

**ADDRESS OF  
GOVERNOR TIMOTHY M. KAINE**

**The State of the Commonwealth  
Address to the Joint Assembly  
2009**



**SENATE DOCUMENT NO. 1**

**COMMONWEALTH OF VIRGINIA  
RICHMOND  
2009**

## 2009 Speeches

### State of the Commonwealth Address to the Joint Assembly

January 14, 2009

House Chamber, State Capitol  
Richmond, Virginia

---

**Introduction**  
**Fiscal Responsibility**  
**The Budget Proposal**  
**Investments to Stimulate Growth**  
**Green Jobs**  
**Renew Virginia**  
**Conclusion**

Mr. Speaker, Mr. President; Members of the General Assembly, the Cabinet, and the Court; my fellow Virginians:

I come to you tonight in a time of national economic distress to talk about how our Commonwealth and its people are faring.

Like other states, Virginia is feeling the effects of the national economic recession, which looks like it will be the longest recession since World War II. Citizens are cutting back, they're putting off purchases, and they're stretching their dollars to get through a tight spell.

At the same time, businesses are struggling—many are closing or reducing employment. And, government agencies, churches, and non-profit organizations are seeing an increase in demand for their services even as the economy has reduced the tax revenues and donations that they need to provide those services.

I've seen these challenges firsthand. Four times each year, I take my entire cabinet on the road to a region of the state where we talk to citizens and learn. We call these visits "Cabinet Community Days." In early December, we visited a VEC office in Petersburg. The national economic news had struck home in a big way just a few days before, as a major employer announced hundreds of layoffs.

People I talked to were worried. Worried about finding another job. Worried about how they'd provide Christmas for their children. Worried about how they'd pay their bills.

But they were not despairing. They were resolved. They were hopeful. And despite whatever worries they had that day, they were helping each other.

I think that's a typical Virginia response.

As Governor, I've seen this kind of hope through adversity time and again in the Commonwealth—after hurricanes, tornadoes, and floods. I saw it after the tragedy at Virginia Tech. And, I'm seeing it in these tough economic times. Whenever someone has a need, Virginians are ready to pitch in and help. And, they want to see the same sense of resolve in their elected leaders.

Now, more than ever before, it's time for all hands to be applied to the task of righting the national economy. President-elect Obama and the Congress are discussing a federal stimulus package to do just that—and I am pleased that they have sought detailed input from the nation's governors. And, as we will discuss tonight, I am moving forward on capital projects and business incentives designed to help create jobs.

But, while government action is necessary, it will be the entrepreneurial spirit of our people that will turn this economy around. Those who dare to take risks will create the new companies and the new jobs. Workers with dedication to hard work will continue to make our companies the best in the world.

Our job is to allow that creativity, that risk-taking, that dedication, to flourish. Our job is to create the environment in which our citizens can succeed.

We have done this in Virginia to a remarkable degree. We're ranked the best-managed state in America, the best place for business, the best place to raise a child, and we're recognized as the best at fiscal management. We pace ahead of national trends in most areas, including our economic strength. Now is the time to draw on the best in us to get through this tough time and pave the way to a brighter tomorrow.

I know we can do it. I have presented you a budget that tightens the belt of government, just as citizens and businesses are cutting their own expenses. But, I have also built innovations and new strategies into my budget. I've made policy proposals that ensure we can continue to attract jobs, succeed in educating our children and training tomorrow's workforce, and create new opportunities for a better environment and cleaner energy future. We can continue to rise to the challenges of the day and master them. If we act with the resolve that has been summoned by the 7 ½ million Virginians outside Capitol Square, there is little doubt that the future of the Commonwealth is strong.

### **Fiscal Responsibility** ▲

Virginia government has a long-standing tradition of fiscal responsibility. Colgate Darden, a former Governor of Virginia, observed more than a half-century ago that if “you take an ordinary Virginian and wake him up out of a deep slumber, he'll say two words: ‘fiscal sanity!’”

In an atmosphere of tight credit and an uncertain financial future, all three major bond rating agencies reaffirmed Virginia's AAA rating this fall. Standard and Poor's said, “The Commonwealth's strong financial management focus is evident in its early and active response” to the national economic decline.

In the spring of 2007, when we first recognized the signs of an economic slowdown, I gave agencies a directive to save money and we have been in a continuous period of intense budgetary review ever since that time. Our early and active approach to this downturn has put Virginia in a better position than many states.

Over the last year and a half, we have found savings in every area of state government—streamlining services, consolidating administrative functions, renegotiating contracts, freezing hiring, merging agencies, and laying off workers. I have reduced my own salary, cut the executive office budget and left nearly a third of executive at-will positions unfilled.

I have been personally engaged in hundreds of hours of discussion and analysis of each programmatic area of state government. And we have made the tough decisions to keep the budget balanced—without any general tax increase and without compromising core services.

Instead of across-the-board cuts, I've proposed targeted, performance-based cuts. We have looked closely at each agency, asking hard questions about the priority of each expenditure and seeking data about outcomes. This approach has enabled us to find the savings that have the least impact on essential services.

I have also proposed cuts that position us better for the future, rather than just finding savings for today. I have proposed real, long-term savings instead of relying solely on short-term or one-time actions.

When the economy improves, we want to be able to use new revenue for our most important priorities, instead of just using those revenues to do the same old things in the same old ways.

That is not to say that these cuts are easy, or that they will have no impact on services. The fact is, the size of the budget shortfall is too great to provide the same services in the same way that we have in the past. I have had to make difficult choices in recommending this budget to you, but I believe those choices preserve the services that educate our young people, keep our communities safe, protect our most vulnerable citizens, and create opportunities for economic growth. I understand that these proposals will be debated at length over the coming weeks, but I am confident that we will make the decisions that best position us for the future.

### **The Budget Proposal** ▲

Educating our young people is one of the most fundamental things that government does—teaching our children and grandchildren to be responsible citizens, and preparing them to be competitive for the jobs of tomorrow.

That's why K-12 education was the one area that we did not reduce at all in the first 3 rounds of cuts. In fact, as we were cutting many state programs in the biennial budget passed last March, we increased funding for public education by approximately \$1 billion for the biennium.

However, education is the single largest expenditure in the state budget and the revenue reductions necessary for 2010 are big enough that we will not be able to continue to leave education untouched.

As with other parts of the budget, I carefully considered our priorities in education, and thought long and hard about how to make cuts in a way that protected the most important functions of our schools.

I decided that nothing in our schools was as important to the students as their teachers and principals, and so I have made a proposal that protects our core priority—the classroom.

My proposal is to reduce funding for administrative and support personnel in schools and central offices by applying a funding cap for these positions. For years we've applied a cap to determine the number of teachers and principals we fund—we should do the same for support staff.

As a proud parent of three public-school children, I know that administrative positions are important, but with no cap, they have grown much more rapidly than spending on teachers.

While it's never easy to make cuts to schools, my proposal focuses state funds to protect the students' experience in the classroom.

In higher education, I have also had to propose difficult cuts, but I have been constantly mindful of the effect of higher tuition costs on Virginia families. We continue to have some of the finest colleges and universities in the nation, but it will mean little if Virginia students cannot afford to attend them.

I proposed a smaller cut to higher education in the 2009 academic year than to other agencies, and asked our colleges and universities not to make any mid-year increases to tuition.

In 2010, the cuts are deeper, but my budget proposes a lesser cut for community colleges—the most affordable point of entry into Virginia's higher education system. And, I propose \$26 million in additional support for need-based financial aid so that middle and lower-income students will not find the doors of educational opportunity shut to them.

Next to education, we spend more on health care than anything else in the budget, even though Virginia's Medicaid program is very lean compared to other states.

In proposing this budget, I was acutely aware that precisely at the time the state is trying to balance our budget, more Virginians are in need of the safety net that Medicaid and other agencies provide.

My proposal makes cuts without taking Medicaid coverage away from anyone who is currently covered. But the decisions to get there were not easy. I propose capping the enrollment to certain programs, freezing or reducing provider reimbursement rates, and

delaying the expansion of certain services in order to cut over \$400 million out of our Medicaid program.

I have previously pledged to you that I would not meet our budget shortfall through a general tax increase on Virginia's families. The budget I have proposed is true to that pledge. And, we maintain tax cuts that we have already put in place—elimination of the estate tax, sales tax holidays for school supplies and energy efficient appliances, and the elimination of all income taxes for nearly 140,000 low-income Virginia workers.

However, I do propose one targeted tax increase. To avoid even deeper cuts that would mean denying health care services to some of our poor, elderly, and disabled, I propose a 30 cent per pack increase in our cigarette tax. This will bring Virginia's tobacco tax up to about half the national average.

Virginia's current cigarette excise tax covers less than half the \$400 million in Medicaid costs that smoking creates. I believe that the taxes on smoking should more closely match the budget costs that Virginia taxpayers incur because of smoking. Under my proposal, fewer of Virginians' tax dollars will be diverted to cover the costs of smoking.

My budget proposal preserves care for the mentally ill. In the wake of the Virginia Tech tragedy, we made significant investments last session in community-based mental health care. This budget protects the investments we made together. And, the budget continues our transformation from a state that over-relies on institutional care of the mentally disabled to the more effective and humane strategy of expanding services that people can receive in their own communities.

My proposed budget protects the advances we made in this biennial budget in funding our health care safety net. There are no cuts to free clinics and community health centers in my budget. And, we continue our expansion of pre-natal care to low-income mothers so that we can fight an unacceptable infant mortality rate.

In the area of safety net expenditures, my budget includes funds for foreclosure prevention counseling to help families stay in their homes. The new foreclosure reforms you approved last session are now protecting homeowners from mortgage rescue fraud and providing additional protections for those with sub-prime loans.

And the budget also includes a \$1 million grant to the Virginia Federation of Food Banks. There are few needs as critical as food for the hungry. As the economy has worsened, food banks across the Commonwealth have seen donations decline and their shelves depleted, even as more Virginians have found themselves in need of this vital assistance.

In past budget reductions, we have carefully limited any cuts to public safety agencies. Public safety is a core responsibility of government, and again in this area, we asked ourselves, what are the most important functions of these agencies, and how can we support the core mission while finding budget savings?

The Department of Corrections is one of Virginia's largest agencies. Last fall, we restructured prison facilities, closing older and smaller facilities to become more efficient.

However, the rate of growth in the state's budget for incarceration has dramatically outpaced other spending items over the past decade. While we must not make changes that would compromise public safety, we have a responsibility to our citizens and taxpayers to examine the costs and benefits of such dramatic growth.

Current law allows the director of the Department of Corrections to release inmates up 30 days before the end of their term. I have proposed a change that would allow the director the discretion to release inmates convicted of non-violent crimes up to 90 days early, if warranted by good behavior.

This small change will result in significant budget savings without compromising public safety. It has been endorsed by Virginia's sheriffs and police chiefs because it will help us deal with persistent jail overcrowding problems.

I have also proposed legislation to slow the growth of the prison population by reducing the number of "technical violators" who are sent back to prison every year not for committing new crimes, but for violating technicalities of their parole.

This is the kind of smart sentencing approach that saves taxpayer money without compromising public safety.

Virginia's transportation infrastructure faced significant challenges even before the downturn in the economy, and as family incomes have suffered, so have the gas tax and automobile sales tax revenues that support transportation in Virginia.

Our transportation agencies are reducing their administrative overhead to preserve scarce dollars for maintenance and construction. To balance its budget, VDOT will reduce central office staff and streamline operations around the state. Over the next two years, VDOT will reduce agency employment by about 1,000 employees, through retirements, attrition, and other restructuring.

The Commonwealth Transportation Board has rewritten the six year construction plan to reflect the new, reduced financial projections, and the results are startling. Without a long-term commitment from the legislature to support transportation funding, and with a slump in existing revenue sources, dozens of road and bridge projects all across the Commonwealth have been taken out of the plan.

### **Investments to Stimulate Growth** ▲

The budget is not just about cuts. It also involves investments, especially investments to stimulate the growth we need to put more Virginians to work.

Even in a tough time, Virginia continues to outpace other states in attracting new opportunities. In the last quarter of 2008, at the same time as economic turmoil was on front pages all over this country, Virginia continued to receive positive economic news.

Areva and Northrop Grumman announced a partnership to build components for nuclear reactors at the Newport News Shipyard, promising great jobs in a new industry that will be key to America's energy future.

Orbital, the Virginia-based space company, was awarded a \$1.9 billion contract by NASA to launch rockets and satellites into space from Wallops Island, making Virginia one of the centers of the nation's new and innovative space industry.

Continental, the German auto parts manufacturer with U.S. facilities in South Carolina and Virginia, decided to consolidate all its operations in Virginia because of our excellent workforce and education system.

And, at year end, the Rolls Royce project, building the next generation of civil aviation engines in Prince George County, was singled out by a business publication as the single best economic development deal in the United States in 2008.

We continue to match up well against our competition around the country and across the globe.

But, we can do more. The first thing we should do is make sure that the Governor's Opportunity Fund has sufficient resources to attract these new jobs. The Orbital announcement, for example, came just months after we won a competition with Florida to be the primary location for Orbital's launch activity. An investment of Governor's Opportunity Fund monies helped us do that. For that reason, I have suggested an additional \$5 million investment in the Fund.

To create new design and construction jobs, my administration is aggressively moving forward to implement capital projects that the General Assembly has already authorized. The Department of General Services and the Department of Planning and Budget have identified multiple projects in which the planning can be completed and construction begun in the next few months. Accordingly, I am setting a goal that a minimum of 30 state capital projects worth at least \$250 million in construction costs be put to bid prior to the end of this fiscal year. This target equates to an average of six projects a month between February 1 and June 30, 2009. These projects will put people to work, build a higher platform for long-term economic success and take advantage of a climate where construction costs are favorable.

In addition, my team and I are working closely with the incoming federal administration to help develop their economic stimulus package. I have spoken personally with President-Elect Obama about the importance of investing in new infrastructure to put Americans to work. Last week, I was with the President-Elect when he came to George Mason University to announce his plan for safety net enhancement, infrastructure investments and middle-class tax cuts. We should see action on this welcome proposal soon after Inauguration. Since the balanced budget I introduced in December did not factor in any federal stimulus, this package should help ease some of our budgetary challenges at the same time as it spurs the economy forward.

### **Green Jobs** ▲

Part of climbing out of a challenged economy is focusing our efforts on the industries of the future. One area where we should spend major attention in our economic efforts is to create green jobs. The development and deployment of new energy sources presents dramatic new opportunities for the Commonwealth.



The Virginia Economic Development Partnership, at my direction, has just completed an aggressive marketing plan to promote Virginia's business case for new investments in renewable energy production and energy efficiency projects.

And I have created an Interagency Task Force for Energy Project Recruitment that will work with the Virginia Economic Development Partnership to build Virginia's compelling case for renewable energy-related businesses. The task force will include state agencies, university research centers, and federal laboratories based in Virginia.

Virginia has a tremendous natural advantage in this area through the research being done at Virginia colleges and universities. Every institution in Virginia is working on innovative new energy projects—transportation fuel cells at Virginia Tech, energy-efficient buildings at UVA, algae-based biodiesel at ODU, and new energy crops at Virginia State University.

My administration is pursuing changes that would make it easier to take new energy technology discoveries made on Virginia campuses and turn them into new companies and new jobs in the state.

In collaboration with technology-based economic development organizations, our universities will develop a single internet portal for investors to easily understand both the types of research being done on Virginia campuses and, most importantly, how they can be a part of bringing those new technologies to market. We are also leveraging state research investment dollars to encourage the most commercially promising new discoveries and help turn them into new jobs.

And I am proposing a number of measures to help these new companies grow and thrive, and to make Virginia an attractive place to relocate existing green companies.

First, we should expand an existing incentive for solar manufacturers to include new plants that make other alternative energy equipment and products.

Second, we need to amend the current biofuels incentive grant to give a preference for those biofuels that do not compete with our food supply, and make it easier for small and start-up companies to earn the grant. And, I also propose to implement a requirement that biodiesel should comprise 2% of diesel fuel sold in Virginia. This will provide the market certainty for Virginia biodiesel producers to invest in new production capacity. Other states that have implemented such provisions have attracted significant biofuel investments and Virginia should not be left behind.

Third, we should expand the market for these new energy companies through targeted tax reductions that make small, residential alternative energy installations more affordable. For this reason, I propose to give an income tax credit on solar photovoltaic, solar thermal, and wind-power electric generators installed in homes or businesses in Virginia. The credit would be worth up to \$8,000 on an individual household system, depending on the size of the system. And I have proposed a year-round sales tax exemption for residential renewable energy systems.

Finally, to ensure that the biggest energy purchasers aggressively pursue renewable energy, I have proposed raising Virginia's renewable portfolio standard—the amount of

Virginia power companies' electricity that must be generated from alternative energy sources—from 12 percent to 15 percent by the year 2025.

But renewable sources are not the only way to reduce the effects of climate change. And they are not the only path to new energy-related jobs. Energy conservation must be a key part of any long-term energy plan, for a household, for a business, or for the Commonwealth.

That's why, a year ago, I formed a team of experts from many sectors—business leaders and economists, legislators, power companies, environmentalists, scientists, and others—to examine the potential effects of climate change, and to propose strategies for the Commonwealth to address it.

I have proposed legislation this year to begin to implement the Climate Change Commission's top recommendation—the reduction of electricity consumption by 19 percent of current levels by 2025, with appropriate adjustments for population growth.

Virginia's utility companies would be tasked with taking the steps necessary to promote energy conservation, and they'd be given the tools to do it.

Under current law, we guarantee a rate of return for a utility building a new coal plant, but not for investments that promote conservation. That just makes no sense. Our long-term planning should recognize that conservation is just as important an energy source as new construction. We should treat conservation investments at least as favorably as new generation investments, and my bill will do that.

A few years ago, I issued an executive order requiring that all new state buildings be constructed to high energy-efficiency standards. Later, members of the General Assembly included similar language in the budget bill. That was a smart step in ensuring that the Commonwealth makes good energy decisions, and one that saves us money in the long run.

This year, I will ask you to ratify that approach again, by requiring in the Code of Virginia that all state and local government buildings meet either LEED or Green Globes standards for efficiency.

This focus on conservation will also lead to more jobs. Employing carpenters, electricians, installers, and other contracting professionals to retrofit old buildings is one way to put people quickly back to work. And by expecting new construction to meet enhanced environmental standards, we can provide additional opportunities for advanced construction jobs.

A University of California study recently concluded that the conservation measures taken in that state had put millions of dollars in savings back into the pockets of residents there, allowing them to make private-sector spending decisions with more of their own money—decisions that really make the economy work. Virginia can do the same for economic and environmental reasons.

All in all, the focus on creating alternative energy opportunities and better conservation technology will help our economy by creating new jobs and enabling people to save

money. A generation ago, Virginia had a growing solar industry. But, the disappearance of state and federal tax incentives caused the industry to shrink and research to decline. Today, of the ten largest solar manufacturers in the world, none are American. We need to bring these investments back to our shores and to our Commonwealth.

### **Renew Virginia** ▲

Of course, there is another important reason to focus attention on better energy and environmental practices. Virginia has been blessed with incredible natural resources. From the Chesapeake Bay to the mountains of Southwest Virginia, the Commonwealth has always been a place of unmatched beauty and natural inspiration. In 1612, Captain John Smith wrote that “heaven and earth never agreed better to frame a place for man's habitation,” and that has been our inheritance—and our obligation—ever since. We need to make sure our children and grandchildren enjoy that same beauty.

For all these reasons, I have launched “Renew Virginia” this year.

Renew Virginia will encompass the actions I have described tonight on renewable energy, energy conservation, and green jobs—but it will also extend to other efforts to protect Virginia's environment throughout 2009. We will act by budget and legislation, but also through regulation, executive orders, creative partnerships and multi-state collaborations.

Now that we have put \$1.1 billion of resources into sewage treatment upgrades to protect the Chesapeake Bay and our rivers, we need to turn our focus to partnering with farmers to keep agricultural runoff from polluting our streams. My budget puts \$20 million toward that goal to continue the important investment in that priority that you started last year.

Last month, Virginia entered into a model agreement with the Department of Defense to encourage and recognize environmental stewardship by the military installations in the Commonwealth. That agreement is now seen as a model that the DOD can take to other states.

And I am pleased to report that we are on pace to meet a goal I set out in the first few months of my administration—to permanently protect more than 400,000 acres of open space during my term of office.

During this legislative session and throughout 2009, we will continue to announce efforts like these to “renew Virginia” both environmentally and economically.

And we will announce ways that everyone can help. As with the economy, government action is necessary to protect the environment. But government can not do the job alone. It is up to each of us to examine our own families' energy consumption and to find ways to conserve.

Whether it's changing old light bulbs for new fluorescent ones, adding insulation to reduce heating costs, turning computers off when we leave the office, or using public transit, each of us can do the little things that together make a tremendous difference.

There's no question that energy is the next great challenge of our generation. If we are to protect our environment, reduce climate change, and find lasting sources of sustainable energy, it will take all of our collective efforts. I know that Virginians have the dedication and ingenuity to be leaders in this area, just as we are in so many others.

## Conclusion



There will be other major issues this year—each of you bring important priorities from your home communities to place before your colleagues. We should deal with all those issues and do so in a civil and constructive way, respecting each others' perspectives.

I don't have to tell you we are serving in one of the most difficult times in our nation's recent history. But we must be mindful that our pressures are no greater than those that our citizens are facing every day. And, others who served here long before us faced similar difficulties. It is my hope that the size of the challenge, and our connection to so many who have faced similar challenges, will inspire our best efforts to cooperate in finding the best solutions.

We have a responsibility to make decisions—however difficult they may be—to keep the Commonwealth on a firm financial footing and to prepare us for future economic success.

We have an opportunity to be leaders in the nation, and in the world, on the development of renewable energy.

We have an obligation to protect the natural legacy that our forefathers left to us.

And we have the privilege to represent our citizens—to engage their best ideas, to encourage their talents, and to unleash their creativity.

We will not just weather this challenge, but we'll seize the opportunity to prepare for the future. And we will emerge even stronger than ever.

May God bless each of you and may God bless our Commonwealth.

Good night.