000

Other proposed debt financing

Cultural Arts	\$105,164,000
Economic Development	\$26,780,000
Environment	\$1,000,000
Health and Human Resources	\$32,928,280
Higher Education ¹	\$318,368,832
Other Education	\$1,350,000
Parks	\$2,615,000
Ports	\$131,000,000
Public Safety	\$95,211,630
Seat of Government	\$22,796,486
Transportation	<u>\$654,300,000</u>
Subtotal other debt	\$1,391,532,228

Total proposed debt financing	\$1,999,722,228
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Does not include \$530.6 million in 9(d) institutional debt.

ferred to as “pay-as-you-use,” because payment extends over the useful life of the asset. Thus, those who use the asset pay for it over time. Home-owners and businesses commonly use this method of financing large projects.

The principal method of debt financing is long-term bonds. The use of bond proceeds gives the Commonwealth flexibility to pay for much needed capital outlay expenses without affecting priorities in the operating budgets of state agencies that provide vital services to citizens.

Every state and almost every municipality uses debt financing to some degree. In the early 1990s, as Virginia struggled through a recession, economic conditions and lower interest rates reduced the cost of construction. To take advantage of these lower interest rates and reduced construction costs and to preserve resources for other priorities, Virginia turned to debt financing and other methods for paying the cost of capital projects. Short-term debt is used as well for assets with shorter useful lives or for funding in anticipation of issuing long-term bonds.

Governor Gilmore is proposing a total bond package of nearly \$2.0 billion to allow agencies and institutions of higher education to address pressing needs for new construction, completion of existing or previously approved projects, and maintenance and repair of existing structures.

The projects to be funded using debt financing include:

- ▶ \$560.6 million in new higher education projects, as well as \$272.8 million in projects frozen under Executive Order 74 (2001),
- ▶ \$131 million in new funding for Virginia Port Authority projects, and
- ▶ \$85.3 million in new funding for local and state public safety capital projects.

Governor Gilmore is proposing to finance \$608 million of higher education projects, through a General Obligation Bond (GOB) issue. If the GOB package is approved by the General Assembly, a referendum of voters would be held in November 2002.

Together, the GOB issue and the bond proposals in the Governor’s budget for the remainder of fiscal year 2002 and the 2002-2004 biennium provide almost \$2.0 billion in much-needed funding to address the capital needs of state agencies and institutions, and guarantee that Virginia’s capital assets will be prepared to meet the needs of future generations.

Investing in research for the 21st Century

Key components of the Governor’s GOB proposal are research and enhanced technology at the institutions of higher education. One such initiative funded in the GOB is the Life Sciences Program. This is a joint venture between the Commonwealth and four of the

major research universities in Virginia – University of Virginia, Virginia Commonwealth University, Virginia Polytechnic Institute and State University and George Mason University. Seven new research facilities will be built at these four universities, with \$131.8 million in GOB funds.

The initiative is designed to attract additional funding through private businesses, medical institutions, and federal agencies for grant and contract research. The projects are primarily focused on the life sciences and will help the Commonwealth build a highly integrated, world-class team of research institutions. In addition, investment in these facilities will allow the Commonwealth to take advantage of the new Howard Hughes Medical Institute campus being built in Loudoun County.

Each university will complement the others by designating Centers of Excellence in Life Sciences.

- ▶ George Mason University will use gene chip technology to reveal the relationship between disease states and the expression of specific genes.
- ▶ Virginia Commonwealth University will pursue advances in human genome information to design highly specific drug therapies to minimize the side effects associated with more generic pharmacological approaches.

- ▶ Virginia Tech will seek to understand and modify metabolic traits in plants and animals for economic and medical benefit.
- ▶ The center at the University of Virginia will seek to understand how genetic and environmental information interact to create cells, tissue, and organs. Insights gained will lead to medical advances in tissue engineering, organ replacement and repair, and healthy aging.

In addition to the above facilities, the General Obligation Bond package includes \$7.0 million in funding for the state's share of the Materials Science Engineering and Nanotechnology Building. This facility will provide adequate research space at the University of Virginia for a recent National Science Foundation grant to establish the Center for Nanoscopic Materials Design to strengthen the university's position as a high tech leader and to improve teaching and research.

Many states have already announced new academic life science infrastructure and research programs totaling billions of dollars. The Commonwealth must not be left behind. By taking this step and investing in the construction of new state-of-the-art facilities and creating the best research environments, we will attract the best faculty and students to the Commonwealth. Most importantly, this investment will allow Virginia to compete in

scientific areas that will dominate the national research agenda in the future.