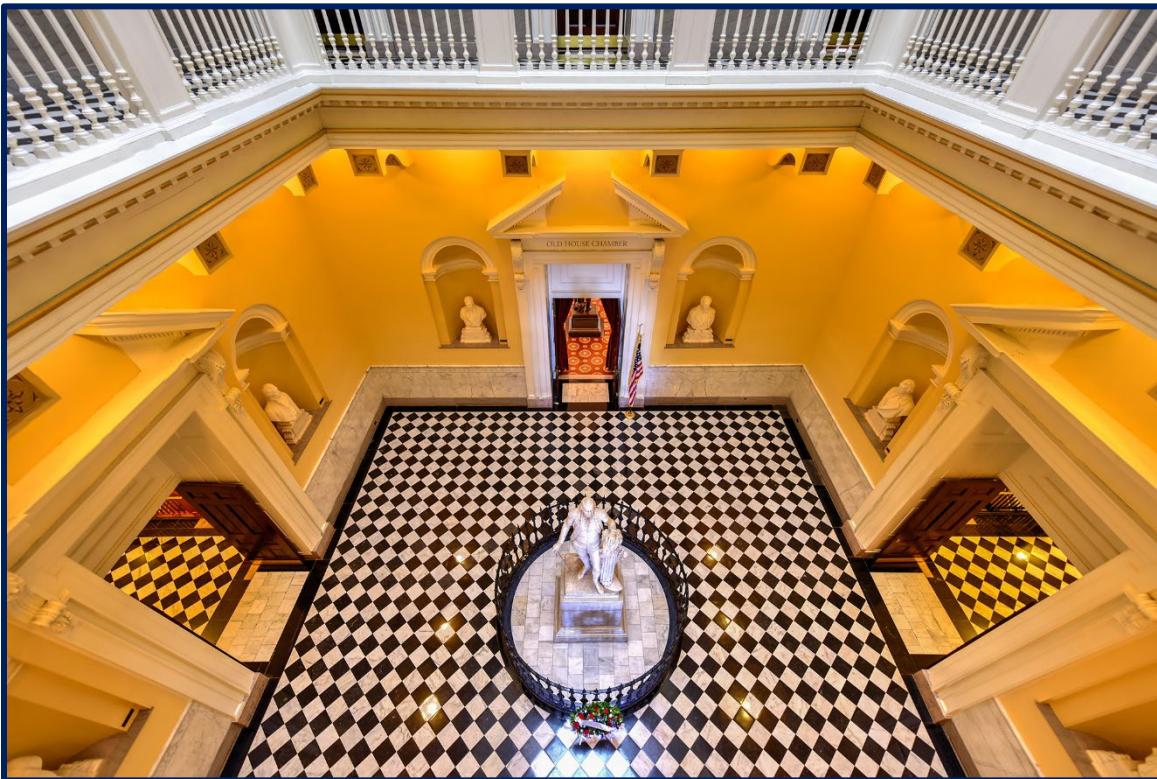


# Capitol Contact

## Virginia General Assembly

Virginia Association of Counties • 1207 E. Main Street, Suite 300 • Richmond, VA 23219  
[www.vaco.org](http://www.vaco.org) • 804.788.6652

**Wednesday, January 14, 2026**



## **2026 General Assembly Convenes Today – Look for Capitol Contact on Tuesdays and Thursdays**

The 2026 General Assembly session convenes today as legislators deliberate on many issues of critical importance to local government, including the state budget, taxes, education funding, energy, land use, economic development, public safety, and other policy matters.

VACo will continually provide updates during the session through [\*\*Capitol Contact\*\*](#). Capitol Contact will be published every Tuesday and Thursday. In addition, VACo will email Capitol Contact Alerts to County Officials on important issues before they are heard by select committees.

**VACo Members** – Email Gage Harter at [\*\*gharter@vaco.org\*\*](mailto:gharter@vaco.org) if you would like to be added to the Capitol Contact distribution list.

Please check [\*\*VACo's website\*\*](#) and the [\*\*General Assembly webpage\*\*](#) often to get the latest information and bill updates. Also, be on the lookout for legislative videos with state lawmakers and VACo Staff. VACo will continue to release its newsletter, [\*\*County Connections\*\*](#), around the first and 15<sup>th</sup> of each month.

And be sure to attend [\*\*Local Government Day\*\*](#) on Thursday, February 5 at the [\*\*Omni Richmond Hotel\*\*](#). Help protect local decision-making and be a part of the legislative process at the 2026 General Assembly Session.

**VACo Contact: [Dean Lynch](#)**

## **VACo Analysis of Introduced Budget**

Governor Youngkin presented his final budget proposal to the members of the “money committees” on Wednesday, December 17. As discussed in VACo’s [\*\*initial review\*\*](#), the Governor highlighted investments in shared priorities during his tenure in office and encouraged the legislature to maintain a business-friendly policy stance.

The introduced budget assumes General Fund revenue growth of 3 percent in the current fiscal year (an upward revision from the current forecast of 0.4 percent growth, due to strong collections year-to-date), and growth of 3 percent in FY 2027 and 3.2 percent in FY 2028. These assumptions are based on the forecasts proposed by the Governor’s Advisory Council on Revenue Estimates, with adjustments for a set of tax policy changes that are also proposed in the introduced budget. Without the tax policy changes, General Fund revenue growth would be forecasted at 3.3 percent in FY 2026, 3.5 percent in FY 2027, and 3.6 percent in FY 2028. The tax policy changes (discussed in more detail below) result in a net revenue reduction of \$101.6 million in FY 2026 and \$632.7 million over the biennium.

Several large spending items consume much of the available resources, including growth in the Medicaid program, the biennial rebenchmarking of the standards of quality, and proposed compensation actions for SOQ-funded instructional and support positions, state employees, and state-supported local employees.

Department of Planning and Budget Director Michael Maul noted that the proposed biennium budget includes \$4.7 billion in net additional General Fund operating funding; additional Medicaid spending (largely driven by growth in the existing program) represented approximately half of this amount. Budget items of interest to local governments are discussed further below.

**Next steps:** Legislators may submit amendments to the introduced budget until Friday, January 16. VACo will be working with legislators and advocacy partners to submit several amendments on county priorities. The money committees will review proposed amendments, and each committee will propose its own set of revisions to the introduced budget by mid-February. Each chamber will approve its version of the budget and then differences between the two versions will be resolved in a conference committee. A compromise agreed to by the budget conferees will then be considered by both chambers. After passage of the conference report and adjournment of the legislature, the new Governor will have the opportunity to offer amendments to the legislature's version of the budget, which would be considered by the General Assembly along with the Governor's amendments to all other bills and resolutions at the April 22 reconvened session.

**Proposals of concern - VACo encourages members to alert your legislators to these provisions:**

- Cap on state responsibility for funding private day special education services through Children's Services Act (CSA): Revises language included in the 2025 Appropriation Act, which capped state reimbursement to localities for private day special education services by stipulating that state reimbursement to localities for private day education services would not increase more than 5 percent over the rates for such services provided the previous year. VACo strongly opposed this provision. The introduced budget tightens this cap to 2.5 percent, which would require localities to assume the costs that would otherwise be shared with the state if rates increased more than 2.5 percent beyond the previous year. The state Department of Planning and Budget assumes that this change will result in savings to the state of \$3.4 million in FY 2027 and \$3.7 million in FY 2028.
- Reduction in state match for community-based services funded through CSA: Directs the state match for community-based services to be reduced to reflect an average state match rate of 71 percent; the Department of

Planning and Budget calculates that this change would reduce state costs for CSA by \$10.8 million in FY 2027 and \$11.8 million in FY 2028.

Currently, CSA uses a three-tiered model to incentivize use of community-based services; the local match rate for residential services is 25 percent higher than each locality's base match rate, and the local match rate for community-based services is 50 percent less than the locality's base match rate. Community-based services include services that are provided to youth (or youth and their families) while living at home, in the home of extended family, in a foster family home, or in an independent living situation; examples include individual and family counseling or intensive care coordination for youth at risk of entering residential care.

### **Additional provisions of interest to local governments**

#### **Compensation**

- Proposes a bonus payment for state employees and state-supported local employees of 2 percent of base pay on June 16, 2026 (for state employees) or June 1, 2026 (for state-supported local employees).
- Also provides the state share of a bonus payment equal to 2 percent of base pay on June 1, 2026, for funded SOQ instructional and support positions. These funds would be available to school divisions that certify to the Department of Education that a bonus of a minimum average of 2 percent or equivalent action will be provided during FY 2026. The state funds are required to be matched based on the Local Composite Index.
- Provides the state share of a 2 percent salary increase in each year of the biennium for funded SOQ instructional and support positions; the state share would be prorated for school divisions that provide less than an average 2 percent salary increase. School divisions providing an average increase in excess of 2 percent in the first year of the biennium would be allowed to credit the excess portion of the increase toward the second year. The state funds must be matched based on the Local Composite Index.
- Funds a 2 percent salary increase for state employees and state-supported local employees in each year of the biennium. The salary increases for state employees would take effect July 10, 2026, and June 10, 2027, and the increases for state-supported local employees would take effect July 1, 2026, and July 1, 2027.

#### **K-12**

**NOTE:** The Department of Education's explanation of actions in the introduced budget and templates for calculating estimated payments to individual school divisions are available on the Department's website at [this link](#).

- Includes a series of technical adjustments in the “caboose” budget for FY 2026, including capturing \$110.6 million in state savings associated with updated average daily membership projections and \$30.2 million in state savings from the English Language Learner program based on updated data, and replacing \$48.3 million in General Funds (GF) with an equivalent amount of Lottery proceeds.
- Provides \$543.8 million over the biennium to fund rebenchmarking of the Standards of Quality and other routine updates to school funding. This figure reflects the net cost after capturing \$214 million over the biennium in savings to the state associated with decreases in VRS and OPEB employer contribution rates, as well as \$365 million over the biennium in savings due to updated average daily membership projections, as well as the recalculation of the Local Composite Index and other technical adjustments.
- Reflects a net increase of \$16.5 million in FY 2027 and \$37.6 million in FY 2028 from updated sales tax distribution figures.
- Includes \$625,438 in FY 2027 and \$1.1 million in FY 2028 to adjust the supplemental payment that holds localities harmless for lost revenue associated with the elimination of the state portion of the sales tax on groceries.
- Beginning in FY 2028, authorizes the Department of Education to withhold a portion of Lottery-funded Infrastructure and Operations Per Pupil Funds from school divisions that do not comply with annual reporting requirements.
- Uses \$185 million in FY 2027 and \$100 million in FY 2028 from the Literary Fund for the state’s share of school employee retirement contributions (and captures equivalent GF savings).

### **School Capital**

- Appropriates an additional \$127 million over the biennium from the School Construction Fund, as well as \$172 million in FY 2027 from the Literary Fund, for the School Construction Assistance Program, under which the Board of Education makes competitive grants to school divisions for construction, expansion, or modernization of public school buildings.
- Stipulates that local school boards may not exclude public charter schools, regional public charter schools, or joint and regional schools from consideration for School Construction Assistance Program grants.

### **Electronic Meetings and Transparency Requirements**

- The introduced budget removes prior emergency-specific language authorizing electronic meetings during a gubernatorial state of emergency and instead requires any public body meeting electronically under existing FOIA authority (§ 2.2-3708.2) to post a recording or transcript within FOIA timeframes and distribute meeting minutes using the same method as meeting notice, reinforcing uniform transparency requirements.

### **Early Childhood**

- Provides \$500,000 per year to establish and maintain a platform for affordable child care subsidy accounts; provides \$1 million in FY 2027 as matching funds to incentivize employer contributions to these accounts to support child care costs for their employees; state funds must be matched dollar-for-dollar by employers, not to exceed \$1,000 per child or \$2,500 per family.
- Reflects an additional \$13.2 million in FY 2027 and \$17.5 million in FY 2028 in federal funds for the Child Care Subsidy Program.
- Funds an additional 6,745 slots per year in the Child Care Subsidy Program by redirecting \$71 million in FY 2027 and \$66.6 million in FY 2028 from assumed nonparticipation rates for the Virginia Preschool Initiative.

### **Administration – Constitutional Officers and Jails**

- Funds 71 additional sheriffs' deputy positions; information provided by the Compensation Board explains that this funding is intended to ensure that every sheriffs' office with primary law enforcement responsibility has a minimum of ten law enforcement deputy positions.
- Funds 18 additional administrative positions in sheriffs' offices; information provided by the Compensation Board indicates that this funding is intended for positions in sheriffs' offices where allocated positions are not funded due to previous budget reductions and the sheriff's office has no Compensation Board-funded administrative positions.
- Exempts the Department of Taxation from paying any fee for remote access to land records.
- Provides the state's share of costs for the Roanoke County Jail Renovation Project (\$5,024) and for the Piedmont Regional Jail Upgrade Project (\$279,827) in FY 2027.

### **Administration – Elections**

- Provides \$3.3 million in FY 2027 for implementation of the state’s new campaign finance system.

### **Commerce and Trade/Economic Development**

- Deposits an additional \$10 million in FY 2027 to the Virginia Business Ready Sites Program (for a total of \$30 million in FY 2027 and \$20 million in FY 2028).
- Provides \$35 million in FY 2027 to expedite design development and necessary site improvements for an inland port in Washington County, contingent on the Virginia Port Authority providing a scope of work and schedule of estimated expenses.
- Reduces funding for Enterprise Zones by \$500,000 per year and increases funding for the Virginia Main Street Program by an equivalent amount.
- Reduces funding for GO Virginia by \$4.7 million per year; redirects funding to the Institute for Advanced Learning and Research to expand the Great Opportunities in Technology and Engineering Careers program.
- Modifies language regarding use of federal Broadband Equity, Access, and Deployment (BEAD) funding to direct funding to purposes including broadband resiliency, mobile wireless coverage expansion, expansion of broadband infrastructure to and within multi-dwelling units, and critical disaster relief telecommunications resiliency.
- Does not provide additional funding for the Virginia Telecommunication Initiative; language authorizes balances from funds authorized in the 2025 Appropriation Act to be carried forward and reappropriated.
- Provides \$5 million in FY 2027 for the Virginia Sports Tourism Incentive Grants Program.
- Provides \$35 million in FY 2027 for the University of Virginia Institute for Biotechnology; the University is required to enter into a Memorandum of Understanding with the Virginia Innovation Partnership Authority setting out performance metrics and sources of private funding.
- Authorizes the Virginia Innovation Partnership Authority to use up to \$500,000 in FY 2027 to plan and develop the Virginia Artificial Intelligence Institute and a coordinated statewide network, in collaboration with Virginia universities and public-private stakeholders, to position Virginia as a global leader in artificial intelligence.

### **Workforce Development**

- Redirects \$13.6 million from balances in the Virginia Community College System in FY 2027 and provides \$13.6 million GF in FY 2028 to the New

Economy Workforce Credential Grant Program. Requires the annual report on the program to include an analysis of grant fund utilization by occupational field.

### **Children's Services Act (CSA)**

- Funds the state share of forecasted growth in the program (\$20.7 million GF in FY 2026, \$49.6 million GF in FY 2027, and \$86.5 million GF in FY 2028).
- Captures \$1.3 million in FY 2027 and \$2.4 million in FY 2028 in GF savings associated with removing automatic inflation adjustment for Medicaid rates for psychiatric residential treatment facilities.

### **Medicaid**

- Includes \$410.3 million in FY 2026, \$1.1 billion in FY 2027, and \$1.7 billion in FY 2028 for the state GF share of forecasted growth in Medicaid. These amounts are proposed to be offset by a set of cost-containment measures totaling approximately \$611.5 million over the biennium and \$6.2 million in the caboose; these strategies include imposing a four-hour coverage limit for mobile crisis services and eliminating community stabilization as a covered service; eliminating inflation adjustments for certain provider rates; requiring a review of managed care organizations' administrative expenses and making adjustments in capitated rates; and capping annual spending per recipient on adult dental services.
- Includes \$28 million GF in FY 2027 and \$31.2 million GF in FY 2028 for the state share of increased rates for certain services provided through Developmental Disability waivers.
- Provides \$2.5 million in FY 2026, \$69.2 million in FY 2027 and \$65.2 million in FY 2028 from federal funds and the coverage assessment imposed on hospitals to implement the community engagement and eligibility verification requirements from the federal reconciliation legislation enacted in 2025; funding will support IT system changes, outreach, and Department of Medical Assistance (DMAS) staffing.
- Includes \$2.3 million GF per year for DMAS's contracted call center for eligibility determinations.
- Includes an appropriation of \$200 million per year in anticipated federal funding for the new Rural Health Transformation Program established in the 2025 reconciliation legislation; authorizes up to 13 positions at DMAS to be supported with program funds.
- Delays statutory requirements for DMAS to contract with a single third-party pharmacy benefits manager until January 1, 2027, "and such time as

sufficient general fund support is provided by the General Assembly through a general appropriation act.” This requirement was enacted during the 2025 session and is scheduled to take effect by July 1, 2026.

### **Behavioral Health**

- Delays the implementation of redesigned Medicaid-funded community mental health services from June 30, 2026, to January 1, 2027. Concerns had been expressed about provider readiness to launch the new services on the originally-scheduled date.
- Provides \$33 million in FY 2027 for safety and security renovations at Catawba Hospital.
- Replaces \$2.7 million per year in GF support for the state 988 system with funds from the Crisis Call Center Fund and provides an additional \$3 million per year in Crisis Call Center Funds to support 988 crisis call center dispatch staff
- Removes language stipulating that each local or regional implementation area for the Marcus Alert system is to receive \$600,000 per year; allowing flexibility in the allocation of this funding was a recommendation of the Behavioral Health Commission. Does not provide additional funding for Marcus Alert implementation.
- Does not increase funding for Part C Early Intervention services. Allows funds appropriated for early intervention services to the Department of Behavioral Health and Developmental Services (DBHDS) to be transferred to the Virginia Department of Health to provide early intervention services through local health departments in accordance with signed agreements.
- Allows DBHDS to make payments to Community Services Boards pursuant to performance contract terms rather than in 24 semi-monthly installments; also allows DBHDS to distribute funding for jail diversion and reentry services, jail discharge planning, and certain diversion services based on a reimbursement model.
- Provides \$2 million in FY 2027 for the Department of Criminal Justice Services to reimburse local law enforcement agencies for time spent transporting an individual under an emergency custody order or a temporary detention order. Requires priority to be given to agencies within specified regions and localities whose agencies must travel far distances to transport an individual to a state facility.

### **Aging/Long-Term Care**

- Provides an additional \$375,000 per year for Long-Term Care Ombudsman programs at local Area Agencies on Aging.

- Increases the Auxiliary Grant rate from \$2,103 to \$2,130 per month, effective January 1, 2026.
- Funds two additional medical facility inspectors at the Virginia Department of Health to reduce the backlog of complaints regarding nursing facilities (\$291,627 per year).
- Enhances standards for the Medicaid-funded value-based purchasing program for nursing facilities by allowing facilities with major quality or safety issues to be found ineligible for enhanced funding for a period to be determined by DMAS and barring Special Focus Facilities (the poorest-performing facilities under federal quality standards) from receiving enhanced funding.
- Allows \$4.1 million in civil money penalty funds to be used for the federal Nursing Home Staffing Campaign, which uses civil money penalties imposed on nursing facilities for certain types of noncompliance with health and safety standards to provide incentives to nurses to work in nursing facilities and in state inspection roles.
- Directs DMAS and the Virginia Department of Health to create an assessment tool for long-term services and supports screenings for children under the age of 18 and directs the Departments to implement measures necessary to ensure the consistent statewide application of screening criteria. These screenings determine the eligibility and the level of care needed for Medicaid-funded long-term services and supports.

## **Health**

- Provides \$8.2 million in FY 2027 and \$6.8 million in FY 2028 to deploy an electronic health record system across all local health districts.
- Provides \$655,913 GF per year for the state share of rent increases in local health districts.
- Extends the Northern Virginia Firefighter Occupational Screening Pilot Program by one year by providing an additional \$70,000 in FY 2027, but no further funding in FY 2028.
- Directs \$153,850 in FY 2027 and \$176,620 in FY 2028 from funds generated by the Board of Nursing to establish the Virginia Center for the Nursing Workforce under the Department of Health Professions. The Center would be charged with establishing a centralized database to facilitate the scheduling of clinical experience for nursing students, coordinating efforts to maximize enrollment in nursing education, and exploring other strategies to address the shortage of nurses in Virginia.
- Note: The Virginia Department of Health provided updated local match rates for the new biennium to local departments of health last fall as part

of the biennial review required by Va. Code § 32.1-34.3.

### **Social Services - Child Welfare**

- Proposes to fund several initiatives as part of the Administration's "Safe Kids, Strong Families" initiative, including:
- Providing \$212,046 per year for overtime costs associated with extending the existing 24-hour response timeline for valid reports of abuse or neglect for children younger than two to include children up to age three.
- Providing \$3.5 million per year in state GF and \$1.5 million per year in federal funding to increase the minimum salary for family services employees in local departments of social services to \$55,000. These staff provide a continuum of services designed to assist families in safely caring for children and vulnerable adults.
- Providing \$14.6 million in FY 2027 and \$18.1 million in FY 2028 to create a centralized child protective services intake system to collect and triage child abuse and neglect reports and transmit valid reports and complaints to the appropriate local department of social services.
- Including \$656,842 in FY 2027 and \$2.7 million in FY 2028 in state GF (as well as \$218,946 in FY 2027 and \$898,744 in FY 2028 in federal funds) to enhance state oversight of local departments by enabling the Commissioner of Social Services to issue corrective action plans and proceed with state takeover of local departments of social services.

### **Social Services - Supplemental Nutrition Assistance Program (SNAP)**

- Includes \$43 million in FY 2027 and \$57.4 million in FY 2028 to absorb the additional administrative costs being shifted to the state as a result of changes included in HR 1. As explained by the Governor, the introduced budget proposes to assume both the state and local portion of these additional costs; localities would be responsible for additional costs associated with federal funds that flow directly to localities without a state contribution (an arrangement known as "pass-through" funding).
- Provides \$1.1 million in FY 2027 and \$1.3 million in FY 2028 (as well as \$520,865 in FY 2027 and \$416,692 in FY 2028 in federal funding) for a SNAP quality assurance team (which would be charged with finding and correcting SNAP payment errors before they can affect the state's error rate) and provides \$555,096 in FY 2027 and \$605,559 in FY 2028 (and \$252,316 in FY 2027 and \$201,853 in FY 2028 from federal funds) to increase salaries for SNAP quality control reviewers.

- Does not include funding for any state cost share for SNAP benefits if the state's error rate is not able to be reduced below the 6 percent threshold in the federal reconciliation bill; states are required to contribute a portion of the costs of SNAP benefits beginning October 1, 2027, if a state's error rate is higher than 6 percent.

### **Natural and Historic Resources - Water Quality**

- Provides a total of \$286 million in GF and nongeneral funds in FY 2027 to support the Virginia Agricultural Cost-Share program. This amount includes the mandatory allocation from surplus revenues of \$107.9 million GF, an additional \$36.2 million GF, and the remaining appropriation from nongeneral fund sources of interest in the Virginia Natural Resources Commitment Fund and partial balances in the WQIF reserve.
- Provides \$140.5 million GF in first year to the Water Quality Improvement Fund. These funds are directed to support the Hampton Roads Sanitation District Boat Harbor Treatment Plant project through the Enhanced Nutrient Removal Certainty program.
- Provides \$43.5 million in FY 2027 to support stormwater assistance projects in localities with municipal separate storm sewer systems through the Stormwater Local Assistance Fund.
- Requires the Department of Environmental Quality to establish a solicitation period for the Water Quality Improvement Fund to determine project demand and criteria to prioritize eligible projects based on quantifiable nutrition reduction impact, cost-effectiveness of the project, impact on cost-shared projects with multiple funding sources, funding need of the requesting entity, and project readiness. Requires that grant agreements for awarded projects must be fully executed before project construction costs are incurred, and bars awards for a grantee to backfill project costs met with any type of taxable debt. VACo has **opposed similar attempts** at reforming the WQIF grant process for local wastewater treatment plants.
- Provides \$402,400 in FY 2027 and \$314,209 in FY 2028 for the Virginia Institute of Marine Science to monitor and forecast harmful algal blooms; provides \$750,000 in FY 2027 to the Department of Conservation and Recreation for harmful algal bloom remediation efforts at Lake Anna.

### **Other Natural and Historic Resources Items**

- Deposits an additional \$1 million in FY 2027 to the Dam Safety, Flood Prevention and Protection Assistance Fund.
- Authorizes the Department of Conservation and Recreation to acquire or accept the donation of land to establish Oak Hill State Park, contingent on submission of a comprehensive funding plan that includes \$52 million in various nongeneral fund resources and meets certain other requirements.
- Provides \$1.5 million in FY 2027 and \$1.6 million in FY 2028 to the Department of Conservation and Recreation and \$425,244 in FY 2027 and \$290,244 in FY 2028 to the Department of Forestry; these are non-general funds provided to support participation in a ten-year cooperative agreement with the United States Forest Service for trail maintenance and other projects in state parks and adjacent federal lands.

### **Public Safety and Homeland Security**

- Does not include an increase in aid to localities with police departments (“HB 599” funding).
- Provides \$424,000 in FY 2027 and \$288,000 in FY 2028 for communications technology in rural localities. Requires the Virginia Department of Emergency Management to issue a request for proposals from providers of wireless services that utilize satellites to provide communications capabilities for local first responders and emergency managers in rural areas to enhance resiliency during situations where other communication sources fail.
- Redirects \$35 million in interest from the Low-Income Energy Efficiency Fund to support the Cardinal Disaster Relief Fund in FY 2027; stipulates that the Fund is to be used for efforts to address life, safety, and disaster-related response costs not covered by federal support. Also provides \$5 million GF in FY 2027 and \$7 million GF in FY 2028 to support emergency management capability.
- Appropriates non-General Funds for two additional state fire marshal inspector positions (\$207,621 in FY 2027 and \$232,692 in FY 2028).
- Extends the deadline for a report assessing fees charged by the State Fire Marshal’s Office to conduct fire safety inspections and determining whether fees should be adjusted based on the cost of these inspections from October 2025 to October 2026.
- Provides \$1.8 million per year for the increased cost of central admissions and placements at the Department of Juvenile Justice and \$942,065 per year for the increased cost of community placement programs.

- Provides \$50.3 million in FY 2026, \$43.6 million in FY 2027, and \$52.2 million in FY 2028 for increased personnel and equipment costs for the Virginia State Police, as well as \$9.3 million in each year of the biennium for IT costs.

### **Transportation**

- Increases the set-aside from the Commonwealth Mass Transit Fund from \$1.5 million to \$2 million per year for human services mobility programs. Reduces the set-aside for state safety oversight of fixed rail guideway transit agencies by an equivalent amount.

### **Veterans and Defense Affairs**

- Provides \$2 million in FY 2027 for the Virginia Military Community Infrastructure Grant Program, which awards grants to aid the planning and design, construction, or completion of infrastructure projects that enhance military readiness, installation resiliency, or quality of life for military communities.
- Adds \$100,000 in FY 2027 for the Virginia Values Veterans program, which assists Virginia employers in hiring and retaining veterans.

### **Tax policy**

- Removes language freezing conformity of Virginia's tax code with the federal tax code, allowing tax policy changes included in the federal reconciliation bill that affect the calculation of income to be incorporated into Virginia's tax code.
- These changes include placing a minimum threshold for charitable giving before deductions are allowed for taxpayers who itemize; restructuring the opportunity zones program; placing a revised limit on the value of itemized deductions; increasing the amount that taxpayers may deduct for investments in certain types of business assets; and allowing more business interest deductions.
- Proposes departing from conformity with the federal tax code by (1) not allowing retroactive and catch-up deductions for domestic research and experimental expenditures and maintaining the requirement that these costs be amortized over five years and (2) capping the special depreciation for qualified production property (nonresidential property used in manufacturing or production) at 50 percent of the federal amount allowed.
- Proposes a Virginia-specific income subtraction for income attributable to tips, which would be capped at 25 percent of the amount eligible for a federal deduction in Tax Year 2026 and 50 percent of this amount for Tax

Years 2027 and beyond. (The federal deduction applies through Tax Year 2028.)

- Proposes a Virginia-specific income subtraction for income attributable to overtime, which would be capped at 25 percent of the amount eligible for a federal deduction in Tax Year 2026 and 50 percent of this amount for Tax Years 2027 and beyond. (The federal deduction applies through Tax Year 2028.)
- Proposes a Virginia-specific income subtraction for interest on a motor vehicle loan, which would be capped at 25 percent of the amount eligible for a federal deduction in Tax Year 2026 and 50 percent of this amount for Tax Years 2027 and beyond. (The federal deduction applies through Tax Year 2028.)
- Makes the increased standard deduction levels of \$8,750 for individuals/\$17,500 for joint filers permanent; these higher amounts were slated to expire on January 1, 2027.
- Makes provisions allowing taxpayers to claim a refundable Virginia income tax credit of 20 percent of the federal Earned Income Tax Credit permanent; these provisions would otherwise expire on January 1, 2027.
- Makes provisions creating the elective pass-through entity income tax permanent; these provisions were slated to expire on January 1, 2027.
- Extends the sales and use tax exemption for data centers to 2050 and to 2055 or 2065 for data center operators meeting certain additional capital investment and job creation requirements.
- Implements market-based sourcing for the attribution of sales for purposes of calculating corporate income tax, with certain modifications for defense contractors and telecommunications companies.

### **Reserves**

- Deposits \$312.3 million from excess FY 2025 revenues into the Revenue Reserve Fund by June 30, 2026. Transfers \$323.4 million from the Revenue Reserve Fund to the General Fund (this action keeps the combined balances in the Revenue Stabilization Fund and the Revenue Reserve Fund in compliance with the overall cap of 15 percent of the Commonwealth's average annual income and sales tax revenues for the last three years).

### **Other items**

- Provides \$374,223 in FY 2027 and \$152,223 in FY 2028 to the Department of Taxation to support a website providing for communication between the Department and localities.

- Requires agencies with previously-authorized ARPA State and Local Fiscal Recovery Fund projects with dollars unexpended as of June 30, 2026, to provide reports detailing plans to ensure that funds are expended prior to the December 31 deadline.
- Requires the first \$1.1 billion in FY 2026 revenues in excess of the forecast, after any required Revenue Stabilization Fund deposits, to be used to fund certain state agency and higher education capital projects with cash rather than bond proceeds.

**VACo Contact:** [\*\*VACo Legislative Team\*\*](#)

## **Key Dates for 2026 General Assembly Session**

The General Assembly convenes today for a scheduled 60-day session.

Key dates for the 2026 session, as approved by the Joint Rules Committee in the procedural resolution setting out the schedule for the session, are as follows:

- **Wednesday, January 14:** General Assembly convenes; pre-filed bills must be submitted by 10:00 a.m. (after the prefiling deadline, legislators are limited to five additional bills or resolutions). Last day to submit bills creating or continuing a study or to submit bills dealing with the Virginia Retirement System. Governor Youngkin will address a joint session of the General Assembly at 7 p.m.
- **Friday, January 16:** Deadline to submit budget amendments.
- **Saturday, January 17:** Inauguration of Governor-Elect Spanberger, Lieutenant Governor-Elect Hashmi, and Attorney General-Elect Jones.
- **Monday, January 19:** Joint session of the General Assembly for remarks by Governor Spanberger.
- **Friday, January 23:** Last day to submit legislation, other than bills submitted by unanimous consent or bills requested by the Governor.
- **Tuesday, February 17:** Last day for bills to be acted upon in their chambers of origin, other than the budget bills. Bills must “cross over” to the opposite chamber by Wednesday, February 18.
- **Sunday, February 22:** “Budget Sunday” deadline for House Appropriations and Senate Finance and Appropriations committees to

report their respective budget proposals.

- **Thursday, February 26:** Deadline for each chamber to act on its respective budget proposal.
- **Wednesday, March 4:** Deadline for each chamber to act on budget and revenue bills from the other chamber and appoint conferees as necessary.
- **Monday, March 9:** Deadline for committee action on all legislation by midnight.
- **Saturday, March 14:** Scheduled adjournment *sine die*.
- **Wednesday, April 22:** Reconvened session to consider Governor's actions on bills and budget items.

VACo Contact: [Katie Boyle](#)

## Advocate for Your Community at the VACo Local Government Day

Thursday, February 5, 2026 | [Omni Richmond Hotel](#)



## REGISTER TODAY

It's a day for us. Localities. It's a day for us to learn how the decisions being made by the General Assembly might affect us. And it's a day to make our voices heard. Attend Local

Government Day. Then visit the Capitol to meet with your legislators and observe committee meetings. Later join us for a reception.

**Date:** Thursday, February 5, 2026

**Reserve a Room:** [\*\*Omni Richmond Hotel Room Link\*\*](#)

**Who should attend:** ALL local elected officials and staff are encouraged to register and attend.

**Registration Fee**

**\$100** | Includes Day Briefing (Noon – 2pm) and Reception (430pm – 630pm)

**Agenda**

- **9am** | VACo Board of Directors Meeting
- **10am** | Registration
- **1130am** | Lunch
- **Noon** | VACo Local Government Day
- **Afternoon** | Visit the Capitol to speak with legislators
- **430pm-630pm** | VACo Legislative Reception | Omni Richmond Hotel

Please email Valerie Russell at [vrussell@vaco.org](mailto:vrussell@vaco.org) with questions.

For information on how to reach your representatives, see the [\*\*Virginia House of Delegates\*\*](#) and the [\*\*Senate of Virginia\*\*](#) member websites. Find information about VACo's positions in the [\*\*2026 Legislative Program\*\*](#). We will distribute the Local Government Day Bulletin before the event.

**VACo Contact:** [\*\*Valerie Russell\*\*](#)