

ADDRESS
of
JOHN N. DALTON
GOVERNOR
TO
THE GENERAL ASSEMBLY
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Mr. Speaker, Mr. President, distinguished guests, my former colleagues in the General Assembly, and those who have since joined the oldest representative assembly in the New World.

I am grateful for your greeting and for the many kindnesses so many of you have shown me during these past four years, recognizing that within the realities of politics, it might have been otherwise.

I am confident that the concern of this body will continue to be the welfare of Virginia and her people, whatever new directions may now beckon.

Today it becomes my duty to offer you my own assessment of the state of the Commonwealth, to review our joint accomplishments over these four years and at least to touch lightly on what remains to be done.

With due regard for the proposition that a swan song should not be interminable, I will not attempt to address every area that might concern us.

But the past is prologue, and it is often our guide to what our future actions should be.

As this Administration took office four years ago, we could see the beginnings of major changes that now confront us, an end to the trend of increasing revenues we enjoyed during the 60's and 70's, the impact of double digit inflation on the costs of both State and local governments as well as on our taxpayers, and the increasing concern of our people over the size and cost of government.

Four years ago, I pledged to control the growth in State employment. With the positive concurrence of the members of this body, I prepared and administered a plan to restrict the number of State employees to only those required for the efficient operation of State programs. I am pleased to report that the plan we have jointly supported has been extremely successful in controlling the growth of State employment.

In fact, during the four years of this Administration, employment in the State's classified system, excluding teaching and research positions, has only grown by 3.3 percent, or less than one percent a year during a four year period when the population grew by 5.6 percent. More recently, since July 1, 1980, State employment in the classified system has actually decreased. This is a significant change from the past, when growth in State employment consistently exceeded five percent per year.

The Governor's Guidance Package, circulated to the Cabinet secretaries and the agencies themselves, directed that services be limited to those which could not be provided by the private sector, that added workloads be met through increased productivity rather than increased employment, and that obsolete, ineffective and low demand services be eliminated.

Together we have responded further by reducing the number of unfunded State mandates to our localities, and by addressing their financial needs as a part of our settlement of the pressing annexation issue. That program which we have referred to H.B. 599 will cost State government \$182 million in the coming biennium.

A cash management program was applied to investment yields to State and local governments from revenue collections held by the State, and electronic fund transfers to localities were initiated. This results in a reduction in the daily balance of our cash accounts and allows local governments to earn interest on their cash balances faster, with a corresponding decrease in State interest revenues.

Level funding was provided for sound financing of the Virginia Supplemental Retirement System.

Continuing the close management of public funds, executive budget targets have replaced the catch-as-catch-can system by which our State agencies submitted their budget requests.

This body has also responded to our people's concern about taxes.

We are now in the fifth and final phase-in year of the tax rate reduction for public utilities, which will reduce State revenues from utility taxes by \$223.5 million over the fiscal years 1982, 83 and 84.

The exemption of home heating fuels from State sales taxes will reduce revenues by \$35.1 million during the same three years.

The State General Fund tax cuts which have taken effect since January 1, 1978 will result in \$281.5 million less taxes being collected in the coming biennium than would have been collected if we had not changed State tax laws.

This sum will be retained by individuals and corporations to spend as they see fit, but the same amount must be subtracted from available General Fund revenues.

In addition, the impact from changes in Federal tax laws will reduce State taxes by \$252.2 million for the three fiscal years beginning in 1982.

However, I assume you will enact legislation I am proposing to limit individual taxpayer deductions for child care to 100 percent of their allowable Federal expenditures, and to limit the so-called "marriage penalty" deduction to the tax adjustment currently permitted under Virginia law.

These two actions would reduce the impact of Federal tax law changes by \$35 million over the three fiscal years, leaving us a net Federal impact of \$217 million, or a combined revenue reduction from both Federal and State tax legislative changes of \$498.7 million over the three years.

This sum when added to the \$182 million needed for local tax relief in H.B. 599 means that the other State programs will have \$680.7 million less to carry on those programs than would have been the case without these changes.

THE BUDGET

Our Advisory Board on Revenue Estimates shares the consensus that the Economic Recovery Act of 1981 will begin to stimulate the national economy late in calendar 1982, and that the moderation in inflation we have already seen will continue at least through the next biennium.

They and the Advisory Board of Economists also share our view that increases in personal income in Virginia will average only a little more than 10 percent each fiscal year through 1984, producing biennial increases in General Fund revenues of 17.6 percent in 1980-82, and 18.6 percent in 1982-84, well below the 23.6 percent increase in 1978-80 and the 30.7 percent increase in 1976-78.

Accordingly, despite General Fund collections \$62.7 million greater than our estimates in fiscal 1981, we can add only \$7.6 million to our official estimates for 1982, and we must subtract \$183.9 million from the 1982-84 target estimates, for a net decrease in revenue estimates for the three-year period of \$176.3 million.

The revised General Fund estimate for fiscal year 1982 now totals \$2,823.5 million, an increase of only 6.8 percent over fiscal 1981.

The estimate for fiscal 1983 is now \$3,074.3 million, or an 8.9 percent increase, and the estimate for fiscal 1984 is \$3,412.4 million, an 11 percent increase.

In the face of the triple whammy of general economic slowdown, reduced Federal dollars and reduced State taxable income from changes in Federal tax law, I have had to take additional actions, unwelcome as they may be, to keep our budgets within projected revenues.

These include elimination of the planned 4.5 percent salary regrade for classified employees, funds for only one instead of two medium security correctional institutions, elimination of a number of capital projects at colleges and universities, and a reduction in the economic contingency and maintenance reserve funds we had hoped to include for your consideration.

You will note that these reductions do not affect the funds previously targeted for our local governments. This was not an easy decision in light of our State revenues, but I believe it reflects your priorities as well as those I have tried to maintain throughout this administration.

MEDICAID

Our major financial problem remains to be addressed, that of Medicaid.

In the 1970-72 biennium, just 10 years ago, Medicaid was budgeted at \$158,851,855, or 4.17 percent of all State spending.

For the biennium 1980-82, the appropriation for Medicaid came to \$870,403,800, or 7.27 percent of all State spending.

The budget bill I am presenting to you includes \$1,055,210,000 for Medicaid, or 8.0 percent of total State spending.

If no changes are made in the law and program now in place for Medicaid funding, the cost in the 1982-84 biennium will be approximately \$1,177,800,000, \$122.6 million more than is included in the budget bill, or about 9 percent of total State spending.

I am submitting language amendments to the Appropriations Act prepared since the budget was printed which would bring Medicaid spending down to the level of \$1,055,210,000 as set forth in the budget bill.

I emphasize the necessity of either passing these amendments or other amendments which you might consider, or increasing the level of funding of what is currently a \$122.6 million problem if no changes are made in the current level of services.

I am very much concerned that if controls are not imposed on the Medicaid program, we will soon have to severely curtail or eliminate other existing programs due to the rapid escalation of this one program, which in 12 years has grown from zero to almost 8 percent of total State spending.

VIRGINIA SUPPLEMENTAL RETIREMENT SYSTEM

Also on the expenditure side, level funding for the Virginia Supplemental Retirement System plus increases in social security and group health insurance will cost at least an additional \$188.3 million over the next biennium, or 18.6 percent of all additional General Fund revenues. While no step increase is included for all classified State employees, this is a significant employee benefit and was needed to make the retirement system actuarially sound. The State contribution from

general funds to the Supplemental Retirement System increases from \$194.4 million in 80-82 to \$320.8 million in 82-84.

Under these conditions, there may be some who feel that general fund taxes should be increased, but this Governor of Virginia is not among them.

I offer you a balanced budget, but any increase in taxes will be up to the members of this body and the next Governor of Virginia.

INDUSTRIAL DEVELOPMENT

Our approach during this Administration has been an increased pursuit of industrial development as a stimulus to Virginia's economy and a source of new personal and corporate income.

To that end, I have led trade delegations to Europe, Asia, and many places in this country, and this body has reduced taxes for multi-state and multi-national corporations to make Virginia even more competitive.

The Division of Industrial Development and the Department of Agriculture and Consumer Services opened offices in Tokyo in 1980.

These and other initiatives to enhance Virginia's industrial climate and attractions have resulted in total investments of \$4.6 billion in new or expanded manufacturing plants, in 32,000 new manufacturing jobs and the growth of Virginia's travel industry from \$1.8 billion to \$3 billion during the past four years.

The result was that between January of 1978 and November of 1981, the latest available figure, the Virginia unemployment rate went down from 6.6 percent to 6.1 percent while the national unemployment rate went up from 7.0 percent to 7.9 percent.

PORTS

Our ports of Hampton Roads are also major contributors to personal and corporate income and to State and local taxes.

Capital outlay funds and revenue bonds authorized during these four years have built a third container berth and related facilities at Norfolk, extended Pier C and provided a second container crane and facilities at Newport News, extended a marginal wharf and initiated land purchases at Portsmouth Marine Terminal, and continued improvements at Norfolk, Portsmouth, Newport News and Lamberts Point facilities in accordance with the integrated master plan for ports now nearing completion.

While our objective of full port unification remains to be completed, interim agreements are in process to fully install Virginia International Terminals as the operating arm.

The backlog of foreign colliers waiting to be loaded has been materially reduced as a result of mutual agreement among the coal-hauling railroads, major coal handling companies and the Commonwealth.

The preliminary design work on the proposed State-owned and operated coal export facility in Portsmouth has been completed, as have the economic and environmental impact studies. We are now awaiting final permitting authority from the appropriate agencies, and a final commitment is anticipated in the early part of this year by the coal companies involved in guaranteeing the payment of the bonds. You will recall that a portion of the facility will be allocated for use by other coal companies.

I am particularly pleased with the developments for this major boost to Virginia's economy and to the nation's economic and energy exporting benefit. Virginia must continue her lead in coal exporting, and the successful completion of this coal facility, in conjunction with the other private sector coal pier improvements, will surely assist in maintaining our number one status and maximize the number of jobs to Virginians that come with being the largest coal exporter. Federal dredging authorization is still pending in Congress, and your supportive actions with respect to Virginia's ports will be helpful in congressional deliberations

HIGHWAYS

To improve the transport of people and goods, the Department of Highways and Transportation has completed construction of 559 miles of new or improved roadways and 556 new bridges and overpasses, widened 371 additional bridges and replaced or upgraded 90 inadequate bridges on coal-hauling roads in these four years.

Eighty-nine new industrial access road projects are completed or underway, 224 flashing signals installed at railroad crossings and 41 commuter parking lots built in transportation corridors serving urban areas while total Highway Department employment has been reduced by 1,905 persons since July of 1978.

However, energy-conscious motorists and a further increase in the number of fuel-efficient cars have combined to reduce highway revenues to the point where we face a loss of more than \$1.1 billion in Federal highway funds between the coming biennium and 1988 for lack of State matching money, in spite of the increase in State gas taxes which you approved in 1980.

Our inability to obtain available Federal funds due to lack of State matching funds begins in the 82-84 biennium with a loss of \$36 million.

Highway revenues for the month of October in this biennium were 2.1 percent less than those for October a year ago, and total highway revenues projected for fiscal 1981-82 show an increase of only 3.49 percent over fiscal 1980-81, compared to construction cost increases from inflation of nearly 12 percent a year.

Your Joint Legislative Audit and Review Commission has proposed several methods of addressing this problem, including adjusting user fees between automobiles and trucks and a projected gas tax increase.

These I leave to your discretion.

METRO RAIL

With respect to Northern Virginia's Metro system, you will recall that we enacted a 4 percent local gasoline tax in those localities endeavoring to meet the Federal requirement for a stable and reliable source of revenue as Virginia's contribution.

As you approach this continuing problem, it would be well to recall that during this Administration, \$41 million has been provided for Metro construction, the addition of commuter buses and administrative assistance bringing the total of State spending for this to \$92 million. This does not include any money generated from the 4 percent local gas tax or the I-266 withdrawal which generated \$53 million and the Metro construction being performed as part of I-66 which would be another credit of approximately \$72 million.

There are now indications from the Federal government that what we have done may still not be sufficient to meet their requirements.

EDUCATION

In the light of certain reactions to State funding for education, you should know that over the last four years, total State funding for elementary and secondary education has increased by nearly 38 percent to over \$1 billion, while enrollment decreased from 1,073,553 to 983,200, or 8.42 percent, for a per pupil funding increase of 51.28 percent.

The basic school aid in the current year is \$1,185 per student.

In the Appropriations Act for 1982-84, you will find an increase in the Basic School Aid Fund of 8.1 percent the first year and 8.3 percent the second year, to a total of \$1,281 per student in fiscal '83 and \$1,387 in fiscal '84. The personnel component of the Basic School Aid Appropriation is increased at the same rate as the Basic School Aid and this should be a material benefit toward increased teacher salaries in our public schools.

Over the same four years, funding for public libraries increased by 147 percent and for the arts and museums by 105 percent.

During this administration, total State funds for higher education increased by 64.6 percent to \$544 million, moving Virginia from 15th place in funding among the 50 states in 1978 to 10th place in fiscal 1982 in total State funding for higher education.

College enrollment increased by 7.6 percent to 182,702 full-time equivalent students, a college of veterinary medicine was established at Virginia Tech, George Mason University now has a law school, new emphasis has been given to agricultural and energy research, marine science research has been reorganized and upgraded, and the boards of the two schools for the deaf and blind have finally been merged.

At the same time, at the seat of government, the combined personnel of the Department of Education, the State Council of Higher Education, the Department of Community Colleges and the Office of the Secretary of Education has been reduced by 117 persons, or 15 percent.

And most significantly, the opportunities for minority members in higher education have seen many advances.

Our ten-year running dialogue with the Federal Office of Civil Rights, which threatened the loss of some \$81 million per year in Federal funds, has been settled in principle.

Combined appropriations and reappropriations will provide capital outlay funds of \$8.4 million at Norfolk State and \$12.4 million at Virginia State in the 1982-84 budget.

In addition, \$2.4 million has been included in 80-82 and \$2.2 million in 82-84 for program enhancement at both institutions.

For the first time, each of our fourteen white institutions and each of our twenty-three community colleges has an affirmative action hiring plan which meets national standards.

Black undergraduate enrollment at traditionally white institutions increased from 5,251 in 1978 to 6,985 in 1980, and each has an affirmative action plan for student recruitment to continue this progress.

Dr. Allix James has been elected as the first black president of the State Board of Education, Dr. Fred Nicholas has been appointed the first black community college president, and Dr. James Price is serving as the first black Assistant Secretary of Education.

As a result of executive action, blacks have been named to all the higher education State governing boards.

To ensure that affirmative action continues, I have appointed an advisory committee of fifteen blacks and fifteen whites, headed by Dr. James Tucker, former President of Virginia State University.

The percentage of black employment in State government now exceeds the percentage of blacks in the total population, and the number of blacks in advanced positions of responsibility has shown an encouraging increase.

CRIME

In response to the growing concern of our people over the threat of crime to their homes, their neighborhoods, their streets and their business establishments, we have created a Bureau of Criminal Investigation in the Department of State Police and given greater emphasis to the prevention of crime and the use of drugs.

The Bureau has been an active member of the multi-State Leviticus Project to root out criminal activity in our coal fields, and the State Police have enforced Virginia's right-to-work law.

To assist in these and other responsibilities, we have completed a modern State and local police communications network, including cruiser-to-cruiser radio contact and State-local police communications capability statewide.

Our Public Safety area has assumed greater responsibility for crime prevention initiatives with a coalition of the public and private sectors, to assist such self-protection efforts as neighborhood crime watch, and these programs now exist in 98 of Virginia's counties and cities.

CORRECTIONS

But once he is convicted of a violent crime, our people expect that a criminal will be removed from society.

To that end, housing has been completed at the correctional center in Mecklenburg.

The new medium security facility in Brunswick will be ready for occupancy in July of 1982 and the one in Buckingham not later than March of 1983.

A youthful offender facility is nearing completion at Southampton, a 40-bed intensive treatment center for juveniles will be ready at the end of March in Bon Air, and renovations are nearing completion for a 200-bed addition at Staunton to be ready for occupancy in April of 1982.

Among other steps have been the establishment of four new prison industries, 11 State-funded local programs for alternatives to incarceration for adults, pilot programs for retarded and emotionally disturbed juveniles, a specialized program for adult sexual offenders, and two secure detention homes for juveniles opened in Henrico and Prince William counties.

As assists to rehabilitation, over 4,000 vocational certificates and 1,900 General Education Diplomas have been awarded since January of 1978.

This is not to say that our correctional problems have been solved.

Currently, some 1,700 convicted felons are being held in local jails of which approximately 1100 should be transferred to State correctional facilities but have not been transferred due to the lack of space at the other State facilities.

Due to the recent Supreme Court decision relating to double-bunking, we anticipate housing 750 instead of 500 as originally planned in each of the new medium security facilities at Brunswick, Buckingham and Nottoway for a net gain of 750 beds.

However, the present population in State facilities is approximately 8,700 inmates, and our bed space requirement is projected to reach nearly 15,000 by 1990, unless alternatives to incarceration of non-violent offenders continue to be given emphasis.

During the past year we have taken the lead in bringing together judges, prosecutors, sheriffs, magistrates and others in the criminal justice field to work toward a consensus on procedural solutions to relieve crowding in our jails and prisons.

One of the principal reasons for the overcrowding problem is the fact that prison sentences have tended to be longer in recent years. The average length of incarceration is now 34 months per inmate whereas it was only 29 months per inmate in 1978.

EMPLOYMENT COMMISSION

The impact of Federal budget cuts has been particularly severe with respect to the Virginia Employment Commission, which receives all of its funding through Federal sources.

Successive Federal reductions in April and again in December have reduced the number of State employment offices from 67 to 26, or a net loss of 41 locations, and the elimination of 788 positions for a 39 percent reduction in the size and capability of the agency.

MENTAL HEALTH

The Department of Mental Health and Mental Retardation is Virginia's largest and most extensive agency, and by its very nature, one that requires constant attention.

During this Administration, two mental health facilities -- Hiram Davis Medical Center in Petersburg and Southern Virginia Mental Health

Institute at Danville -- and two mental retardation facilities -- Northern Virginia Training Center in Fairfax and Lynchburg Training School -- have been accredited.

Virtually all mental retardation and geriatric programs are certified, are meeting Medicaid standards and receiving Medicaid reimbursement, and work is laid out for the completion of the Department's Blueprint for the 80's, drawn up by the Commission on Mental Health and Mental Retardation and the Joint Legislative Audit and Review Commission.

Funding for community programs in the field increased from \$23.4 million to \$46.7 million, or a 100 percent increase from 1978 to 1982.

Community services touched the lives of more than 300,000 Virginians while the number hospitalized dropped from 9,207 to 7,802.

Problems in staffing and management at Western State Hospital were relieved by reassignment of patients, special training for staff members, and development of new programs, with the assistance of local social service providers.

Alcohol and drug abuse and mental health grants from Federal sources will bring a 23.3 percent reduction in Federal funding to these programs, although the full financial impact will not be felt until the next fiscal year.

However, the department continues to be involved in the legal issues surrounding sterilizations, the last of which was performed in Virginia State hospitals in 1973.

The combination of community facilities and the procedure of tracking each patient have brought us closer to our goal of a single care system for the mentally disabled.

WATER

Critically important to our people, businesses and industries is the supply of water.

We have gone a long way toward resolving the Northern Virginia water problem which existed when I took office, by virtue of the agreement worked out with Maryland and D.C., and water will begin to be extracted from the Potomac River in Loudoun County for use in Northern Virginia this year.

I have exercised the executive powers you granted the Governor to allocate supplies and assure present and future supplies to the cities of Tidewater, with due regard for adequate compensation, protection of present use and conservation of this vital resource, and your own Water Study Commission has also wrestled with the problem.

Our basic dilemma is a combination of geography and politics.

Virginia has plenty of water, but it is not located where our people are concentrated, and the legal designation of ground water as a State resource, the doctrine of riparian rights, and the opposition to inter-basin transfer still complicate any suggested solution. I have encouraged Virginia Beach to look to the Appomattox River for the long-term solution of its water problem since that water does not flow into any other state and we can control our own destiny.

I can only suggest that the growing urgency of the problem prompts us to continue our efforts.

CONFLICT OF INTEREST

I must also report that I have been experiencing difficulty in recruiting able Virginians as members of State boards and commissions in light of conflict-of-interest charges in the media, which on investigation have proved to be either inadvertent or technical. I have prepared amendments to our conflict-of-interest statutes which I believe will retain proper safeguards against real or substantial conflicts and at the same time correct the strong impression I have received that Virginians considered for State service are becoming more unwilling to expose themselves, particularly when such service often means a substantial financial sacrifice.

AUTOMOBILE INSPECTIONS

Our program of semi-annual State safety inspection of automobiles and trucks is also in need of adjustment.

Other states have been dropping back to once a year inspections with little apparent impact on accident rates.

I am submitting legislation to change our current requirements to annual inspection and to increase the inspection fee from \$4 to \$7, of which the State would retain \$1 per sticker to make a broader State Police safety program self-supporting, including hazardous materials transportation and heavy commercial vehicle inspection, thus providing relief for the General Fund.

Our citizens are now paying \$8 each year for two inspections, and this move will cut that cost to \$7 for a \$1 saving each year per vehicle.

NUCLEAR POWER

Among our many mandates from the Federal government is a requirement for extensive plans, programs and capabilities for a response

to accidents at nuclear power stations, and annual rehearsals involving State and local personnel.

Full scale exercises were held in August of 1980 at the North Anna nuclear power station and in October of 1981 at the Surry station, with the State absorbing much of the cost.

Since these mandated exercises are directly related to the generation of nuclear power, these costs would be more equitably assessed against the power company and its rate payers, who enjoy the benefits of lower cost nuclear generation, and I have prepared a bill to accomplish this.

I am also recommending several bills of a technical and housekeeping nature which I feel will not be troublesome to you.

In summation, as a result of our joint actions, the Governor-elect will inherit a Commonwealth committed to sound financial management, to limited intrusion into the private lives of our citizens or the operation of local government and to full citizenship for all Virginians, regardless of sex, race, age, creed or handicapped condition, but committed still to prompt and adequate response to the needs of Virginia and her people and to those qualities that make Virginia unique among the states.

For all of us who follow this calling, there are times when we feel called upon to be partisans of our party, but I have never felt that my own actions or comments were directed at any individual, or meant to cast personal aspersions, and I am certain that each of you has felt the same way.

My own farewell to you is touched with the sense of loss that comes to every retiring Governor, but also with the sense of fulfillment of having served to the best of my ability in the highest office the people of Virginia can bestow.

I shall sorely miss the associations I have had with so many members of this body, and the satisfaction of our joint endeavors on Virginia's behalf.

I will carry many warm memories with me, and I look forward to continuing many of our associations as I begin the next phase of my life by returning to the private sector.

And I express the sincere wish that a Benevolent Providence will be generous with his blessings on each of you, and continue to shower them on our beloved Commonwealth in years to come.

In the name of the people of Virginia I say to you, well done, good and faithful servants.

