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The Honorable Barry D. Knight, Chairman
Comments on the Committee Recommendations to
House Bills 29 and 30
February 20, 2022

Good afternoon. Today we meet to consider amendments to House Bills 29, our final bite at the apple for the current 2020-2022 biennium, as well as House Bill 30, the budget for the biennium beginning July 1. Virginia is in strong fiscal standing thanks to prudent decisions made by this Committee through tough times in recent years. With a brighter revenue forecast and a clearer path out of the pandemic, this budget will continue the work to build a safer and healthier Commonwealth and move us on the trajectory toward stronger economic growth through tax relief, prudent investments, and job creation.

In December, former Governor Northam introduced a proposed biennial budget that included a net general fund spending increase of nearly \$10.3 billion. For comparison, just two years ago the new introduced budget contained \$2.7 billion of new spending. Given this unparalleled growth in revenues, we approached this budget intent on spending not just because tax revenue was available but based spending choices on what is needed. As Warren Buffett once said, "Do not save what is left after spending, but spend what is left after saving."

The budget amendment package before you today focuses on ensuring a structurally sound foundation for future growth, providing tax relief, and maximizing our reserves BEFORE undertaking new initiatives. Based on the priorities I laid out at the start of this Session, this Committee's work emphasized policies that address six overarching goals:

1. Enhancing our reserves and protecting the structural integrity of the budget,
2. Providing tax relief to all Virginia citizens,
3. Assisting localities to address the needs for base K-12 requirements as well as school improvements,
4. Supporting strategic investments to address health and human services for our most vulnerable citizens,
5. Continuing the House tradition of working to make college more affordable, and
6. Providing meaningful employee compensation increases for all groups of employees

Based on the Mid-Session reforecast, the budget includes a 2022 set-aside of just under \$500 million to meet the mandatory deposit to the Rainy Day Fund in FY 2024 based on FY 2022 collections. When added to the amounts already scheduled to be deposited to the two reserve funds, by FY 2024 will have an historic \$4.4 billion in combined reserves. That is more than 400% higher than the reserve level in FY 2020 and is the equivalent to 16.8% of assumed revenues in FY 2024.

In other action, the House package dedicates \$202.8 million to eliminate all Accelerated Sales Tax in June of this year, finally undoing this accounting gimmick more than 14 years after it was imposed during the Great Recession. The amendment package also provides an unprecedented lump sum \$500 million deposit to the VRS to help address unfunded liabilities and reduce future spending requirements. It also includes \$80.4 million to improve the funded status of the retiree health insurance credits.

The amendment package recognizes the revenue reduction associated with the series of tax relief legislation passed by the House this Session totaling \$5.3 billion over the FY 2022-2024 period. In concert with Governor Youngkin, we have worked to double the standard deduction for all taxpayers, eliminate the regressive tax on groceries, provide tax benefits to our veterans and teachers, and provide tax rebate checks to citizens across the Commonwealth this year.

In the area of public education, we took a long hard look at how we can make immediate and sustainable investments to help localities meet their responsibility to replace crumbling school buildings. I am proud to announce that in partnership with my friend Delegate O'Quinn, we have crafted a school construction loan rebate program that will instantly spur \$2.0 billion in school construction activity where it is needed most. To give some perspective - \$2.0 billion would build 80 new elementary schools. This budget provides an immediate infusion of funding for this initiative and assumes anticipated casino revenues will sustain this loan rebate program into the future.

Our budget also includes local relief to free-up local funds for school construction. For far too long, our localities have been staffing schools over and above our Standards of Quality, meaning no state support has been provided for a growing number of positions. Our budget recognizes and provides state support for many of these positions - including principals, assistant principals, and reading specialists.

To help our most vulnerable citizens, the Health and Human Resources package provides historic levels of funding to support community based developmental disability services. The amendments include more than \$750 million to rebase rates for these services to ensure providers are available in the communities. It also provides funding for an additional 1,200 waiver slots. However, at the same time we have clawed back almost \$13.0 million in funding provided last year for new waiver slots because the Department simply did not make them available to those in need through these first seven months of the fiscal year.

In the area of higher education, today's package increases support for higher education by \$425.5 million over the biennium. Of this total, \$240.3 million is directed to increase access and affordability at public colleges and universities. This will allow institutions to limit in-state undergraduate tuition increases in FY 2023 to no more than three percent, while at the same time, providing an additional \$61.8 million in financial aid for in-state undergraduates. Now more than ever, we need to align our college programs with the workforce needs of the real world. To

help our universities shift focus and help our students find jobs, we are funding a new paid internship program as well as regional efforts to identify key job clusters so community colleges can ensure their programs match industry's needs.

We have taken steps to help all of Virginia's employers by ensuring the unemployment insurance fund builder tax is eliminated. Additionally, our budget ensures that no Virginia employer will pay a higher UI tax than its 2021 tax rate. To do this, we will deposit an additional \$180 million of federal ARPA funds into the state's UI Trust Fund, bringing our total investment of federal resources in the trust fund to over \$1.0 billion. Keeping taxes low is good for business and good for our economy.

Government cannot work if its employees are not paid a competitive wage. The amendment package before you provides 4% pay raises in each year of the biennium for all employee groups as well as 1% bonuses each year for all. In addition, we are providing targeted pay increases for specific hard to staff positions in the areas of public safety and mental health. The intent is to pay a market wage, and not pit similar groups against one another. To that end, a portion of the extra pay raises for workers in state mental health facilities will be used to support increases for our Community Service Board providers. Similarly, correctional employees and sheriffs will receive the same starting pay, and non-security probation and parole officers will receive supplemental increases just like the correctional officers.

Last, but not least, the Commonwealth faces a 2025 deadline to meet its Chesapeake Bay Clean-up requirements. Today's proposals fully fund the agricultural best management practices needs for the upcoming biennium. The amendments also utilize more than \$70.0 million of ARPA funds for local wastewater projects. Finally, \$25.0 million is deposited into the Stormwater Local Assistance Fund in FY 2023. In combination, this three-pronged approach will help ensure we achieve a clean Virginia.

Thank you to our Subcommittee Chairs, Committee staff, and all the members of the Committee for your work putting together the Committee Budget. Today we will adopt the subcommittee reports and then I will move to report the

full Committee package of amendments to House Bills 29 and 30 to the Floor for adoption this Thursday.

With that, we will begin with Delegate Davis, who will present the recommendations of the Elementary and Secondary Education Subcommittee.