

# **Analyzing the Governor's Introduced Budget**

**Virginia Association of Counties**

Fiscal Analytics, Ltd.

January 23, 2025

# Where Do State Finances Stand Today?

- Fourth year in a row of a large GF revenue surplus above the adopted budget (\$1.2 bil. in FY 2024).
- Positive wage and salary growth currently expected in Virginia for the 2024-26 biennium.
- Still \$4.2 billion in mandatory and voluntary GF reserves (15% of the GF) even after \$1 billion transferred to the GF during the 2024-26 biennium.
- Virginia Retirement System finances have improved – Teacher funded status currently 84% with rate at 14.2%
- Significant unused debt capacity available (\$1.31 bil. new debt capacity available each year of biennium).
- Structural budget balance between expected revenues and current level of ongoing appropriations.

# The Introduced Budget has \$4.73 Bil. in Additional GF Resources for the 2024-26 Biennium Budget

- \$1.46 bil. in *additional* balances forward (FY 24 revenue surplus and unspent appropriations)
  - Contingent appropriations from surplus for I-81 (\$175 mil.) and WQIF included in introduced budget – although \$400 mil. in WQIF funding used to replace existing bond financing.
- Revenue forecast plus transfers, increased by \$3.27 billion due to higher FY 2024 revenue base and higher growth in FY 25. **Even still, this is a conservative revenue forecast.**
  - Assumes GF revenues grow by 4.1% in FY 25 and 2.5% in FY 26.
- New revenue forecast assumes continued economic growth – albeit slowing. FY 2024 Virginia wage and salary growth was 6.8 percent. Budget conservatively forecasts wage and salary growth of 4.7 percent in FY 2025 and 3.5 percent in FY 2026.
- Forecasting the economy is fraught with uncertainty, but the forecast for income tax *non*-withholding continues to be very conservative.

# Conservative Economic Growth Is Assumed in the Introduced Budget

				<u>December Forecast</u>	
	<b>Long-Run Average</b>	<b>FY 24 Actual</b>	<b>FY 25 to Date</b>	<b>FY 25</b>	<b>FY 26</b>
GSP	2.2%	3.1%	3.0%	1.5%	1.7%
VA Average Wage	3.8%	5.0%	4.8%	3.5%	2.5%
VA Employment	1.2%	1.8%	1.4%	1.2%	1.0%

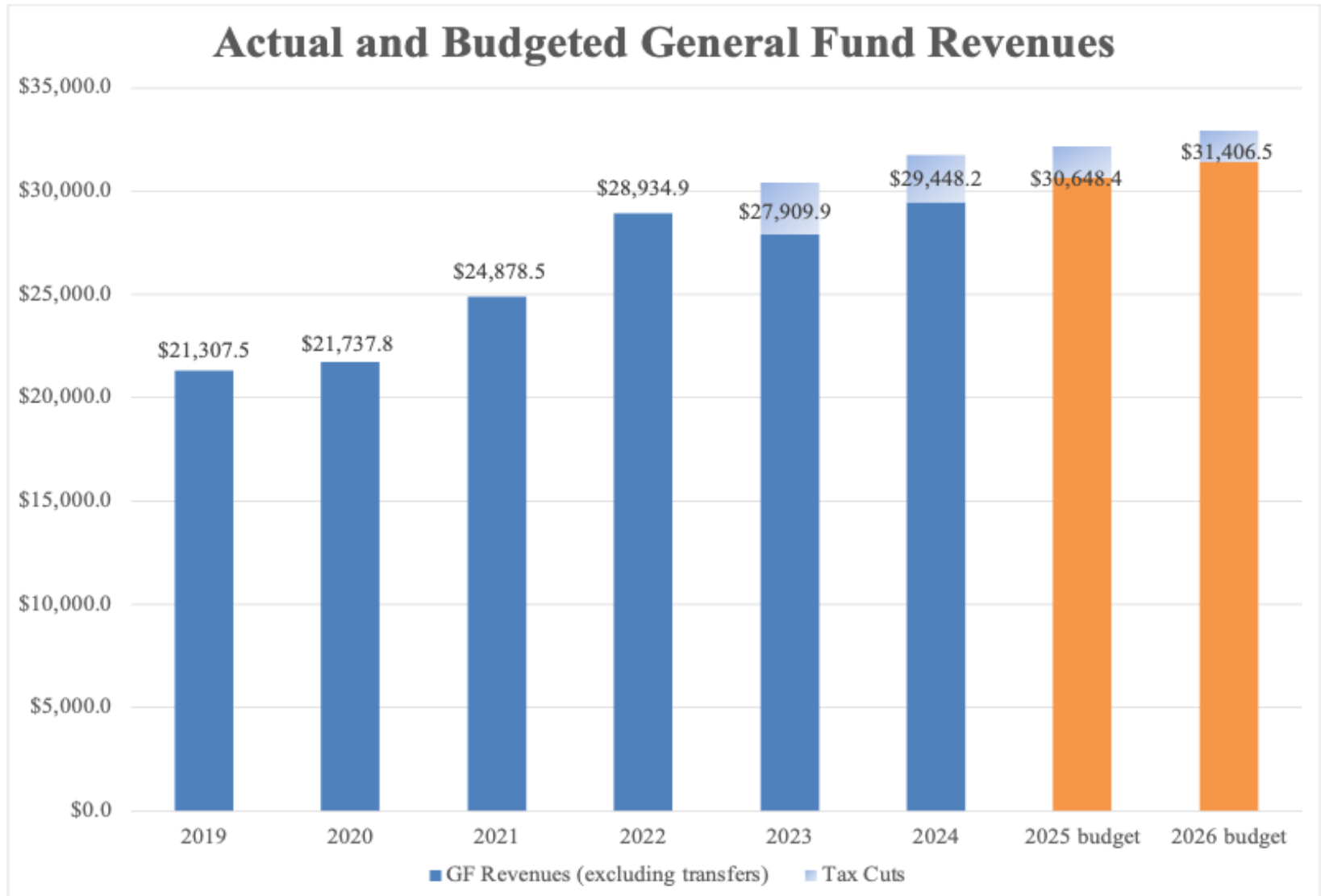
*Source: Secretary Cummings presentation to Joint Committee, December 18, 2024.*

# YTD GF Revenue Growth Points to Continued Strong Revenues (\$ Mil.)

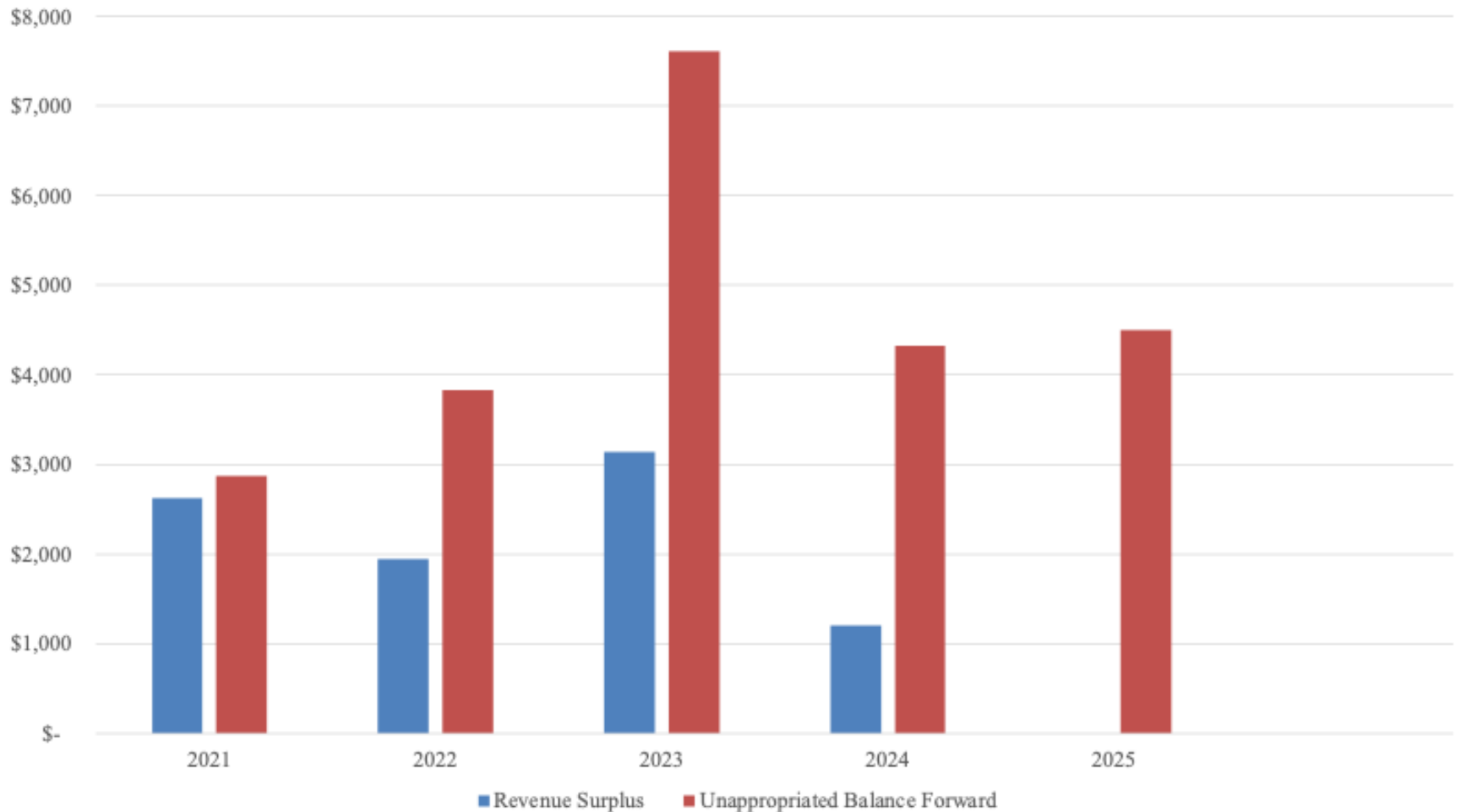
	<b><u>FY 2025</u></b> <b><u>YTD Dec.</u></b>	<b><u>FY 2024</u></b> <b><u>YTD Dec.</u></b>	<b><u>YTD %</u></b> <b><u>Change</u></b>	<b>FY 2025</b> <b>Forecast</b> <b>Growth</b>
<i>Withholding</i>	\$8,522	\$7,995	6.6%	5.2%
<i>Estimated Pay/Tax Dues</i>	\$2,337	\$2,033	15.0%	3.3%
<i>Refunds</i>	<u>-\$1,101</u>	<u>-\$1,125</u>	<u>-2.1%</u>	<u>-5.4%</u>
Net Individual Income	\$9,758	\$8,903	9.6%	6.1%
Sales Taxes	\$2,412	\$2,373	1.6%	1.9%
Corporate Income	\$821	\$980	-16.2%	-6.1%
Recordation	\$238	\$198	20.2%	12.6%
Interest	\$514	\$495	3.8%	-11.8%
All Other	<u>\$517</u>	<u>\$419</u>	<u>23.4%</u>	<u>0.5%</u>
<b>Total GF Revenue</b>	<b>\$14,260</b>	<b>\$13,368</b>	<b>6.7%</b>	<b>4.1%</b>

*Note: January thru June revenues need to grow only 1.9% to meet the introduced budget forecast.*

# Growth in GF Revenues Has Been Significant



## Large Revenue Surpluses Have Resulted in Large Balances for Appropriation



# Proposed GF Spending Increased by \$4.7 Billion in the Introduced Budget

	<i>Ch. 2</i>	<i>Ch. 2</i>	<i>Introduced</i>	<i>Introduced</i>	BIENNIUM
	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>CHANGE</u>
Legislative and Executive	\$216.6	\$196.3	\$216.6	\$196.9	\$0.6
Judicial Dept.	\$653.1	\$660.0	\$653.8	\$666.8	\$7.5
Administration/Comp Bd	\$996.5	\$986.4	\$1,001.8	\$990.4	\$9.3
Treasury Board Debt Service	\$1,019.0	\$1,053.9	\$1,006.9	\$1,056.2	-\$9.8
Other Finance /VRS Deposit	\$189.2	\$183.4	\$322.7	\$194.6	\$144.7
Rainy Day/Revenue Reserve	\$0.0	\$0.0	\$294.5	\$0.0	\$294.5
Car Tax Reimbursement/Tax Credit	\$950.0	\$950.0	\$2,053.0	\$950.0	\$1,103.0
Commerce and Trade/Labor	\$519.8	\$519.8	\$689.1	\$487.8	\$137.3
Agriculture / Nat. Resources	\$701.8	\$292.9	\$803.7	\$296.6	\$105.6
K-12 DIRECT AID/DOE	\$9,764.0	\$9,913.6	\$9,923.2	\$10,041.0	\$286.6
Higher & Other Education	\$3,723.9	\$3,726.1	\$3,786.9	\$3,812.0	\$148.9
DMAS Medicaid	\$6,569.6	\$6,938.7	\$6,857.7	\$7,252.0	\$601.4
Other Health & HS	\$3,251.8	\$3,243.0	\$3,320.7	\$3,430.6	\$256.5
Public Safety & Veterans/HS	\$2,724.7	\$2,680.6	\$2,744.5	\$2,704.8	\$44.0
Transportation	\$215.5	\$110.0	\$464.9	\$25.3	\$164.7
Central Appropriations	\$253.1	\$431.1	\$260.7	\$496.0	\$72.5
Independent Agencies/Capital	\$727.9	\$338.2	\$2,095.1	\$338.2	\$1,367.2
<b>Total GF Appropriations</b>	<b>\$32,476.5</b>	<b>\$32,224.0</b>	<b>\$36,495.8</b>	<b>\$32,939.2</b>	<b>\$4,734.5</b>



GF State Aid to Localities (\$ Mil.)				Ch.1	Ch.1	Intro	Intro
	<u>FY 2009</u>	<u>FY 2014</u>	<u>FY 2018</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Direct Aid to K-12	\$5,607.6	\$5,240.3	\$5,963.0	\$9,144.0	\$8,928.1	\$9,717.0	\$9,941.0
K-12 % of Total GF Appropriations	35.2%	29.6%	29.2%	28.8%	28.8%	26.6%	30.2%
<b>Health and Human Services</b>	<b>888.4</b>	<b>791.7</b>	<b>951.0</b>	<b>1,217.5</b>	<b>1,363.2</b>	<b>1,545.3</b>	<b>1,596.2</b>
<i>CSA</i>	<i>299.7</i>	<i>217.2</i>	<i>279.9</i>	<i>330.7</i>	<i>367.0</i>	<i>\$417.7</i>	<i>449.0</i>
<i>Community MH/SA Services</i>	<i>249.4</i>	<i>269.3</i>	<i>350.4</i>	<i>497.2</i>	<i>604.6</i>	<i>682.9</i>	<i>690.4</i>
<i>Local Social Services Staff</i>	<i>117.4</i>	<i>115.3</i>	<i>122.1</i>	<i>148.5</i>	<i>151.3</i>	<i>172.4</i>	<i>186.3</i>
<i>Community Health Programs</i>	<i>117.6</i>	<i>107.2</i>	<i>117.9</i>	<i>149.4</i>	<i>152.6</i>	<i>182.6</i>	<i>182.6</i>
<i>Welfare Services and Programs</i>	<i>104.3</i>	<i>82.7</i>	<i>80.7</i>	<i>91.7</i>	<i>87.7</i>	<i>89.7</i>	<i>87.9</i>
<b>Public Safety</b>	<b>734.3</b>	<b>687.9</b>	<b>738.8</b>	<b>877.8</b>	<b>895.4</b>	<b>965.5</b>	<b>958.8</b>
<i>Local Sheriffs Offices</i>	<i>406.1</i>	<i>411.3</i>	<i>452.4</i>	<i>565.7</i>	<i>583.3</i>	<i>641.6</i>	<i>634.9</i>
<i>Local Police Depts HB 599</i>	<i>197.3</i>	<i>172.4</i>	<i>178.0</i>	<i>210.8</i>	<i>221.7</i>	<i>229.7</i>	<i>229.7</i>
<i>Local Jail Per diem</i>	<i>80.1</i>	<i>59.4</i>	<i>61.3</i>	<i>50.8</i>	<i>39.9</i>	<i>43.7</i>	<i>43.7</i>
<i>Assistance for Juvenile Justice</i>	<i>50.8</i>	<i>44.8</i>	<i>47.1</i>	<i>50.5</i>	<i>50.5</i>	<i>50.5</i>	<i>50.5</i>
<b>Econ. Dev/Housing/Libraries/Envir.</b>	<b>54.7</b>	<b>56.0</b>	<b>89.2</b>	<b>274.8</b>	<b>250.0</b>	<b>225.9</b>	<b>225.9</b>
<b>Constitutional Officers</b>	<b>155.3</b>	<b>145.8</b>	<b>158.0</b>	<b>188.5</b>	<b>196.5</b>	<b>231.2</b>	<b>230.2</b>
<b>Dept. of Accounts Transfers</b>	<b>49.3</b>	<b>49.3</b>	<b>49.6</b>	<b>30.4</b>	<b>30.4</b>	<b>30.4</b>	<b>30.4</b>
<b>Car Tax</b>	<b>950.0</b>	<b>950.0</b>	<b>950.0</b>	<b>950.0</b>	<b>950.0</b>	<b>950.0</b>	<b>950.0</b>
<b>Aid-to-Locality Reduction</b>	<b>(50.0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Local GF Aid</b>	<b>\$8,389.6</b>	<b>\$7,921.0</b>	<b>\$8,899.6</b>	<b>\$12,683.0</b>	<b>\$12,613.6</b>	<b>\$13,665.3</b>	<b>\$13,932.5</b>
<b>Total GF Appropriations</b>	<b>\$15,943.0</b>	<b>\$17,705.2</b>	<b>\$20,449.9</b>	<b>\$31,742.3</b>	<b>\$31,041.5</b>	<b>\$36,495.8</b>	<b>\$32,939.2</b>
<b>Local Aid % of Total GF</b>	<b>52.6%</b>	<b>44.7%</b>	<b>43.5%</b>	<b>40.0%</b>	<b>40.6%</b>	<b>37.4%</b>	<b>42.3%</b>

# Introduced Budget Assumes Long-Term Structural Balance (\$ Mil.)

	2025	2026	2027	2028	2029	2030
Total GF Resources Available for Appropriation	\$ 36,503	\$ 32,947	\$ 33,827	\$ 34,818	\$ 36,226	\$ 37,916
Growth Rate		-9.7%	2.7%	2.9%	4.0%	4.7%
Operating Spending	\$ 34,437	\$ 32,679	\$ 33,613	\$ 34,465	\$ 35,326	\$ 36,222
Capital Spending	\$ 2,059	\$ 260	\$ 200	\$ 200	\$ 200	\$ 200
Introduced Budget	\$ 36,496	\$ 32,939	\$ 33,813	\$ 34,665	\$ 35,526	\$ 36,422
Net GF Available	\$ 7	\$ 8	\$ 14	\$ 154	\$ 700	\$ 1,494

*Note: Car tax credit proposal assumed as income tax refunds after fiscal year 2028.*

# Chapter 2 K-12 Spending Items Expanded in the Adopted 2024-26 Biennium Budget

- 3% salary increase each year *for state share* of SOQ instructional and support positions (localities must provide at least 1.5% for prorated share): \$546 mil.
- Expand at-risk add-on and combine with the PIR per JLARC recommendation: \$371 mil.\*
- Improve English learner staffing standards: \$72 mil.
- Expand reading specialist staffing standard: \$61 mil.
- \$80 mil. each year into school construction fund from casino revenues
- Authorizes \$200.0 million in FY 2025 and \$50.0 million in FY 2026 in literary fund school construction loans. Language also requires interest rates for these loans to be discounted yet responsive to market rates.

## Child Care:

- Use GF support for child care subsidy program after federal funding expires: \$436 mil.  
Use GF to support mixed delivery services after federal funding expires: \$58 mil.

\* These payments shall be distributed based on the estimated number of At-Risk students, based on (1) the most recent three-year average Identified Student Percentage, applying a 1.25 multiplier factor, and (2) including one quarter of students identified as English language learners. The At-Risk Program shall provide each school division the state share of an 11.0 percent basic-aid add-on per estimated At-Risk student. In addition, the program shall provide each school division the state share of a payment equal to a 0.0 to 37.0 percent basic-aid add-on per estimated At-Risk student, with each school division's add-on percentage determined based upon the school division's concentration of At-Risk students relative to all other school divisions.

# ...But Not Much K-12 GF Change (\$286 m) in the Revised Budget, Despite \$4.7 Bil. in Additional Funding

## **Increases:**

- Update English Language Learner data - \$110.7 mil.
- Update sales tax revenue for public education - \$38.4 mil.
- Update ADM projections based on actual Fall Membership - \$33.8 mil.
- Implement new state assessment contract - \$66.0
- Establish School Performance and Support Framework Resource Hub - \$51.3
- Provide Virginia Opportunity Scholarships - \$50.0
- Establish new Lab Schools in partnership with Historically Black Colleges and Universities - \$25.0
- Support Virginia's Visualization and Analytics Solution - \$5.0
- \$290 mil. (NGF) in additional casino and Literary fund revenues for local school construction

## **Decreases:**

- Update Lottery proceeds for public education – (\$63.3)
- Update the cost of Lottery-funded programs – (\$22.2)
- Update costs of Incentive programs – (\$4.9)
- Update program participation for Remedial Summer School – (\$2.9)
- Update sales tax distribution for school age population – (\$1.6)

# Other Major Spending Priorities

## Proposed in the Introduced Budget

- \$1.37 bil. in capital outlay/maintenance spending, including \$400 mil. for wastewater bond supplanting.
- \$1.1 bil. to seed a car tax income tax credit for 3 years (\$370 mil. per year) that is expected to be funded through regular revenue growth thereafter.
- \$599 mil. for Medicaid utilization and inflation net of increased Virginia Health Care Funds
- \$295 mil. to appropriate the required Revenue Reserve Fund deposit – *GA may reappropriate for other uses*
- \$175 mil. contingent appropriation for Interstate 81 improvements
- \$131 mil. for Dept. of Taxation replacement of revenue management system
- \$105 mil. for Children Services Act estimated *sum sufficient* increases for at-risk youth
- \$90 mil. for higher education military family tuition waivers
- \$55 mil. for improvements to the behavioral/mental health system
- \$50 mil to expand the Virginia Business Ready Sites Program
- \$50 mil. to Richmond Combined Sewer Overflow project
- \$48 mil. for DMAS medical assistance services for low-income children utilization and inflation
- \$44 mil. for Water Quality Improvement Fund deposits from surplus revenues
- \$41 mil. for DMAS Fund Family Access to Medical Insurance Security utilization and inflation
- \$35 mil. to support life sciences in the Commonwealth
- \$25 mil. to capitalize the Disaster Assistance Fund
- \$15 mil. to community colleges to sustain and expand high school student access to community college dual enrollment and workforce credential programs

# Other *Unfunded* Spending Priorities Identified by the Money Committees

- \$222 mil. - address K-12 support cap
- \$140 mil. - Increase K-12 special education supports
- \$120 mil. - Address Childcare Subsidy Waitlist
- \$10-50 mil. - Support Investments in Affordable Housing
- \$15 mil. - Healthcare Initiatives (Rural and Maternal)
- \$28 mil. Personal Care Attendants – Add'l 3% Increase
- \$70 mil. - Implement Paid Family and Medical Leave
- \$54 mil. - Increase Minimum Wage to \$15.00 (6-month impact)
- \$60 mil. - Collective Bargaining
- \$10-25 mil. - Operating needs within existing natural resources programs
- \$100 - 200 mil. - Transportation Investments (One-Time)
- \$116 mil. - 1% bonus for teachers and state employees
- \$122 mil. - 1% salary increase for teachers and state employees

# Recent Tax Reductions in Virginia

<b>Recent Adopted Major Tax Policy <u>Reductions</u> Impacting Revenue Estimates**</b>				
	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Standard Deduction Increases	\$1,015.8	\$755.5	\$821.1	\$833.4
Refundable Earned Income Tax Credit	\$159.0	\$156.0	\$159.6	\$155.0
Income Tax Subtraction on Military Benefits	\$145.0	\$193.8	\$215.4	\$229.1
Eliminate Sales Tax on Groceries and Personal Hygiene	\$115.0	\$267.2	\$272.5	\$273.6
All Other Changes	\$15.3	\$21.2	\$33.9	\$35.3
Tax Rebate	\$1,048.6	\$906.8		
<b>Total</b>	<b>\$2,498.7</b>	<b>\$2,300.5</b>	<b>\$1,502.5</b>	<b>\$1,526.4</b>
** August 14, 2024 Joint Money Committee Presentation				

# Introduced Budget Tax Policy Changes

	<u>FY 2025</u>	<u>FY 2026</u>
Car Tax Income Tax Credit - \$150/\$300 (Pre-funded 3 years)	(\$1,103.0)	
Eliminate Tax on Tips	\$0.0	(\$35.0)
Full Utilization of Educ. Improvement Scholarship Tax Credit	(\$4.0)	(\$4.0)
Increase Threshold to \$1,000 for Estimated Tax Payments	(\$10.4)	(\$1.1)
Make Tax Due/Refund Interest Rate Equal to Federal	\$0.0	(\$10.0)
Reduction of Interest Payments Due to Refund Acceleration	\$0.0	\$4.3
<b>Total</b>	<b>(\$1,117.4)</b>	<b>(\$45.8)</b>

Note: If adopted, the proposal to implement Market Based Sourcing would not impact GF revenues in the 2024-26 biennium.



## Chapter 2 Budget State Per Pupil K-12 Direct Aid Funding Nominal and Inflation-Adjusted (CPI \$2005)

