

# broad street group

## Budget Compromise June 22, 2026

### How We Got Here

- In March, the General Assembly [adjourned without a budget](#) after the House, Senate, and Governor failed to agree on the future of Virginia's data center sales and use tax exemption.
- The Senate sought to end the exemption and redirect revenue to priorities such as K-12 and transportation. The House and Governor favored preserving the exemption with added oversight and environmental standards for data centers.
- The dispute created a nearly two billion-dollar budget gap and raised shutdown concerns if lawmakers failed to reach agreement before the July 1 deadline.
- By April, Gov. Spanberger's amendments and vetoes of revenue-generating legislation related to cannabis and gaming expansion left legislators without those assumed dollars for their Budgets, [sharpening the gap](#) between spending priorities and resources.

### The Compromise

- After months of [back-and-forth in the media](#), committee hearings, and updated revenue forecasts, House and Senate leaders reached a compromise on June 19, before the looming July 1 deadline.
- The compromise leaves the data center sales and use tax exemption in place, while imposing a new 1.1 cent per kilowatt-hour electricity consumption tax.
- The agreement gives the 2026-2028 budget an immediate revenue source, but it is more of a bridge than a final settlement, sending the broader questions over data center taxation, energy demand, water use, noise standards, and ratepayer impacts to further study and future debate.

### What's in the Budget

The compromise is framed around affordability and structural balance. [Major components](#) include:

- An additional \$1.4 billion for K-12, including four percent pay raises for teachers and support staff, special education funding, and school infrastructure costs;
- Medicaid rate increases for personal care and waiver services, plus \$150 million to help alleviate issues related to expiring enhanced ACA tax credits;
- More than \$80 million for housing initiatives, eviction reduction programs, and clean energy and efficiency projects;
- Creation and taxation of a legalized, regulated adult-use cannabis marketplace;
- Authorization for local referenda on a one percent sales tax to support school construction; and
- Extension and increase of the elevated standard deduction.

### The Budget Outlook

- Medicaid costs and updates to the K12 funding formulas including enrollment and staffing are growing faster than available revenues creating a tight budget picture.

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- Federal uncertainty, including potential reductions of the federal workforce, federal tax policy, and cost shifts related to SNAP benefits, mean legislators and the Governor will need to keep evaluating spending levels, revenue options, or both for future Budgets.

## What Happened At Special Session

- Democrats generally backed the compromise, stressing that it avoided a shutdown and gave localities, schools, and program recipients certainty. Many treated it as a starting point for further data center tax and regulatory work, while budget leaders held their positions on the exemption.
- Republicans highlighted Democratic divisions and specific objections, such as legislator pay increases. Some Republicans argued that the budget did not go far enough in regulating data centers, while others raised concerns about potential tax increases affecting both data centers and consumers.
- While most Republicans voted in opposition in both chambers, Republican budget negotiators in the Senate and Republican members of the House budget committee joined Democrats in supporting the measure.
- Ultimately, the budget passed the Senate by a vote of [22-17](#) and the House by a vote of [71-22](#).

## What Happens Now

- With the budget passed both the House and Senate, Governor Spanberger will have seven days to review and either sign, offer amendments, or make line-item vetoes.
- Lawmakers are watching for possible amendments, ranging from technical corrections to substantive changes, with caucus leadership telling their membership to keep next Monday, June 29th, open to consider any amendments from the Governor.
- Because the Governor was involved in the compromise, a major rewrite would be a significant move and the more likely outcome is targeted amendments that refine, rather than reopen, the agreement.
- If Governor Spanberger acts and the House and Senate lack agreement, all sides would have to move quickly to finalize and sign the budget before midnight on June 30, leaving little, if any, room for back and forth.

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