

ADDRESS
of
JOHN N. DALTON
GOVERNOR
TO THE
THE GENERAL ASSEMBLY
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SENATE DOCUMENT No. 1

COMMONWEALTH OF VIRGINIA
Richmond, Virginia
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Mr. Speaker, Mr. President, My Former Colleagues, Ladies and Gentlemen.

Last year I spoke to you of the uncertainty that we faced as a State. The actions I proposed and the programs you approved at that time reflected that state of affairs. The events of the past year have proved the soundness of our actions.

While we had all hoped otherwise, the times remain unsettled, interest rates at stifling levels, inflation sapping the country's economic strength, millions still unemployed.

Even in such difficult times, I am pleased to report that the state of the Commonwealth is basically sound. While other states and the Federal government wrestle with deficits and their consequences, our revenues have edged above our estimates and our budget shows a healthy balance.

While others have found extreme measures necessary, we have continued to assist our localities with their needs and provided essential services to our citizens with greater efficiency and economy.

I am conscious of the desire many of you have expressed to limit the length of this short session. Accordingly, I will not add materially to the number of bills that will be before you this session. In addition, to save you time, I directed that suggested legislation from the executive branch be prefiled.

Our revenue picture reflects a favorable business climate continuing to attract new industries and encourage those we have.

For the year 1980, announcements of new and expanding manufacturing firms totaled 99 with employment of 8,925. Of these announcements, 39 were for new firms with projected employment of 4,107 and 60 were for expansions of existing firms with expected employment of 4,818.

More than 1,700 additional jobs were recorded as a result of major non-manufacturing announcements.

During the past three years, announcements of new industrial plants or major expansions totaled more than one billion dollars, resulting in some 27,000 new private sector jobs.

While our unemployment rate continues to be relatively low, recent increases have reduced our Unemployment Trust Fund and triggered your legislation authorizing the Governor to add a surcharge until you could take more permanent action.

My action in increasing the surcharge leaves certain inequities in the rates still to be addressed. The proposals before you should also address these inequities.

I agree with the approach being recommended that would add a pool cost factor to cover firms that go out of business or that have a high labor turnover.

I also concur with applying a fund building factor that has also been proposed to increase the fund to at least \$300 million, which it approached prior to the 1974-75 recession.

This will still mean that the burden on our Virginia employers is relatively light.

Under the rate structure in place in 1980, there were only 7 states with lower average unemployment insurance rates than Virginia. Even with the additional surcharge, the average employer will pay in 1981 a lower rate than all but 15 states.

With respect to the trust fund itself, 14 states now have trust funds that are insolvent and one state currently owes \$1.4 billion as a result of borrowing from the Federal government to cover fund deficits.

NATURAL RESOURCES

On the brighter side, in spite of the gasoline situation our travel industry is approaching the \$3 billion mark, up from \$1.8 billion in 1977 and our Virginia State Travel Service has received national recognition for its promotion efforts.

Our farmers have suffered a drastic decline in net income as a result of last summer's drought and the continued increases in production costs.

As one means of assistance, I am recommending that you create an agricultural development lending authority tied to the Farmers Home Administration loan guarantee program to help our farmers with needed capital outlays with no risk or obligation on the part of the Commonwealth.

Our largest industry is also threatened with the continued loss of prime farm land to commercial development, in spite of your efforts to have localities set aside farm and forest districts.

While I would not underestimate the need to preserve land for farming, I would caution you against any precipitous move in the direction of state mandated land use.

This past dry year has underlined for us the growing problem that while Virginia has plenty of fresh water, adequate supplies are not located where the people are.

Certain aspects of the problem are now before the courts with respect to the cities and counties of Tidewater.

While the outcome may settle some legal questions, the basic problem remains.

I suggest that you continue the Water Study Commission. Adequate supplies of water are too basic to permit further delays.

We can be encouraged that since January, 1978, there has been a 40 percent reduction in water pollution from major industries and communities, largely as a result of some \$235 million allocated by the State Water Control Board.

Virginia has also met Federal air quality standards for all pollutants except for ozone and carbon monoxide levels over larger urban areas.

For the first time in several years, we have some cause for optimism with respect to the Kepone contamination of the James River. Test results on finfish, crabs and oysters have continued to show a declining level of Kepone in all species during this past year, and there was a rapid decline in concentrations for each season compared to the previous year.

As a result, the State Health Department was able to open the river for some additional recreational fishing for a part of the year.

Our seafood industry recorded a 24 percent increase in sales over the mid-1970's, indicating some recovery from the Kepone scare, partially as a result of promotional efforts.

Last year, three million people visited our State parks, including the newly opened York River and False Cape Parks and private investors spent some \$13 million in the purchase and restoration of historic landmarks.

During the last three years, nearly 120,000 acres have been reforested, although a recent study indicates that in many counties pine is still being harvested faster than it is being replanted.

In the same period, nearly 3,800 acres of abandoned surface mines have been reclaimed. Nearly half of our cities and counties,

embracing two-thirds of the State's population, now have advanced litter control programs largely as a result of State efforts.

Over the past three years, the State has acquired 6,300 acres of new public hunting and fishing lands, constructed many new boat ramps and opened new lakes.

We now have programs in place to assist localities in conserving public beaches, advising private citizens on control of erosion and protecting sand dunes as buffers.

TRANSPORTATION

In the field of transportation, I must report that the combination of smaller and more efficient automobiles, the increasing price of gasoline and our appeals for conservation are being realized and are impacting on our gasoline tax collections.

For the first five months of the current fiscal year, total highway revenues from State sources, including the titling tax and gasoline tax, came to \$189.3 million, compared to \$188.6 million for the same period in the previous fiscal year.

In brief, the 2 penny increase in the gasoline tax has so far produced an increase of less than four-tenths of one percent in revenues for that department at a time of double digit inflation in highway construction and maintenance costs. We anticipate that there will be some modest improvement in collections as we move through the rest of this biennium.

I am not recommending that you address this problem at your short session, but we must keep these figures in mind in our plans for present and future highway and transportation needs.

I might add that total employment in the Department of Highways and Transportation has declined by 1,111 people since July of 1978, with 417 of these being within the last 12 months.

Long before certain questions were raised during the discussion of the gasoline tax increase, I joined the Secretary of Transportation and the Commissioner of Highways and Transportation in initiating a study of the Department of Highways and Transportation by an independent consultant.

Although the consultant's report recommended certain improvements which the Department has been implementing, the director of this study reported to your committee that the Department was one of the top three in the country.

Subsequently, your own Joint Legislative Audit and Review Commission conducted an independent study of the Department. You should be aware that the thrust of the preliminary JLARC report differed substantially from some published accounts.

In view of the highway revenue picture I have outlined, I think it would be profitable to you to review both reports carefully in order that we may reach agreement on the nature and extent of our highway and transportation needs.

Among the positive results from highway revenues during the past three years have been the completion of 35 new bridges in our coal mining counties, 10 more under construction and 43 in various stages of design, out of the 113 for which you provided funds.

Federal funds of \$26.5 million were obligated in 1980 for other bridge replacement projects.

During 1980, twenty-eight additional miles of interstate highway were opened. We now have in place 33 fringe area free parking lots, adjacent to cities and rural population centers and another 31 in design stages.

The department itself has reviewed standards for subdivision streets after a series of public hearings and amended them to provide more flexibility and innovation as an assist to localities.

During 1980, the Division of Motor Vehicles opened seven full service branch offices, plus one office for vehicle and driver licensing only, with no overall increase in personnel.

Over the past year, transportation planning officials held over 25 meetings with planning district and local elected officials to obtain a sense of local concerns and priorities to assist in the planning process.

The Secretary of Transportation will be giving a preliminary report to your appropriate committees on progress towards an overall State transportation plan.

HUMAN SERVICES

In the area of human services, more than 7,000 handicapped citizens have returned to gainful employment during fiscal 1980, for a total increase in earnings of more than \$32 million and savings of nearly a million dollars in public assistance.

New emphasis on subsidized permanent adoptions for orphaned or neglected children has reduced the cost per child to \$131 per month, compared to \$345 per month for supporting children in foster homes in this experiment.

In keeping with your directive at your last session, we have continued to emphasize prevention in our approach to mental health, mental retardation and substance abuse and continued the movement away from the concentration of mental patients in large regional facilities and toward community centers and services.

Largely as a result of this policy, the case load at our mental hospitals has dropped from a peak of 15,000 in June of 1965 to 8,200 in December of 1980 or a reduction of 46 percent.

You have all been made aware that I have withdrawn Virginia's participation in the Federal Developmental Disabilities program.

Continuing the program would have required that the State have in place by October, 1982, an extensive and expensive evaluation program and further submission to even more Federal regulations.

I have directed that those projects offering direct services to clients be funded for their additional one year of life from other sources, and I have created by executive order an Advocacy Office for the developmentally disabled at the State level as a bridge between eligible clients and existing State services.

As a special incentive to both public and private agencies, I have issued a proclamation asking public response to the International Year of Disabled Persons designated by the United Nations, and I have appointed Jean Harris, our Secretary of Human Resources, as Virginia's official liaison with the U.S. Council for the International Year of the Disabled Persons. She is already at work on Virginia's participation in the Community Partnership Program of the U.S. Council for the Observance.

We have made significant progress in complying with the accessibility requirements of the Rehabilitation Act passed in 1973 by the United States Congress.

A statewide organization of handicapped citizens recently conducted a seminar designed to inform several key agency personnel about the requirements of making State buildings and programs accessible to the disabled and handicapped.

As our own response to the needs of Caribbean and Asian refugees, Virginia was the first state to submit a plan to Federal agencies, calling on the private sector to take the lead in recruiting sponsoring agencies and providing jobs, with State and local government filling in the gaps for the 11,000 Cubans and Haitians and refugees from Vietnam, Cambodia and Laos.

PUBLIC SAFETY

In the area of public safety, our program of diverting non-violent offenders to community correctional programs shows promise. However, the pressure of inmate population growth continues.

In January, 1976, we had 7,730 convicted felons in Virginia correctional facilities, including local jails. We now have 9,786 and that figure is within one percent of the Department of Corrections projections made in 1976.

Those projections foresee a total of 14,773 by 1990, including allowances for changes in criminal statutes already in place and state prisoners backed up in local jails, so you can see the problem we must continue to address during the 1980's.

During the last three years we have completed 710 new beds in adult correctional facilities, and you have authorized another 1,300 beds in medium security facilities at Brunswick and Buckingham, a Youthful Offender facility at Southampton and major alterations at Staunton. In the juvenile area we are constructing a 40-bed Intensive Treatment Learning Center at Bon Air.

Still requiring attention are further expansion of correctional facilities by construction of additional medium security institutions, phasing out of dormitory-style facilities where necessary, replacement of temporary trailer facilities and older, outmoded field units and the eventual replacement of the very old penitentiary in downtown Richmond.

In the area of Commerce and Resources, an increasing number of employers are taking advantage of our new State voluntary compliance and training program for Federal occupational health and safety regulations and our State inspectors have examined 158 dams on our streams for safety.

ENERGY

Our numerous approaches to the continuing energy problem have shown some encouraging results, both in terms of keeping our people supplied and in our conservation efforts among State agencies.

Our Office of Emergency and Energy Services conducted energy cost cutting clinics for almost 9,000 Virginians and distributed over one million pieces of conservation material during 1980. As the result of more fuel efficient cars and reduced mileage, Virginia motorists burned approximately 6.3 percent less gasoline during 1980.

Over the past three years in our State buildings, redesigning of planned construction from oil to coal, reconversion to coal of buildings previously converted to oil and conversion from oil to a combination of coal, oil and natural gas will avoid the use of some 3.5 million gallons of oil a year.

Conversion from oil in the industrial sector in Virginia has resulted in displacement of about 3.6 million barrels of oil annually.

VEPCO conversions alone from oil back to coal since 1975 now bring annual savings of 14.3 million barrels and additional conversions within the next two years are expected to save another 5 million barrels a year. Virginia leads the nation in converting utility boilers from oil back to coal.

As encouragement to those Virginians who have already turned to wood as a heat source, the Division of Forestry reports that Virginia forests contain some 73 million tons of surplus wood unsuitable for other uses or enough to offset residential and small industry oil demand by 5 to 10 percent.

Virginia's coal industry continues to be a major supplier of energy both at home and abroad, with production increasing from 32 million tons in 1978 to 37 million tons in 1979 and an estimated 47 to 50 million tons in 1980, in spite of increased Federal regulatory hurdles.

Federal agencies have rejected Federal financing of initial feasibility studies on behalf of private interests for synthetic fuel plants in our coal producing counties. However, we are continuing to work with our Congressional delegation to see if that door can be kept open.

PORTS

Shipments through Virginia ports reached 66 million tons in 1980, making Virginia number one on the East Coast in total tonnage, surpassing New York City for the first time.

In spite of the continuing backlog of coal ships waiting to load, coal exports through Virginia's ports last year increased to 50 million tons, compared to 34 million in 1979 and 15 million in 1978.

According to a study by Old Dominion University, the increase in this past year alone added \$295 million and almost 17,000 new jobs to Virginia's total economy. This is in addition to the jobs and dollars generated in our coal fields.

In broader terms, coal shipments through Virginia ports last year amounted to almost 70 percent of all United States coal exports.

I recommend to you the Port and Port Authority Study Commission's plan for port unification and for designating Port Authority members by geographic areas for wider representation, which I have been putting into practice in my appointments.

At the same time, I must oppose the action suggested in the study to return the appointment of the Port Authority Director to the members of the Authority. Such a move would run counter to the action you took in 1978 in passing Hopkins Commission legislation which mandated better and more uniform accountability resulting from agency directors in the executive branch being appointed by the Chief Executive.

I am optimistic that with the help of our Congressional delegation, our Virginia ports will be approved for channel deepening to 55 feet with Federal funds, beginning with the outbound channel to enable coal ships to leave fully loaded.

In spite of our more than tripling coal export tonnage through Virginia ports in the last three years, we have approximately 132 coal ships now at anchor waiting for a chance to load.

As the backlog developed, I felt it was incumbent on me as Governor to bring the respective parties together to find an answer.

After a series of meetings with coal operators, railroads, transshippers and port interests, I have been able to announce agreements by private industry of more than \$200 million to build two new coal loading facilities and to put back into service an additional pier as a means of gearing up for a potential export market of 100 to 200 million tons by 1990.

The planned coal loading facility on the site of the proposed refinery at Portsmouth may be delayed as a result of litigation over ownership of the land, but I am confident that a coal facility will eventually be built there.

The Virginia Port Authority is also exploring the feasibility of a coal loading facility at Craney Island in Portsmouth.

These facilities will not only vastly increase America's potential as an energy producer, but they will also help our allies in Europe and the Far East toward an energy alternative in the face of possible disruption of oil supplies from the Middle East.

We have initiated a program to monitor the movement of hazardous radioactive wastes through the State, and we are currently exploring sites for final disposal of low level waste, since access to disposal sites in other states has been sharply reduced and will continue to be.

I suggest that you continue the study of our options in this regard.

Our ability to protect the public from any major nuclear accident has been tested with a trial evacuation procedure, monitored by Federal authorities, followed by the licensing of VEPCO's North Anna II nuclear generating plant.

EDUCATION

As always, one of our high priority concerns will be education, which consumes a major portion of both State and local budgets.

Your perspective on this subject will be enhanced by a review of what has been accomplished by the General Assembly and the Administration working together for the past three years.

General Fund appropriations for elementary and secondary education increased by about \$220 million or 30 percent while average daily membership declined by 7 percent for a funding increase of over 39 percent on a per student basis.

General Fund appropriations for higher education increased from \$330 million in fiscal 1978 to \$509 million in fiscal 1981, as enrollment increased by eight percent or an increase in funding of 43 percent per full time equivalent student.

New remedial programs are taking shape for eighth and ninth graders who cannot read, write, or figure adequately and State funds have been provided to our localities to ease the impact of declining enrollments, which reduce State funding but not necessarily local school budgets.

In terms of total General Fund appropriations for higher education, Virginia has moved from fifteenth to eleventh place among the fifty states since 1977.

Minority enrollment at traditionally white four-year colleges increased by 34 percent in the last three years. Affirmative action employment plans are in place at all 39 State colleges and comprehensive plans have been drawn to strengthen Virginia State and Norfolk State.

The vet school at Virginia Tech is off to a good start, George Mason now has an accredited law school and the special funding for excellence you provided is being well utilized by our colleges and universities.

Also paying rich dividends are the increases in funding for the public libraries, the Virginia Museum of Fine Arts, the Commission for the Arts and the Virginia Science Museum, including the new planetarium, which is now under construction.

An emphasis on improved management is showing results in that varying degrees of reorganization have reduced total employment in the office of the Secretary of Education, the Department of Education, the State Council of Higher Education and the Department of Community Colleges by 117 positions or 15 percent over the past three years.

This October marks the two hundredth anniversary of the Battle of Yorktown, which assured independence from England and made possible the American experiment of which we are all the beneficiaries.

The one hundred fiftieth anniversary of that battle was marked by a nationwide celebration of major proportions with participation by national military units and with the President of the United States laying the cornerstone for the monument at Yorktown itself.

In spite of the efforts of our United States Senators and Congressmen, the Federal response to the two hundredth anniversary has so far been much less enthusiastic.

I believe that our people would expect a proper celebration of Yorktown as a major event in Virginia, and I have included some additional funding for this purpose with the hope that the Congress will reciprocate in a national celebration.

FEDERALISM

All of us have been concerned at various times and in various ways about our relationship with the Federal government and this concern is shared by other states.

Last fall, the executive committees of the National Governors' Association and the National Conference of State Legislatures held an unprecedented joint meeting with the aim of correcting the long-standing imbalance of powers between the levels of government and returning to the original concept of Federalism contained in the Constitution.

Our guide was the Tenth Amendment stating that "the powers not delegated to the United States by the Constitution nor prohibited by it to the states, are reserved to the states respectively or to the people."

We are concerned with the steady encroachment of the Federal government into state affairs and with the proliferation of Federal

categorical grants and their effect on the State's own finances and priorities.

As one initiative, several Virginia Congressmen are co-patrons on a bill now before the Congress to require State and local fiscal impact statements on all Federal initiatives which would be a major step if the legislation passes.

One further possibility would be a meeting on Federalism including members of this body and our Congressional delegation. I will report back to you on this option as it develops.

The President-elect has set Federalism as one of his top priorities, and I am encouraged that our initiatives may see some positive results.

CONTROLLING GROWTH OF GOVERNMENT

During the past three years, I have kept you apprised of the results of our joint effort to control the size and growth of State government.

Our program has been effective in significantly reducing the rate of growth in state government.

While past trends would have indicated that state employment could have grown by approximately 11 percent during the last biennium, the growth in reality was only 2.9 percent in the two years ending June 30, 1980.

Past trends might have added as many as 5,900 additional employees to state payrolls, drawing salaries and benefits, had not the policies established by the General Assembly and the Administration, working together, been in existence.

Government at the federal, state and local levels must continue to provide and improve needed services while aggressively continuing cost controls. At the federal level, the new administration has promised to take the required actions to achieve the desired results. Within the circle of State government, Virginia has been in the forefront of that movement and in the last three years we have been successful. In 1959-60, State government expenditures were 5.9 percent of the Gross State Product which represents the total value of goods and services generated within our State.

During the next seventeen years both Gross State Product (GSP) and state expenditures grew, but the rate of growth of State expenditures was greater. In 1976-77 the percentage had reached 9.3 percent.

During the last few years, the institution of aggressive cost control measures designed to improve State services by improving the productivity of the resources employed is showing dividends. By 1979-80, the last year for which Gross State Product (GSP) is available, State expenditures as a percent of GSP had declined from the peak level of 9.3 percent in 1976-77 to 8.8 percent.

This means that State government is now taking a smaller percentage of the goods and services generated in Virginia to operate state government than was the case in 1977, leaving a larger percentage of those goods and services for individual families.

Thirty-nine states now have state and local tax burdens per \$1,000 of personal income higher than Virginia so we are doing fairly well in relation to other states in holding down the cost of government in Virginia.

THE BUDGET

When we prepared our original revenue forecasts for 1980-82, economic uncertainties dictated a cautious approach. We did not have the luxury of a General Fund balance to offset unexpected downturns in revenue collections. Given the requirement that our spending programs must be kept within available revenues, the spending plan presented for 1980-82 was within the revenue restraints.

I remind you that the budget you approved in 1980 for our current biennium contained far less than the amount required to fund the 1978-80 biennium service level at today's rate of inflation.

We spent \$4.6 billion in our General Fund during 1978-80. The amount that would have been required to fund those same services in 1980-82 at known inflation rates would have approximated \$5.9 billion. Our current budget appropriated \$5.5 billion, which included a new item of \$145 million for distribution to localities required by House Bill 599. Had we sent this money back to the people instead of to their local governments, the percent of Gross State Product kept by State Government would have dropped even further.

During the past year inflation exceeded our estimates, and consequently collections exceeded our revenue projections. Accordingly, we needed to adjust the factors on which we based the 1980-82 budget.

Keep in mind that the same factors that pushed collections over the estimates concurrently affected the costs of State services and programs funded from those same collections. The inflationary pressures on our service and employee costs, coupled with increased Medicaid needs, clearly justify the request I will make for interim adjustments to our budget.

For the biennium ended June 30, 1980, we had a balance of \$42.4 million left unappropriated. We also had \$22 million left from a contingent appropriation to VSRS which was not used because the requirement was already provided for in the 1980-82 budget.

A re-examination of the 1980-82 estimates indicate we should increase our projections. A detailed review of the situation was made by our Advisory Board of Economists and our Advisory Board on Revenue Estimates, comprised of leading business and industrial executives and their economic advisors.

Both groups were virtually unanimous in recommending that we increase our revenue forecast for 1980-82 by \$115.5 million. They also recommended that further analysis be made of the cash flow and interest income for a possible additional adjustment. I will provide that to you as soon as results for the December quarter can be completed for review.

At this date, I am recommending that the total General Fund revenue available for 1980-82 be increased by the balance of \$64.4 million from June 30, 1980, the additional revenue forecast of \$115.5 million and \$3.8 million in other adjustments and reversions for a total of \$183.7 million.

To begin with I have provided two million dollars for school textbooks, as required by the current appropriations act.

I am recommending to you from available revenues \$35 million to increase basic school aid from the current \$1,075 per pupil to \$1,155 as an assist to our localities with teacher salaries, retirement, social security and group life insurance and loss of enrollment, plus \$12 million in the first year to address the cost of converting to monthly deposit of social security payments required by congressional action.

I have also added one million dollars for energy related transportation costs for school children.

The total additional funds for public schooling come to \$48.2 million.

You will also find increases in the area of Administration and Finance to improve accountability statewide, to continue decentralizing our State personnel activities and increase training for our employees, and to tighten investment procedures for cash balances.

In response to the increasing concern over the possible health hazard presented by the past use of asbestos for sound absorption and insulation, I have included an additional one million dollars to reduce exposure in various State buildings.

Another item of increasing concern has been the availability of emergency medical services. To that end, I have included one-half million dollars for the support of organizations in that field.

Without reviewing all of the recommended budget amendments, there are a few more of which I think you should be aware.

I am recommending the addition of nearly \$1 million for our program of training employees for specific jobs in new industrial plants, which has been a major assist in our industrial development efforts.

This simply honors our outstanding commitment to new industries locating in Virginia.

As a result of a civil rights complaint filed with the Federal government, funds have been included for contracts with various school divisions for 52 residents of mental retardation facilities in order to give them a public school setting for their education.

This may very well be a case of coming events casting their shadows before.

Combined State and Federal funds have been provided to operate the fuel assistance program for welfare recipients and low income families which was renewed by the Federal government subsequent to your 1980 session.

The State Police budget is augmented to maintain the Bureau of Criminal Investigation and to begin financing of the automobile emissions inspection program.

Major items are included to enable the Department of Corrections to increase inmate safety, to permit reimbursement to localities for jail operations in order to maintain the present level of effort and to maintain a level of 200 special placements for juveniles by the juvenile courts. A modest increase for the Community Diversion Incentive Program is also included.

Like any organization, the efficiency of State government depends on its employees. By resolution, you have indicated that their salaries should be kept competitive with the private sector.

The current budget provides for an increase for State employees of seven percent the first year and 4.5 percent the second.

I am recommending that the increase the second year be raised to nine percent for all classified employees and those whose pay practices normally follow the classified pay plan. We are also including additional funds to supplement the appropriations for teaching and research faculty in higher education.

While this will not keep up with inflation, it maintains our relative position in the market place and represents an additional General Fund cost of more than \$47 million.

I am also suggesting language to ensure that agencies supported in whole or in part by non-General Funds will bear their proportionate share of the increases.

I have included an increased General Fund item to cover unbudgeted costs to State agencies for medical and hospitalization premiums on behalf of employees, in the face of an anticipated premium increase of 30 percent.

Also included are funds to augment the salaries of State constitutional officers.

Finally, I have included an item of a little more than \$9 million from the General Fund to help our agencies with unbudgeted costs for commodities and services on which inflation has taken its toll.

A major threat to our fiscal integrity is presented by the financial condition of the Medicaid program, a condition we share with two-thirds of the 50 states, which face annual cost overruns as high as \$80 million.

Our own projected Medicaid deficit for the 1980-82 biennium amounts to some \$68 million.

In the mini-budget I propose three actions to eliminate this deficit.

First, I recommend appropriating \$44 million in State and Federal funds in the current fiscal year to cover all anticipated costs through June of 1981.

Second, I recommend the transfer of an unanticipated balance of \$9 million from the Department of Mental Health and Mental Retardation and \$12 million in additional funds to cover all but \$3 million of the remaining FY 1982 deficit.

Finally, I propose to eliminate the need for this additional \$3 million through the implementation of cost containment actions in FY 1982.

These actions will buy us time to address very serious and fundamental cost problems in the Medicaid program.

Though I propose to give the Health Department greater latitude in curtailing programs and eligibility and have already taken steps to tighten control over nursing home bed construction costs, we must go further.

We have tightened rules and regulations governing costs, we have revised State participation in the construction of new nursing homes, and we have tightened the handling of certificates of need from regional health planning groups for additional homes.

If the rate of cost escalation over the past ten years were to continue to the year 2,000, the Medicaid program will cost over \$5 billion per year or almost as much as our current biennial General Fund budget.

I share your concern for those who are unable to pay the cost of needed medical care from their own resources.

However, we face a situation in which the growth of this one program could endanger our future support of education, mental health, welfare and a host of other essential State services to our people.

Unwelcome as the alternative may be, we have no choice.

We must find a way to keep this program within reasonable bounds over the next several years in light of anticipated revenues.

You will have before you several bills expanding Medicaid coverage which were carried over from your last session. In light of the figures I have given you, I believe you can anticipate my own action if these bills pass.

For capital outlays, I have included a number of needed repair and renovation items which have been passed over in our previous concern for major construction.

The budget recommendations in the bill I will submit to you total \$174.9 million. This leaves an unappropriated balance of \$6.7 million to cover items that, as always, may have been overlooked, as well as others that might come before you.

I must remind you also that at the time our budget recommendations were being formulated, the audit to determine the amount of the VIMS deficit was still under way, and no provision has been made for that item.

While our immediate concern is the next 37 days, you will shortly thereafter be reviewing what the Governor may have done to some of the bills over which you have labored long and sometimes lovingly.

Again, my hope is to add as little as possible to your labors or your blood pressure.

Both of these will be sorely tested as you proceed with your mandate to adjust the boundaries of your legislative districts and those of our Congressmen.

Here you must be mindful that the results must pass the inspection of the United States Attorney General and perhaps of a Federal court as well.

At this point, I am conscious that this has been a rather long recital for a short session. My excuse is that I have tried to anticipate your questions and reduce your confusion with respect to the matters that are your individual concerns.

I would offer you one thought in closing.

From the results of last November and the word coming to all of us from our people, I think it is clear that they expect us to approach the decade of the 80's as an era of accountability.

I would suggest to you that accountability includes not only an accounting of the efficient use of tax funds, but the efficient delivery of public services.

My dictionary defines accountable as something that is capable of being explained.

I hope that my accounting to you today will be helpful to you in being accountable to your constituents.

