

# Capitol Contact

## Virginia General Assembly

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# Governor Youngkin Proposes Amendments to 2022-2024 Biennium Budget



Governor Youngkin presented his proposed amendments to the biennium budget last week to a joint meeting of the House Appropriations, House Finance, and Senate Finance and Appropriations Committees. In his remarks to the Committee members,

the Governor summarized his proposals as “going faster and getting more done,” and stressed the need to accelerate work to improve the state’s economic competitiveness, protect public safety, meet the state’s Chesapeake Bay goals, and enhance efficiency in government. The Governor outlined three major components of his economic development proposals: tax reductions, a large investment in business site development, and additional funding for workforce development, paired with reorganization of the state’s workforce development agencies. Additional areas of focus include investments in K-12 education, public safety, behavioral health, and environmental initiatives to improve resiliency and water quality.

Secretary of Finance Stephen E. Cummings presented the Administration’s revenue forecast, in addition to an overview of the state’s economic outlook. State General Fund (GF) revenues have performed well in FY 2023, although the December forecast anticipates a recession beginning at the end of the third quarter of the fiscal year and lasting for two to three quarters. Due to the strength in revenue collections thus far this year, General Fund revenues are expected to exceed the forecast embedded in the budget that was adopted in June 2022 by \$2.2 billion. The December revenue forecast assumes \$1 billion in tax policy adjustments over the biennium. After factoring in these policy adjustments, total GF revenues and transfers are expected to be \$1.2 billion higher than amounts in the adopted budget. To mitigate uncertainty associated with a potential economic downturn in FY 2023, the Governor attached revenue contingency language to several of the larger tax policy or spending items in FY 2024 (reduction in the top individual income tax rate, \$250 million for business sites, \$100 million for the Resilient Virginia Revolving Loan Fund, a performance bonus for state employees, and supplemental funding to address shortfalls for capital projects). Secretary Cummings’s presentation may be found at [this link](#). An overview of major spending items in the Governor’s proposed amendments presented by the Director of the Department of Planning and Budget, Michael Maul, may be found at [this link](#).

Following is VACo’s analysis of key items in the Governor’s budget proposals of interest to local governments. In addition, VACo members may wish to consult the Superintendent of Public Instruction’s December 16 memorandum, which includes detailed information about the Governor’s K-12 proposals (as well as links to spreadsheets that assist in calculating projected state payments to school divisions). That memorandum is available at [this link](#). An overview of Compensation Board-related funding proposals is available in a memorandum from the Executive Secretary of the Compensation Board, which may be found at [this link](#).

### **K-12 Education**

- Updates sales tax estimates (approximately \$168 million GF over the biennium) and updates Average Daily Membership projections based on actual fall membership (\$71.2 million over the biennium).
- Provides \$10 million GF in FY 2024 for incentive payments for instructional positions in hard-to-fill positions or hard-to-staff schools.

- Provides \$16.9 million in FY 2024 for the state share of one reading specialist position for each 550 students in grades 4 and 5, beginning in school year 2023-2024.
- Provides \$7.2 million in FY 2024 for the state share of math instructional specialist positions at underperforming schools. The state share of one math specialist position will be provided to local school divisions with K-8 schools that rank in the lowest 10 percent statewide on the spring 2021 Standards of Learning assessment.
- Deposits an additional \$50 million in FY 2023 to the College Partnership Laboratory Schools Fund.

### **Compensation**

- Provisions in the budget approved in June 2022 for a 5 percent salary increase for state employees, state-supported local employees, and SOQ-recognized instructional and support positions, effective July 1, 2023, remain unchanged.
- Includes \$13.9 million GF in FY 2024 to restore salary progression differentials for deputy sheriffs and regional jail officers.
- Provides \$100 million GF in FY 2024 for a one-time \$1500 bonus payment, to be provided December 1, 2023, for full-time state employees.
- Contingent on FY 2023 revenues meeting projections, provides \$100 million GF in FY 2024 for an additional bonus payment of up to 10 percent of base pay on December 1, 2023, for top-performing state employees.
- Provides \$45.2 million in FY 2024 for the state share of a one percent retention bonus for SOQ-recognized instructional and support positions on September 1, 2023.
- Provides \$50 million in FY 2024 for \$5000 teacher performance bonuses, to be awarded to top performing teachers identified by the Virginia Department of Education in conjunction with local school divisions.

### **Local Audits**

- Language requires the Auditor of Public Accounts to notify the Governor, the Secretary of Finance, and the Chairs of the House Appropriations and Senate Finance and Appropriations Committees if a locality has not completed its audit and submitted its audited annual financial report within 18 months of the deadline. Once this notification has been made, if the locality has outstanding debt or payments owed to the Commonwealth, the Virginia Resources Authority, or any other Commonwealth entity or political subdivision, or received federal funds during the fiscal years for which it has not completed its audit, the Secretary of Finance is required to determine whether a plan for state technical assistance is necessary to help remediate the situation and address the factors contributing to the locality's delay. If a plan for technical assistance is determined to be necessary, the existing process for providing technical assistance to fiscally distressed localities would be triggered.

## **Judiciary/Public Safety**

- Increases funding for specialty dockets for veterans, behavioral health, and drug treatment by \$3.5 million GF in FY 2024.
- Provides \$7.4 million GF in FY 2024 to address workloads and turnover in public defender offices.
- Removes language that requires a 50 percent local match for funds distributed through the Body Worn Camera Grant program.
- Provides \$30 million GF in FY 2024 for Operation Bold Blue Line. These funds would be distributed by the Director of the Department of Criminal Justice Services to state and local law enforcement agencies to bolster recruiting and training efforts. Uses may include sign-on or recruitment bonuses, relocation expense reimbursement, fast-tracked lateral training academies, and statewide centralized recruitment efforts. The Director of the Department of Criminal Justice Services is required to develop a plan in collaboration with the Office of the Governor and the Secretary of Public Safety and Homeland Security; a progress report is due September 1, 2023, and an updated report detailing the allocation of funds is due by September 1, 2024.
- Provides an additional \$20 million GF in FY 2024 for the Operation Ceasefire Grant Fund. These funds are to be used for violent crime reduction strategies, training for law enforcement and prosecutors, equipment, and grants to organizations engaged in group violence intervention efforts.
- Creates the Mass Violence Care Fund to provide assistance to victims of mass violence in Virginia and directs the deposit of \$10 million GF in FY 2024 into this Fund.
- Provides \$2.9 million GF in FY 2024 for the Department of Juvenile Justice to enter into lease agreements and operate three local juvenile detention centers to house juveniles who have been committed to the Department. Also provides \$764,839 GF in FY 2024 to increase capacity at the Bon Air Juvenile Correctional Center.

## **Administration – Constitutional Officers**

- Provides \$76,275 in FY24 to support all qualified and unfunded participation in Constitutional officers' career development programs
- No additional funding is included for staffing standards or the restoration of prior reductions to salaries.
- Salary compression actions for sheriffs' deputies and regional jail officers are discussed under "Compensation" above.
- Assistance with court-ordered transportation of individuals in the custody of sheriffs' offices and regional jails subject to temporary detention and emergency custody orders is discussed under "HHR – Behavioral Health" below.

## **Administration – Elections**

- Provides \$5.8 million GF in FY 2024 to reimburse localities for presidential primary expenses.

## **Agriculture and Forestry**

- Increases funding for the Agriculture and Forestry Industries Development Fund by \$1.25 million GF per year; funding is directed to be used for agricultural technology grants or loans to advance the agricultural industry, assist the development of agricultural products, and improve infrastructure growth, productivity, or efficiency.
- Provides \$1 million GF in FY 2024 for competitive grant funding for agricultural technology research projects.
- Provides \$2.2 million GF in FY 2024 for the registration and inspection of facilities selling certain hemp products, such as Delta-8 consumable products, pursuant to legislation that will be considered during the 2023 Session.

## **Economic Development/Workforce**

- Appropriates \$35.5 million GF to the Major Headquarters Workforce Grant Fund in accordance with contingency language included in the budget adopted in June 2022.
- Appropriates \$50 million to the Business Ready Sites Program Fund in accordance with contingency language included in the budget adopted in June 2022.
- Provides \$200 million GF in FY 2023 and \$250 million GF in FY 2024 for the new Site Acquisition Pilot Program to identify and fill gaps in the Commonwealth's current portfolio of industrial properties available for economic development projects, or to be deposited to the Business Ready Sites Program Fund. FY 2024 funding is contingent on FY 2023 revenues meeting estimates. Language sets out a process for prioritizing up to five sites for potential purchase or option by the Commonwealth.
- Increases the appropriation to the Virginia Main Street program by \$2 million GF in FY 2024, of which \$1.5 million is to be used for special initiatives in the Crater Planning District Commission.
- Provides \$10 million GF in FY 2024 to assist local governments in building capacity to review and issue building permits.
- Directs \$11.4 million NGF in FY 2024 from balances in the Low-Income Energy Efficiency Program Fund to provide relief to residents of Buchanan County and Tazewell County who suffered flood damage in summer 2022.
- Deposits \$10 million GF in FY 2024 into the new Virginia Power Innovation Fund, which will be used for research and development of innovative energy technologies, including nuclear, hydrogen, carbon capture and utilization, and energy storage. Included in this appropriation is \$5 million to support

establishing a Virginia Nuclear Innovation Hub and \$5 million for energy innovation grants.

- Funds a study of the viability of expanding airline services in the Commonwealth (provides \$1.2 million GF in FY 2024, of which \$200,000 is to be used to study how to increase capacity at the Roanoke Airport).
- Provides \$24.5 million GF in FY 2024 for the talent pathways planning grant program established in the “caboose” budget passed in June 2022. \$4.5 million is to be used to support organizational and capacity-building activities, and \$20 million will support the talent pathways development collaborations developed by regional councils through the Go Virginia program.
- Provides \$1.3 million GF in FY 2024 through the Go Virginia program for regional councils to address workforce needs in agricultural technology industries.
- Provides \$10 million GF in FY 2024 through the Go Virginia program for workforce development initiatives for certain industries in specified regions.
- Increases the maximum reimbursement amount for eligible institutions participating in the New Economy Workforce Credential Grant Program from \$3000 to \$4000 per eligible student.
- Provides \$15 million GF in FY 2024 to establish five accelerator programs that partner community colleges with local school divisions to teach courses that lead to attainment of industry-recognized certifications or credentials that are in demand by regional employers.
- Provides \$3 million GF in FY 2024 to promote awareness of the G3 and Fast Forward programs at the Virginia Community College System.
- Provides an additional \$5 million GF in FY 2024 to the State Council for Higher Education of Virginia for workforce development training.

### **Early Childhood**

- Language allows the Superintendent of Public Instruction to increase the staff-to-child ratios and group sizes for licensed child day centers and child day centers that participate in the Child Care Subsidy Program (child day centers must notify parents if implementing this flexibility).
- Provides \$20 million GF in FY 2024 for a pilot program for public-private delivery of preschool services for at-risk children in the Lenowisco and Crater Planning Districts.
- Language allows community-based providers receiving grants through Virginia Preschool Initiative add-on partnerships to be exempt from regulatory and statutory provisions regarding teacher licensure.

### **HHR- Health**

- Provides \$943,856 GF and \$698,322 NGF in FY 2024 for rent increases for local health departments.

- Provides \$3.4 million GF in FY 2024 for the state match to draw down Drinking Water State Revolving Fund grant funds from the U.S. Environmental Protection Agency.
- Establishes the Earn to Learn Nursing Education Acceleration Program with \$30 million GF in FY 2024. Grants are to be awarded for the formation of collaborative clinical training arrangements between high schools, higher education institutions, hospitals, and health providers, increasing the number of nursing students receiving necessary clinical training, and creating and ensuring employment opportunities for nursing students.
- Provides \$5 million in FY 2024 for loan repayments for psychiatric registered nurses and psychiatric nurse practitioners who work in Virginia for four years.
- Provides \$10 million GF in FY 2024 to increase awards for the Nursing Preceptor Incentive Program (from \$1000 to up to \$5000) and expand eligibility to include licensed practical nurses and registered nurses.
- Provides an additional \$1 million GF in FY 2024 for existing nursing scholarship and loan repayment programs.
- Provides \$250,000 GF in FY 2024 to the Office of the Secretary of Health and Human Resources for the cost of a consultant to develop a statewide strategic plan on the Commonwealth's health care workforce needs.

### **HHR – Behavioral Health**

- Provides \$750,000 GF in FY 2024 for the cost of a consultant to assist with implementing a plan to transform behavioral health.
- Provides \$250,000 GF in FY 2024 for the Secretary of Health and Human Resources, in collaboration with the Secretary of Veterans Affairs, to fund a consultant to study the Commonwealth's coordination of behavioral health and substance use disorder programs, with an emphasis on services for veterans.
- Provides an additional \$2.5 million GF in FY 2024 for the Behavioral Health Loan Repayment Program and increases loan repayment amounts from an amount up to 25 percent of student loan debt, not to exceed \$30,000 per year to an amount up to 25 percent of student loan debt, not to exceed \$50,000 per year for child and adolescent psychiatrists, psychiatric nurse practitioners, and psychiatrists.
- Funds an additional 20 psychiatric residency slots in FY 2024 through \$1 million GF and \$1 million NGF in matching federal Medicaid funds.
- Earmarks \$5 million in FY 2024 from the Commonwealth Opioid Abatement and Remediation Fund to conduct a public awareness campaign to reduce the number of incidents of fentanyl poisoning among youth
- Earmarks \$7 million in FY 2024 from the Commonwealth Opioid Abatement and Remediation Fund to support costs associated with a statewide fentanyl response strategy.
- Earmarks \$1.4 million per year for naloxone from the Commonwealth Opioid Abatement and Remediation Fund.
- Provides \$58.3 million GF in FY 2024 to expand and modernize the comprehensive crisis services system, including investment in additional crisis

receiving centers and crisis stabilization units and expansion of existing sites. This funding includes \$845,204 for administrative costs.

- Provides \$20 million GF in FY 2024 for comprehensive psychiatric emergency programs or similar models of psychiatric care in emergency departments. Projects may include public-private partnerships, to include contracts with private entities. Programs must collaborate with the region's community services board or behavioral health authority.
- Provides \$20 million GF in FY 2024 for the one-time costs of establishing additional mobile crisis services in underserved areas.
- Provides \$4 million (and \$110,000 for administrative costs) for a pilot program to assist sheriffs' offices and regional jails with the costs of maintaining custody and transportation of individuals in their custody who are subject to an ECO or TDO. This funding will allow for up to 71 deputy sheriff positions to be allocated, with the balance of funds to be allocated to reimburse offices on an hourly basis. Positions and funding would be allocated by the Compensation Board based on workload. Language provides that these funds are to supplement and not supplant existing local spending on these services.
- Consolidates funding for alternative transportation and funding for alternative custody for individuals subject to a temporary detention order and provides an additional \$1 million GF in FY 2024 for DBHDS to contract with local law enforcement agencies who have agreed to use off-duty officers to provide transportation services or to assume custody of an individual under a temporary detention order who is awaiting admission to a state facility.
- Provides \$8 million GF in FY 2024 for supervised residential care, with priority to be given to projects for individuals on the Extraordinary Barriers List.
- From the existing appropriation of \$7.5 million GF in FY 2024 to DBHDS to pursue alternative inpatient options to state hospitals or to increase capacity in the community for patients on the Extraordinary Barriers List, sets aside \$1.5 million GF in FY 2024 to support the discharge of private hospital patients at risk of transfer to state hospitals.
- Expands eligibility for the existing funding for pilot programs to serve individuals with dementia who might otherwise be admitted to state facilities to allow all older persons (defined in a cited statute as persons aged 60 and older) to qualify.
- Provides approximately \$9 million in FY 2024 for targeted salary increase for food and environmental services employees at state facilities.
- Provides \$15 million GF in FY 2024 to expand the school-based mental health pilot program. Retains language allowing these funds to be used by the Department of Behavioral Health and Developmental Services and partners to provide technical assistance to school divisions seeking guidance on integrating mental health services; revises previous language regarding grants to school divisions to also allow the funds to be provided to public or private community-based providers to contract for the provision of school-based mental health services.
- Provides \$9 million GF in FY 2024 for student mental health services in K-12 and institutions of higher education.



## **HHR – Medicaid**

- Adds 500 additional developmental disability waiver slots.
- Increases rates for agency-and consumer-directed personal care, respite and companion services by 5 percent, effective July 1, 2023. Provides \$42 million GF/\$47.2 million NGF in FY 2024 for the rate increase.
- Funds a 12.5 percent rate increase for Early Intervention services for all children under age three enrolled in Early Intervention via Medicaid; provides \$1.1 million GF/\$1.2 million NGF in FY 2024 for the rate increase.
- Language directs the Department of Medical Assistance Services (DMAS) to seek federal approval to allow individuals working on their required hours of supervision to be approved as Medicaid providers for mental health and substance use disorder peer supported services; language also authorizes DMAS to adjust caseload limits for peer recovery specialists to reflect the need to operate within a crisis or emergency room setting.
- Authorizes DMAS to reprocure the state’s managed care service delivery system with an expected implementation date of July 1, 2024, and provides \$1.7 million GF and \$2.6 million NGF in FY 2023 for one-time costs associated with the reprocurement.
- Directs DMAS to seek federal authority to implement telehealth service delivery options for developmental disability waivers that are currently authorized through the Appropriation Act or the Code of Virginia.
- Directs DMAS to convene a workgroup to examine the impact of including psychiatric residential treatment services in the managed care program.

## **HHR – Social Services**

- Increases the Auxiliary Grant rate to \$1682 per month, effective January 1, 2023.
- Provides \$8.3 million GF in FY 2024 to implement recommendations from the Office of the State Inspector General’s audit of the state’s Child Protective Services system, to include additional CPS worker and supervisor positions, which will initially be targeted toward the local departments with the highest need.
- Provides \$935,196 GF in FY 2024 to expand kinship navigator programs and directs the Department of Social Services to report on the effectiveness of these programs.
- Directs \$20 million in FY 2024 from State and Local Fiscal Recovery Funds from the American Rescue Plan Act (ARPA) to DMAS to procure a vendor to assist in the redetermination of Medicaid enrollees following the end of the federal Public Health Emergency. This funding would be in addition to the \$5 million in ARPA funding in FY 2023 previously provided. Directs \$10 million in FY 2024 in ARPA funding to the Department of Social Services to support overtime costs at local departments for Medicaid redetermination. Bars the transfer of the new funding until a report detailing the Commonwealth’s final plan to perform all unwinding activities is provided to the Task Force on Eligibility Redetermination.

## **Labor**

- Deposits \$100 million GF in FY 2023 to the Unemployment Insurance Trust Fund.

## **Natural and Historic Resources**

- Deposits \$100 million GF per year in the Resilient Virginia Revolving Loan Fund; funding in FY 2024 is contingent on FY 2023 revenue collections meeting estimates.
- Appropriates the required \$87 million deposit to the Water Quality Improvement Fund from FY 2022 excess general fund revenues.
- Deposits \$50 million GF in FY 2024 in the Virginia Natural Resources Commitment Fund; directs the Secretary of Natural and Historic Resources to develop and submit a plan for the allocation of these funds by September 1, 2023.
- Provides a total of \$237 million in additional funding for the Enhanced Nutrient Removal Certainty Program over the biennium (\$43.9 million from FY 2022 excess general fund revenue collections; \$107.1 million GF in FY 2024; and \$86.1 million in reallocated ARPA funding in FY 2023).
- Provides \$3.5 million GF in FY 2023 to implement the Permit Evaluation and Enhancement Program
- Provides \$100 million GF in FY 2023 for the combined sewer overflow control project in the City of Richmond and \$5.5 million GF in FY 2023 for grants to the City of Petersburg for water and wastewater upgrades at Poor Creek Pump Station.
- Provides an additional \$5 million GF in FY 2023 for the Black, Indigenous, and People of Color Preservation Fund and expands eligibility to historic sites (rather than archaeological sites).

## **Transportation**

- Appropriates \$150 million in FY 2023 for improvements to Interstate 64 from excess FY 2022 revenues in accordance with contingency language included in the budget adopted in June 2022.
- Directs \$500,000 GF in FY 2024 to study the use of a public-private partnership to accelerate the completion of improvements to the Interstate 81 corridor.
- Redirects \$100 million in uncommitted balances in the Virginia Transportation Infrastructure Bank to the Transportation Partnership Opportunity Fund and directs the Commonwealth Transportation Board to transfer \$200 million from revenue increases identified in the December 2022 Commonwealth Transportation Fund forecast to the Transportation Partnership Opportunity Fund.

## **Veterans and Defense Affairs**

- Adds \$900,000 GF in FY 2024 for the Virginia Values Veterans program and increases the amount of the grant for qualifying businesses from \$1000 to \$5000 per business for each veteran who has been hired, up to a maximum grant of \$50,000 per business in the fiscal year (an increase from the previous maximum of \$10,000 per qualifying business).

## **Tax Policy Changes**

- Allows a qualified business income deduction of up to 50 percent of the deduction allowed under the Internal Revenue Code (excluding qualified Real Estate Investment Trust dividends) for taxable years beginning January 1, 2023.
- Reduces the top individual income tax rate to 5.5 percent from 5.75 percent for taxable years beginning January 1, 2024, contingent on FY 2023 revenues meeting the official General Fund revenue forecast.
- Increases the standard deduction to \$9,000 for individuals and \$18,000 for married persons for taxable years beginning January 1, 2024, and before January 1, 2026.
- Increases the amount of business interest that is disallowed as a deduction under the Internal Revenue Code but deductible from Virginia Adjusted Gross Income from 30 percent to 50 percent of the disallowed business interest (for taxable years beginning on and after January 1, 2024).
- Eliminates the age restriction on the income tax subtraction for military retirement income that was enacted during Special Session I of the 2022 General Assembly, beginning January 1, 2023.
- Reduces the corporate income tax rate from 6 percent to 5 percent for taxable years beginning January 1, 2023.
- Creates a sales and use tax exemption for certain equipment used in controlled environment agricultural facilities.

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