

Virginia Viewpoint: The Budget Battle Begins

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This week, the House and Senate each voted on their changes to the Governor's introduced budget – with some noticeable differences between the two chambers and omissions that wipe out most the Governor's top tax priorities. It sets the stage for a potentially lengthy budget gridlock between the Democratic majorities in the General Assembly and Republican Governor Glenn Youngkin.

The chambers will work over the next two weeks to deliver a single amended budget for the Governor's review. The Governor will then have the opportunity to make his own recommendations to the new budget and pass those back down to the General Assembly for approval.

The budget negotiations are highly consequential since they are tied to several competing policy decisions that currently hang in the balance. Democratic priorities such as increasing the minimum wage, creating a cannabis retail market, and rejoining the Regional Greenhouse Gas Initiative can be found in either or both the House and Senate budgets; meanwhile, Governor Youngkin's plan for a sports and entertainment complex in Alexandria can be found in the House budget but is noticeably absent from the Senate budget.

In addition to budget proceedings, the General Assembly is working quickly to consider remaining House and Senate legislation as the Sine Die deadline approaches in two weeks.

| In Both Budgets: Marijuana Retail Market, Minimum Wage Increase

Both the Senate and House budgets include funding for the Cannabis Control Authority to set up a regulated adult-use cannabis retail market in Virginia. Enabling legislation is making its way through the House and Senate, with a start date for all retail sales slated to open on May 1, 2025 – a slight delay compared to the originally proposed January 1 start date. Retail sales would be taxed at a 9 percent rate under the current proposal. Despite the compromise on language among Democrats, Republicans and Governor Youngkin – whose signature is needed for the bill to become law – remain opposed.

Likewise, both budgets include several funding allocations to satisfy the requirements of legislation advanced by Democrats to raise the minimum wage in Virginia.

| Sports Arena Funding, RGGI Requirement in House Budget

A proposal to fund a state-of-the-art sports and entertainment complex at Potomac Yard in Alexandria, considered to be a top priority of Governor Youngkin's budget package, received the green light in the House budget. In contrast, the Senate budget contains zero language for the arena. Moreover, the Senate budget does not include additional Metro funding, which is considered to be a critical component to adequately handle an anticipated increase in traffic in the area.

In a Democratic rebuke to Governor Youngkin's decision to pull Virginia from the Regional Greenhouse Gas Initiative (RGGI) last year, the House budget requires the Department of Environmental Quality to rejoin RGGI as a precondition for state spending.

| Digital Goods Tax In, Income Tax Cuts Out



Julia Clarlo Hammond

Senior
Principal,
Cozen O'Connor
Public
Strategies

jhammond@cozen.com
Phone: (804) 762-6920
Fax: (804) 762-6950



Kyler Hedrick

Government
Relations
Associate,
Cozen O'Connor
Public
Strategies

khedrick@cozen.com
Phone: (804) 762-6925
Fax: (804) 762-6950



Heidi L. Hertz

Principal,
Cozen O'Connor
Public
Strategies

hhertz@cozen.com
Phone: (804) 762-6920
Fax: (804) 762-6950



Jerry W. Kilgore

Co-Chair, State
Attorneys
General

jkilgore@cozen.com
Phone: (804) 762-6916
Fax: (804) 762-6950



Thomas Alan Lisk

Member

tlisk@cozen.com
Phone: (804) 762-6921
Fax: (804) 762-6950

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Currently, buying a DVD or album from a physical store in Virginia is subject to sales tax while its digital counterpart is exempt – which the Governor has referred to as the “Big Tech tax loophole.” In December, Governor Youngkin unveiled a plan to close the loophole by placing the same tax on physical and digital goods. Not only was the proposal included in both budgets, but also the Senate expanded it to apply to digital services between businesses.

Meanwhile, neither budget incorporated the \$1 billion cost of the Governor’s proposed tax cuts, which included cutting income taxes across the board for Virginians over the next two years. Democrats also balked at his proposal to raise the state sales tax.

| Increased Investments into K-12 Education

In lieu of spending on the Governor’s tax cuts, both the House and Senate increased investments for K-12. The House proposed an additional \$1 billion while the Senate proposed an additional \$1.6 billion and removed a 15-year cap on funding that allows school divisions to utilize up to \$300 million toward school modernization.

| Petersburg Casino Legislation Moves Forward

The House Committee on General Laws approved legislation adding Petersburg as an eligible host city for a casino, though a reenactment clause was added requiring the General Assembly to approve the legislation again in a subsequent session before it advances to a voter referendum.

House, Senate budgets propose raises for state workers; no tax cuts; split on arena

By MICHAEL MARTZ, Richmond Times-Dispatch (Metered Paywall – 7 articles a month)

Cannabis backers reach compromise, bill heads to House floor

By MARKUS SCHMIDT, Cardinal News

Petersburg launches search for new casino operators after Senate approval

By SEAN JONES, Richmond Times-Dispatch (Metered Paywall – 7 articles a month)

Virginia Democrats released their budget plans. What’s in and what’s out?

By GRAHAM MOOMAW AND SARAH VOGELSONG, Virginia Mercury
