

Virginia General Assembly

Report from Delegate

Vivian Watts

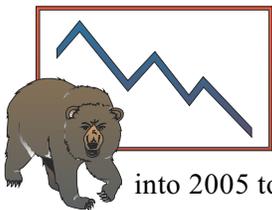
Last year, I started by saying, "Virginia's we-can-have-it-all bubble has burst. There are no easy answers. I can only promise to be honest with you..." But straight talk doesn't fit on a bumper sticker. I've talked with many of you as I've walked in your neighborhoods. I know you seldom miss a chance to vote because you're thoughtful and you care. Let us continue to reason together in the struggle to bring Virginia back to sound budgeting and prudent program investments.

The Budget Crisis

Virginia's budget crisis is twice as serious as it might appear from just reading headlines. Most of the shortfall affects only half the budget, because the rest comes from payments for specific services.

Our \$26 billion annual budget is split between 2 funds. The General Fund is \$12 billion and used to pay for basic state government operations. One-third of it goes to pay for K-12 education, followed by state expenditures for medicaid; police, courts, and prisons; higher education; mental health and other human services; and car tax relief (7%).

Money to fund these programs comes from sources everyone pays (i.e., individual income taxes, the sales tax, business taxes, lottery and ABC store profits, liquor and cigarette taxes, and court



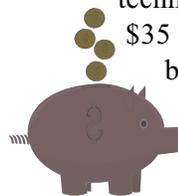
fees). These revenues have been driven down by the sluggish economy. We have had to repeatedly cut General Fund budgets starting in January 2002 into 2005 to absorb a \$6 billion shortfall.

The reason most of the cuts had to be from the General Fund is because, by law, most of the rest of the budget – \$16 billion in the Nongeneral Fund – comes from and goes to specific areas. Federal dollars must be used for programs such as Medicaid (41%). College tuition payments and hospital charges go to the institutions (23%). The gas tax and vehicle fees are designated for transportation.

Opportunity

The Chinese character for "Crisis" combines the words for "dangerous" and "opportunity." Indeed, we've used this opportunity to streamline

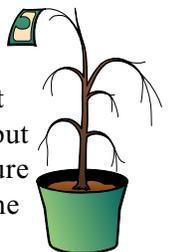
state government and make real longterm savings: We eliminated 12 agencies and 43 boards and commissions. 6,000 state jobs were cut. With individual state agencies having over 100 separate contracts to purchase Dell computers, some of us on the Science and Technology Committee worked long hours this Session with the Governor to consolidate information technology services for an annual savings of over \$35 million. Services to veterans will improve because fragmented programs have been consolidated. And, of course, repeated budget, averaging at least 20%, have forced agencies to produce efficiencies.



Danger

Other ways that were used to handle the budget crisis simply aren't available to be used again or, if they are taken further, basic services will be crippled.

We've drawn a total of \$845 million from the Rainy Day Fund and what it took 8 years to build up is now essentially gone. Reducing what we put aside to fund state pensions hopefully was actuarially sound but going further won't be. An amnesty period to entice people to pay back taxes without penalty is expected to yield a \$40 million surge but will reduce the normal flow of collections in future years. In fact, state revenues must grow 5% in the next 2 years just to cover such one-shot "fixes."



Examples of questionable cuts to basic services are many. For the first time, all qualified graduates of NVCC will not be able to complete their last two years at GMU. Eliminating beds in large mental health institutions is not matched with adequate increases in community care and prescription drugs. Re-opening DMV offices with less than half the windows staffed still leaves incredibly long waiting lines. Finally, the fact that state employees have received no salary increase in 3 years affects the quality of our workforce.

Tax Reform

No tax is fair. I can make strong arguments against each and every one. However, by balancing one with another we can achieve the fairest possible tax system to raise what is necessary, as broadly, equitably, and efficiently as possible.

Ideally, revenues from taxes should be split equally between income, real estate, and sales. Virginia has moved considerably away from this balance. 60% of the General Fund now comes from individual income taxes, while only 20% comes from the sales tax. Having the lowest cigarette tax in the nation adds to the imbalance.

For many Fairfax County taxpayers, high real estate taxes are what is really out of balance. This is much less true in Arlington, Alexandria, and cities throughout Virginia because they have local tax sources, such as hotel rooms, restaurant meals, and cigarette taxes as high as 50-cents a pack.



There also are unfair and antiquated aspects of both our sales and income taxes. We're one of the few states that tax groceries but not services. We don't tax Internet purchases. Virginia's income tax schedule hasn't changed since the 1930's, except for adding the 5.75% rate for income over \$15,000.

And, yet, even though the result has been to shift more and more of Virginia's tax burden away from the wealthy, the only tax change that passed this Session would have given \$50 million to 50 multi-millionaires by eliminating the estate tax.



The Governor vetoed the estate tax bill and is pushing for a Special Session so we can consider tax changes comprehensively as a package. I strongly agree. The big issue is whether tax reform will end up revenue-neutral or whether total state tax revenue will increase. I believe we should at least cover the difference between what voters were told the car tax rebate would cost and its true price tag, which will be \$1.3 billion annually when the rebate reaches 100%.

Our Fair Share

The car tax rebate has become a critical part of the tax reform debate, not only because of the mushrooming annual cost of this major tax cut, but also because so much of the benefit goes to Northern Virginia. People throughout Virginia hated the car tax so much, they didn't realize that using state funds to reimburse localities for not collecting this tax was not a good deal for them.

Over the years, local car tax rates grew to reflect how state school funds are distributed. Those localities with high car tax rates – who are the big beneficiaries of the state rebate – are those that traditionally get little state school support. Fairfax is a prime example. Without significant state school funds coming in and without the broad taxing power given to cities, raising the local car tax became the only alternative to higher real estate taxes.

The effect of state funding on local taxes makes the school funding formula a key issue in whether tax reform will actually achieve a fairer tax structure across the state. 111 of Virginia's 134 school divisions get more than 50% of their school budget from the state, including Prince William and Loudoun counties. Fairfax County gets 18%. This is supposed to reflect each locality's ability to fund its own schools from local taxes. It does not.

For example, Virginia Beach is funded as if it were a poor county despite the fact that it is a city with robust tax revenue from tourists' restaurant meals, hotel rooms, and a hefty cigarette tax. It gets close to twice as much from the state per student as Fairfax. Under a bill I crafted this Session to reflect actual taxing authority instead of local income, Virginia Beach and Fairfax would get about the same state support.



Unless the school formula is changed, even if tax reform does produce more revenue, it won't make a dent in the inequity of high real estate taxes in Fairfax or benefit our school children. The challenge will be to not lose car tax gains in the process.

On Being Over 40

Unlike all but one other state, Virginia didn't raise taxes during the last recession and we are near the bottom in both taxes (47th) and in most program expenditures (except public safety). Nevertheless, some say that over-spending is the issue, declaring that Virginia's expenditures increased over 40% since 1997.

First of all, the statistic that state spending increased over 40% mixes apples and oranges by jumbling General and Nongeneral Fund spending together. Under this logic, paying for the car tax by reducing state funds for higher education and raising tuition still is counted as an increase in state spending!

Equally relevant, since 1997, we have over 65,000 more students in public school and 25,000 more in college. We're spending \$400 million more per year for Medicaid and federally-mandated mental health costs, \$800 million more for prisons and law enforcement, and \$900 million a year to fund a 70% car tax cut.

Justice

Execution of Mentally Retarded – Last June, the Supreme Court ruled Virginia’s execution of mentally retarded people is cruel and unusual punishment prohibited by the 8th Amendment. After intense debate, the law we passed uses a clinical assessment that doesn’t hinge on the ability to tell right from wrong.



Public Safety

Sexual Predators – We established a civil process to review violent sexual offenders being released from prison. It is estimated that 20-25 per year will be committed to a secure mental institution upon a determination that they are a danger to society. However, a bill failed that would have required clergy to report child abuse if it did not breach the tenets of their church structure.

Under-age Drinking and Driving – Anyone under age 21 who is driving with a Blood Alcohol Content of .02* will have their license immediately revoked for 7 days in addition to any other penalties. (*The BAC level for other drivers remains .08.)

DMV Proof of Legal Residency – As of January 1, 2004, everyone applying for a license must have proof that he is a citizen or is legally residing in the United States. Licenses will be issued only for the length of time the person is authorized to stay in the U.S.

Identity Theft – The entire social security number will no longer appear on driver’s licenses, student IDs, or voter cards. DMV must replace all licenses and ID cards by July 2006, but replacement of voter registration cards will not be complete until 2011.

Consumers

Mail-order Beer and Wine – Adults can now have up to 2 cases of beer and wine per month shipped directly to their home.

Health Care

Disciplining Doctors – A series of news articles about doctors who continued to practice after numerous, serious incidents affecting patients, led to comprehensive reform. The disciplinary standard has been lowered from gross negligence to simple negligence and 3 years must now lapse before a doctor who’s lost his license can be re-instated. In addition, reporting requirements for institutions and healthcare professionals who witness questionable actions were significantly strengthened.

Nursing Home Staffing – Virginia does not regulate staff ratios (unlike 37 states) and has one of the lowest Medicaid payment rates (\$500 below actual monthly costs, on average.) I am concerned not only about helpless elderly not getting basic care but also about the hidden tax on the elderly with enough resources not to need Medicaid who pay significantly more as private pay patients to make-up for what Virginia’s Medicaid rate doesn’t cover.

Reproduction – There were 40 bills to limit abortion and one to assure that contraception would remain legal. That bill failed because of the increasingly widespread position that anything that prevents egg and sperm from joining or prevents a fertilized egg from reaching the uterus constitutes an abortion.

Bills that did pass include requiring parents who consent to their daughter having an abortion to do so before a notary. A bill prohibiting a woman in her 4th month from ending her pregnancy using dilation and extraction also passed without an exception to allow the procedure to preserve her health. This is directly counter to a U.S. Supreme Court decision in 2000 that the woman’s health must be considered. The Court’s ruling was based on a thorough review of medical testimony regarding the *rare* need to end a pregnancy after the 14th week but before viability outside the womb.

Vivian, the two issues I’m most concerned about are:

- Transportation K-12 Education Taxes Environment Higher Education
 Mental Health/Mental Retardation Crime Health Care Other _____

My concerns about #1 are _____

My concerns about #2 are _____

Education

Un-Fair Funding – One of the most important goals of tax reform MUST be to reconcile how the state funds local schools with how local governments are allowed to make up the difference. With 1/3 of all state taxes going to K-12, how this money is re-distributed is critical to Fairfax taxpayers.

The gross unfairness of the current school funding formula is well-illustrated right here in Northern Virginia. Fairfax County has 3 times as many students as our neighbor, Prince William. We both will have about 5,000 new students in 2 years. And, yet, Prince William will get \$45 million MORE in state funds while Fairfax will get \$29 million LESS.

Fairfax is being penalized because 50% of the 2003-2004 state subsidy calculation was based on our income per person in 1999 – the heyday of dot.com salaries and capital gains. Even if that segment of the economy was still booming, we can't tax income; we only can tax real estate. Many of you know first hand that the assessed value of the house you've lived in for 25+ years does not reflect your current income and ability to pay.

Real estate values are 40% of the state subsidy calculation but, since the local sales tax base only accounts for the remaining 10%, tourist areas – like Virginia Beach – get large school subsidies from the state, despite all the local revenue they get from hotel, restaurant, and general sales taxes.

The down-state leadership was adamant that Fairfax voters couldn't be given their own source of funding out of fear we would refuse to help meet state needs. They were unwilling to acknowledge how much we already contribute, much less how much we need to be able to help ourselves.