

Dear Fellow State Employees:

As I have done in past years, I want to provide you with specific information regarding the budget bill I am introducing to a Joint Meeting of the Senate Finance, House Appropriations, and House Finance Committees at this moment. Attached to this e-mail you will find the text of the speech I am delivering to the General Assembly. As fellow stakeholders in the business of Virginia's government, however, it is very important that you understand the details of this introduced budget that directly affect your duties as state employees.

For more than a year, I have shared with you my concerns about the unprecedented uncertainty facing us in the form of the so-called "fiscal cliff." The impending sequester of defense and non-defense federal spending, expiration of certain tax cuts, alternative minimum tax increases, the looming federal debt limit – and their combined, unknown impact on state revenues – required conservative revenue forecasting and spending restraint in the coming year. For this reason, in addition to the benefits regular examination of state spending policies bring, I asked each of your agencies to provide 4 percent reduction plans as part of this year's budget development process. Once again you accepted my challenge to identify new ideas to capture additional efficiencies in state government and to improve the effectiveness and the delivery of state services. My introduced budget bill accepts nearly 46 percent of the 4 percent savings plans recommended by you without substantial reductions in positions. Very few agencies were reduced at the 4 percent level. My budget does call for the closure and repurposing of a Department of Juvenile Justice facility in Hanover County; however, that will be achieved with very minimal layoffs due to the fact that vacancies exist at other juvenile detention and correctional facilities.

You are already aware that securing the long term financial well-being of the state retirement system was a priority of my administration. Last year we succeeded in working together with the General Assembly to reduce local and state unfunded liabilities by an estimated nearly \$9 billion over the retirement horizon while also providing a second 3 percent bonus within the past 3 years. Both of the bonuses were made possible through your efforts to realize savings well above the cost of the payments. This gain-sharing technique is an innovative tool used by the private sector, and I applaud you for proving that it can also work to great success in the public sector. An additional 2 percent pay-increase will be realized by full time state employees in July of 2013 due to your continued good work to maintain our core services during these difficult economic times.

In this budget, I have turned my attention to the financial security of the state

employee health insurance fund. Over the past few years, the state has dipped into the cash reserves of the fund to pay a portion of the higher costs of health insurance felt nationwide by both public and private employees. Essentially, the state budget funded the rising cost of premiums paid by state employees by using the cash balances of the fund. My budget reverses this unsustainable trend through a net infusion of just under \$65 million from the general fund in FY 2014 to help cover these costs. As was the case with VRS, both fiscal prudence and our commitment to state employees require that we address this issue now.

Removal of unsustainable practices, budget gimmicks, and long term investment in core services are the hallmarks of my budget this year. I am asking the General Assembly to make both transportation investment and K-12 education top priorities this Session, all while bringing the Commonwealth's savings account – the Rainy Day Fund also known as the Revenue Stabilization Fund – to over \$700 million as we enter the next biennium. I am also asking for near elimination of Accelerated Sales Tax collection and the complete elimination of the Aid to Localities Reversion Clearing Account in FY 2014.

The budget, like any piece of legislation, is a work in progress and will change substantially between now and the last day of the General Assembly's 2013 Session. As always, I will continue to share those developments with you through these communications.

Please accept my ongoing gratitude for your service to the Commonwealth, as well as my best wishes for a Merry Christmas, Happy Hanukkah, and a Happy New Year.

Speech to General Assembly:

<http://www.governor.virginia.gov/utility/docs/Dec12JMC.pdf>

Sincerely,
Governor Bob
McDonnell