



# COMMONWEALTH of VIRGINIA

Office of the Governor

Glenn Youngkin  
Governor

March 4, 2022

The Honorable Barry D. Knight  
Chair, Appropriations Committee  
Virginia House of Delegates  
Pocahontas Building, Room W1312  
Richmond, Virginia 23219

The Honorable Janet D. Howell  
Chair, Finance & Appropriations Committee  
Senate of Virginia  
Pocahontas Building, Room E509  
Richmond, Virginia 23219

Dear Delegate Knight and Senator Howell,

Thank you for your efforts to amend both the current appropriation act and the new biennial budget that will take effect on July 1, 2022. I commend you for the hard work and commitment reflected in both the House and Senate versions of the proposed budget. I also appreciate the courtesies extended to the new administration, and I look forward to continuing to work with you as the House and Senate budget conferees meet to find consensus around the Commonwealth's shared priorities.

As you begin your conference deliberations, I urge you to consider the unprecedented financial position of the Commonwealth and the unique opportunity that this creates for all of us to accomplish many important goals at the same time. The opportunity to address so many of our shared priorities, including significant tax relief, in this timeframe is extraordinary and we will be able to do so while not only maintaining, but also strengthening the Commonwealth's triple A credit rating through sustainable structural balance and a fortress balance sheet.

## **Resources:**

Based upon the November 2021 updated GACRE Revenue Forecast for FY 2022-2024 and the recent Mid-Session Revenue Adjustment of \$1.25 billion for 2022, our re-forecast of revenues collected from taxpayers for FY 2022-2024 will exceed the forecast in the 2021 Appropriation Act by approximately \$14 billion. That extraordinary position is the basis for our proposals to direct these funds in a way that strengthens the Commonwealth through unprecedented investments in our top priorities. These priorities include supporting our schools and teachers with the largest education budget in Virginia's history, providing more training and better equipment for law enforcement, expanded behavioral health programs, salary increases for state employees, law enforcement, and teachers and the many other strategic programs identified by the General Assembly. At the same time, we can make the investments necessary to strengthen our resiliency in the event of an unforeseen future economic downturn by filling our rainy day buckets in excess of previously targeted levels as well as reducing our unfunded long term pension liabilities. Lastly, and very importantly, we are able to both return a meaningful portion of our unanticipated tax receipts and reduce go forward tax burdens for the citizens of Virginia, thereby reducing their cost of living and also making Virginia a more attractive place for new families and companies to come to and add real growth to our economy.

This is a unique opportunity to make significant progress on so many fronts, balancing the interests of our collective stakeholders is a once in a generation opportunity for the Commonwealth.

Regarding the outlook for the stability of these revenue resources, we remain confident that our revenue sources are on solid footing. Within the total general fund revenue sources, our withholding, sales, corporate and other miscellaneous sources of tax receipts and fees account for 80-90 percent of our total general fund revenues. Given the positive impact of the continued reopening of our economy and the return of the services sector that comes with that, we believe that these areas will continue to be a reliable source of revenues for the foreseeable future. As we have previously stated, the areas that must be closely watched are our nonwithholding revenues and tax refunds. We have already built in some conservatism in our outlook for these segments but we all recognize that the ultimate outcome will depend upon the longer term performance of the stock market which has experienced higher levels of volatility recently. On a gross level, nonwithholding represents about 20 percent of our revenues, and on a net basis reflecting Refunds, approximately 12 percent.

My administration is closely monitoring the evolving geopolitical events unfolding in Eastern Europe. Russian senseless aggression against, and murdering of, the people of Ukraine is reprehensible. We do not, however, expect it to have a significant impact on economic growth in the United States or the revenue outlook for Virginia. The reality is that the Russian and

Ukrainian economies have minimal direct impact on the US economy (less than 2 percent of trade/GDP). The impact in the US will be most felt through energy and commodities prices, where supply will be further constrained in the face of continued increasing demand and will add to the inflation challenges we currently face and are creating the greatest pressure on our lower income individuals and smaller companies. As is the case in past times of conflict when government spending and defense spending rises, Virginia will disproportionately participate in that relative to the rest of the Country.

**Priority Areas of Focus:**

I am encouraged by many of the amendments adopted in both the House and Senate budgets. However, much work remains to be done. Given current and anticipated revenue collections, I am confident that, by working together, we can address our shared priorities in a financially responsible way and deliver meaningful tax relief for all Virginians. As you begin the hard work of reconciling your respective budgets, I point out these important issues that need resolution, and ask you to adopt my recommendations. They are as follows:

It is critical that we do our part to reduce the tax burden on our citizens, particularly at a time when present receipts continue to be as robust as they are. Many Virginians are struggling in the face of a rising cost of living and Virginia needs to maintain a competitive tax code to effectively compete with our competitor states. Doubling Virginia's standard deduction to \$9,000 and \$18,000 for single and joint filers, respectively, as proposed by the House will help lower income tax burdens and raise take-home pay for working Virginians. Furthermore, with increasing prices on basic necessities, I ask that you fully repeal the regressive tax on groceries and essential personal hygiene products, eliminating both the state and local portions of the tax, while adopting the House's approach to secure funding for education.

I think we can agree that when the State Treasury collects substantially more than it needs, the right thing to do is to return surplus tax revenues back to taxpayers. Last fiscal year, the Commonwealth collected \$2.6 billion more than expected, so I ask you to approve a one-time rebate of \$300 for individuals and \$600 for families proposed in the House budget.

An important responsibility of our government is to support the veterans that sacrificed to preserve and protect the liberties Virginians have fought and died for. For the veterans who are retired, excluding a portion of their retirement income from state income taxes as the House proposed will help Virginia's veterans achieve a secure, stable retirement and encourage them to remain in Virginia and contribute to our economy.

Our government is also tasked with the responsibility to protect and defend the rights and security of its citizens. Virginians in small, under-resourced localities often lack the funding

necessary to ensure their police and public safety professionals need to keep their communities safe. The Senate's proposal to increase funding for the State Aid to Localities with Police Departments, or 599 program, to \$19.1 million in FY 2023 and \$27.9 million in FY 2024 is a bipartisan, commonsense measure to reaffirm our Commonwealth's commitment to public safety for all Virginians.

Our Commonwealth has a further commitment to ensure disabled Virginians have access to the care they need. To this end, I encourage the House and Senate to incorporate the provisions of the budget as introduced to fully fund an additional 1,200 developmental disability waiver slots.

As the COVID-19 pandemic wanes, it is time to fully reopen Virginia's economy and start preparing for the next unexpected emergency. Businesses are desperate to hire staff and recover their losses seen during the damaging economic shutdown in mid-2020. Enacting the Senate's amendment to repeal temporary COVID-19 workplace restrictions will help Virginia stay open for businesses and make our economy stronger. To further support our economy, I hope the House and Senate can reach agreement on the Virginia Talent Opportunity Partnership and Innovative Internship Fund as part of our workforce plan.

A robust public education that prepares young Virginians for increasingly diverse job opportunities is also critical to ensuring our Commonwealth is prepared for the economy of the future. Creating alternatives to a traditional educational curriculum through lab schools is an initiative worthy of bipartisan support, and I ask that the Senate match the House in devoting \$150 million in FY 2023 to the creation of lab schools.

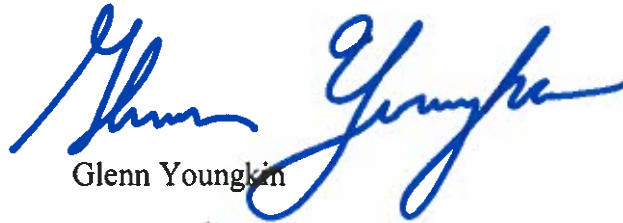
Another issue that has become painfully clear in recent days is the threat of racially-motivated violence. Earlier this week, many historically black colleges and universities (HBCUs) across the nation were unfortunately the targets of bomb threats. Protecting the safety of our students, faculty and staff at these institutions of higher learning is of paramount importance, and to that end, I ask you to support emergency funding for campus security at Virginia's HBCUs.

Lastly, ensuring Virginia has sites prepared for business development is key to making our Commonwealth competitive for business investment and relocation. The Virginia Business Ready Sites Program is integral to this effort and requires the commensurate financial support, which I am confident you all will provide.

Once again, I want to thank the both of you for your leadership and the rest of the General Assembly and their supporting staff members for the incredible work that has been done to deliver your proposed budgets. I look forward to a successful conclusion of a process that will

deliver an outcome that will have an extraordinary impact on the Commonwealth of Virginia and its citizens.

Sincerely,



Glenn Youngkin

C: The Honorable Richard L. Saslaw  
The Honorable Thomas K. Norment, Jr.  
The Honorable Emmett W. Hanger Jr.  
The Honorable L. Louise Lucas  
The Honorable Stephen D. Newman  
The Honorable George L. Barker  
The Honorable Mamie E. Locke  
The Honorable Terry L. Austin  
The Honorable Robert S. Bloxom, Jr.  
The Honorable Emily Brewer  
The Honorable Luke Torian  
The Honorable Mark D. Sickles  
Ms. April Kees  
Ms. Anne Oman  
Mr. Jonathan Howe