



GOVERNOR OF VIRGINIA

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Joint Money Committee Speech

As Prepared for Delivery

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Unleashing Opportunity Budget Speech

Good morning.

Chairman Knight, Co-Chairs Barker and Howell, Chairman Robinson, Speaker Gilbert, esteemed members of the General Assembly money committees and your hardworking staff, thank you for the warm welcome. It's been an honor to work with you over these past two years to deliver a better, brighter future for Virginia.

I'd especially like to thank those who are retiring. Thank you for loving the Commonwealth.

To both Lieutenant Governor Earle-Sears, Attorney General Miyares, and the dedicated members of my Cabinet thank you for your partnership.

But most of all, I want to recognize my wife and our First Lady Suzanne Youngkin. You inspire me and so many, every day, with your warmth and care, for which the Commonwealth is so much better.

The Commonwealth began a journey in January of 2022 to fundamentally change trajectory and embrace a future of winning and growth.

Today, I am proud to present our Unleashing Opportunity budget as part of a bold, necessary plan forward.

"Unleashing opportunity" means that Virginians have great jobs, keep more of their hard-earned money. That their education and training prepare them like no other state, that they live and work in safe communities, with support for their health and

well-being particularly their behavioral health. That they live in a state that keeps its commitments to clean waterways, especially the Chesapeake Bay. And that their state government continues its work to be better, to serve better.

We must do all of this because when we started this journey, Virginia was falling behind.

Let's be clear. In recent years, our neighbors in North Carolina, South Carolina, Tennessee, Georgia, and Florida have been growing rapidly. Americans, and many Virginians, were choosing to go there, instead of here.

Each of these states had lower taxes or had started their journey to lower taxes. Meanwhile, Virginia was standing still and has been falling behind since 2013.

Across the country today, there are winning states and there are losing states states that are winning with job growth, population growth, opportunity growth and others that are not.

From early 2020 to today, America has generated 3.2 million jobs; 10 states generated nearly 3.3 million of those jobs, while 10 other states lost roughly 825,000 jobs.

The same job-winning states saw 2.4 million of net move-in gains while the losing states saw 2.5 million of net resident losses.

At the heart of this migration trend where certain states consistently gather people and other states consistently lose people is the reality that Virginia must compete even harder.

When I first took office in January of 2022, Virginia was sadly on the losing side. We had nine straight years of net domestic population outflow; we were bottom third in the nation in job growth.

Now, we've burst onto the forefront in job growth, surging to number three in the nation over the past 22 months. Our labor participation rate is at a 12-year high. We have more Virginians working than ever in the Commonwealth's history.

We've welcomed companies committing nearly \$71 billion in capital investment, more than 2.5 times any other two-year period in the past 25 years.

We've welcomed major corporate companies, from Boeing and Amazon Web Services to Raytheon and LEGO, along with major expansions from others like Hilton, DroneUp and Framotome.

And just this month, we announced that Virginia will welcome, subject to approval from the General Assembly, two new professional sports teams as part of a visionary sports and entertainment development.

I want to thank those from the MEI Commission for your unanimous and enthusiastic, bipartisan support. Completing this exciting product will require your leadership and I know a world class

transportation plan for the arena is critical to all of us.

You see, Virginia has demonstrated she can win. But because we continue to lose the personal economic battle, we are still net-exporting Virginians.

This past year, while the number of Virginians moving away versus moving here from the other 49 states has dropped dramatically at less than 7,000 vs the 14,000 average over the previous 9 years we are still exporting Virginians.

In stark contrast, North Carolina has net gained nearly 70,000 people per year for 10 years.

The states to the south of Virginia have been for a dozen years systematically reducing taxes, with Georgia just announcing again to accelerate tax reductions. North Carolina has announced they will accelerate their path to bring rates from 4.75 to 3.99.

So, as we come together at our administration half-time with lots of great success enabled by great teamwork with the General Assembly in what has been and will continue to be divided government, we must compete even harder together.

We must take bolder steps. We must “Unleash Opportunity” for Virginians.

The economic backdrop to the budget requires caution.

When we all left our GACRE meeting in November, it was with overwhelming consensus that we should build in caution, with a modest recession beginning in the fourth quarter of FY 2024.

We therefore prudently include a mild recession in Q4 of Fiscal Year 2024, lasting through Q2 of Fiscal Year 2025. This results in “Flatish” Revenue through FY 2025, as 2nd half growth balances the 1st half slowdown. The 2025 recovery continues through 2026 with normalized growth into ‘2027 and beyond.

So, while there is just under \$58 billion dollars of revenue projected over the biennium, the heart of our budget focuses on the key investments that we must make as a Commonwealth in order to unleash opportunity.

The first pillar in Unleashing Opportunity, to reduce the cost of living, has two components. One, reducing tax burdens for all Virginians, and two, modernizing our tax code, specifically our sales and use tax structure.

First, we are cutting income tax rates. 12% across the board. Yes, 12% across the board. All tax brackets, the lowest bracket of 2% reduced to 1.75%, all the way to the highest bracket of 5.75% reduced to 5.1%.

This cut reduces the personal income tax burden on Virginians by \$1.1 billion in fiscal year 2025 and \$2.3

billion in 2026, and is a major first step towards competing.

The data is clear, since 2021, 26 states have cut individual income tax rates.

The second component is to modernize Virginia's tax code. Virginia has two outdated problems, our sales and use tax base is substantially more narrow than our peer states. Virginia taxes a narrow set of "goods" while our peer states tax a broad set of goods and services.

And second, when this narrower sales and use tax combines with our comparatively lower rate of 4.3%, our overall total State tax receipts are under weighted the more stable sales and use tax and heavily weighted just under 70% towards personal income tax.

We will modernize and address these problems by first closing the big tech loophole on digital goods to include them as part of the sales tax base.

Virginia has always taxed goods, and over the last decade, the definition of goods has evolved into new economy goods like software packages, digital downloads, streaming music and videos, cloud storage and other electronic media, on which, today, Virginia collects nothing.

To be clear, we will continue to not tax "traditional services" like barbers, lawncare services, or professional services.

In addition, we will raise the state's sales tax 0.9%, from 4.3% to 5.2%.

This will diversify our tax base, and when combined with closing the tech tax loophole, meaningfully offsets the "cost" of the 12% across the board reduction in personal income tax rates.

And importantly, Longwoods International visitor spending analysis estimates tourism spending comprises 12.5% of Virginia's sales tax collections. As tourism continues to grow, non-residents will partially fund the income tax reductions we are providing to Virginians.

And for low-income Virginians, eligible filers will be able to claim an enhanced Virginia Earned Income Tax Credit, equal to 25% of the federal EITC, on top of the 12% individual rate cut.

All told, this bold tax reform plan allows Virginians to keep more of their hard-earned money with a major personal income tax reduction, which is meaningfully offset by a more competitive tax structure, provides ongoing tax relief of \$400 million in 2025 and just under \$600 million in 2026, makes our revenue more stable going forward.

And most importantly, gets Virginia moving to compete to win jobs, win people, and win opportunity.

While I'm addressing taxes, there is one topic that is not included in my budget submission. And that is the single most hated tax in Virginia the locally-

imposed personal car tax. Eliminating it permanently is a complicated, yet worthy aspiration.

And I believe it can be done with the full cooperation from Democrats and Republicans, House and Senate, and local and state leaders. I both invite and challenge my colleagues in the General Assembly to work with me to completely eliminate the hated car tax and replace it with an increase in the local sales tax.

The Car Tax belongs in the trash can not in your mailbox.

The second key pillar to unleashing opportunity is jobs, more good-paying jobs with great companies that choose to locate and expand in Virginia.

As businesses choose to invest, more jobs are created, and more people either stay or move here, and our tax receipts go up as well it really does work. And our key initiatives driving this cycle are working as well.

I propose investing an additional \$200 million over the biennium in the Virginia Business Ready Sites Program so that we can attract the next transformative businesses.

Our initial \$100 million was deployed last year, and the next \$150 million in our last budget amendments is well over-subscribed. It's working.

The second key ingredient for job growth, talent, requires increased investment in our workforce

programs.

To attract and train the best talent, my Unleashing Opportunity budget includes \$15 million for our workforce recruitment program in one-time spending; \$8 million over both years to ensure that students have pathways to success through the community college system; another \$4 million for Virginia's innovative "Earn to Learn" nursing education program; and \$20 million total in the biennium to support internships.

To further drive excellence in education, the Unleashing Opportunity Budget invests approximately \$530 million in additional direct aid over the next two years, bringing our total investment over the biennium to \$18.4 billion. This marks the largest education spending in any biennium in the Commonwealth's history.

In K-12 education, we continue to invest in great teaching, great schools, and even greater flexible pathways.

In September, we worked together to introduce our "ALL-In Virginia Plan" to address persistent learning loss, stemming from forced school closures during the pandemic, to advance the literacy act, and reverse chronic absenteeism. And as of this week, every single school division in Virginia submitted their action plans.

We are truly ALL IN to help Virginia's students.

Our Unleashing Opportunity budget recognizes the importance of great teaching, with \$61 million over the biennium supporting reading specialists; a \$53 million teacher bonus, on top of the 2% early raise in teacher salaries, starting next month that carries into 2025, and another \$122 million supporting a 2% raise in 2026.

We'll continue enhancing flexible pathways through innovative lab schools and dual enrollment. We have 20 current lab school grant applications in motion, one school already fully operational, and three more recently approved.

With nearly all of the current funds spoken for, we include an additional \$60 million in the biennium for lab schools.

We also enhance flexible pathways by investing \$40 million in the biennium for students to earn an industry recognized credential with their diploma, creating our Diploma Plus program.

On higher education, we're continuing to invest \$75 million each year to maintain affordable access but requiring goals and accountability in year two, along with \$ 37.5 million in financial aid for Pell-eligible students.

We must continue to foster innovation, research, and institution-building.

That's why I am proposing that we create Virginia's own "research triangle"; A biotechnology, life

sciences, and pharmaceutical manufacturing innovation network, with \$100 million in support.

And one thing that we know is that coming out of the pandemic, working parents, particularly mothers, struggled to remain in the workforce because of a lack of childcare options.

Right now, over 27,000 children are at risk of losing access to quality childcare out as a result of an unsustainable model.

That's why earlier this month we unveiled the Building Blocks for Virginia Families initiative.

The Unleashing Opportunity budget includes an incremental \$412 million over the biennium, so every low-income working family currently supported continues to have access, and \$25 million for start-up investment to build capacity in childcare deserts.

At the heart of this initiative is ensuring a quality environment for our children and empowering our working parents.

To unleash opportunity in Health and Human Resources, we'll be allocating \$19.7 billion over the biennium, a 17.8 percent increase over the prior biennium.

The most important increase is for the continuation of our Right Help, Right Now behavioral health transformation. We are facing a behavioral health crisis across Virginia and the United States.

This crisis is present at home, in schools and in the workplace. And the three-year 'Right Help, Right Now' vision to revolutionize our behavioral health delivery system started with a giant leap forward in Chapter 1 signed in September.

The Year 2 effort requires that we further invest in emergency room alternatives and mobile crisis teams, expand access to school-based mental health, address challenges in our psychiatric hospital system, and build a best-in-class behavioral health workforce, while addressing the opioid crisis.

It's crucial that we keep this moving, right now.

To address our Foster Care systems and the critical need for Kinship Care, we will invest \$18.7 million over the biennium.

Kinship families increase the general wellbeing of children, and significantly improve their outcomes.

Part of ensuring that Virginia is the best place to live, work, raise a family and unleash opportunity is ensuring our neighborhoods are safe.

The first step is ensuring we have well-trained and well-equipped law enforcement officers, and continuing the work of our Bold Blue Line plan to recruit and retain men and women to law enforcement.

Funds are also dedicated to establishing the Office of First Responder Wellness at the Department of

Criminal Justice Services. Our law enforcement heroes deserve our full support in times of need resulting from the stress and trauma they endure in their job.

As part of this budget, we're enhancing safety increasing operational efficiency within the Department of Corrections by closing four facilities.

We're saving taxpayers an estimated \$45 million by bringing state inmates who are currently housed in regional jails back into DOC facilities.

And we're addressing compression issues within Virginia State Police.

One of our most successful collaborations over the past few months has been between our Secretary of Public Safety and Homeland Security, state police, local police, and campus police to address the rising threats we've seen across Virginia's college and universities campuses.

Our Unleashing Opportunity Budget not only enhances safety and security on campuses but goes to work to combat the source.

We've all seen the news, a dramatic rise in antisemitism and religious bigotry across the Commonwealth and the country.

As part of our budget, we are investing \$375,000 dollars for the Virginia Holocaust Museum to ensure that our teachers are prepared and equipped to teach the real lessons of the Holocaust, and

additional funds to improve security at houses of worship, synagogues, temples, churches, and mosques.

Simply, there is no place for hate. And we must fight it together.

When it comes to being good stewards of our natural resources, we must continue to fund progress towards our shared priorities, including preserving and restoring the Chesapeake Bay. And I'm proud to report that we have made significant progress. We have achieved 100% of the 2025 federal planning target reduction goal for sediment, 84% for nitrogen, and 70% of the reduction goal for phosphorus.

But this also comes with the recognition that there is so much more to be done. Our budget allocates an additional \$500 million for key conservation and stewardship progress including agriculture best management programs, the Norfolk Seawall, community flood preparedness and dam safety.

Finally, we must drive efficiency and effectiveness in our state government and fully embrace a mindset of doing more for less by advancing the transformation process that enables it.

If we want Virginia's government to be fortified and buttressed in order to function into the future and serve 8.7 million Virginians, we must identify programs that are overfunded, cut ones that aren't

working and deliver better services to Virginians, and do it for less money.

Right now, our government spends \$250 million every year maintaining and patching outdated IT infrastructure with obsolete systems that have high cybersecurity risk.

In our Unleashing Opportunity budget, I am proposing that as a first step we invest \$150 million to bring our critical IT systems into the 21st century.

It's the same with real estate. The Commonwealth holds substantial real estate assets and, compared to national standards, we have over 30% excess space. An initial assessment of these assets indicates there is significant potential for value beyond their current use.

And when it comes to the workforce behind the workforce our dedicated state employees we've already made significant impact on staff turnover and removed barriers to entry, and we must continue this work.

This is common-sense and I believe it is just the beginning.

Finalizing the Unleashing Opportunity budget will require collaboration and teamwork and it will be a sprint. I would ask us to commit ourselves to deliver a budget on time when you adjourn sine die in March.

Virginians deserve it, and I know that we can do it.

My friends in the General Assembly, I want to offer my gratitude for welcoming me today and for all the work that you've done and will continue to do.

And again to our retiring members, thank you.

When I last spoke to this group in August, we had seriously hoped that one of our most valued leaders would return for another four-year term.

I'm speaking, of course, about Senator Frank Ruff. While our Commonwealth is losing a true, faithful public servant, it's richer for the fact that he has served, and led, on so many important issues, whether that was pioneering Virginia's Department of Workforce Development and Advancement or establishing the Center for Rural Virginia.

I'm proposing as part of our Unleashing Opportunity Budget an additional \$350,000 per year to support the Center for Rural Virginia's efforts.

I'd also ask you to join me in naming this center the "Frank Ruff Center for Rural Virginia" in his name.

Senator Ruff, thank you.

Let's forge ahead together. We are already seeing economic growth, academic excellence, and new pathways come to life across the Commonwealth.

This is our chance to fully unleash a Virginia that is all she can be.

Unleashing opportunity means allowing Virginians to keep more of their hard-earned money, being prepared to take those jobs with a great education, in safe communities where they can find the resources they need when they need them, in a state that understands what taking care of God's natural resources really means, with a government that works for Virginians.

We're at half-time together. At least half-time of my administration. And I believe we are on the verge of winning the competition for people, jobs, and opportunity.

Where the road diverges, we must take the road less traveled, which means putting partisan politics down and picking up commonsense.

Members of our General Assembly, send me this budget that will unleash opportunity for all Virginians.

I thank you very much again for letting me join you in this amazing new facility.

I wish each and every one of you a blessed holiday season and blessed Merry Christmas, and may God continue to bless the Commonwealth of Virginia.