

**Analysis of Governor Youngkin's Introduced Budget:**

Below are the Early Childhood and K-12 details of Governor Youngkin's Introduced 2024-2026 Biennial Budget. The Governor presented his budget to a Joint meeting of Virginia's Money Committees on December 20, 2023. We will get more details including projections of school division distributions in the coming days.

While most of the good news in the budget is in Early Childhood, there are some red flags we need to pay attention to. The Governor proposes over \$450 million over the biennium to “ensure every low-income working family that currently receives public support continues to have access to early childhood and afterschool programs” and close the Child Care Subsidy cliff. While this funding should be applauded, it falls short of the estimated shortfall in each year of the biennium. It is estimated that the need in FY25 is \$275 million and \$325 million in FY26. While the investment of \$174 million in FY25 and nearly \$238 million in FY26 is substantial, it will not ensure that every low-income working family that needs public support will have access to early childhood and afterschool programs. Fully funding the Child Care Subsidy Program is an important investment. Research has shown that these investments have lifted children out of poverty, reduced child maltreatment, and prepared children for success in school and in life. Expanded access to publicly funded early childhood care and education has been a game changer for the Commonwealth. The Virginia Promise Partnership, the Virginia Early Childhood Foundation, and the Virginia Business Roundtable for Early Education have led the efforts to ensure this funding was included in the Governor's budget and they should be commended, but there is still work to do. While this is an early childhood issue, it is an important workforce issue and economic development issue as well.

The other potential red flag in the overall Early Childhood investments is the “rob Peter to feed Paul” approach it seems to take. Current funding for the Virginia Preschool Initiative (VPI) Program and the Early Childhood Expansion (ECE) Program may be impacted by language included in the budget to fund the Child Care Subsidy Program. Additional funding is also generated by eliminating the Local Composite Index cap under both VPI and ECE programs. In good news, it is clearly the will of Governor Youngkin to make a significant investment in the imminent problem facing so many of Virginia's families, but we will need to work to gain the full funding that is needed to prevent any family from falling off the childcare cliff.

In K-12 the investments were far more limited with the largest investments going toward rebenchmarking costs, a 2% salary increase for Standards of Quality (SOQ) eligible positions in the second year of the budget, and payments to the Virginia Retirement System (VRS). The Governor made only a single investment in staffing improvements by adding just over \$61 million for Reading Specialists to meet the statutory requirements of the Virginia Literacy Act. The Introduced Budget does not address any recommendations included in the Joint Legislative Audit and Review Commission's (JLARC) report on the staggering deficiencies in our K-12 Funding Formulas. While the Governor did include a second year 2% salary increase and a 1% bonus in year one, he did not include any of the recommendations from JLARC's other important report this year on the Teacher Pipeline.

The Governor did make new investments in some priority programs including reliable funding of \$60 million (\$30 million in FY25/\$30 million in FY26) for his College Laboratory School Initiative and \$40 million (\$20 million in FY25/\$20 million in FY26) for a Diploma Plus grant program to help students earn an industry recognized credential, his overarching goal of tax cuts limited his new spending. As we reported in our Session Preview, the proposed income tax cuts would cost the state about \$1.1 billion in the first year and \$3.4 billion in the second, but that cost would be partially offset by a 0.9-percentage-point increase in the state sales tax, which is now 4.3 percent (plus another 1 percent levied by localities). The combined proposals result in a net reduction of \$1 billion and are pitched as a way to stabilize state revenue as well as make Virginia competitive with its neighboring states.

The rate increase would be accompanied by expanding sales tax into digital areas that are not currently taxed in Virginia, like streaming services, digital downloads, and computer software. Sales tax increases would boost state revenue by about \$1.1 billion in fiscal 2025 and \$1.8 billion in fiscal 2026. You will see very specific impacts of these tax proposals on K-12 funding, but overall, any new spending was limited by the Governor’s tax proposals.

Regardless of what is in the Governor’s budget, it is only the starting point. On January 10, 2024, the General Assembly with Democrats holding slim majorities in both the House and the Senate will convene in Richmond to take up and amend the Governor’s proposal. Education will, like always, play a big part on the decisions that are ultimately made in the final budget. We will have to keep a close eye on which proposals move forward and which ones are replaced with other priorities.

Below are the key items from Governor Youngkin’s 2024-2026 Introduced Budget for Early Childhood and K-12:

**Early Childhood:**

**Continue Child Care Subsidy Program after federal funding becomes unavailable**

One-time federal investments of more than \$24 billion expired September 30, 2023. Without additional state funding, Virginia faces a steep cliff at the end of Fiscal Year 2024: statewide, nearly 36,000 children are projected to lose care and over 37,000 working parents are expected to face job disruptions in Fiscal Year 2025 unless the Commonwealth acts. The introduced budget provides state funding to ensure that low-income, working families currently receiving public support through the Child Care Subsidy Program continue to have access to high-quality early childhood and after school programs. Funding for this item redirects money previously allocated for the Virginia Preschool Initiative and Early Childhood Expansion programs that have been underutilized.

|                 | FY 2025       | FY 2026       |
|-----------------|---------------|---------------|
| General Fund    | \$174,258,588 | \$237,815,584 |
| Nongeneral Fund | \$38,996,516  | \$0           |

**Redirect Virginia Preschool Initiative and Early Childhood Expansion nonparticipation savings to other early childhood programs**

Redirects \$80 million in unutilized funds from the Virginia Preschool Initiative (VPI) Program and the Early Childhood Expansion (ECE) Program and redirects those savings for early childcare and education services under the Mixed-Delivery Program and the Child Care Subsidy Program. This “savings” is the result of projected nonparticipation in VPI and ECE and eliminating the Local Composite Index cap under these programs. Of that amount, \$26.8 million is directed to the Mixed-Delivery Program under Direct Aid, and the balance is directed to the Child Care Subsidy Program under the Department of Education.

|              | FY 2025        | FY 2026        |
|--------------|----------------|----------------|
| General Fund | (\$53,016,078) | (\$53,711,109) |

**Provide flexibility for childcare staff-to-children ratios**

Continues flexibility for the Superintendent of Public Instruction to alter staff-to-child ratios and group sizes for licensed child day centers and centers that participate in the Child Care Subsidy Program. This flexibility was implemented during the pandemic and has allowed more children to participate in the program.

**Align teacher requirements for community providers of early childhood learning**

Continues language to align teacher requirements for Virginia Preschool Initiative Community Provider programs to the Mixed Delivery program.

**K-12:**

**Central Operations at the Department of Education:**

**Develop a new state assessment system**

A workgroup, established through legislation during the 2022 General Assembly session and organized by the State Superintendent of Instruction, Dr. Lisa Coons, made a series of recommendations related to Virginia’s system of standardized tests. One of those recommendations was to update our assessment system to align to the new standards. This item provides funding for the Department to enter into a contract for a new statewide assessment system with constructed response items. One time funding in FY2025 supports development of new test and transition in school year 2024-2025.

|              | FY 2025      | FY 2026      |
|--------------|--------------|--------------|
| General Fund | \$25,000,000 | \$15,000,000 |

**Support student access to mental health services**

This investment would support a contract with a telehealth provider for high-quality mental health care services for public school students, but only in grades six through 12.

|              | FY 2025     | FY 2026     |
|--------------|-------------|-------------|
| General Fund | \$7,200,000 | \$7,200,000 |

**Establish Chief School Mental Health Officer**

Provides funding and a position to create a Chief School Mental Health Officer at the Department of Education to lead mental health and wellness initiatives for educators and K-12 students.

|              | FY 2025   | FY 2026   |
|--------------|-----------|-----------|
| General Fund | \$200,000 | \$200,000 |
| Positions    | 1.00      | 1.00      |

**Maintain Teacher Licensure System**

After many years of funding not coming through, Virginia finally joined the digital age with the rollout of our online teacher application system in 2023. This item covers the costs of continuing the system through the biennium.

|              | FY 2025   | FY 2026   |
|--------------|-----------|-----------|
| General Fund | \$389,000 | \$389,000 |

**Direct Aid to Public Education:**

**The Rebenchmarking Puzzle**

Rebenchmarking is the process that updates both the state and local costs in public education for the biennial budget. The updates are technical cost adjustments to meet the current Standards of Quality (SOQ) minimum staffing requirements, related support services, and prevailing cost updates. While over 90 percent of state K-12 funding is budgeted for SOQ programs, Lottery, Incentive, and Categorical Programs are also impacted by rebenchmarking. Rebenchmarking adds no new programs to K-12, it simply updates the costs of continuing the programs currently funded. In the Introduced budget, there continues to be questions about the impact of a late

FY24 budget adoption and the starting point for the Introduced 2024-2026 budget. Generally, the starting point for the development of a new biennial budget would be the previous year’s adopted budget. We call this the “Base Budget”. Because the budget was adopted in September after the beginning of the 2024 fiscal year, there appears to be a different application of the “base budget” when we look at rebenchmarking. Presentations to the House Appropriations Committee and the Senate Finance and Appropriations Committee (the Money Committees) in November seemed to indicate that the cost of rebenchmarking would be somewhere between \$1.1-\$1.6 billion, but the impact of the one-time funding that was included in the final FY24 budget that was adopted in September seems to have caused all sorts of confusion over the actual costs. The introduced budget has two items related to the “base” and to the rebenchmarking costs, and there is still not agreement on how these numbers will ultimately play out or what the actual costs to the Commonwealth will be. We will hear more in the coming days as the Money Committee staff complete their analysis of the Governor’s budget. For now, here are the two items of interest in the Introduced Budget:

**1. Continue Chapter 1 funding changes: Direct Aid Base amount**

Provides for the ongoing impact of appropriation changes included in Chapter 1, 2023 Special Session I by updating the Direct Aid base to the Chapter 1 Fiscal Year 2024 amount, which is the base year for rebenchmarking. This item SEEMS to be the one-time funding that was included in the final FY24 budget, but this also seems to indicate the one-time funding will be allocated in each year of the new biennium which isn’t the case. We will need to watch this carefully and learn more in the coming days.

|                 | FY 2025       | FY 2026       |
|-----------------|---------------|---------------|
| General Fund    | \$559,157,349 | \$559,157,349 |
| Nongeneral Fund | \$86,170,708  | \$86,170,708  |

**2. Rebenchmark the cost of Direct Aid to Public Education**

Updates the state cost of Direct Aid to Public Education for the 2024-2026 biennium to reflect changes in enrollment, funded instructional salaries, school instructional and support expenditures, and other technical factors. These adjustments address the cost of continuing the current Direct Aid programs with the required data revisions and do not reflect changes in policy. Again, the money committees heard that the overall cost of rebenchmarking was north of \$1.1 billion, so this total figure of about \$160 million out of line to that figure. We will keep on top of this as the budget discussion moves forward.

|              | FY 2025      | FY 2026      |
|--------------|--------------|--------------|
| General Fund | \$72,623,293 | \$87,938,503 |

**VRS Items:**

**Provide Literary Fund support for school employee retirement contributions**

This item changes the funding source for the school employee retirement fund. Rather than funding this item using General Fund dollars, the Introduced Budget uses Non-General Fund dollars to pay for the deposit. The Non-General Funds are derived from the principal of the Literary Fund, in accordance with Article VIII, Section 8 of the Constitution of Virginia. The amount of support each year is based on the latest Literary Fund forecast provided by the Department of Treasury.

|                 | FY 2025         | FY 2026         |
|-----------------|-----------------|-----------------|
| General Fund    | (\$150,000,000) | (\$150,000,000) |
| Nongeneral Fund | \$150,000,000   | \$150,000,000   |

**Reduce unfunded liabilities of the Teacher Retirement Plan**

This item represents an additional deposit into the Teacher Retirement Plan and provides funding for a one-time payment of \$350 million to address unfunded liabilities of the Virginia Retirement System public school teacher plan. Includes \$115 million general fund and \$235 million from the Literary Fund.

|                 | FY 2025       | FY 2026 |
|-----------------|---------------|---------|
| General Fund    | \$115,000,000 | \$0     |
| Nongeneral Fund | \$235,000,000 | \$0     |

**Sales Tax Updates**

A portion of Virginia’s sales tax had been used to offset the cost of public education. This action lowered the local share by reducing the overall costs. Action during the 2022 General Assembly session removed the grocery sales tax which would have increased the local share since those tax dollars were no longer collected and, therefore, there was not portion available to offset the overall costs of public education. However, language was included in the law that requires General Funds to be allocated to continue the offset and lower the local costs. This is called a “Supplemental Payment in Lieu of Sales Tax”. There are three sales tax items of interest to K-12 in the Introduced budget that are of interest and real impact to schools and local governments.

**1. Update sales tax revenues for public education**

Updates funding provided to local school divisions based on the November 2023 sales tax forecast. This is a traditional update related to actual tax revenues. This is not unexpected, but it is an overall reduction of over \$60 million.

|              | FY 2025        | FY 2026        |
|--------------|----------------|----------------|
| General Fund | (\$47,041,201) | (\$16,065,471) |

**2. Eliminate Supplemental General Fund Payment in Lieu of Sales Tax on Food and Personal Hygiene Products**

Eliminates the Supplemental General Fund Payment in Lieu of Sales Tax on Food and Personal Hygiene Products. The net reduction accounts for the offsetting increase to the state share of Basic Aid. Explanation by staff during the budget presentation was that this payment would not be necessary because of the proposal included in the Introduced Budget to expand Sales tax to items not currently taxed (services and digital personal property). This item is a \$229 million reduction in K-12 funding.

|              | FY 2025         | FY 2026       |
|--------------|-----------------|---------------|
| General Fund | (\$114,475,083) | (\$114,475,09 |

**3. Update sales tax revenues for base expansion**

This item assumes the additional sales and use tax revenues on taxable services and digital personal property. The Introduced Budget forecasts that these new taxes will result in just under \$86 million in revenue to be dedicated to public education. This new revenue is intended to replace the \$229 million reduction in the previous item.

|              | FY 2025      | FY 2026      |
|--------------|--------------|--------------|
| General Fund | \$23,856,394 | \$61,821,891 |

**School Construction:**

**Appropriate School Construction Fund revenue**

Appropriates revenues deposited into the School Construction Fund from Casino Gambling Proceeds to be used on the School Construction Assistance Program. During the 2022-2024 Biennium this funding received \$450 million.

|                 | FY 2025      | FY 2026      |
|-----------------|--------------|--------------|
| Nongeneral Fund | \$80,000,000 | \$80,000,000 |

**Salaries and Compensation:**

**Provide a two percent compensation supplement for instructional and support positions in FY 2026**

Provides funding for the state share of a two percent salary increase, effective July 1, 2025, for funded Standards of Quality, Academic Year Governor's School Program, and Regional Alternative Education Program instructional and support positions.

|              | FY 2025 | FY 2026       |
|--------------|---------|---------------|
| General Fund | \$0     | \$122,755,950 |

**Provide a one percent bonus for instructional and support positions in FY 2025**

Provides the state share of a one percent bonus, effective July 1, 2024, for funded Standards of Quality, Academic Year Governor's School Program, and Regional Alternative Education Program instructional and support positions. A reminder that bonuses are not used to calculate VRS benefits.

|              | FY 2025      | FY 2026 |
|--------------|--------------|---------|
| General Fund | \$53,012,815 | \$0     |

**Update supplemental education programs**

A reduction in state support for National Board Certified Teacher bonuses based on a forecast reduction in the projected number of teachers eligible for this bonus in the 2024-2026 biennium.

|              | FY 2025     | FY 2026     |
|--------------|-------------|-------------|
| General Fund | (\$537,500) | (\$537,500) |

**Develop report on teacher compensation**

Language in the Introduced Budget requires the Secretary of Education to convene a stakeholder work group to make recommendations on teacher compensation, specifically addressing regional, comparative, and differentiated pay analysis; how teacher pay impacts student achievement; and an implementation plan for teacher compensation model that includes student outcomes and a clear, fair, and reliable differentiated model.

**Additional Funding Outside of the Cost of Competing Adjustment (COCA) for the Eastern Shore Divisions:**

**Provide supplemental support for Accomack and Northampton**

Provides supplemental support for Accomack and Northampton school divisions for teacher recruitment and retention efforts, including adjustments to salary scales to minimize the misalignment to salary scales of adjacent counties.

|              | FY 2025   | FY 2026   |
|--------------|-----------|-----------|
| General Fund | \$800,003 | \$799,997 |

**Standard of Quality Staffing Update:**

**Support expanded reading specialist staffing standard**

This is the only staffing improvement included in the Introduced Budget. This item provides funding for the state share of one reading specialist position per 550 students in grades 4-5 and one reading specialist position per 1,100 students in grades 6-8 to support school divisions implement the requirements of The Virginia Literacy Act.

|              | FY 2025      | FY 2026      |
|--------------|--------------|--------------|
| General Fund | \$30,467,962 | \$30,713,413 |

**Update English as a Second Language enrollment projections**

Interestingly staffing for English Learners is based on the number of students identified. All reports from school divisions and information shared with the Board of Education indicate that the number of EL students is increasing. Projections in the Introduced Budget demonstrate a decrease in EL enrollment based on the \$10.6 million reduction in funding for EL teachers. This is a number the General Assembly will want to review before making this reduction.

|              | FY 2025       | FY 2026       |
|--------------|---------------|---------------|
| General Fund | (\$4,009,815) | (\$6,648,302) |

**Policy Priorities of Governor Youngkin:**

**Provide reliable funding for College Partnership Laboratory Schools**

Provides recurring deposits to the College Partnership Laboratory School Fund to be awarded pursuant to the guidelines established by the Board of Education. This item sets up an annual payment into the Fund to support College Laboratory Schools. Previous funding had been one-time on nature.

|              | FY 2025      | FY 2026      |
|--------------|--------------|--------------|
| General Fund | \$30,000,000 | \$30,000,000 |

**Support attainment of industry recognized credentials through Diploma Plus grants**

Workforce development and earning industry credentials while in high school is something the General Assembly has grappled with for years. On the surface, any effort and investment to support this effort is a good one. Language in this item, however, appears to set up a program that provides grants to students, much like the problem-plagued Learning Acceleration Grants, that could then be used to pay for items and expands the student needs to attain the industry credential. The program does not appear to be designed to support schools as they implement programs to support the attainment of industry credentials. The Diploma Plus program will provide grants of up to \$2,000 per student to support attainment of high-demand industry-recognized credentials. The Virginia Department of Education (VDOE) will select fields eligible for the grant based on the Virginia Office of Education Economics' (VOEE) biennially updated Top Jobs List as approved by the Virginia Board of Workforce Development. Funds may be used for costs associated with VDOE approved programs including tuition, fees, materials, transportation, or other associated costs for completing high-demand industry recognized credential pathway training courses and credential examinations.

|              | FY 2025      | FY 2026      |
|--------------|--------------|--------------|
| General Fund | \$20,000,000 | \$20,000,000 |

**Update Career and Technical Education data**

Updates funding for programs based on Fall 2023 data for enrollment in Career and Technical Education programs.

|              | FY 2025      | FY 2026      |
|--------------|--------------|--------------|
| General Fund | \$13,044,051 | \$13,097,702 |

**Dual Enrollment:**

**Transfer appropriation for Dual Enrollment Credentials**

Transfers appropriation for a grant program to assist public school teachers taking college courses to be credentialed to teach dual-enrollment high school courses. This appropriation is consolidated with an existing grant program for this purpose under Direct Aid.

|              | FY 2025   | FY 2026   |
|--------------|-----------|-----------|
| General Fund | \$100,000 | \$100,000 |

**Increase utilization of teacher scholarship funds supporting dual enrollment credentialing**

This language only item increases attractiveness of an underutilized grant program by increasing the maximum award and expanding eligibility to teachers pursuing a credential to teach career and technical education courses. We will need more details on the grant program mentioned in this item.

**Additional Technical Updates:**

**Update Incentive programs**

Reduces funding for certain educational programs that exceed the foundation of the Standards of Quality. These programs are designed to address educational needs of specific targeted student populations. Funding for these programs is primarily formula-driven and subject to changes in membership, participation rates, and test scores. This is a significant reduction of nearly \$12 million over the biennium and we will need to learn more about which programs are impacted.

|              | FY 2025       | FY 2026       |
|--------------|---------------|---------------|
| General Fund | (\$5,463,372) | (\$6,379,309) |

**Update Standards of Learning Test score data**

Updates funding for programs based on Spring 2023 Standards of Learning pass rates. This increase should be aligned to decreased pass rates we have seen since the pandemic.

|              | FY 2025     | FY 2026     |
|--------------|-------------|-------------|
| General Fund | \$2,102,728 | \$2,131,165 |

**Update Remedial Summer School projections**

Reduces the cost of the Remedial Summer School Standards of Quality program to reflect projected participation in the 2024-2026 biennium. This is an interesting reduction as Summer School is often mentioned as a strategy to combat learning loss.

|              | FY 2025     | FY 2026       |
|--------------|-------------|---------------|
| General Fund | (\$758,164) | (\$3,453,188) |



