



Thomas Jefferson Planning District Commission

Legislative Newsletter

June 24, 2026

State Budget for FY27/28 Adopted!

After many months of wrangling, state lawmakers have agreed on a state budget for the 2026-2028 biennium. Senior legislators released details of a compromise last Friday evening, following previous release of respective House and Senate proposals the preceding week. This set the stage for General Assembly approval of the spending package on Monday of this week. The House adopted the budget on a 71 – 22 vote. Their Senate counterparts endorsed the plan on a 23 – 16 vote. The budget now goes to Governor Spanberger, who has seven days in which to recommend any changes to the spending package (and she has indicated she will have some). The legislature then will return to Richmond next Monday to act on such proposals.

The items below highlight changes to the [introduced budget](#) made by the [budget conference report](#) for fiscal years 2027 and 2028. An overview of some of the conference report's major budget items is followed by detailed highlights in specific budget topic areas:

→The budget conference report provides a *state income tax standard deduction* increase to \$9,200 for individual filers and \$18,400 for joint filers in tax year 2027 and \$9,300/\$18,600 in tax year 2028. Also, a credit equal to 45% of all revenue collected through the Regional Greenhouse Gas Initiative (RGGI) will be provided to certain Phase I and II electric utility customers, including residential customers.

→A total of \$714.2 million will fund a 3.5% *salary increase* each year for state employees and state-supported local employees; this is an additional \$311 million over the biennium to increase the 2% salary increase proposed in the introduced budget to the 3.5%.

→The adopted budget assumes more than \$30 million in *revenue from taxes on cannabis* in FY28. The budget includes provisions that establish a framework for retail cannabis, with retail sales to begin July 1, 2027, and including establishment of a total tax rate of 12.3% to 16.5%, which includes a 6% state excise tax, and a 1% - 3.5% local tax.

→It includes \$93.6 million to reduce the unfunded liabilities in the retiree health care credit.

The compromise budget also includes the following items to address federal funding items:

→\$350 million to establish a Medicaid Reserve as a contingency for higher program costs;

→\$220 million to establish a Federal Uncertainty Contingency Fund, whose monies will be used to address unanticipated reductions in federal funding that impact state programs and services; and

→\$150 million for expiring enhanced ACA tax credits/Marketplace Health Insurance subsidies.

Concerning data centers, the budget includes the following provisions:

→It imposes a data center electricity consumption tax at the rate of \$0.011/kWh of all electricity consumed at each data center per month, which will generate an estimated \$600 million each year during the biennium.

→It directs the Joint Subcommittee on Tax Policy to study Virginia's data center sales and use tax exemption and other data center impacts, with particular focus on examining the impact of the existing and any potential future exemption or incentives.

→It requires the Department of Environmental Quality (DEQ) to establish criteria for determining "Cooling Water Scarcity Areas" to minimize data center impacts on water. Existing data centers in such an area would have to certify to DEQ that it will use air cooling, closed-loop cooling systems, or more efficient cooling systems, by July 1, 2032.

→It requires DEQ to adopt regulations that set noise standards for data centers, to be effective by December 31, 2029. On or after January 1, 2030, any data center that violates such regulations would be subject to a civil penalty of up to \$32,500 per day. Such regulations cannot limit the authority of any locality to adopt more restrictive local ordinances regulating noise, and must provide for enforcement by DEQ or the locality in which the data center is located is authorized.

→Finally, it directs the State Corporation Commission (SCC) to collect data on energy, water, and generator usage of data centers.

K-12 Education

→The adopted budget overall increases K-12 state funding by about \$2 billion, driven by rebenchmarking, policy actions and technical changes. Rebenchmarking cost increases were offset by declines in enrollment and VRS rate adjustments.

→The plan includes a total of \$770.8 million over the biennium to support the state share of a 4% salary increase each year for SOQ-recognized instructional and support positions.

→Language authorizes all counties and cities (except those located in Planning District 8, which have different provisions), to impose an additional local sales and use tax of up to one percent, if such levy is approved in a voter referendum, with the revenue used only for capital projects for the construction or renovation of schools. It establishes a 105-day minimum lead time for ordering an election. The language does not include provisions allowing revenue generated to be used on existing debt service; it also does not include provisions that would expressly prohibit any supplanting of existing local funding.

→It provides about \$74 million each year to increase the add-on rates applied to basic aid for special education students from (i) 4.75% to 9.25% for Level I students and (ii) 5.25% to 17.5% for Level II students. This increases the total amount of the add-on from \$62 million to \$136.3 million in FY27 and from \$61.7 million to \$135.7 million in FY28.

→The adopted budget provides an additional \$60 million in FY27 in infrastructure and operations per pupil funding on top of the \$276 million in the introduced budget.

→\$1 million the first year and \$250,000 the second year is provided to support the work of the Joint Subcommittee on Elementary and Secondary Education Funding. Related, budget language directs the Superintendent of Public Instruction to issue a Request for Proposals for a contractor to support the development of a new funding formula.

→The budget includes \$14.5 million the first year and \$14.4 million the second year to increase the maximum At-Risk Add-On to 48.85%. Language expands permitted uses for At-Risk Add-On funds to include initiatives to support both the physical and mental health of students, including hiring of licensed practical, registered, and advanced practice registered nurses.

→The spending plan provides \$17.6 million over the biennium to increase the per meal reimbursement amount for school breakfast from \$0.28 to \$0.50 in order to increase participation in the program.

→The plan provides \$25 million the first year to support the Employee Child Care Assistance Program.

Community Development

→The budget provides an additional \$40 million in FY27 for the Virginia Housing Trust Fund, bringing total biennial support to \$215 million. Language directs the Department of Housing and Community Development (DHCD) to convene a workgroup to examine the current uses of the Fund and provide recommendations on how best to optimize its resources to address housing affordability, supply issues, and homelessness.

→It budget provides \$20 million in FY27 for a two-year pilot program to provide loan origination and servicing activities for mixed income housing.

→The budget includes an additional \$11.5 million in FY27 to the Virginia Eviction Reduction Program (VERP), which provides funding to local and regional eviction prevention programs.

→The conference report provides \$261,000 each year for DHCD to process reporting of various data for new and existing housing developments and making such data publicly available in a centralized database that is updated annually.

→It provides \$2 million the first year to capitalize the Solar Interconnection Grant Program, which will provide competitive grants to localities to connect solar facilities to the grid. It also provides funding for the Department of Energy to establish, launch, and administer the Smart Solar Permitting Platform by July 1, 2027.

→It includes \$322,000 for DHCD to create and maintain a registry of manufactured home park owners in the Commonwealth.

Environment

→The budget provides \$188.9 million in FY27 for the Water Quality Improvement Fund to provide matching grants for eligible wastewater treatment plant improvement projects.

→The plan includes \$100 million in FY27 to enhance environmental monitoring.

→The spending plan provides an additional \$750,000 in both FY27 and FY28 for water supply planning activities of the 25 regional planning units, bringing state funding to nearly \$1 million each year.

→The budget provides about \$2.7 million over the two years for monitoring and reporting of per- and polyfluoroalkyl substances (PFAS) discharged by industrial users of publicly owned treatment works. Also, \$500,000 is provided in FY27 for DEQ to conduct an analysis of PFAS disposal alternatives.

Health and Human Services

→The budget funds the state share of the SNAP benefit allotments of \$135 million and maintains the \$100 million contained in the introduced budget for administrative costs. Language requires the following: 1) The Department of Social Services (DSS) is to establish and maintain a quality control methodology for determining each local department of social services' SNAP payment error rate and to publish state and local error rates on its website by June 30 each year; and 2) the Secretary of Health and Human Resources is directed to establish a Task Force on the SNAP error rate and implementation of community engagement requirements in the Medicaid program, to ensure that the state addresses the error rate in the most prudent manner possible.

- Language directs the Department of Behavioral Health and Developmental Services to examine alternatives to the current 10% local match requirement on state funding for Community Services Board funding and to provide a report by November 1, 2027.
- Budget language directs the Department of Education to issue guidance on how localities can use existing authority to transition students back to public schools from private day placements. It also requires the Office of Comprehensive Services to annually report on private day school placements the total and per pupil local and state costs; the number of students served by school division and primary disability category; and local match rates.
- The budget provides \$14.9 million the first year and \$16.9 million the second year to provide core public health services.
- DSS is directed to submit an annual report on the allocation and use of state and federal funds distributed to local departments of social services.

Public Safety

- The plan provides \$125,124 each year to support development of a model policy for the use of unmanned aircraft systems.
- The budget provides \$130,000 the first year to support a work group established to evaluate emergency management needs in Virginia.
- It redirects \$2 million in FY27 that was proposed to continue a one-time reimbursement grant program for emergency custody order and temporary detention order transportation services provided by local law enforcement agencies.

Transportation

- The budget provides \$153 million to provide the state share of the increased operating support for the Washington Metropolitan Area Transit Authority. It also provides \$19 million for one-time transit capital investments.

Other Important Items for FY27/28

The compromise budget also includes the following items of interest to localities:

- The following locally requested items were funded in the compromise spending plan:
 - >\$30,000 is included in both FY27 and FY28 to support buoy maintenance and hydrilla mitigation activities at Lake Anna.
 - >\$500,000 in FY28 is provided to support cyanobacteria mitigation and remediation efforts at Lake Anna, bringing state funding to over \$1.2 million for the biennium.
 - >Nearly \$1.5 million from unobligated balances in the Low-Income Energy Efficiency Program Fund in FY27 is provided to Albemarle County for a one-mile, accessible trail from the state-owned and locally developed Biscuit Run Park to the newly opened Monacan Indian Nation Tribute Park within the Southwood Mobile Home Park redevelopment project.
 - >\$7 million is included for the City of Charlottesville in FY27 for a transitional housing and life skills training facility.
- Budget language directs the Joint Legislative Audit and Review Commission (JLARC) to analyze, at least every five years, state spending for aid to localities as part of its state spending report. Language also directs JLARC to periodically review teacher compensation, including benefits such as health insurance and retirement, as part of its annual State Spending on K-12 Standards of Quality report.
- Budget language directs the indigent Defense Commission to convene a workgroup examine fees, fines, and other financial assessments imposed in criminal prosecutions, including amounts

assessed and collected, use of collected funds, state and local reimbursement, imposition of costs on delinquent accounts, and practices used by other states.

→The Department of Planning and Budget is directed to annually collect salary data for state-supported local employees; such data shall include the total salaries for full-time employees expended in the most recent fiscal year and the full-time employee count as of the last day of each fiscal year.

→The State Comptroller is directed to transfer an estimated \$80.7 million to the general fund from the Virginia Business Ready Sites Acquisition Fund.

RESOURCES:

House Appropriations Committee [Budget Conference Summary](#)

Senate Finance and Appropriations Committee [Budget Conference Summary](#) and [Key Features](#)

[Estimated Direct Aid to Public Education](#)