

ADDRESS OF

**GERALD L. BALILES
GOVERNOR**

**TO THE GENERAL ASSEMBLY OF VIRGINIA
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**THE HONORABLE GERALD L. BALILES
GOVERNOR OF THE COMMONWEALTH OF VIRGINIA**

The State of the Commonwealth Address

The Virginia State Capitol

Mr. Speaker, Mr. President, members of the Virginia General Assembly, members of the Supreme Court of Virginia, distinguished guests, ladies and gentlemen.

Justice Lewis F. Powell once observed that "history balances the frustration of 'how far we have to go' with the satisfaction of 'how far we have come.'"

It is in the recognition of the challenges that face our Commonwealth -- of the distance we have yet to travel -- that I join you today.

But, it is also with the satisfaction of what we have accomplished together during the last three years, that I am pleased to welcome you back to the State Capitol.

Allow me to note that since I last appeared before you, this General Assembly lost three valuable members, two of whom -- Delegate Kenneth Rollins and Delegate Everett Hogge -- passed away, and one of whom -- Senator Wiley Mitchell -- resigned. They served with distinction and will be missed.

I would also like to congratulate those new members who were elected in recent special elections. You join a skilled and highly productive General Assembly -- a legislature that has significantly contributed to making the decade of the 1980s the greatest period of sustained prosperity in Virginia's history.

Edmund Burke wrote in 1775, that "all government, indeed every human benefit and enjoyment, every virtue, and every prudent act, is founded on compromise and barter. We balance inconveniences; we give and take; we remit some rights, that we may enjoy others; and we choose rather to be happy citizens, than subtle disputants."

That spirit of common benefit and prudent action has pervaded these halls as, time and again, this General Assembly has measured the distance between Virginia's potential and its achievement and drawn the one closer to the other.

Holding back the threat of faction and dispute -- balancing the need for informed debate with the need for informed decisions -- the Virginia General Assembly has shaped and forged agreement on diverse issues ranging from transportation and trade, to education and mental health care, from housing to environmental protection.

You have consistently pursued a bi-partisan consensus in favor of the future and resolved to make those decisions which both serve progress and the people we are elected to represent.

As a result, the state of the Commonwealth has never been better, more economically vigorous or more socially promising.

As any fast-growing state of six million people, we have our challenges. Some of those challenges directly extend from growth itself. Other challenges center on the unevenness of our growth.

But, as a general proposition, Virginia is doing very well indeed.

While other states grapple with the need to improve their transportation systems, Virginia has a 12-year, \$12 billion program in place.

While other states work to focus their educational efforts, Virginia has begun to turn its schools toward the world and the international frontier.

While other states struggle to overcome budget shortfalls, having miscalculated the consequences of federal tax reform, Virginia enjoys both a balanced budget and the opportunity to reform its tax structure and provide tax relief to the benefit of its citizens.

It is estimated that Virginia's 1988 personal income growth will achieve a level substantially higher than it was in 1987.

In fact, Virginia is now among the economic elite of the fifty states. Since I last came before you, the personal income of Virginians rose above the \$100 billion mark, making Virginia the sole new member in 1988 of the "one hundred billion plus" club. Only ten other states have achieved this milestone.

Virginia has earned a strong economy -- and here's what it means:

It means that the number of new jobs created in this Commonwealth during the last three years reached 334,200 -- more than enough to provide a job for everyone in a city the size of Norfolk.

It means that every working day, the first nail is driven in 273 new Virginia homes.

It means that each week 372 new businesses open their doors in Virginia -- and that each month there is a net gain of approximately 10,000 new jobs in Virginia's new and expanding businesses.

And, many of those jobs are for the 1,300 people that, on average, move into Virginia every week.

For these, and many other reasons, we can take pride in what we have accomplished.

But, we must never forget how we got here.

And, we must never forget that there are areas of Virginia that do not share in this prosperity.

We have reached this point because you had the courage and the commitment to make the choices that could make the difference.

From the Year of Transportation in 1986, when Virginia chose to create the first stable, long-term transportation funding program;

... to the Year of Trade in 1987, when Virginia began to turn its resources and its attention toward winning new markets overseas and acquiring new skills to succeed in those markets;

... to the Year of Investments in 1988, when Virginia committed new resources for mental health, education, housing, environmental protection, child care and rural development ...

... each step along the way we have laid a stronger foundation for Virginia's prosperity, and given private enterprise the freedom and support to do their best.

But, now, we must not lessen our resolve. We must continue to build upon the foundation -- to extend further our reach into the future -- to prepare for the 1990s and the dawn of a new century.

During the past three years, I have sought to emphasize the priority of economic, technological and cultural change, that as it continues to accelerate, it imposes new difficulties and demands upon our Commonwealth, our nation and the world.

Change: It creates uncertainty -- but, it also creates opportunities. Let us examine both the uncertainty and the opportunities in the international and national economy.

The International Economy

The decade of the 1980s may well be known as the beginning of a new era, when awareness of humanity's interdependence spread across the world and began to influence the conduct of nations.

During the past year, thanks to President Reagan, more cordial relations have developed between the United States and the Soviet Union, continuing steps have been taken toward economic and political reform in the People's Republic of China and Eastern Europe, and elections in South Korea, Chile and Pakistan have advanced hopes for democracy.

Even Europe has opted for economic change, preparing to establish by 1992 a true common market -- which, if it occurs, will be a phenomenal metamorphosis of a continent that has been the venue of two major wars during this century alone.

The full implications of these developments are not yet understood. Still, at the very least, it is agreed that the issues of global trade have become more compelling.

Virginia has a huge stake in the international economy. The Port of Hampton Roads will shatter last year's record level of business. We thought general cargo would grow by four percent. It grew 14 percent. We thought we might attract some new shipping lines. Nineteen have arrived in the last three years.

We want to keep that business coming. It means thousands in jobs and millions in income. And, there is no reason why we cannot do even better in 1989.

Further, an increasing number of Virginians are employed by foreign firms -- just as American firms employ foreign nationals in nations throughout the world.

Again, it is an economically interdependent world we live in -- and I have urgently sought to drive that point home during my term of office, not only because of our vulnerability to world economic trends, but because the international markets offer us remarkable opportunities to sell Virginia goods and services.

That is why we established last year the Department of World Trade, which is now staffed and working to find new markets and increase Virginia exports.

That is why we are building the Virginia Inland Port -- we call it "Front Royal-by-the-Sea" -- to exploit Virginia's geographic advantage and make our Commonwealth the East Coast gateway to the markets of America.

And, that is why this year I will lead a series of new overseas trade missions. I am not going to let up one bit. There are doors to open and deals to close -- and it is my earnest hope that my successor will adopt the same commitment.

We can reach the 21st century vital and strong, an economic leader in the world. We have that potential. Let us not fail to fulfill it.

The National Economy

We face a disquieting national economic paradox: We are experiencing the most sustained period of economic growth in the post-war era -- and, yet, over the past seven years we have also seen the federal debt hemorrhage by 170 percent -- to an incredible \$2.7 trillion.

This troubled national economic environment will inevitably influence our Commonwealth's growth as we move into the next decade and towards a new century.

Though complex, the problem can be simply described: While the federal budget has doubled over the past eight years, it is also spending proportionately less than is necessary on some very important programs.

The Director of Economic Studies at the Council on Foreign Relations recently wrote that:

"... the federal government has been spending a greater share of its income on military programs, income transfer payments such as social security, and interest payments on bonds issued to finance the deficits incurred in previous years. This has left a smaller share to fund the investments, from education to airport construction, that are essential to economic growth."

Partly, this explains why investments at the state and local level have become so critical -- and, frankly, why they often determine the pace of progress in a given state or community.

But, the federal budget and trade deficits are the heart of the problem -- and, as the 101st Congress and the President wrestle with the situation, it is altogether likely that new funding shifts, new spending cuts, and, lip-reading notwithstanding, new federal taxes will loom before us. Such an eventuality cannot help but affect the status of Virginia's economy.

In Virginia, we have been well served to insist that when it comes to the expenditure of the public's monies, you raise what revenue you must and spend with prudence and care. You do not overextend yourself and you do not leave yourself without room to maneuver.

Because Virginia has adhered to such a view, we have earned a reputation for sound fiscal management. Moody's Investment Service gives only seven states a triple-A bond rating. But, of those seven, only one state has the lowest tax-supported debt per capita: Virginia. Further, as a percentage of state personal income, Virginia ranks nationally in the bottom quarter in the state and local taxes its citizens pay.

And, let me also mention something else, to which I earlier referred.

Many other states are experiencing serious difficulties in shortfalls due to federal tax reform. In a rush to either appropriate the windfall of new revenue from capital gains or to permanently reduce taxes, eighteen otherwise prudent state legislatures now face the unpleasant choice of either substantially raising taxes or seriously cutting services.

Tax Reform

This General Assembly resisted the urge to score the easy political gain. You enacted the Virginia Tax Reform Act of 1987 with a keen appreciation for the unpredictability of tax reform revenues.

You proceeded with caution and foresight. You adhered to Virginia's tradition of fiscal responsibility. And I commend you for it.

And, as a result of Virginia's fiscal policies, we have the opportunity to reform taxes again. I think we ought to do it.

Virginia enjoys the benefit of a relatively modest surplus of general revenue funds: \$123 million from the past 1986-88 biennium, an amount that equals roughly one percent of our current 1988-90 biennial budget.

I reported to you in December that of this \$123 million amount, nearly \$42 million was due to federal tax reform. The remaining \$81 million was generated by economic growth, evidence of the strength of our overall economy.

In addition to the \$123 million, another \$385 million is now available from the revised revenue forecast for the remainder of this 1988-90 biennium, an amount that equates to a little more than three percent of the budget.

The total general fund amount available then, is \$508 million.

We may use this money in a variety of ways. But, in my view, we have an obligation to continue our tax reform efforts and offer additional tax relief.

The Virginia Tax Reform Act of 1987 requires that I submit a plan to you for returning any federal tax reform windfall from fiscal year 1988 which was not recorded in our original windfall estimate.

I intend to meet that commitment.

The plan I propose returns all of the \$42 million from fiscal year 1988, plus \$58 million estimated for fiscal year 1989, or a total of \$100 million in additional windfall from both fiscal years 1988 and 1989.

With this plan in place, combined with your earlier actions on tax reform, we will have returned \$1.35 billion to the taxpayers of the Commonwealth over a five-year period -- and that is something we can all be proud of.

The proposal I am submitting to return the federal tax reform windfall takes action on an issue that has long been debated in this legislature. That issue is the sales tax on food and non-prescription drugs.

As the Lieutenant Governor and many of you have urged over the years, there ought to be some relief from these taxes -- and I agree.

The question has been not whether, but when.

Well, the answer is now.

I believe we can provide relief in 1989 by offering Virginia's individual income taxpayers a sliding scale tax credit to address the sales tax on the purchase of food and non-prescription drugs -- and here is how the plan would work:

Taxpayers with incomes ranging up to \$68,000 would be entitled to a full or partial tax credit, depending upon the size of their family and its income.

Married taxpayers with incomes of \$34,000 or less, for example, will be able to claim a full \$35 credit for each personal and dependent exemption. A family of four with a \$34,000 income would, therefore, receive a credit of \$140.

By comparison, an average family of four in Virginia annually pays \$117 in sales taxes on food and non-prescription drugs.

In another example, single taxpayers making \$17,000 or less would be able to apply the full \$35 credit against their 1989 income tax liability for each personal and dependent exemption.

In total, if you approve this proposal, about 2.1 million individuals and dependents will be eligible for the full income tax credit, and an additional 1.8 million will be eligible for partial credits.

Not only will more than 80 percent of all income tax returns be eligible for the tax credit, but the entire income tax liability of 150,000 Virginia taxpayers will be eliminated.

Of course, there are those who would argue for changes to tax rates or tax brackets so that Virginia's wealthiest citizens would reap the greatest benefits from the windfall.

Not only would such an approach be regressive, it would be unfair to middle and low-income taxpayers. Rather, the plan I am submitting brings relief to those who see a larger share of their incomes go to the sales tax.

And, I hope it will be your pleasure to support this action.

As for the additional \$77.5 million federal tax reform windfall that we estimate will be collected for fiscal year 1990, I believe we should place it in the Revenue Reserve Fund to serve as a buffer against unexpected Congressional actions or a decline in economic conditions.

All in all, this tax reform plan is cautious and fiscally conservative. It is true to our principles. And, frankly, it makes sense to approach the lottery revenues the same way.

The Lottery

If public enthusiasm is any measure of attainment, unquestionably the Virginia lottery is a success. During the next 45 days -- or before you head home at the end of February -- Virginia will sell about 50 million new lottery tickets.

The issue now is, to put it simply, how should this money be used?

I suspect that there may be as many answers to that question as there are people in this chamber. But, we are going to have to reach an agreement -- and we are going to have to do it responsibly.

As you will recall, a year ago I recommended that lottery revenues go to support the major unfulfilled capital needs of the Commonwealth -- for which other funds are not available -- to construct laboratories and classrooms for higher education, for facilities for mental health and mental retardation institutions, and for parks and prisons.

A large segment of the business community endorsed this approach -- and so did most of the newspapers in the Commonwealth.

I always listen to the business community and, in this instance, I don't mind listening to the newspapers. So, a bill will be introduced today to appropriate lottery revenues over the next two years for 83 priority capital projects totaling \$283 million.

The bill authorizes the expenditure of lottery funds only when the provisions of the lottery law have been satisfied.

Or, to be more specific, the lottery funds will not be spent until the Auditor of Public Accounts has audited the revenues at the end of the fiscal year and when the State Comptroller has transferred those audited revenues to the General Fund.

Further, the bill sets a priority for each capital project in an order that can only be changed by your action. The projects will be released each year in that order, but only to the extent that lottery revenues are available in that year.

I believe this is a sound and sensible approach. It takes into consideration the experiences of other states, it complies with the spirit of the lottery statute and establishes a simple procedure for making the lottery revenues available to finance badly needed capital investment.

While it may be appropriate in the 1990s to dedicate some or all of the lottery proceeds to operating programs, let me be more explicit on the good this bill can do during the next two years.

In the human resources area, it will fund \$22 million of fire safety, ventilation and program space renovations at six of our major mental health and mental retardation facilities.

The bill will provide \$11 million to support a long-sought library for the Department of the Visually Handicapped and for a replacement facility for the DeJarnette Center for Children.

In higher education -- the single largest component of the legislation -- we will build \$197 million of critically needed classroom and laboratory space at a substantial number of our community colleges and at virtually all of our major state-supported colleges and universities.

In the natural resource and economic development areas, the bill provides more than \$31 million for park improvements, agriculture, forestry and mining projects.

Finally, the bill will provide sufficient funds to house inmates to be taken into the adult correctional system to ease jail overcrowding -- a subject on which I will have more to say in a moment.

In my judgment, these investments are an appropriate, beneficial and sensible use of the lottery proceeds.

I urge your adoption of this legislation.

The Budget

Let me now turn to a general outline of the budget amendments I will be offering for your consideration.

As I mentioned, we bring to this session an additional \$508 million in general fund revenues, of which I recommend that \$100 million go to tax reform and \$77.5 million be held in a revenue reserve fund.

Thus, the single largest element of my recommendations, 35 percent, will either be returned to taxpayers or be held against the unexpected. Such things happen in Washington and in the national economy.

Of the remaining \$330 million, I recommend that \$240 million be allocated to three areas of immediate concern: \$103 million to prisons and law enforcement; \$94 million for increased compensation to state employees and faculty members; and, \$43 million to federal and state mandated programs, largely in the human resources area.

To the largest of these items, let me direct your attention.

Public Safety

And, allow me to be rather blunt on this matter.

Partisan political gamesmanship over the issue of corrections and law enforcement benefits no one. It is, in fact, self-defeating.

Our citizens are entitled to be safe from crime. It is, after all, one of the first responsibilities of government to ensure the public's protection by enforcing the laws and punishing those who break the laws. And, I doubt if anyone in this room disagrees with that.

Virginia has rigorously endeavored to put police on the streets and criminals behind bars -- and we have been successful at it.

Unfortunately, the issue is far more complex than that.

Law Enforcement

As you know, our law enforcement institutions confront any number of profoundly difficult challenges. From the simple traffic offense to crimes of violence, our uniformed officers are tested every day to protect the public -- and they effectively respond.

Now we are working to improve on the admirable record we have compiled. Virginia recently became the first state with a state-operated forensic laboratory capable of conducting DNA analysis. The Automated Fingerprint Identification System has also come on-line at sites accessible to law enforcement officers throughout the state.

And, where there is a need to get tougher, I am ready to do it.

Delegate Bill Axselle says that it doesn't make sense that a murderer can escape the death sentence because of a botched robbery attempt.

And, I agree. It doesn't make sense -- and we ought to change the law.

I am sure there will be other proposals to strengthen law enforcement and deter crime. I will give them careful consideration. On this score, we must work together.

Indeed, 28 of the nation's largest cities had more homicides in 1988 than a year earlier. A number of our own communities have endured the pain of intolerable violence. While Virginia has one of the lowest crime rates in the country, the fact remains that in 1987, 236,000 serious crimes were reported in Virginia.

And, it is not going to get easier. By 1990, that segment of the population -- the 15-34 year-old -- most prone to committing crimes against people and property will begin increasing again. Moreover, there is one broad category of crime that poses a unique threat -- and requires a concentrated effort.

In a recent Newsweek feature article, it was estimated that there are now more occasional or chronic users of cocaine in the United States than we have citizens in Virginia.

Ross Perot recently said that there are only two ways for a 28-year-old to earn a half million dollars: working on Wall Street or dealing drugs.

Unfortunately, more and more young people are choosing the latter route. Drug abuse and money -- the two have combined into an industry of frightening proportions. In 1987, the Virginia State Police confiscated illegal drugs with a street value of nearly \$46 million -- and the state forensic laboratory processed 50 percent more drug samples for law enforcement agencies this year than last.

The cost of drug abuse in human lives and suffering, in crime spawned to feed drug addiction, in the disintegration of families and communities, and in the destruction of property is literally immeasurable.

So, we must continue our efforts of the last three years to work with federal and local governments to fight drug abuse along three major fronts: education, treatment and law enforcement.

As you know, Virginia has already committed to spending this biennium more than \$22 million in drug abuse education programs; in excess of \$21 million in law enforcement; and in excess of \$30 million for treatment -- a total of more than \$74 million, that you approved last year.

Among these efforts is one which has proven particularly effective. Championed by Virginia's able and determined Attorney General, the CADRE program has reached thousands of young Virginians.

CADRE -- which stands for "Commonwealth Alliance for Drug Rehabilitation and Education" -- fights youth substance abuse throughout Virginia by coordinating the efforts of state agencies with those of 119 local CADRE affiliates in our 139 school districts.

In less than three years, the Attorney General has involved thousands of local volunteers, media executives, and business leaders to create a program that has attracted national acclaim by the Council of State Governments.

This program has made a difference -- but, there is also an additional need now for expanded law enforcement efforts.

First, I have authorized the Virginia National Guard to apply for federal funds authorized by Congress last year to expand efforts to interdict domestic and foreign importation of drugs.

If approved, this program will commit the National Guard, in cooperation with U.S. Customs and the U.S Coast Guard, to aerial surveillance and aerial photography missions in and around the Ports of Hampton Roads.

Further, I also recommend that we create, fund and staff within the Bureau of Criminal Investigation of the Department of State Police, a 25-member Drug Enforcement Strike Force and Planning Group.

Simply stated, this Strike Force will focus on three critical enforcement areas: air and sea interdiction of illegal narcotics; additional investigative support to individual local governments; and enhancement of the multi-jurisdictional drug enforcement strike forces.

I have discussed this initiative with the Superintendent of State Police, and indicated to him that if this state Strike Force proves as effective as both he and I believe it will be, I will propose further support for its efforts in the 1990-92 budget.

I hope you will support these efforts. We cannot fight drugs armed with rhetoric alone. We have got to use some muscle.

Indeed, in addition to the actions I have cited, I ask you to give more support to our State Troopers by equipping them with automatic pistols and improved protective hardware.

I also ask you to recognize that our State Police are responsible for crime prevention and enforcement at many levels. We make a lot of demands of this capable and effective law enforcement unit, including, of course, the patrol of our highways.

In fact, this budget includes a recommendation for an additional 50 troopers and five supervisors to provide more intensive coverage on our heavily-traveled interstates. That's in addition to the 98 new employees you authorized last year -- 55 of which were troopers assigned to highway patrols.

I also commend to your attention the findings of your recent study on state police retirement benefits. And, I will support reducing the age and service requirements for full benefits from age 55 with 30 years service to age 50 with 25 years service, effective July 1, 1990.

These actions will be a natural adjunct to our efforts, in recent years, to increase the number of law enforcement officers, raise their compensation, expand their training, improve their technology, and enact tough criminal laws, including mandatory sentences for specific crimes of violence.

The result is a clearance rate higher than the national average and sentences that have, on average, been increased by one-half since 1978.

But, our success at pulling criminals off the street has left us with a serious, even profound dilemma.

Corrections

Of the nearly 14,000 state-responsible felons in Virginia, there are about 2,000 murderers, 2,400 robbers, 2,500 burglars, 1,100 drug dealers and users, 1,300 rapists, 700 assailants, and 700 kidnappers -- and they all have one thing in common: They all want out.

Virginia keeps them in. Last year we had our lowest escape rate ever.

At the same time, we have been constantly adding to the number of inmates.

Since 1980, Virginia's prison population -- which in the late 1970s was already pushing the limits of capacity -- has increased 51 percent, -- or more than four times the 12 percent rate of our population growth.

And, in spite of our previous decisions to expand Virginia's prison capacity by one-third during this administration, the number of felons filling our local jails is now growing at an unprecedented nine percent.

To further respond to this overcrowding, I authorized in June a \$43 million emergency initiative to construct new space in the state prison system and to support additional inmates in local jails.

I now recommend that you fund the necessary start-up costs for the new Greenville and Buchanan prison facilities, both of which will open this biennium.

I also recommend that additional bedspace for at least 600 inmates be constructed on an emergency basis within the perimeter of existing field units. In the weeks ahead, I will work with you to specify the sites and specific number of beds.

But, let me hasten to add, that even if we take these actions, national experience tells us it will still not be enough.

For, make no mistake, we are not alone in our struggle to deal with prison overcrowding. Throughout the country, prison overcrowding has reached such proportions that 38 states are now under full or partial court orders to either provide additional bed space or reduce inmate populations.

While Virginia has avoided court supervision by responding with new prison construction, I remain very concerned with the long-term implications of our present inmate growth.

Clearly, we can and we will continue to build more prisons when necessary.

But just as clearly, the time has come for renewed efforts to get off this treadmill.

Knowing that the issue of corrections is a political lightning rod, that reaching agreement on what to do will be difficult at best, I propose that we draw our forces together -- much as we did in 1986 to address our transportation problems.

Consequently, I will send you legislation to create the Commission on Prison and Jail Overcrowding -- and I ask you to approve it and have it up and running before you adjourn this session.

Consisting of 25 members, the Commission would include both legislative and gubernatorial appointees. The membership should also include the Secretary of Transportation and Public Safety, the Secretary of Administration, the Chairman of the Compensation Board, representatives of the Sheriff's Association, the Board of Corrections, the Virginia Judiciary, criminal justice experts, local government leaders and the business community.

The Commission would be charged to assess Virginia's situation as compared to other states. What are we doing well? What can we do better? Should only violent criminals be incarcerated? Should we change our diversion programs? What about classification? Are there workable alternatives?

These are questions to which we need answers. And, it is my intention that the Commission report no later than December 1st, in time for you to act during next year's session.

Education and Human Resources

Nearly one out of 20 of our young men in Virginia aged 15 to 34 is either behind bars or under correctional supervision. Such a sobering fact is a good way to begin discussing the next subject.

In a sense, what it comes down to is this: We have become very adroit at collecting and putting criminals behind bars. But, we are not very good at preventing men and women from becoming criminals in the first place.

Human beings are not born into this world to break the law. That happens after they get here, after they become poverty-stricken, ill-educated, mean-spirited and desperate.

It was precisely 27 years ago today that John Kennedy said that "a child miseducated is a child lost."

Last year someone else said this: "I find myself almost haunted, as I get older, by the lives being lived by the children of our inner cities. ... One of the things I intend to do as President is to see what I can do, as a leader, to rally our people to help those children." That was Vice-President George Bush.

The President-elect has also said that he wants to be the "Education President" and remains profoundly concerned with the problem of drug abuse. We will soon learn his specific proposals, when he appears for his first message to Congress.

When it comes to the welfare and future of our children, the issues cover the waterfront, from literacy to family values, from crime to cocaine, from the workforce to welfare.

And, when the President-elect says that the "national character can be measured by how we care for our children," he is unerringly correct.

The dimensions of the issue oblige us all to work together -- and that means everyone and all institutions, public and private.

I will repeat what I said last year: "In the corners of our Commonwealth where poverty endures there are doctors, plumbers, lawyers, business leaders, engineers, mechanics, teachers and workers of all descriptions.

"But, you have not met them -- because they only exist as potential. They are our children, a living potential too often being wasted."

Working together, we have taken some important actions, to install new leadership in many of Virginia's human resources agencies, to prevent teenage pregnancies and reduce the number of infant deaths, to toughen the enforcement of child support and provide day-care assistance for low-income families.

We have worked to reduce disparities between school districts, to provide better care for the mentally ill and mentally retarded and to increase access to adequate housing.

All of these efforts have, in some measure, made it possible for more people to reach their potential and become productive citizens.

But, much remains to be done -- and there are a number of proposals which I urge you to act favorably upon.

I urge you to accept and act upon the findings of the Joint Subcommittee Studying Youth Services. The subcommittee recommends that, as of July 1, 1990, a Department of Youth Services be established, separate from the Department of Corrections. I think it is an excellent idea. We can focus our energies and give children the priority they deserve. I ask you to fund the necessary transition costs.

We have seen the power of investments in transportation and economic development. But, I ask you to remember that more than two centuries ago, Adam Smith pointed to the improvement in the skills of workers as a critical source of economic progress and means of raising living standards. Indeed, the evidence is overwhelming that people, not machines, are the driving force behind economic growth.

Unfortunately, we can look forward and see that the workforce of the next century will be far more diverse. At a time when jobs require higher levels of math, science and literacy than ever before, the economy is becoming increasingly dependent on the groups that often receive the poorest education.

Or, as David Kearns, chief executive officer of Xerox Corporation, writes in the current edition of the Harvard Business Review, "If current demographic and economic trends continue, U.S. businesses will have to hire a million new workers a year who can't read, write or count."

What it comes down to is this: The needs of the workplace and the needs of the disadvantaged may be merging in a way that demands recognition.

At the very least, it commands us to understand the value of investments in human capital.

In a similar vein, I ask you to adopt the recommendations of the Secretary of Health and Human Resources and the Secretary of Education to create an integrated, multi-agency approach to providing early childhood development services.

Specifically, I ask that you establish a Council on Child Care and Early Childhood Development. The Council will coordinate child care programs, recommend policy initiatives, review all related agency and local funding requests, and provide public information.

I am not saying that Virginia should "mandate" early childhood programs, but we can and should move toward early childhood development programs for all "at risk" four-year-olds by 1995. "At-risk" includes those children who, unless action is taken, will add to the numbers of school dropouts, teenage pregnancies, juvenile delinquencies and welfare dependents, and, ultimately, prison inmates.

Consider too that more than 18,000 young people drop out of school in Virginia every year. That's enough students to fill grades 8-12 in the Counties of Accomack, Henry, Spotsylvania, Louisa, Patrick, Wythe and the City of Suffolk.

Then consider this: Nearly 80 percent of Virginia's adult prison inmates are school dropouts.

Is there a relationship between the level of ignorance and the level of crime, between education and economic growth?

You'd better believe it.

And, we'd better act upon it.

Here's something we can do now: We know that by 1990 three out of four new jobs will require training beyond high school.

So, if students leave high school before they have learned a skill or earned a diploma, what possible chance do they have of getting a decent job?

The answer is: not much.

And, that's why we must try to keep them in school. We can't chain them to their desks, but we can provide some incentives.

The drop-out prevention legislation carried over from last year's session has that potential. We can do more to keep students on the class rolls and off the welfare rolls -- and I ask you to pass this legislation.

Similarly, I ask you to approve additional support for the foster parent program, an effort that can work wonders.

And, speaking of wonders, I again want to thank the First Lady for her determined efforts to reduce adult illiteracy.

Between June and September of this year, alone, 13,000 people were enrolled in adult basic and literacy education programs throughout Virginia.

We have established 26 new literacy programs in the last year, 13 of which are in rural areas. And, to supplement the \$4.4 million you appropriated last year for the Office of Adult Literacy, the First Lady has raised nearly \$3 million in private funds through the Virginia Literacy Foundation.

Virginians can take great pride in the educational system that we have labored so long to bring to a state of excellence. Our state-supported colleges and universities are now among the best in the nation. Our public schools have seen pupil achievement climb every year since 1982.

But, our self-satisfaction from past accomplishments must not blind us to the realities of the future and the need for us to act.

Do not doubt the value of our efforts. Only the children we educate today will be productive citizens tomorrow. There is no other way.

Caring for our children and giving them the best possible chance is a lofty and necessary goal. However, many Virginians in our cities and fast-growing suburbs will settle for just making it home tonight.

Transportation

Transportation remains an issue of critical importance in Virginia. Whether getting yourself to work or getting your products to market, you have to get there from here -- and have the means to do so. It is that simple.

That's why, in 1986, you created the Commission on Transportation in the 21st Century -- and brought together an unprecedented group, including former Republican and Democratic governors, legislators and independent-minded business leaders from across the Commonwealth.

We agreed that the job would require substantial investments -- and there were many different opinions on how to raise the money.

We overcame that hurdle. We compromised. We formed a consensus. And, on the basis of that accord, we passed historic legislation during the Special Session of 1986.

After decades of patchwork, piecemeal efforts, of a penny here and penny there added to the gas tax, the General Assembly established a 12-year, \$12 billion multi-modal construction program.

As a result, for the first time in Virginia's history, a long-term, stable transportation financing program is in place -- for building roads, extending runways and improving seaports.

Two years ago, Virginia had 2,600 road projects in development or construction; today that number stands at 5,000.

The contract value of the projects under construction at the end of this fall was nearly \$1.5 billion, almost double the value of the fall of 1985.

Not only that, we have cut the time it takes to complete highway projects by 20 percent and we are using fewer people per dollars spent to do the job.

We have made an extraordinary leap forward.

Still, as I have said and as you know, in some regions of Virginia it's not enough. Though state funds have grown dramatically, at the same time federal funds are being reduced and local sources of revenue remain seriously constrained.

This problem is, of course, particularly acute in our fastest growing areas. While growth has given these regions -- located in that crescent that runs from Northern Virginia through Richmond to Hampton Roads -- strong, job-producing economies, it has also given them some powerful headaches -- particularly when it comes to roads.

Take for example, Northern Virginia -- where on I-95 near Springfield more than 187,000 vehicles choke that important corridor every day.

As it stands, we have made some notable improvements -- principally because this legislature tripled state road construction funds, established the Route 28 Special Taxing District, and acted to authorize private sector participation in the extension of the Dulles Toll Road.

But, it is not enough. According to the Northern Virginia 2010 transportation plan, between 1985 and the year 2010, the total population of Northern Virginia is expected to increase by 50 percent, climbing from approximately 1.2 million people to about 1.8 million over the next two decades.

And, most significant for the issue at hand, it is estimated that in the next 20 years Northern Virginians will own more than 1.6 million vehicles -- or about 88 percent more than the approximately 900,000 vehicles owned in 1985.

As an economic success story, Northern Virginia is virtually without precedent in this entire country -- and lest anyone doubt what that means for the rest of Virginia, let me cite one example.

If you take the 1986 state income tax receipts from the cities of Richmond, Norfolk, Virginia Beach, Roanoke, Winchester, and Bristol, along with the income tax receipts of the counties of Albemarle, Botetourt, Chesterfield, Halifax, Rockbridge, Tazewell and Westmoreland -- and add them all up, it would still not equal the amount of income tax generated that year by Fairfax County alone.

Needless to say, that is revenue that, in some measure, benefits every community in the Commonwealth. Whether it's Northern Virginia, Hampton Roads or the Richmond Metropolitan area, each region's economic growth has strengthened Virginia's overall economic position.

But, now, the private and public leadership of Northern Virginia and Hampton Roads increasingly recognizes that their areas need the additional tools to prevent the pace of their growth and the increasing inadequacy of their transportation system from compromising the future of their economies.

This same leadership has argued for a greater measure of authority for local initiative.

I propose, for the sake of Virginia's entire economy, that we give it to them.

However, it is clear that no specific consensus exists at the local level on the means for raising the revenue judged to be necessary. That was the conclusion in the second report of the Commission on Transportation in the 21st Century.

Now, during the last six months, increases in real estate transfer taxes, recordation taxes, the sales tax, gasoline taxes, hotel taxes and the imposition of impact fees have all been discussed, but without any agreement. There is both support and opposition to each.

Futhermore, according to my own calculations, even if a combination of these proposals were enacted, the funds generated would not meet the all too apparent needs.

So, it strikes me that if we have a serious problem then it deserves a serious remedy -- even if that remedy presents a political risk for those of us in this chamber who face elections this year or those who may face elections in the future.

Here is what I propose.

If the people of a locality want to spend the local funds necessary to improve local transportation, I suggest that we allow them to do so in the most equitable and effective way possible: through the income tax they pay.

Specifically, I propose that we permit localities to levy a local surcharge equal to no more than one percent on the state income tax, provided, first, that such a surcharge is approved by the voters in a local referendum and, second, that the funds raised are dedicated to local transportation needs.

Under this plan, the amount of the surcharge would be deductible from a Virginia taxpayer's federal income taxes.

For Fairfax County alone, if the one percent equivalent surcharge were approved, the revenue generated in fiscal year 1990 would be \$123 million -- a sum that should go far to meeting the transportation needs of this economically vital and dynamic community.

However, I repeat my view that such an action must have broad citizen support. Therefore, before a surcharge of any amount could be imposed, a local referendum would have to be conducted.

And, to ensure that the revenue produced by this surcharge goes only to the purpose intended -- meaning transportation -- strict limitations should be contained in the legislation.

I offer this proposal in the same spirit that we reached agreement during the 1986 Special Session. Then, as now, many proposals were on the table, but none commanded sufficient support.

We needed consensus then -- and we need it now.

I recognize that in an election year giving localities the authority to tax themselves through a referendum may leave you with mixed emotions.

But, to those who would question the need for this legislation, I ask: Are these regional revenue needs critical and unavoidable?

And, if you agree, other than taxing all Virginians, how else can these needs be adequately addressed?

If the private and public leadership of our high growth regions, with the support of their citizens, are willing to join the state in a full partnership to improve transportation, I say we should give them the opportunity.

I am, therefore, willing to lend my support to this or other genuine solutions to the transportation problems of specific localities. I will help you build the bridge, but it will take the support of the legislators from those localities to get us all to the other side.

There are a number of subjects that I could address in detail and at great length. However, given my commitment to brevity, let me touch briefly on several issues of particular interest.

Administration of Government

Of my budget amendment recommendations, compensation, at \$94.2 million, is the third largest single item offered for your consideration.

In August the Department of Personnel and Training reported that state employees lag nearly four percent behind the private sector in total compensation. It has been our policy to eliminate such discrepancies in the past -- and I propose that we do the same in this instance.

I recommend a plan where, on average, classified employees would receive a 4.6 percent salary increase during the fiscal year beginning July 1, 1989.

Specifically, I recommend for all classified employees a 2.5 percent across-the-board salary increase effective July 1. In addition, the 60 percent of our classified employees not at the top of their pay range will also receive a merit increase during fiscal year 1990.

These two actions will, on average, raise classified salaries 4.6 percent in the next fiscal year.

With respect to our teaching and research faculty, the salary recommendations will range from 4.6 percent to 9.3 percent to continue toward the goal of making our higher education institutions competitive in the market for capable and accomplished faculty members.

Finally, I recommend that our constitutional officers and their employees receive increases equal to our state employees, 4.6 percent, and that our state judges receive salary increases of 7.5 percent.

Health Care Costs

Medical costs continue to skyrocket, placing new burdens on families, businesses, and governments. It is a predicament, and last January, I expressed my concern at the growth of Virginia's Medicaid program. We funded that program fully this biennium, but also agreed to conduct a comprehensive review to better respond to the major funding demands in the years ahead.

I urge you to review the Joint Subcommittee on Health Care's interim report, which proposes that a new public and private partnership be established to set up a separate trust fund for indigent health care. I agree.

Further, the subcommittee recommends that regulation of hospitals under the Certificate of Public Need program be ended, that the State-Local Hospitalization program be strengthened, and that the moratorium on new nursing home expansions be continued until January 1, 1991.

I concur with that as well, and I thank the members of the subcommittee for their worthy and commendable efforts.

Natural Resources

Environmental issues have assumed a permanent place on our agenda. A constant and resolute effort must be sustained. To be sure, we have made progress. We have secured better controls on the pace of growth in the Chesapeake Bay watershed, restricted the use of the toxin TBT, and reduced the level of phosphorus in our waters by 35 percent.

I now propose that we increase the level of technical assistance to localities in the Chesapeake Bay area, establish a nutrient monitoring program, improve our air quality standards, and expand the State Water Control Board's capacity for protecting non-tidal wetlands.

As for water resources, I commend to you the recommendations of the State Water Study Commission. Issues of water allocation and supply are long-term concerns and we must sustain our efforts.

Similarly, I ask you to give the Virginia Resources Authority the ability to make low interest loans to localities. For the first time, this will enable local governments to improve their solid waste management systems. This is important for local governments -- and I urge you to take this action.

I also ask you to read carefully the Council on the Environment's report on pesticides. The effectiveness of our management of this program has been justifiably questioned, but with more rigorous oversight of licensing, improved training and better public educational efforts, we can make sure that this important service is a safe service.

I urge you to accept the Council's recommendations and approve the proposed budget amendments.

Last -- and, believe it or not, there is a last -- I recently received the report of the Commission on Historic Preservation. The Commission's recommendations will give our history the priority it deserves.

George Hebert, writing in the Virginian-Pilot last week said that, "Virginia, richest of all the states in things historic, ought to be far out front, too, in the management of that unique resource." I agree -- and I hope you will as well.

Conclusion

Whether the issue is historic preservation, natural resources, health care, or transportation, state governments throughout America find themselves facing new responsibilities, new pressures and new demands.

In Virginia, we are very fortunate. On the whole, our economy is strong and growing; our people are vital and productive.

And, because we have been good stewards of our resources, we are in a position to respond to the important needs of our Commonwealth.

Indeed, just as we have endeavored to bring new jobs to Virginia, we can now improve the safety of mine and industrial workers -- and we have the funds to do it.

Just as we invested before to bolster rural economies, we can now initiate a program to promote financing for small, rural businesses and establish a new marketing program for agricultural products -- a program we just announced yesterday.

And, just as we have acted to protect our natural and living heritage, we can provide additional support to local school divisions -- and we have the revenue to do it.

Members of the General Assembly, we live in a great state in a good time. Our Commonwealth's potential has no limit except that which we choose to impose upon it.

And, as you work to discharge your responsibilities during the next 45 days, let me leave you with a parting thought.

Given all that we have accomplished together thus far, let us continue and remember the words of Abraham Lincoln who said that "success does not so much depend on external help as on self-reliance."

"Let us have faith," he said, "let us dare to do our duty as we understand it. ... [for] if we never try, we shall never succeed."

Thank you very much.

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