

**ADDRESS OF**

**GERALD L. BALILES  
GOVERNOR**

**TO THE GENERAL ASSEMBLY OF VIRGINIA**

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THE HONORABLE GERALD L. BALILES  
Governor of Virginia

THE STATE OF THE COMMONWEALTH ADDRESS

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### Introduction

Mr. Speaker, Mr. President, Members of the General Assembly, Justices of the Supreme Court, honored guests, ladies and gentlemen:

A year ago, when I first gave this address, I said that Virginia was riding a crest of change in America and the world.

That may have been an understatement.

Never in Virginia's history has change -- in the form of new economic relationships, technology, and competition -- rushed toward us at such an accelerated pace.

We have quickly arrived within sight of the 21st century -- and we can see a discernible outline of unprecedented challenge and unlimited opportunity ahead.

No longer economically insular, Virginia is rapidly becoming a full participant in a steadily emerging global market.

As a basic premise, I believe our actions must be driven by a single-minded pursuit of excellence.

But to achieve all of which we are capable, to realize our Commonwealth's nearly boundless potential, requires that we must deal with the competitive challenges of the new economic landscape.

### The Year of Trade

Virginia began as an international idea. Jamestown, an extraordinarily risky proposition, was settled for the express purpose of serving as an exporting outpost.

Now, nearly 380 years later, we're compelled more than ever to establish ourselves overseas.

The decisions we make now must be placed in the context of political developments in the Middle East, national debt in Mexico, labor-management relations in Japan and natural resource concerns in Canada.

Simply stated, we must understand the world before we can successfully compete in its markets.

Four months ago, this legislature, in a vital and courageous act, took a giant step toward the future.

The September Special Session on Transportation will be remembered as a turning point -- a crucial moment when Virginia began to lay the groundwork to succeed in the new economic arena of the 21st century.

We confronted a crisis of transportation inadequacy and diminished financial resources.

For the first time, we now have stable sources of financial support for transportation.

We have a vastly improved road construction program, and fiscally replenished ports, airports and transit systems, all of which are essential to the movement of people and products in a global economy.

We're moving on hundreds of highway projects that otherwise would still be on the shelf waiting for funding.

Work still remains to be done. Phase II of the Transportation Commission's work will address the concerns and special requirements of local government.

And we must continuously look for innovative ways to find money for roads of substantial cost, such as the special purpose transportation district for Route 28 in Northern Virginia.

In sum, we're off to an excellent start -- this General Assembly made 1986 "The Year of Transportation."

Now, we can make 1987 "The Year of Trade."

Twenty years ago, exports represented only five percent of total U.S. production.

At the same time, imports accounted for less than five percent of all manufactured goods consumed in the U.S.

Since then, while exports have climbed to more than 12 percent of total production, imports now supply more than 30 percent of all manufactured goods.

So, on the one hand, our economy is far more involved in world trade; and on the other hand, our trade is significantly out of balance.

This means wages are being driven down, millions of workers are being displaced, and entire industries are being challenged as never before.

If you have any doubts about the influences of the world economy on the Commonwealth, just ask a Virginia shoe manufacturer or textile worker.

Or an automobile dealer.

Coincidentally, it was on this very day in 1914 that Henry Ford started the continuous assembly line for cars. This innovation revolutionized American manufacturing and produced millions of jobs.

By the year 2000, it is estimated that less than 5 percent of the American workforce will be employed on assembly lines.

Our economic world is changing, but is Virginia ready?

Not yet.

But it will be.

Virginia's strengthened infrastructure will serve as a sound foundation upon which to proceed.

But, we must go beyond that and build a goal-oriented strategy for international trade and development.

We must pull together the scattered efforts of various state agencies now involved with international trade.

During the next year, a series of executive actions will be taken:

1. We will establish a Virginia International Trade Council.

Composed of business leaders and certain agency heads, the Council will develop a plan for integrating existing resources and creating a trade marketing plan. I intend to chair the Council, which will meet monthly.

We intend to target countries for special attention and effort, to identify Virginia products, commodities and services for sale and export and to set goals for ourselves.

Our trade plan -- which will marshal together the international trade activities of the Department of Economic Development, the Virginia Port Authority, the Department of Agriculture and the Center for World Trade -- will be presented for your consideration in the next regular session.

2. We will redefine Virginia's overseas trade missions.

We will change the way we do business overseas.

With clearer goals and a more specific agenda, our missions should be part of an overall strategy to develop new opportunities for Virginia products and services.

3. We will establish special language academies.

In a growing world economy, communicating with trading partners is critical.

If we cannot communicate with the rest of the world, we will lose markets for our products and our ideas.

The next generation of Virginia business leaders must possess the tools that many of our present generation do not -- and that is the ability to sell in the language of the customer, no matter where that customer may reside.

We must strengthen foreign language programs in our schools, but we should supplement our efforts with Governor's Academies in the languages of world trade -- special summer programs in French, Spanish, German and Asian languages. I have offered a budget amendment to create such programs.

4. We will enter into an alliance with the National Geographic Society.

Geography is more than knowing the names of capitals and mountain ranges; it is the study of people and places and resources. The problem is that geography in the classroom has been deemphasized over the years. Incredibly, one recent survey found that one in five high school students could not find the United States on a map.

We must do better, and the State Department of Education has pledged to move in this direction. In addition, I have proposed an alliance with the National Geographic Society to establish a unique world geography education program for Virginia school teachers, and have included a budget amendment for that initiative.

5. We will promote the Center for World Trade.

It may appear obvious, but if we are to enhance demand for our goods and services, there must be an expanding market. Increasingly so, the world is our market, not just South Carolina, but also South Korea. Yet, we have not expanded our horizons.

Last summer, a survey of small businesses in Virginia showed that only six percent currently export. Worse still, it showed that 77 percent had no interest in exporting.

That attitude must be changed -- and the Center for World Trade will help us do it.

But make no mistake, to yield results these efforts will require a sustained commitment over a period of years.

So we will begin now. And I have offered a budget amendment to accomplish that goal.

### Public Education

But skills of commerce, and knowledge of the world, can be acquired only through education.

In today's global economy, education is not only necessary for the individual to succeed, but critical to society's survival.

By its actions, this legislature has recognized the pivotal influence of public education.

During the 1986 regular session, you replaced a promise with action.

You fully funded the educational Standards of Quality -- an act that will remain a hallmark in our Commonwealth's development.

Education is the fuel that drives the engine of economic growth and job creation in modern society.

We have come a long way -- and have done so more quickly than many thought possible.

But, there is no virtue in stopping now.

Last March, I established a Commission on Excellence in Education. I asked the Commission for new ideas, all designed with a straightforward goal: to put Virginia's schools in the ranks of the top ten in the nation.

I asked the Commission to be bold, to be creative, and to recommend specific actions. They have responded well to this charge.

I did not expect -- nor did I ever consider it feasible -- to deliver at one time all of the Commission's proposals to a short session of the legislature.

And, yet, I am determined to see what actions we should take immediately -- within the existing budget.

Clearly, some recommendations of the Commission cannot be submitted to you without a thorough examination of program design and program costs.

Now is the time to begin that process.

Altogether, the Commission's report contains 36 separate proposals, each of which points toward change in the ways in which our schools, students, teachers and parents act and interact.

Sixteen of these recommendations are made to the Board of Education and the Council of Higher Education.

The twenty remaining Commission recommendations require legislative consideration, approval, and in some cases, funding.

I have already communicated to the Board of Education and the Council of Higher Education my support for several of the Commission's recommendations. There are two of those that I particularly commend to you.

First, the Commission urges the development of a five-year plan for the integration of educational technology into the public school curriculum.

It's this simple: students must have access to the tools of tomorrow's trade.

The technology is there. It's available.

We must see that it is put into Virginia's public school system.

Second, the Commission recommends that a "Literacy Passport Program" -- to close the gap between Virginia's educational "haves" and "have-nots" -- be required for all sixth grade students. I agree.

Illiteracy is a debilitating condition that robs our people of their potential.

Even more, by wounding the individual, illiteracy also gravely injures our society.

There are too many people in our adult population who are functionally illiterate -- and it has costly consequences for all of us.

Something ought to be done.

And something is.

A public/private partnership is being formed in communities across the Commonwealth.

And the First Lady of Virginia is exerting notable leadership in this important work.

I support her efforts.

### Higher Education

A year ago I stood in this spot and asked that you join me in a commitment to higher education no less sweeping than that made to public education over the previous four years.

You heeded the call.

The \$90 million Higher Education Equipment Fund is hailed by other states and the academic community as one of the most innovative in the country.

Furthermore, as a result of your actions a year ago to reduce Community College tuition, enrollment at Virginia's Community Colleges has increased at 22 of 23 college campuses.

I am sending you a budget amendment to continue the downward trend of community college tuition costs.

And to have expert and acclaimed faculty we have to pay competitive salaries.

My budget proposals therefore include a \$25 million faculty salary improvement package.

The proposed salary increases range from five to nine percent, depending on the present competitive position of each college.

And, finally, to compensate for the growing uncertainty surrounding federal student assistance, I will send you legislation to permit the implementation -- at no additional cost to the Commonwealth -- of an innovative supplemental student loan program.

### The Environment

Just as we have seen the shifting patterns in trade -- from provincial to international -- so too we must recognize the changing nature of economic development domestically.



Throughout its history, Virginia's valleys, hills, rivers and plains have given our people the raw materials for home and enterprise.

Each generation has taken a share of the resources -- with the undeniable result that for each following generation there has been less to share, less to use, less to enjoy.

Only in this generation have we had the affluence -- and the sense -- to realize that we must give as much as we take, if the Virginia of the future is not to be a pale shadow of that we enjoy today.

This legislature in 1986 decisively provided the framework Virginia needs to protect and to use the resources we have been given.

We have in place a Secretary of Natural Resources -- an office whose work will measure and administer our progress.

We have in place, as well, the Virginia Department of Waste Management, to ensure the responsible handling and the enforcement of laws governing industrial waste disposal.

In short, we have established the framework that will protect -- for all Virginians -- the water we drink, the air we breathe, and the land we walk on.

Yet, we must not allow our achievements to become excuses for lessening our efforts.

There are new steps demanded that we can -- and should -- take immediately.

The overabundance of nutrients such as phosphorus in Virginia's waters -- the by-product of steady population growth in tidal regions -- requires that we look beyond long-term controls for effective short-term measures.

Conclusive scientific evidence and the experiences of other jurisdictions -- such as Maryland and the District of Columbia -- show that by restricting the use of phosphate detergents and soaps we can reduce the amount of phosphorus entering treatment plants by 20-30 percent.

The Washington Suburban Sanitary Commission says that since a ban was imposed, phosphorus in wastewater has declined by 32 percent; chemicals needed to remove phosphorus have dropped 50-60 percent; sludge production has dropped; and about \$2 million has been saved.

Therefore, after lengthy consideration, I have concluded that the time has come to enact a statewide phosphate detergent ban in Virginia.

A phosphate ban is not a panacea, but a short-term management tool.

Allow me to sign phosphate-banning legislation and, together, we will have taken another important step toward restoring the Bay - and improving water quality throughout Virginia.

I believe that effective management should be the overarching goal of Virginia's resource policies.

Accordingly, I also think it's time to reorganize the Marine Resources Commission.

The Commission, which was called the Commission of Fisheries, has a history that stretches the length of the 20th century.

It has undergone many changes and has seen its mandate repeatedly enlarged. The Virginia Wetlands Act and the Coastal Primary Sand Dune Protection Act are the most recent additions to the Commission's jurisdiction.

And, yet, despite these significant changes, insofar as its composition, the commission remains the old Commission of Fisheries.

The statutes governing the commission advocate broad representation -- and we should see that it happens.

This commission plays a fundamental role in resource protection -- it should better reflect the reality of its statutory charge. I believe legislation is in order to expand the Commission and reorganize its functions.

#### Human Resources

The dignity of the individual, realized in community with others, is the criterion against which all aspects of social and economic life must be measured.

I believe we must structure our policies according to certain principles:

- Prevention of hardship, not simply reaction to it.
- Constant efforts to strengthen the family and keep it together.

- Effective programs to give infants and children a healthy start, so they will enjoy independent lives characterized by self-sufficiency;

The budget before you provides more funds to Human Resources than any other area. It addresses a variety of specific concerns: in the provision of mental health services, in the support of Community Service Boards, and for the new reimbursement plan for hospitals and nursing homes under Medicaid.

Through a transfer of \$6 million from oil overcharge funds to the Department of Social Services we will be able to avoid a disruption of low income fuel assistance and weatherization programs.

And to meet the growing demands for housing, the Virginia Housing Development Authority has created a \$45 million fund for the benefit of the homeless, the disabled, the elderly and others in need.

This is only a partial solution, so I today request that we reactivate the Virginia Housing Study Commission to evaluate our most pressing housing needs, and to make specific recommendations to us.

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In anticipation of this legislative session, a number of issues have been the focus of public interest and discussion.

I want you to know where I stand on them.

#### Hunting Safety

Each November we witness the annual accounts of brothers killing brothers, sons killing fathers, fathers killing sons, strangers killing strangers.

It is time to end Virginia's hunting season as a pageantry of human tragedy.

It is time to require the wearing of blaze orange clothing by hunters and to establish a mandatory hunter education program for young, new hunters.

#### Automobile Driver Safety

National studies conclude that the use of a seat belt can reduce serious injuries from automobile accidents by 50 percent.

We wear seatbelts in the air; we ought to wear them on the ground when we travel our comparatively more dangerous highways.

Last year I urged you to adopt life-saving seat belt legislation.

I do so again.

### Government Ethics

The subject of conflicts of interest continues to raise questions of interpretation, application and enforcement.

The questions are not new; they've been raised for more than two decades -- and, over the years, the law has been improved as this legislature has sought to develop rules for its citizen-members.

Consider the law for a moment.

The Code of Virginia spells out in clear language prohibitions of unethical conduct.

Other sections prohibit unethical conduct regarding contracts; relate to voting; deal with disclosure, investigations and penalties.

The provisions regarding unethical conduct, contracts, investigations and penalties have not created problems of interpretation or application.

On the other hand, the problem sections deal with voting and disclosure.

Thus, calls for change should be focused where the problems are, not where they are not.

The goal must be to ensure certainty in interpretation and application for those who serve in public life and to ensure public trust in government.

Attorney General Terry has prepared a thoughtful report, a thorough foundation for improving the Act.

I urge you to consider it carefully.

### Tort Reform

Few dispute that serious problems have attended the growth of litigation in America.

Too many people -- from doctors to day-care providers to local government officials -- are having too much trouble getting affordable insurance against lawsuits.

Some cannot find it at any price.

Under Senator Bill Parkerson's able leadership, a joint subcommittee has produced twelve wide-ranging recommendations.

I compliment the subcommittee for its efforts. As you clearly realize, there are no easy solutions but I will work with you to bring relief to those whose very livelihoods stand threatened.

### Corrections

We -- like every civilization that preceded us -- have found it necessary to imprison the few to safeguard the lives and property of the many.

Since taking office, I have told our prison officials that they possess one overarching responsibility: to keep the system secure.

And they are fulfilling that duty admirably.

Through a great deal of hard work and dedication, Virginia presently enjoys the lowest escape rate in its history.

In fiscal year 1974, the inmates who either escaped from road gangs or went over the wall numbered 513.

In fiscal year 1986, that number was 39.

And of those 39, the total number escaping by breaching the wall of a secure facility was 1.

Furthermore, improved management has reduced overtime in the prison system by 50 percent in the first half of FY87 over FY86.

So, clearly, we have made great strides.

And, yet, our progress is threatened by a national phenomenon: the rapid growth of prison populations.

The fact is, over the last twelve months, the adult population in our prison system has grown by 80 additional inmates per month -- that's virtually the equivalent of two 500-person medium security facilities.

The latest forecast of the prison population indicates that we will have to accommodate 13,372 inmates by 1990, an increase of more than 1,000 from last year's estimate.

While community diversion programs are invaluable and constructive, there comes a point when we must meet the challenge of overcrowding by doing what all states are being forced to do: build additional facilities.

And I am prepared to do that.

As for existing facilities, a budget amendment for the Department of Corrections will enable expansions to house 500 inmates.

A second amendment will provide funds to contract with local jails to house 200 more.

To fund the operating costs of additional inmates to be housed in new cells under construction at Augusta, Nottoway and Buckingham, I have included a \$7.1 million amendment in the budget.

And for addressing the pressure on local jails, \$2.2 million will go to localities.

Unfortunately, we can no longer meet the demand for new space through existing facilities alone.

Our efforts to deal with the rapidly expanding prison population will, therefore, go beyond the budget.

I will propose legislation to authorize the funding of new prison facilities through the Virginia Public Building Authority.

Initially, this authorization will provide for the construction of approximately 1,700 additional prison beds. Ultimately, if necessary, it will be able to accommodate 2,200 additional beds.

Of course, the strain on our correctional system can become a further rationalization for delaying the closure of the antiquated and inefficient State Penitentiary.

It deserves closing.

You authorized me to close it.

It will be closed.

To see that the Commonwealth receives a fair price, to see that our interests are protected, and to ensure that the sale and development proposal makes economic sense, I have assembled a group of financially astute Virginians who have years of experience in real estate development.

I want their advice on property appraisals, the highest and best use of the site, marketing strategies, costs of site preparation, and negotiation of the final sale.

Their report, which I will submit to you, is due to me by February 1st.

In summary, our Corrections priorities are reachable, imperative and clear: to provide essential bedspace for the critical bedspace needs of 1990, to relieve jail overcrowding, to close the State Penitentiary, and to ensure security in our prisons.

### Drug Trafficking and Abuse

We cannot hope to protect the public safety and welfare if we fail to address the scourge of illegal drug trade and drug abuse that has become a national disgrace in recent years.

You have in previous years toughened the drug laws that form our first line of defense.

Next week, the Attorney General will present for your consideration proposals that will further enhance our ability to fight back.

I commend them to you.

I am also sending you a budget amendment that provides \$1.4 million for tough new efforts to get drugs off Virginia's streets.

This commitment will enable us to obtain another \$10 million in federal funds -- funds for law enforcement, treatment, drug education, and rehabilitation.

Taken together, these new efforts will allow us to mount a truly meaningful offensive against an insidious enemy.

### Administration

Some people make a career of running against -- or running down -- government. It is a tempting target, easy to shoot at without retaliation.

It is true, of course, that government is much like the society it serves -- imperfect.

And, yet, government serves as the instrument of our democracy: it teaches our children, builds our roads, prosecutes lawbreakers, protects our resources and helps those unable to help themselves.

If you want good government, you have to have good people running it.

And, if you want good people, you have to pay them competitive wages.

And when salaries lose their competitiveness, we must act. The budget now provides salary increases for the first year of the 1986-88 biennium, but does not provide them for the second.

I believe an increase is in order. The budget I have submitted to you contains pay increases for all faculty, state employees, including our state police, and constitutional officers and their employees, effective July 1 of this year.

The American workplace, as I noted, is changing rapidly, particularly in terms of career tenure -- which is getting longer -- and entry opportunities -- which are getting fewer.

To help address this issue, I propose an action that will significantly expand the horizons for senior and other public employees at the state and local level.

For years, our goal in Virginia has been to establish full retirement benefits for members of the Virginia Supplemental Retirement System who wish to retire with 30 years of service at age 55.

And, for years, that goal has eluded us.

But it is now within our reach to establish a 55/30 system -- and I will propose legislation to do it.

Employees choosing this option would also be eligible for cost of living increases -- as under current policy -- when they become 60 years of age.

It is a testimony to the Board of the retirement system that this change -- which will give our agencies and institutions far greater management flexibility -- is possible without any increase in state or local contributions to the system.

#### The Budget

I have quickly learned that short sessions are nevertheless long on requests for more money.

But Virginia budgets on a two-year cycle, not one.

And with good reason, because a biennial budget process increases reliability and consistency, improves planning and execution of policies and programs.



While not without problems, the Virginia system offers a sterling model of efficiency compared to the annual, federal system.

We ought not to forget that when Virginia revised the state Constitution 15 years ago, we kept the two-year budget process to establish a working structure.

In the even-year, long sessions of this legislature, we anticipate revenues for the next two years -- and then allocate all of those funds.

In the odd-year, short sessions, there is no budget or additional funds to appropriate, unless the revenue estimates change or a surplus occurs.

The only way to find money otherwise is to open up the budget, not replace it with a new one.

So I have resisted budget requests that bear strong resemblance to those rejected just 12 months ago.

In summary, the general fund budget amendments I present to you today amount to approximately \$194 million.

Over a third of this amount is necessary to fund employee pay increases.

Another \$85 million is necessary to address other programs included in the budget in the first year of this biennium, but not funded in the second.

An additional \$15 million is required to replace federal funds lost - largely in the human resource area.

Finally, about \$24 million is recommended to fund new initiatives - most of which have already been mentioned.

Though all worthy budget requests are not addressed in these amendments, it is important to note that we are fortunate to have been able to address our highest priority needs.

For many states, the budget outlook is bleak and the forecast is gloomy. Halfway through fiscal year 1987, 21 states have already cut or announced plans to cut their budgets.

The amount we have to spend reflects the strength of our economy, but we must not rest with the status quo.

I continue to believe that we can operate our programs more efficiently - and I am counting on the work of the Governor's Commission on Efficiency in Government to point the way.

With the able leadership and assistance from members of this Assembly, the Commission has already set upon an ambitious program of increasing efficiency and reducing red tape.

By this time next year I look forward to bringing you a comprehensive package of proposals reflecting this group's recommendations.

### Tax Reform

Virginia, which first adopted an income tax in 1843, has one of the oldest continuously functioning state income tax systems in the nation.

It is the largest source of state tax revenue, raising more than \$2.1 billion in fiscal year 1986.

During the 20th century, modifications in the individual income tax have been modest in scope and few in number.

Many key provisions in the Commonwealth's tax code have remained unchanged for decades.

In fact, today's tax brackets are those of 1926, with one additional bracket tacked on in 1972.

Exemptions and the standard deduction have not been altered since the early 1970s, despite many changes in the economy.

As a result of the far-reaching changes imposed on the federal tax code late last year by Congress, Virginia has been given a true opportunity to act.

And act we will.

In fiscal year 1988, according to the latest revised projections, we will realize about \$173 million in additional state revenues from federal changes to individual and corporate income taxes.

That is, unless Virginia's tax structure is changed.

And I propose that we do just that.

I propose that we take advantage of federal tax reform and enact real and lasting state tax reform: the "Virginia Tax Reform Act of 1987."

I further propose that the so-called "windfall" be returned to Virginia's taxpayers.

I propose five specific steps:

- First, raise the minimum filing threshold.

I propose a new threshold -- the level at which an individual's income becomes taxable -- of \$6,500 in 1987, an increase of \$3,500.

I further propose that we raise this floor again the following year -- in 1988 -- to \$8,000.

Do this, and 515,000 Virginians earning less than the minimum threshold amount would not have to file a state tax return for 1987.

And that figure will increase to 621,000 in 1988.

- Second, enlarge the standard deduction.

I propose that the minimum standard deduction -- currently frozen at 1974's federal level -- be increased to \$2,000, and that the maximum deduction be 15 percent of adjusted gross income, up to \$5,000, for a married couple.

For the first time in years, Virginia's standard deduction would match the figure set by the federal government.

Do this, and every Virginia taxpayer taking the standard deduction will pay less state tax.

Furthermore, those who now itemize, but are required to take the standard deduction under the new federal law, would also gain.

- Third, increase the personal exemption.

For 14 years, the personal exemption has stood at \$600.

I propose to raise it to \$675 -- in 1987.

To \$800 -- in 1988.

To \$1,000 -- in 1989.

Do this, and every taxpayer -- itemizer and non-itemizer alike -- will save.

- Fourth, revise the income threshold to which our top tax bracket applies.

The top tax rate for Virginia's state income tax has been raised only by three-quarters of one percent since 1948 -- and that was done in 1972.

I doubt if any other state in the nation can make that statement.

What I propose is to raise by \$1,000 the threshold to which the 5 3/4 percent tax applies from \$12,000 to \$13,000 in 1987.

I propose to raise it to \$14,000 -- in 1988.

To \$15,000 in 1989.

And to \$16,000 in 1990.

Do this, and you will give middle-income Virginians broad tax relief.

But, equity -- and simple compassion -- require that we do one thing more.

Until now, federal law permitted persons blind or aged 65 and over to take additional personal exemptions.

Federal tax reform eliminated that modest but important relief.

Therefore, I propose a fifth action, first proposed by Lieutenant Governor Wilder, that the blind and elderly continue to receive the benefits currently granted under Virginia law.

Ladies and gentlemen, under this plan all Virginia taxpayers -- at all levels of income -- benefit.

But, this plan also recognizes that it is Virginia's middle income taxpayers who bear the greatest burden of the costs of government.

So, it is to them -- to those who earn between \$20,000 and \$50,000 -- that this plan is primarily directed.

Taking all five components together, this plan will return approximately \$145 million to Virginia taxpayers for the 1987 tax year.

The difference between \$173 million and \$145 million is \$28 million.

I have earmarked this \$28 million for inclusion in the amended budget as a special "Tax Reform Reserve Fund."

If Congress doesn't change the rules, and if our revenue estimates are accurate, this reserve will be returned to Virginia taxpayers by the 1988 General Assembly.

Similarly, if our current estimates of a \$173 million windfall prove too low I will propose a plan in 1988 to expand the tax reform program to the full amount of the windfall.

In summation, the "Virginia Tax Reform Act of 1987" will bring our citizens:

- Tax relief.
- Tax simplicity.
- Fairness.
- Fiscal responsibility.

Together, these elements place this tax reform plan squarely in Virginia's most important traditions -- of fairness and prudence.

I look forward to working with the joint subcommittee studying federal tax reform, as you review this plan in the days ahead.

### Lottery

Let me now turn to a subject sure to be of keen interest to this Assembly: the possibility of a state lottery.

On many occasions, it has been pointed out that Virginia once had a public lottery. Thomas Jefferson even supported it, about as solid an endorsement as one can aspire to in this Commonwealth.

Yet, you recall that during the September Special Session I opposed the enactment of a lottery for transportation funding.

I did so because lotteries do not provide immediate, stable and reliable sources of revenue.

Waiting for a lottery to produce necessary revenues would have delayed our transportation program for years.

Though I have never been a lottery advocate, there is no denying the strong sentiment in this Assembly to bring the matter before the voters through a referendum.

Clear precedent exists for such a referendum; it was by that means that Virginia's voters debated and resolved questions of liquor by the drink and pari-mutuel betting.

So, if you bring a lottery referendum bill to me, I will sign it.

But, if Virginia decides to enact a lottery it should be done with the knowledge that its revenues will not be fully realized for years, and its net proceeds will depend dramatically upon how the games are administered and advertised.

The lottery is not a painless solvent for all of the state's future budget problems. If undertaken responsibly it can, however, be an important source of revenue for the Commonwealth.

Again, I have reservations, but whether you oppose or support the lottery, the time has come to end the speculation on whether our citizens want one in Virginia: let's let them vote on it.

#### Bicentennial of the U.S. Constitution

On these and countless other issues, you will be called upon during the next seven weeks to lend shape and substance to the Virginia of the 21st century.

Though change is and will be our watchword, we cannot go far astray if we strive to remain true to the principles that have given us strength through nearly four centuries in this New World.

Perhaps no single document -- no single institution -- more completely embodies those principles than the federal Constitution whose two hundredth anniversary we mark this year.

Though I have urged that 1987 be The Year of Trade, I would remind you that it is also The Year of James Madison, the gentleman from Orange whose genius lives on in the words -- the principles -- of that document.

It is entirely fit and proper that we celebrate Madison's singular creation, particularly at this point in our Commonwealth's development.

"What is government itself," Madison wrote, "but the greatest of all reflections on human nature?"

Let us then make this government a reflection of the people of Virginia, their determined enterprise and their spirit of optimism ...

... a people who see change, not as a threat, but as an opportunity ... an opportunity to build a New Dominion in which the promise and potential of Virginia can truly be realized by all.

Thank you very much.

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