

# 2022 Virginia General Assembly Session Recap/Unfinished Business



## Virginia First Cities Coalition



Fiscal Analytics, LTD



BATEMAN CONSULTING LLC

**May 13, 2022**



# General Assembly Update



- The 2022 regular session of the General Assembly is over but there's unfinished business
- March 12 - Adjournment as per state Constitution
- April 4<sup>th</sup> Special Session I - Governor called lawmakers back to the State Capitol to perhaps force a deal on the state budget & consider legislation tied to the budget that was not acted upon during the regular session. The General Assembly met while party leaders continued negotiations. The legislators left without a final vote on the budget
- April 27 Reconvened/Veto Session
- Special Session ?? – Budget & 30 bills

# 2022 Regular Session



## The 60-day session:

- Laid bare the reality of a divided government
- Highlighted the consequences of a pivotal power shift
- Accentuated government disfunction and sadly, moved Richmond closer to the Washington, DC 21<sup>st</sup> century norm
- Will it improve? Elections November 2023 (if not before)



# April 27 Veto Session



- Governor Youngkin's vetoes were all sustained
- Most of the governor's recommendations to bills were adopted
- Drama - Democratic Delegate Don Scott, former House Democratic Caucus Vice Chairman for Outreach, announced that he would challenge Delegate Eileen Filler-Corn for the position of minority leader
- House Dems voted her out; retained Del. Charniele Herring kept as caucus chair

# Bills/Conference Committees Still Out There



There are several conference committees that are outstanding that were carried over into Special Session I. Most are state budget related and will either find their way into the state budget or not. They include:

- Bill eliminating the sales tax on groceries and essential personal hygiene products (SB 451, Boysko)
- Create of a School Construction Fund and Program and strengthen school construction loans from the Literary Fund (HB 563, O'Quinn; SB 473, McClellan)
- Legislation expanding authority to create college partnership laboratory schools (HB 346, Davis; SB 598, Pillion)
- Legislation creating the Firearm Violence Intervention and Prevention Center (SB 487, McClellan; HB 825, Price)

# VFC LEGISLATIVE PROGRAM 2022 - Bills



- **Broadband - Bill that Passed and in VFC Legislative Program:**
  - **Broadband Affordability/Digital Affordability and Cost Effective Plan (DACEP) –** HB 1254, Subramanyam; SB 716, Petersen - The bill will position the Commonwealth to receive up to \$600 million in federal funds to make broadband more affordable to tens of thousands of Virginians and asks Virginia DHCD to develop the DACEP this year, which will include the creation of a broadband affordability map as well as a blueprint for how and where to deploy broadband affordability funds.
- **Short Term Rental Taxes – Legislative Program:** *“VFC supports legislation that will bring clarity to tax collection and remittance, as well as the ability to audit/track those properties that are operating as home-stays”*
  - SB 651, Vogel and HB 518, Head passed. Levels playing field for all types of short term rental/accommodations intermediaries in collection of RSUT and local ToT. TAX to facilitate a workgroup to examine the processes currently used to collect occupancy taxes and make recommendations for improving the efficiency and uniformity of such processes.

# Bills (continued)



- Short-term rentals, localities' ability to restrict.
  - HB 1362 Carried over to 2023 - Clarifies that short-term rentals may be operated in any locality in the absence of an ordinance pursuant to the locality's general land use and zoning authority restricting short-term rentals.



# Budget, Budget, Budget



- The bulk of the VFC legislative asks were in the state budget
- As of today we still have no closure on most of the issues near and dear to VFC
- This includes:
  - Public Safety: Aid to Local Police, Jail Per Diems
  - Economic Development: CDFI Fund, Enterprise Zones
  - Pre-K-12: At Risk Add On and Early Childhood Ed.
  - Transportation: Street Maintenance Funding and Study

## VFC Budget Amendments

	<b>Introduced Budget</b>	<b>House</b>	<b>Senate</b>
<b>Housing Trust Fund</b>	Introduced Budget increased funding to create/preserve affordable housing \$190M	Item 114 #1h Cuts it \$190 million and level funds it both years at \$55 million for the biennium	Same as introduced.
<b>Main Street Program</b>	Introduced Budget was \$2 million FY23 and \$2 million FY24	Item 115 #7h Removes \$1.5 million in each year leaving the MSP at \$500,000 each year.	Does not touch Gov's introduced.
<b>Broadband Coverage &amp; Affordability</b>	\$5M ARPA NGF in FY23 ARPA (McQuinn)  VFC ask:  \$2M GF and \$10M NGF	Item 115 #11h – Continues the program authorizing municipal broadband authorities to be eligible to receive VATI funds without the need for a private sector partner. It allows public broadband authorities to access up to 10% of total available VATI resources in each fiscal year, which includes general fund and nongeneral fund sources.  Nothing on affordability	Item 115 #1s - Continues the program authorizing municipal <b>broadband</b> authorities to be eligible to receive VATI funds without the need for a private sector partner.  Nothing on affordability
<b>CDFI Fund</b>	Introduced Budget: \$5M FY23  VFC ask: + \$3M FY23 (Marsden)	Removes funding Retains program \$0	Item 115 #3s Reduces funding by \$2.5 million FY 23  <b>\$2.5 million FY23</b>
<b>Derelict Structures/IRF</b>		-----	FY 23/24 – Item 115#4s Increases by \$2.5 million each year
<b>Enterprise Zones</b>	Introduced Budget was \$18,250,000 each year	Item 116 #1h - Reduces by \$2 million each year to \$16,250,000	Item 116 #1s - Reduces by \$1 million in each year to \$17,250,00
<b>Teacher Aides</b>	VFC ask: JLARC study	Nothing	Nothing
<b>Teacher Residency</b>	\$ 2.25M FY23 \$ 1.75M FY24	Item 136 #9h –  Reduces teacher residency program by \$500,000	Item 136 #18s -  Increases \$500,000 FY24

	Introduced Budget	House	Senate
<b>Aid to Local Police</b>	Currently: \$191,746,081	Item 486 #1h <b>FY 23</b> - Provides at least \$80 million in <u>one-time</u> ARPA funding for local police equipment and training	Item 408 #1s: <b>FY 22:</b> \$2.3M  Item 410 #1s: <b>FY 23:</b> \$19.1M <b>FY 24:</b> \$27.9M
<b>Jail Per Diem</b>		Item 73 #1h <b>FY 23:</b> \$9.3M <b>FY 24:</b> \$9.3M to increase the per diem for every state-responsible inmate housed at a local or regional jail by \$4/day.	Item 73 #3s <b>FY 23:</b> \$6.6M <b>FY 24:</b> \$6.7M to increase the per diem payments to local and regional jails for housing local respon. inmates with state charges from the current rate of \$4 per day to \$5 per day, and for inmates at jail farms from \$18 per day to \$19 per day.  Item 73 #4s <b>FY23:</b> \$4.6M <b>FY24:</b> \$4.7M to increase the per diem paid to local and regional jails for state-responsible inmates from \$12 per day to \$14 per day.
Street Maintenance Study	Move VDOT evaluation study of city street maintenance	Item 456 #1h deletes language and moves to <b>Item 451 #1h FY 23</b> The VDOT shall conduct an evaluation of the conditions of city streets.	Item 451 #1s <b>FY 22</b> All costs for conducting the evaluation shall be borne by the Department and under no circumstance shall funds appropriated for Financial Assistance for City Road Maintenance (60701) be reduced related to the costs of conducting the evaluation."  Item 456 #1s <b>FY 23</b> Requires the Department of Transportation to absorb the cost of conducting the proposed evaluation of the conditions of city streets and prohibits the payments made to cities from being reduced to cover the costs of conducting the evaluation.
Street Maintenance Funding	Currently: FY 22 \$411,077,641	-----	Item 447.10 #1s <b>FY 22</b> Up to <b>\$30M</b> for one-time payments to localities eligible for funding in city road maintenance.

# The \$3 Billion Question



- This is a great segue to my friend and colleague, Jim Regimbal, to share details of budget standoff and implications.

# J. Regimbal/Fiscal Analytics Revenue Report



- Budget conference committee at an impasse over size of tax cuts. \$3 bil. difference in House and Senate biennial budgets, primarily:
  - Increase in income tax standard deduction (H \$2.1 bil.) vs. refundable earned income tax credit (S)
  - Eliminate/Replace local option food tax (H. \$0.5 bil.)
  - Size of military retirement income tax exclusion (H. \$0.35 bil. more)
  - Size of one-time tax rebates (H. \$0.2 bil. more)
- Continue to expect very high revenue growth in FY 2022. 12-14% GF revenue growth and a \$1 bil. year-end surplus would not be out of the question.

# Revenue Report (continued)



- Interest rate increases by the Federal Reserve, volatility in the stock market, war in Ukraine, etc. should give us all pause for revenue growth in the next biennium. View the 2022-24 biennium revenue forecasts as very tenuous - although the adopted forecast was pretty conservative.
  - Nominal income tax withholding and sales tax revenues should continue to grow due to baked-in FY 2023 inflation.
  - Federal Reserve tools are intended to reduce aggregate demand – bringing in line with supply to reduce inflation.
  - Virginia can weather this slowdown/recession better than most states due to its reliance on military and federal government spending.
- It is good that the Commonwealth has very healthy reserves and other financial levers it can pull in the event of a revenue downturn.