



VIRGINIA HOUSE
APPROPRIATIONS
COMMITTEE

CHAIRMAN LUKE E. TORIAN

November 18, 2025

2026 SESSION REVENUE AND BUDGET OUTLOOK

Prepared By
House Appropriations Committee Staff

TOPICS FOR DISCUSSION



Recap of 2025 Session and Revenue Performance

FY 2026 Forecast Revisions

The FY 2026-2028 Revenue Outlook

2026 Session Budget Pressures and Session Outlook

BUDGET ACTIONS IN CURRENT BIENNIUM

- Original biennial budget adopted in 2024 included \$6.4 billion in new investments, including more than \$2.5 billion increase for public education
- 2025 Amendments (Chapter 725) included an additional \$3.9 billion of operating and capital spending over the originally adopted biennial budget (Chapter 2, 2024 Session)
 - After the Governor's actions during the reconvened Session, about \$900 million was left unspent
- Understanding that revenue growth may be subsiding, there was a focus on funding one-time initiatives with more than 50% of additional new revenue used for nonrecurring activities, as follows:
 - \$978 million to fund a tax rebate of \$200 for single filers and \$400 for joint filers
 - \$295 million for the Revenue Reserve Fund from the 2024 surplus
 - \$175 million for I-81
 - \$134 million for a \$1,000 teacher bonus without a local match requirement
 - \$131 million to fully fund the Department of Taxation's revenue collection system
 - \$83 million for a 1.5% bonus for state and state supported local employees
- K-12 education and health and human services programs continued to dominate total spending with 61% of spending directed to these areas

REVIEW OF FY 2025 REVENUES

- FY 2025 revenues exceeded the official forecast in Chapter 725 by \$572.0 million
 - Primarily attributable to strong individual income tax nonwithholding revenues which were partially offset by higher than anticipated individual income tax refunds
- Total GF revenues grew 6.1% (\$1.78 billion) over the prior fiscal year
- Economic conditions in FY 2025 were slightly stronger than the economic assumptions underpinning the revenue forecast

Key Economic Variables: Actuals and Forecast

Virginia Year-Over-Year Percent Change

	FY 2025 Forecast	FY 2025 Actual	Actual Minus Forecast
Real Gross State Product	1.5%	2.6%	1.1%
Employment Growth	1.2%	1.4%	0.2%
Total Personal Income	4.9%	5.1%	0.2%
Average Wage	3.7%	3.7%	0.0%
Taxable Sales	3.9%	4.3%	0.4%

Source: Bureau of Labor Statistics; Bureau of Economic Analysis; Moody's Analytics.

FY 2025 GF REVENUES ROSE 6.1% AND FINISHED \$572 MILLION ABOVE OFFICIAL FORECAST

Summary of Fiscal Year 2025 Revenue Collections (\$ in millions)

Source	2024 Actuals	2025 Actuals	Change	Actual Growth	Forecast Variance
Withholding	\$16,718.2	\$17,561.2	\$842.9	5.0%	-0.1%
Nonwithholding	6,563.7	7,518.7	955.0	14.5%	10.7%
Refunds	-2,971.5	-3,187.4	-215.9	7.3%	13.4%
Net Individual	20,310.4	21,892.4	1,582.0	7.8%	1.6%
Sales	4,709.7	4,812.7	103.1	2.2%	0.3%
Corporate	1,907.1	1,878.6	-28.5	-1.5%	4.9%
Recordation	406.5	471.2	64.7	15.9%	3.0%
Insurance	468.2	541.5	73.3	15.6%	11.5%
Interest	699.8	593.8	-106.0	-15.1%	-3.8%
All Other	946.5	1,042.9	96.4	10.2%	9.4%
Total Revenue	29,448.2	31,233.0	1,784.9	6.1%	1.9%
Total Transfers	12.7	1,501.3	1,488.6		8.0%
Total General Fund	\$29,460.8	\$32,734.3	\$3,273.5	11.1%	2.1%

FY 2025 SURPLUS FULLY COMMITTED

Allocation	Amount (\$ in millions)
Mandated Revenue Reserve Fund Deposit (based on FY 2025 revenues)	\$312.3
Water Quality Improvement Fund (WQIF) – Part A based on revenue surplus	55.2
VMSDEP contingent appropriation	20.0
Reserve for Potential Federal Reductions	<u>184.5</u>
Total Revenue Surplus	\$572.0

SUMMARY OF PRELIMINARY FY 2025 GF BALANCE SHEET

(\$ in Thousands)	
Assets Less Liabilities	\$15,436,692
Restricted Fund Balance (RDF, Lottery, and Water Supply Assistance Grant Funds)	\$2,935,340
VMSDEP	20,000
Reserve for impact potential federal reductions	184,467
Revenue Reserve Fund Calculation	312,330
WQIF -2025 Calculation Part A and B	107,895
WQIF Ending Balance	797,028
Revenue Reserve Fund Ending Balance	1,867,054
2025 Individual Income Tax Rebate	977,843
Reappropriation of Capital Outlay	2,938,536
Operating Mandatory Appropriation	1,618,832
Other Commitments	2,239,805
Total Committed Fund Balance	\$11,063,790
Carryforward Balance Assumed in Chapter 725	13,346
Discretionary GF Balances	474,257
Vetoed Appropriations Net of Sum Sufficient	838,705
Other Assignments	111,253
Total Assigned Fund Balance	\$1,437,562

**Resources
available
for use in
2026
Session**

REVENUE GROWTH SHOULD BE SUFFICIENT TO MEET EXPENDITURES IN FY 2026

FY 2026 GF Forecast

Source	Official Forecast (Chapter 725)	Growth Required to Meet Forecast	YTD Through October	Nov-June Required to Meet Forecast
Withholding	1.7%	2.2%	8.6%	-0.8%
Nonwithholding	-6.2%	-15.2%	-2.9%	-18.5%
Refunds	<u>-10.0%</u>	<u>-18.4%</u>	<u>-8.8%</u>	<u>-20.9%</u>
Net Individual	0.8%	-0.8%	7.5%	-4.3%
Sales	3.9%	3.6%	6.4%	2.3%
Corporate	12.5%	7.8%	-18.7%	16.5%
Recordation	21.7%	18.2%	10.1%	22.3%
Insurance	3.7%	-7.0%	N/A	-7.0%
All Other Revenue	0.2%	-9.9%	-2.1%	-4.7%
Total Revenue	2.3%	0.4%	5.5%	-1.7%

Chapter 725 growth rates reflect economic assumptions when budget was adopted. Rates in "Growth required to meet forecast" are now lower because base has been updated based on FY 2025 actual performance

FY 2026 PERFORMANCE THROUGH OCTOBER

- Actual revenue collections during first 4 months of FY 2026 rose 5.5% above same period of FY 2025
 - Year-over-year excess revenues driven by withholding and sales tax collections – two large and stable sources
 - Withholding tax collections have grown 8.4% even in an era of declining job growth
 - Sales tax collections have increased 6.4% compared to a 10-year average growth of 4.2%
- Looking at the economic underpinnings of the forecast you see the following:
 - Still robust wage growth not yet being pulled down by slower job growth
 - Continued “wealth effect” with historically high nonwithholding tax collections from the top 10% of income earners in the Commonwealth
 - Consumer spending continuing to grow above the rate of inflation



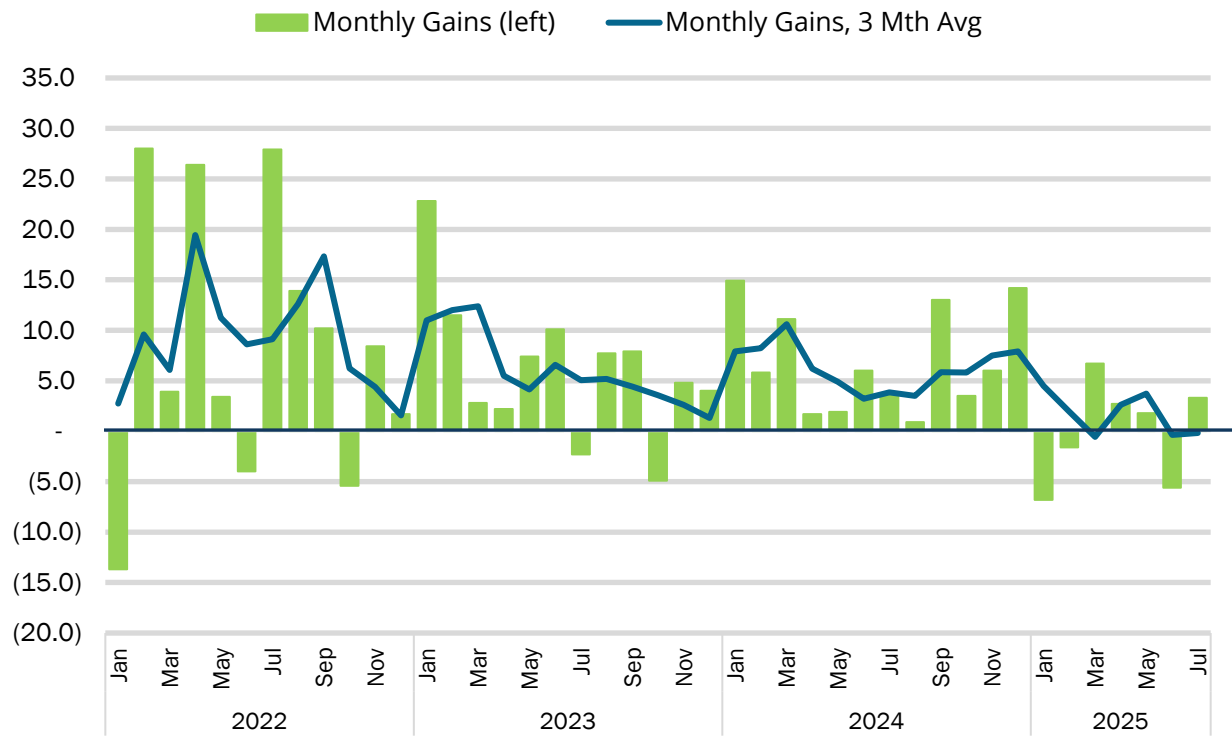
REVENUE OUTLOOK

VIRGINIA'S JOB GROWTH HAS SLOWED THROUGHOUT 2025

Bureau of Labor Statistics jobs data have not been released since the report on August job growth because of the federal government shut down

Virginia's job growth has tapered throughout calendar year 2025 with a total of only 7,700 jobs added through the first 8 months of the year

**Virginia Job Gains, Thousands
Monthly, Seasonally Adjusted**



Source: Bureau of Labor Statistics.

ADP ESTIMATES THAT PRIVATE SECTOR PAYROLLS INCREASED 42,000 IN OCT AFTER 2 MONTHS OF DECLINE

Automatic Data Processing, Inc. (ADP) is likely the best non-governmental source of private sector payroll growth

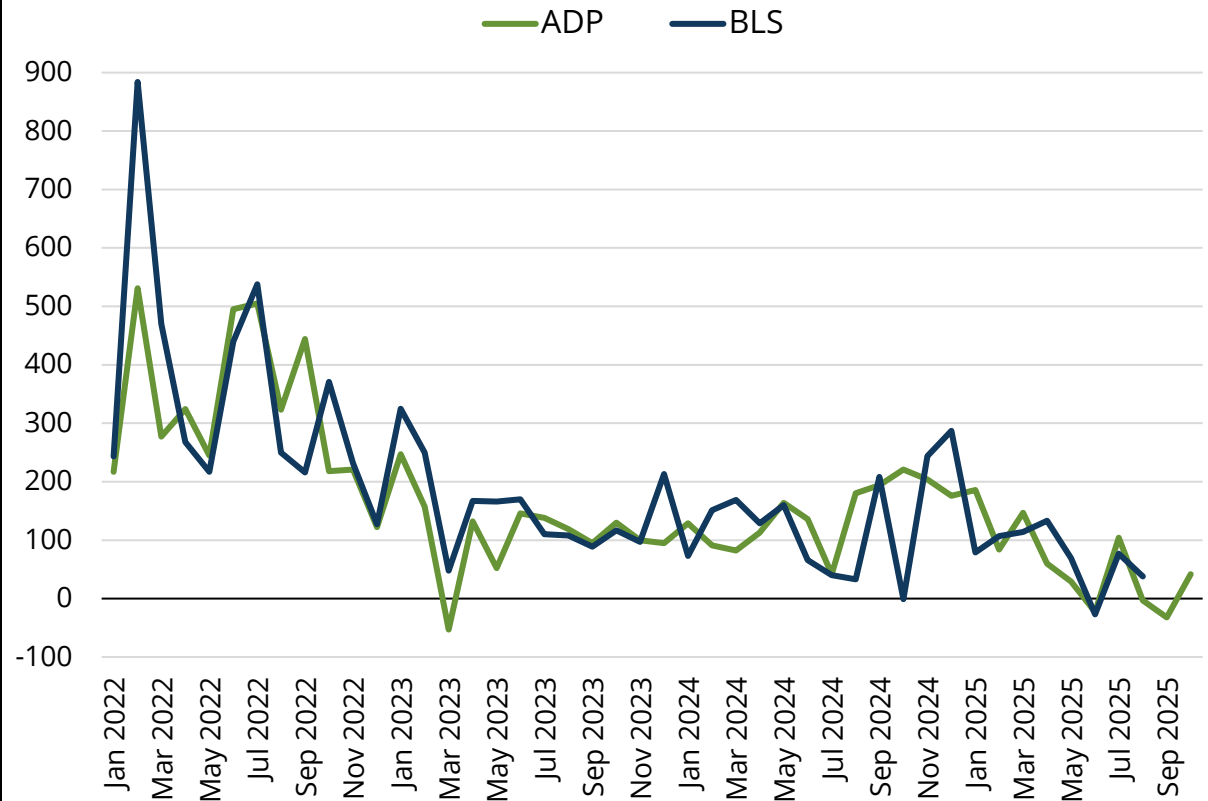
ADP uses payroll data of more than 26 million U.S. employees

Long term trends tend to match well between the Bureau of Labor Statistics and ADP although month-to-month growth numbers vary more significantly

There is no clear direction of bias between the two sources, under and over estimation are approximately equally likely

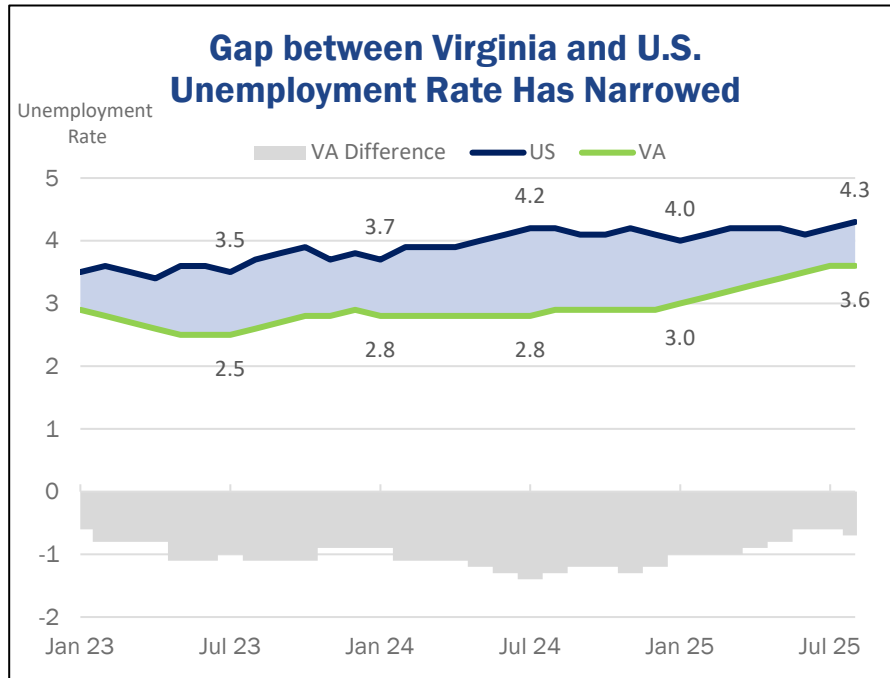
After 2 months of decline, ADP reports slight positive job growth in October of 42,000 total across the nation, but also reports decline of 12,500 in last half of the month

U.S. Private Sector Job Gains, Monthly, Thousands

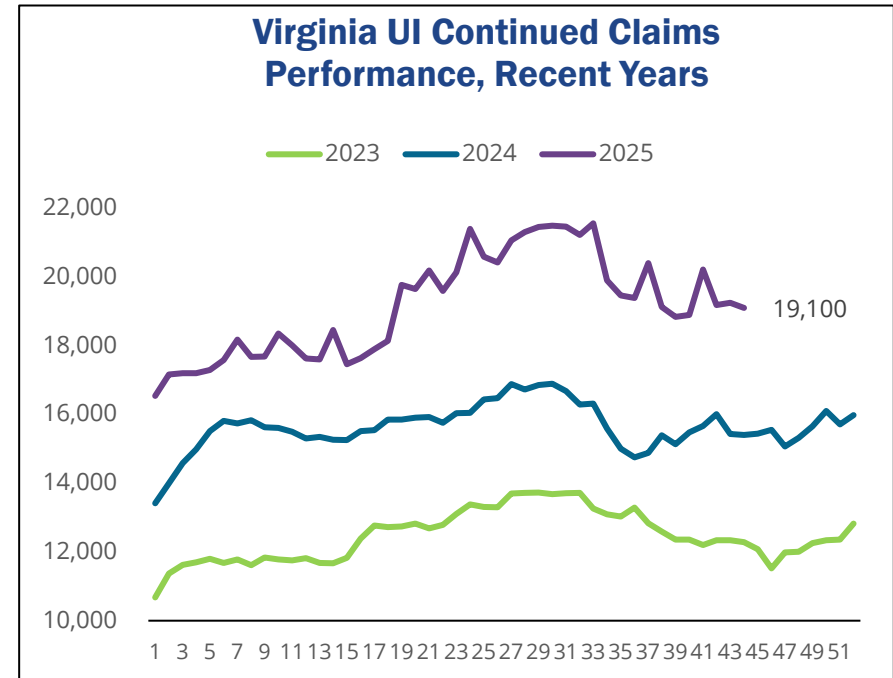


Source: BLS through August 2025; ADP through October 2025.

VIRGINIA UNEMPLOYMENT RATE IS RISING BUT REMAINS IN HEALTHY RANGE



Source: Bureau of Labor Statistics; FRED.



Source: US Department of Labor, Employment and Training Administration., Virginia Works., Nov 13, 2025.

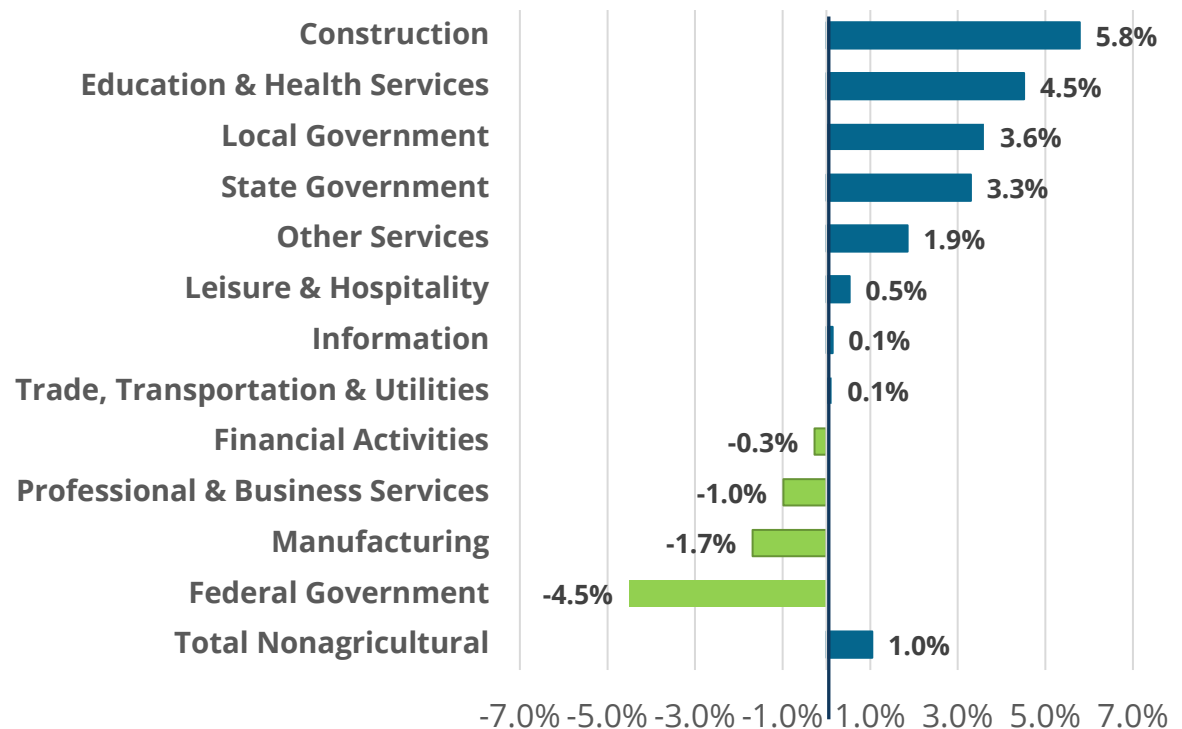
- Virginia unemployment has trended upward over the past year (from 2.8% to 3.6%), and the gap between Virginia's and nation's unemployment rate has narrowed from 1.4% to 0.7%
- 2025 claims continue to be higher than the two prior years, however, they remain below the 10-year average (average excludes COVID-era claims) of more than 20,000

JOB GROWTH HAS SLOWED WITH GAINS IN LOW- AND MID- WAGE JOBS

Over the past year, job growth has been centered on two sectors – construction and education and health services – both of which have more modest wages

Virginia has seen actual contraction in our highest paying and largest job sector – professional and business services – as well as declines in manufacturing and financial activities

Virginia Industry Growth - Aug 2024-2025 Seasonally Adjusted, Y/Y% Change



Sources: Federal Reserve Bank of St. Louis; U.S. Bureau of Labor Statistics via FRED.

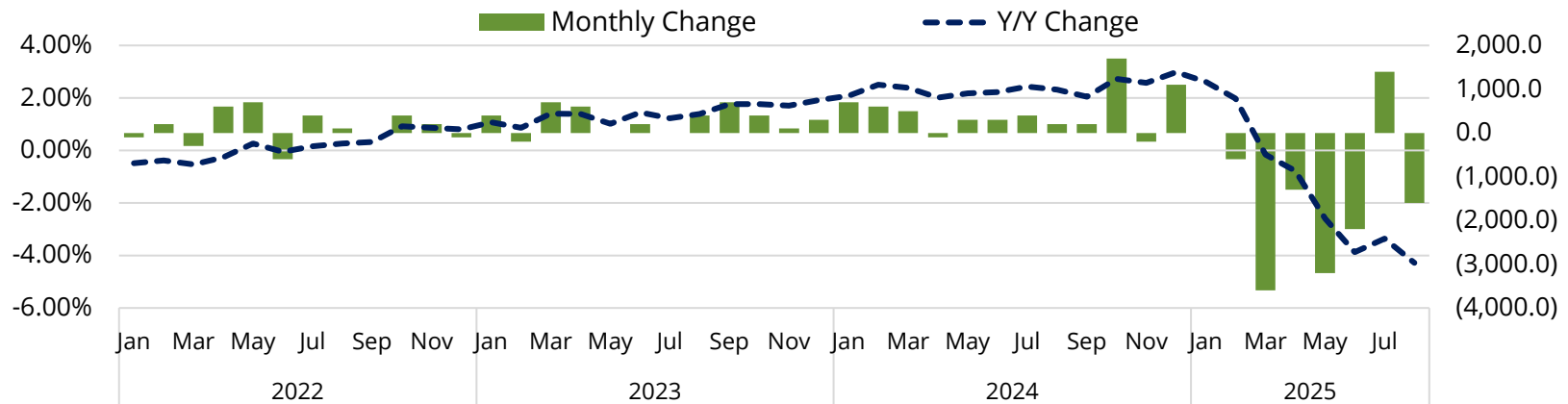
JOB GROWTH ANTICIPATED TO FALTER, ESPECIALLY IN HIGHER PAID SECTORS

Baseline Forecast	FY 2026	FY 2027	FY 2028	Avg. Salary	% of Jobs
Prof & Bus. Services	0.2%	1.2%	1.9%	\$116,226	19.7%
Financial Activities	0.2	0.4	1.3	\$114,215	5.0
Construction	0.2	-0.6	0.2	\$78,741	5.3
Manufacturing	-0.4	-0.1	0.4	\$74,332	5.9
Government	0.2	0.5	0.7	\$115,232 (fedl) \$65,121 (S&L)	18.0
Education & Health	1.9	0.4	0.8	\$64,606	13.8
Trade/Trans/Util	0.3	0.4	0.9	\$58,441	16.3
Leisure & Hosp	2.6	1.9	-0.8	\$29,432	10.1
Total	0.7%	0.6%	0.7%	\$77,761	100%

Sources: Moody's Analytics baseline VA forecast, Federal Reserve Bank of St. Louis; U.S. Bureau of Labor Statistics via FRED.

FEDERAL EMPLOYMENT KEY DRIVER OF VIRGINIA'S OVERALL ECONOMY

Total Federal Employment in Virginia, Thousands, Seasonally Adjusted



Sources: Federal Reserve Bank of St. Louis; U.S. Bureau of Labor Statistics via FRED

- Direct federal employment makes up only about 4% of Virginia's jobs but its impact is far wider
 - Federal jobs have a far higher than average salary
 - They are concentrated in our 2 largest metro areas
- Data is outdated and does not include those who took the buyouts at the end of September
- Federal employment typically is quite stable and provides a buffer against short-term economic changes

WAGE GROWTH WILL LEAD TO CONTINUED WITHHOLDING TAX GROWTH

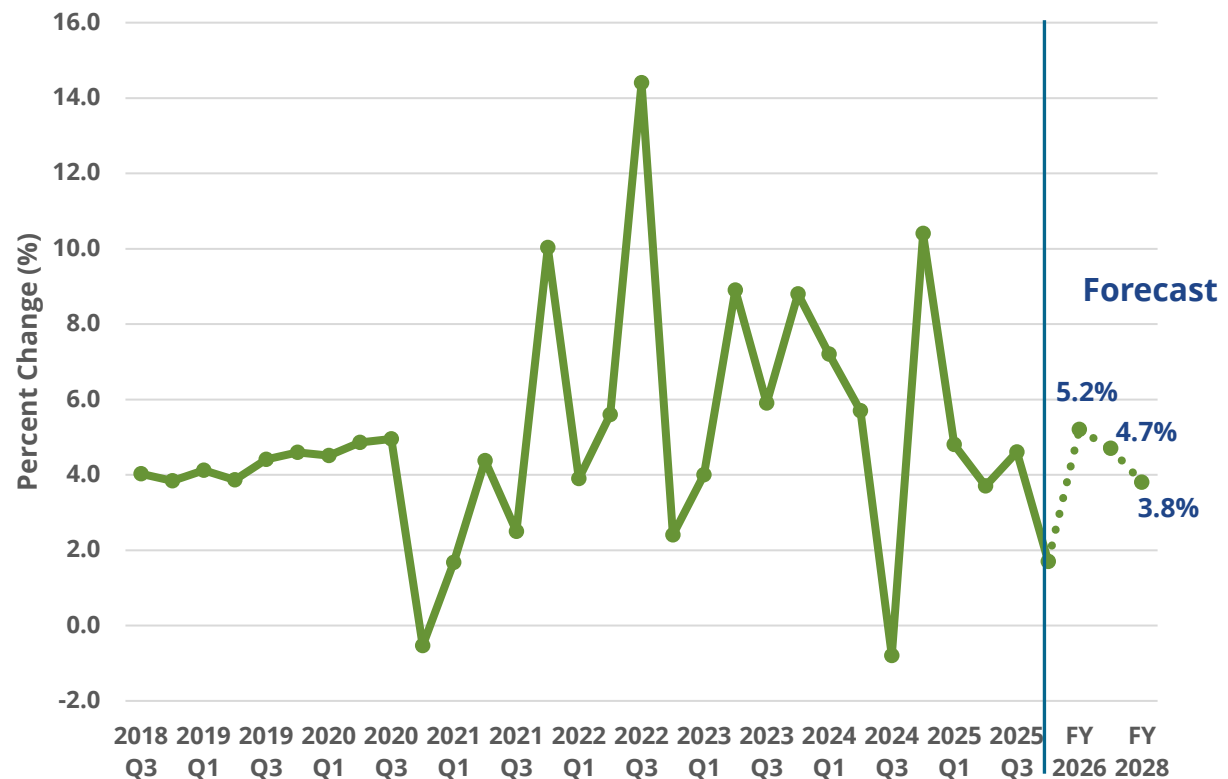
Job growth has slowed, but increases in average wages will support continued growth in payroll withholding collections

YTD growth in withholding taxes has been 8.6% - meaning even slower growth across the remainder of the fiscal year should result in healthy revenue growth

Staff projects withholding collections to increase 5.4% in FY 2026

Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, and Moody's (forecast)

Year-Over-Year Growth in Virginia Wages and Salaries

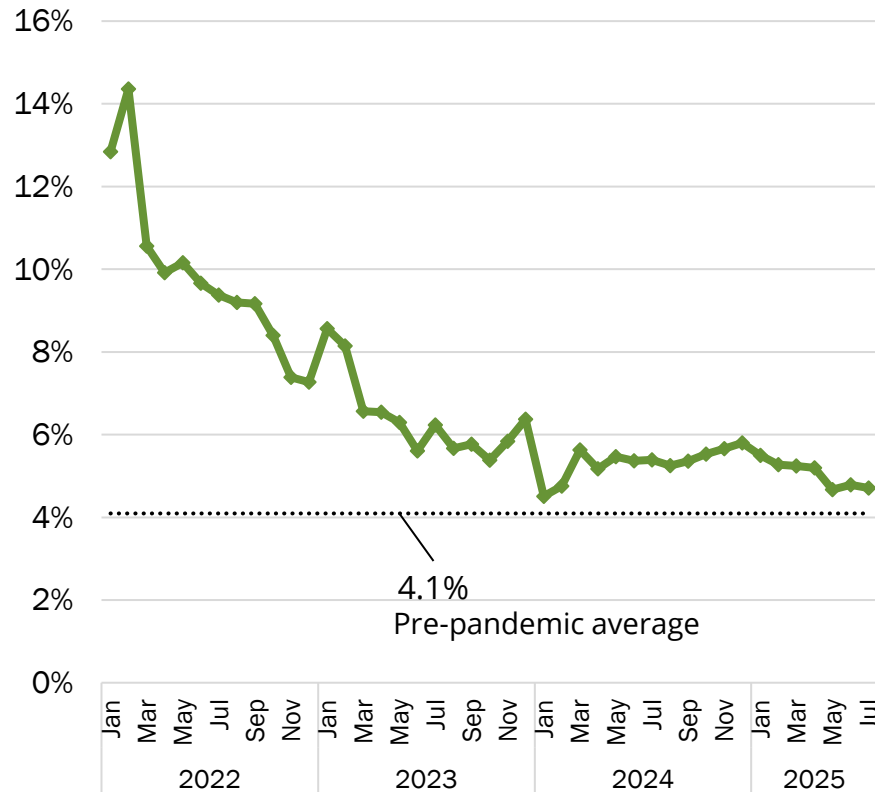


CONSUMER SPENDING

- Real personal consumption expenditures and consumer sentiment were impacted in early 2025 by the uncertainty surrounding trade policy and other national economic policies but has rebounded in recent months
- Virginia sales and use tax revenues remain robust, increasing 9.2% year-over-year in October. Year-to-date sales tax collections are up 6.4%
- Consumer confidence indicator has been tepid and fell almost 30% over the past month, continuing a 5-month negative trend
- Inflation remains slightly higher than the fed target, hovering at 3%
- Tariff impacts have been lower than anticipated to date, but likely will flow through to consumers

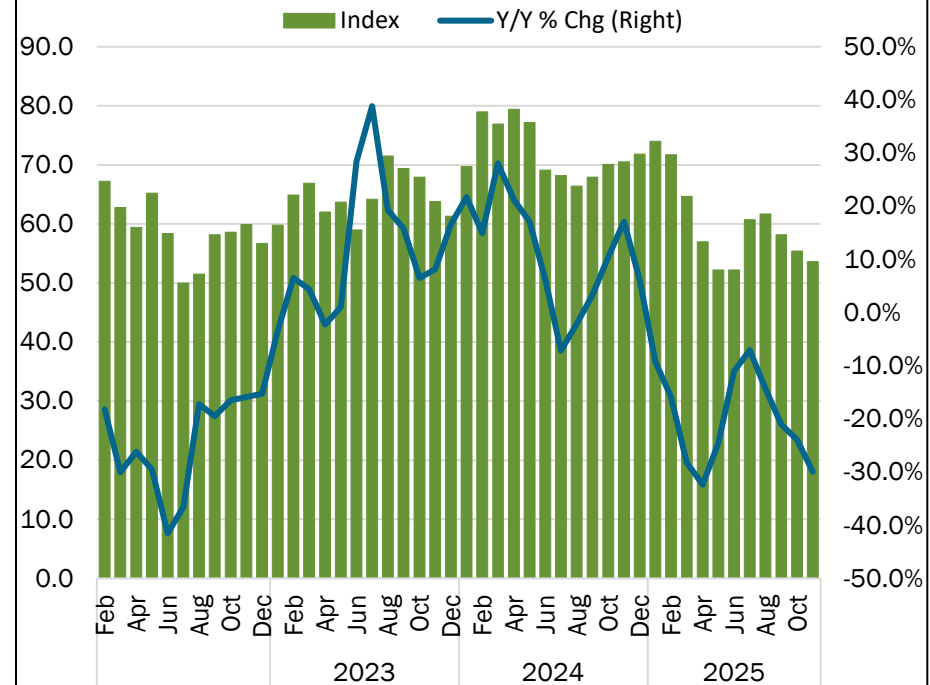
CONSUMER CONSUMPTION AND SENTIMENT DECLINING

**U.S. Personal Consumption Expenditures
Percent Change Y/Y (%)**



Source: Federal Reserve Bank of St. Louis via FRED

**US Consumer Sentiment Index
Index 1966:Q1=100, Monthly, NSA**

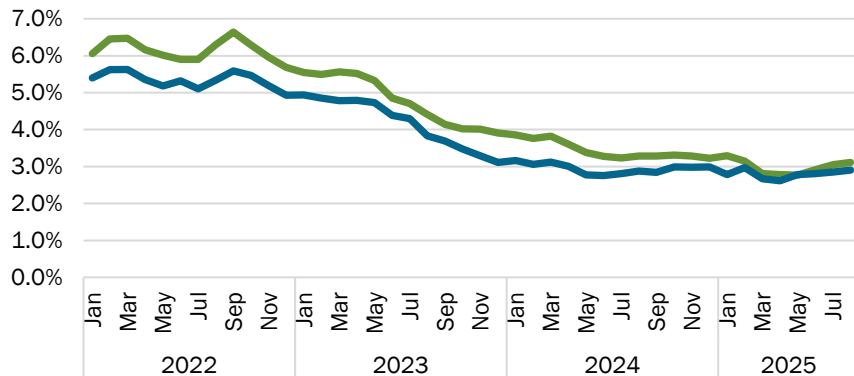


Source: University of Michigan, Nov 7, 2025

INFLATION CONTINUES TO HOVER AROUND 3%, DISPOSABLE INCOME AND EXPENDITURES SLIGHTLY HIGHER

Inflation: Less Food and Energy, Y/Y% Change

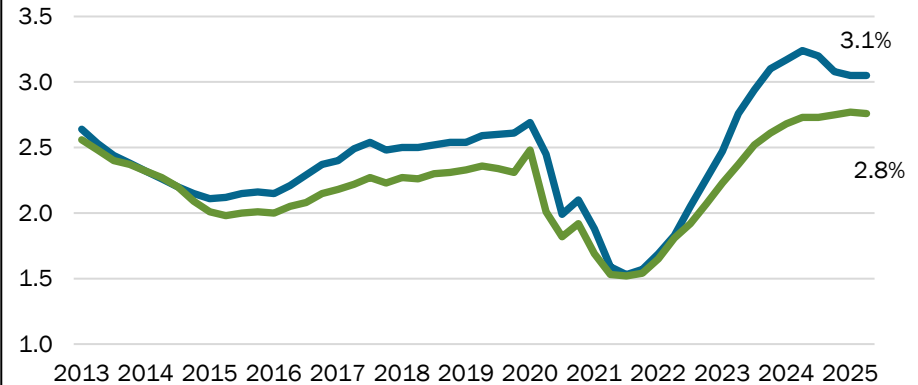
— Core CPI — Core PCE



Source: U.S. Bureau of Economic Analysis; Bureau of Labor Statistics.

U.S. Credit Card and Consumer Loan Delinquency Rates, Seasonally Adjusted

— CC Delinq. Rate — Consumer Loan Delinq. Rate



Source: Federal Reserve Bank of St. Louis via FRED.

- In September, the Consumer Price Index for all urban consumers increased by 0.3% for the month, a 3.0% year-over-year growth compared to September of last year. Core CPI, which excludes food and energy, also increased by 3.0% over last September

NONWITHHOLDING DRIVEN BY NON-WAGE INCOME

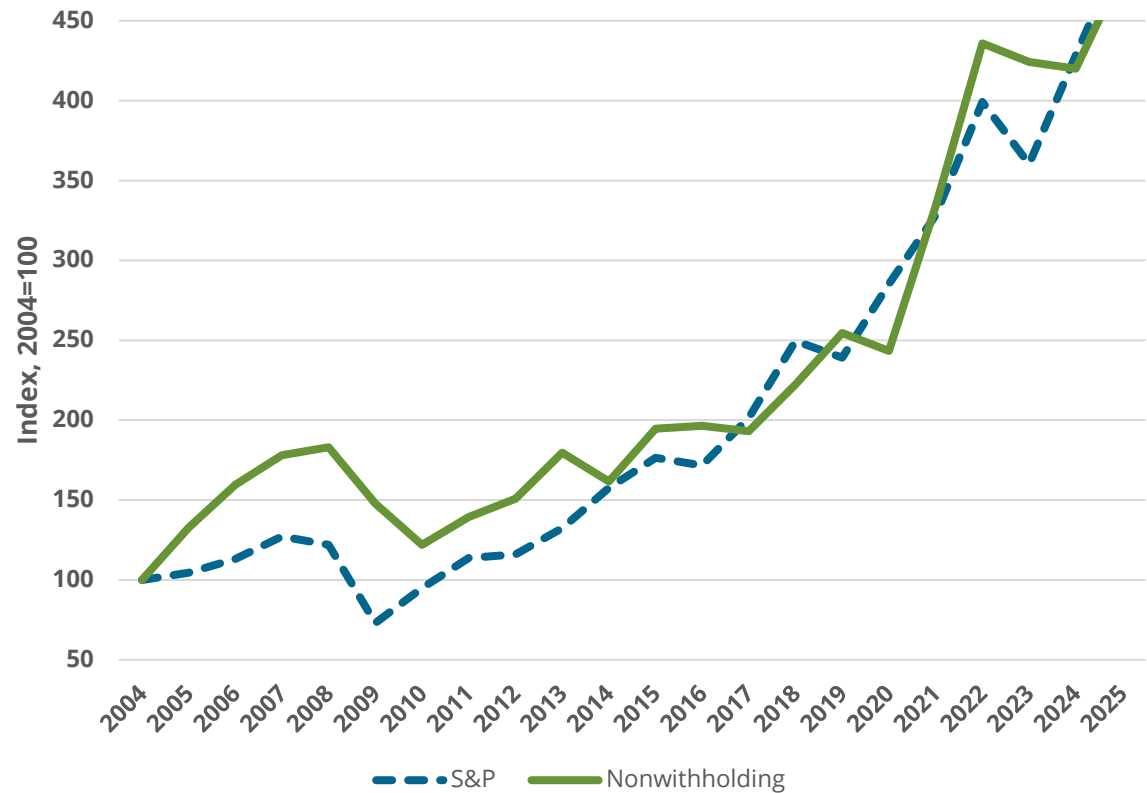
Nonwithholding income is comprised of capital gains, self-employment income, dividends and interest, and small business earnings

Nonwithholding income's share of total GF revenues has continued to grow, increasing from 13% of GF revenue in FY 2004 to 24.1% in FY 2025

Stock market returns are the strongest proxy for nonwithholding tax collections but it is difficult to predict market inflection points

Over 50% of forecast error over the past 20 years has come from this single source

Nonwithholding Revenue and S&P Returns



Source: S&P, Staff analysis of VA Department of Taxation data

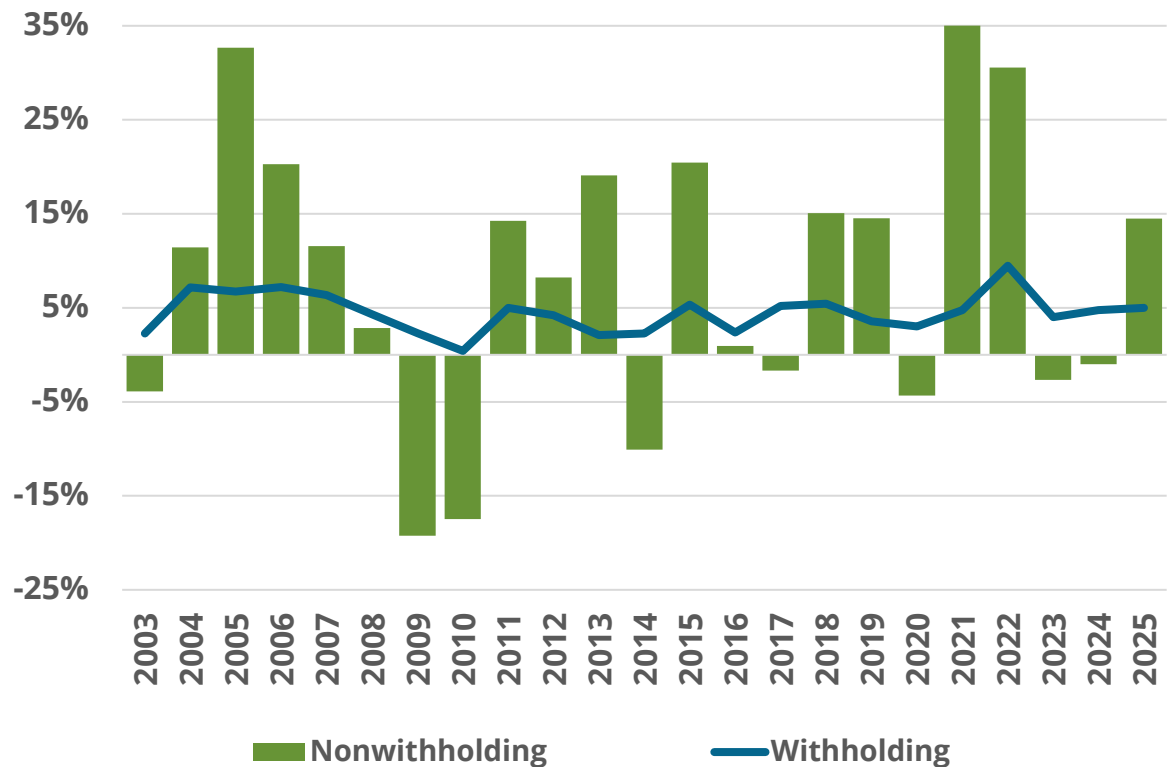
NONWITHHOLDING IS TOO VOLATILE TO SUPPORT ON-GOING PROGRAM EXPANSIONS

Nonwithholding is one of the most volatile of sources and tends to decline precipitously during economic downturns as opposed to simply slowing

With “settle up” final payments occurring in the final quarter of the fiscal year, nonwithholding is subject to “spring surprises”

To hedge against this volatility, Governors and the General Assembly used to “collar” nonwithholding forecasts to avoid inflating ongoing spending commitments

Annual Growth of Withholding and Nonwithholding



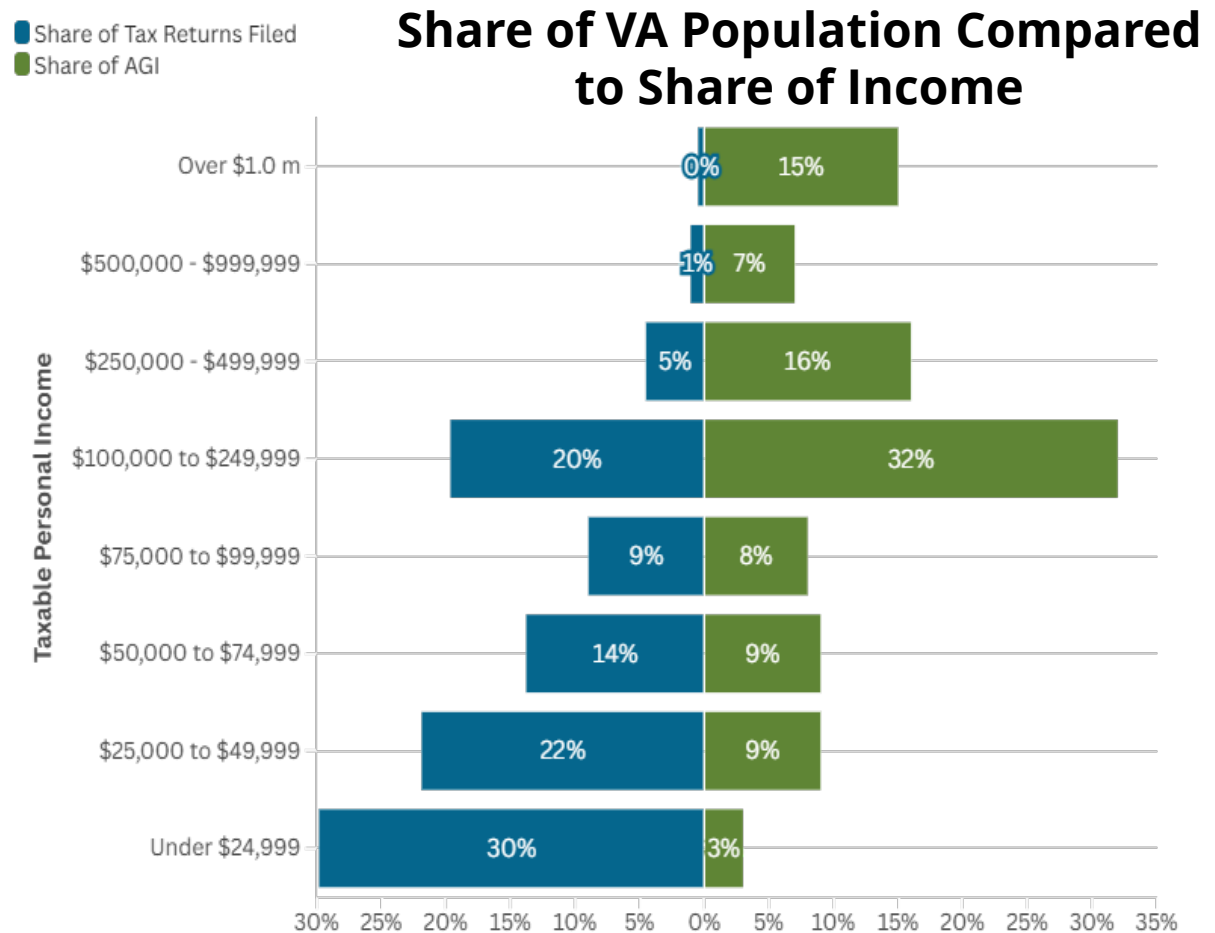
Source: HAC staff analysis of VA Department of Taxation data

HIGH INCOME EARNERS DRIVING REVENUE GROWTH

More than 78% of individual income tax revenue comes from those making more than \$100,000

10 years ago that figure was 67%

Nonwithholding tax collections have tripled since 2014 while total tax revenues have less than doubled over the same period



MOODY'S SEPTEMBER FORECAST

- **Baseline**
 - Economic growth is slow with soft hirings but few layoffs with peak unemployment at 4.8% nationally at end of 2026
 - Some upward price pressures continue, however price increases are temporary and consumers are able to adapt
 - Tariffs at effective rate of 15%
 - 50% probability of performing better or worse
- **“Downside Scenario”**
 - Uncertainty around tariffs/rising inflation/political tensions and still-high interest rates cause businesses and consumers to pull back
 - Results in mild 3-quarter recession
 - Employment contracts in FY 2026 & FY 2027
 - Stock market declines 20% through the first half of 2026
 - 75% probability of performing better/25% probability performing worse
- **“Upside Scenario”**
 - Impact of tariffs are much milder than anticipated and rollbacks begin by 2027
 - Spending continues to grow at above 3% levels
 - Job growth accelerates above recent trends with unemployment falling to full-employment levels
 - Defense and immigration funding continue to rise and Medicaid reductions do not fully materialize
 - 10% probability of performing better/90% probability performing worse
- **The Joint Advisory Board of Economists' consensus was to assume the baseline forecast**

VA FORECAST ASSUMPTIONS FOR UPCOMING BIENNIUM

		FY 2026	FY 2027	FY 2028
Employment	Upside Scenario	1.1%	1.0%	1.0%
	Baseline	0.5%	0.6%	0.6%
	Downside Scenario	-0.8%	-0.3%	2.1%
Unemployment	Upside Scenario	3.0%	2.8%	2.8%
	Baseline	3.6%	3.6%	3.4%
	Downside Scenario	4.4%	4.6%	3.3%
Gross State Product	Upside Scenario	2.5%	3.6%	1.9%
	Baseline	0.9%	1.5%	1.9%
	Downside Scenario	0.3%	0.6%	2.2%
Personal Income	Upside Scenario	5.3%	5.2%	5.5%
	Baseline	4.8%	4.8%	4.3%
	Downside Scenario	3.7%	2.6%	4.3%
Wages & Salaries	Upside Scenario	5.4%	5.4%	4.2%
	Baseline	4.6%	4.3%	3.7%
	Downside Scenario	3.6%	3.1%	4.8%

Source: Moody's Analytics September Forecast and VA Dept of Taxation

RISKS TO THE VA FORECAST ARE SKEWED TO THE DOWNSIDE

- Although there are both upsides and downsides to the economic forecast, Virginia's risks lean to the downside
- Nationally, outlook is somewhat less tempered, but Virginia's reliance on federal spending to support both public and private sector jobs as well as our trade orientation (Port of Virginia) make the Commonwealth more likely than the nation overall to experience a contraction
- Risks that could tip this to a downturn:
 - Reprise/extended federal government shutdown
 - Stagnating job picture and labor force challenges
 - Impact of tariffs flowing through to consumer and industries
 - Weaker consumer spending as savings are depleted and debt loads increase
 - Slowing investment/A.I. bubble

ESTIMATED FY 2026-2028 FORECAST PROVIDES \$4.3 B ADD'L REVENUE

(\$ in millions)	Actual	Ch 725	HAC Estimate		
	FY 2025	FY 2026	FY 2026	FY 2027	FY 2028
Net Individual	\$21,892.4	\$21,714.2	\$22,868.0	\$23,426.0	\$24,246.9
Sales	4,812.7	4,987.4	5,036.3	5,187.4	5,343.1
Corporate	1,878.6	2,025.5	1,707.4	1,758.6	1,811.3
All Other Sources	2,649.3	2,633.8	2,688.1	2,774.5	2,857.8
General Fund Revenues	31,233.0	31,360.4	32,299.8	33,146.5	\$34,259.0
GF Revenue Growth	6.1%	0.4%	3.4%	2.6%	3.4%
Transfers	1,501.3	1,572.0	1,572.0	896.3	896.3
Total GF Resources	\$32,734.3	\$32,932.4	\$33,871.8	\$34,042.8	\$35,155.3
Additional GF Resources Available			\$939.4	\$1,110.4	\$2,222.9



FY 2026-2028 BUDGET ADJUSTMENTS

BUDGET OUTLOOK: FY 2026-2028 BIENNIUM



What is our likely carryforward/beginning balance?

What is our base budget?

What are the known budget drivers?

What other policy priorities need to be considered?

IN RECENT YEARS, CARRYFORWARDS HAVE PROPPED UP SPENDING

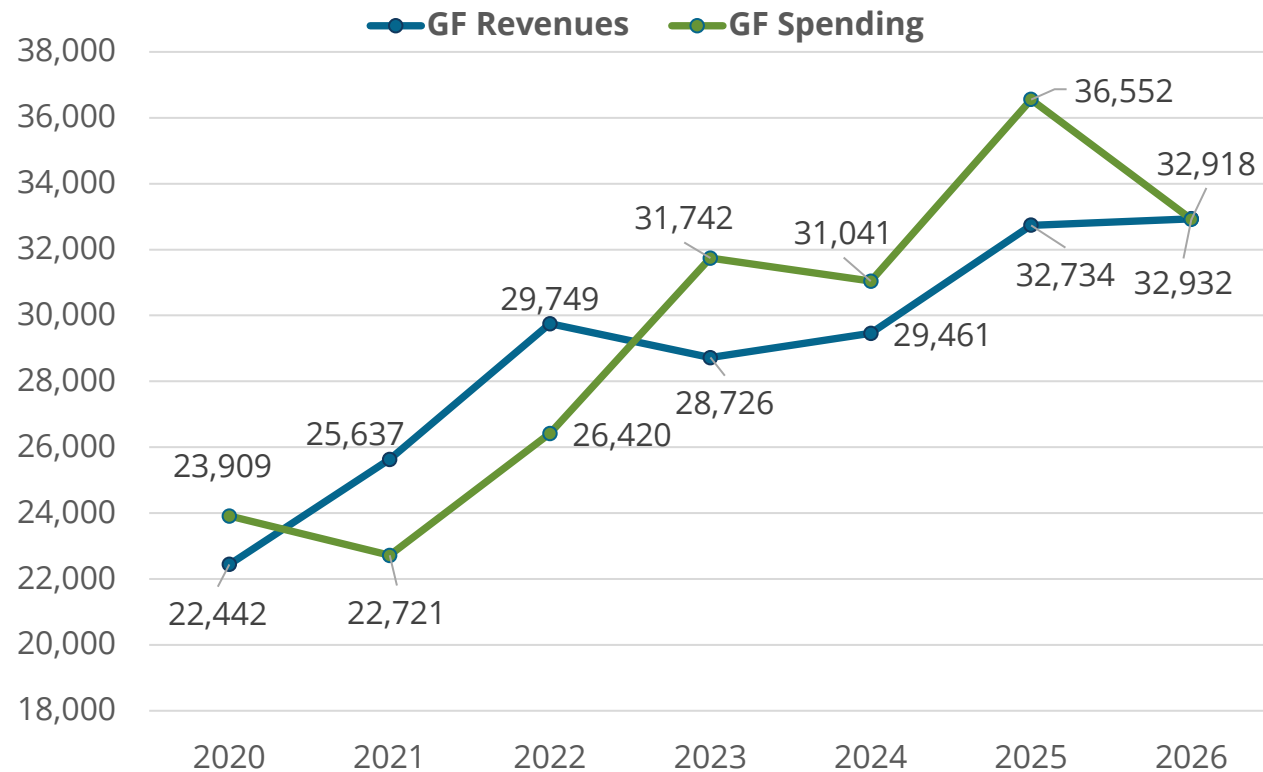
Over the past 5 years, revenue surpluses have provided large carryforward balances which have boosted spending levels above same year revenues

General Assembly has directed these funds towards one-time spending

Current budget is structurally balanced with ongoing spending in-line with ongoing resources

FY 2025 surplus was more modest, but because of Governor's veto actions and GA efforts to set aside funding for federal response, substantial resources available in FY 2026

TOTAL GF Revenues and Spending (\$ in millions)



ESTIMATED FY 2026 RESOURCE ADJUSTMENTS TOTAL \$2.2 BILLION

- In addition to revenue forecast adjustments, resources are available from FY 2025 discretionary balances, the contingent appropriation to address any federal shortfall, and amounts vetoed by the Governor last Spring
- Below is an estimate of the starting balance in FY 2026 available in the Caboose Bill as well as an estimated forecast adjustment

FY 2026 Additional Resources	\$ in millions
Chapter 725 Unappropriated Balance	\$13.3
FY 2025 Discretionary Balances – estimated reversion	252.8
Chapter 725 amounts vetoed (net of sum sufficient)	838.7
NGF Transfer Reversions vetoed	14.3
Set Aside for Federal Shortfall (from surplus per Ch. 725)	184.7
HAC Estimated FY 2026 Forecast Adjustment	939.4
TOTAL	\$2,243.2

CABOOSE BILL BUDGET PRESSURES

- Typically, caboose bill spending pressures are minimal and are largely driven by forecast adjustments
- The agency submitted requests total \$48 million, offset by \$1.8 million in budget savings
 - Largest request is \$27.6 million for increased inmate medical care costs
- Does not include any funding at DMAS and Social Services to prepare for the program changes required by H.R. 1
- In FY 2026, the Medicaid forecast revision totals \$410 million
 - Additional \$7.3 million for M-CHIP and FAMIS forecasts
- Any amounts appropriated in the Caboose budget will reduce the available carryforward that otherwise could be used to meet needs in the upcoming biennium
- A conservative spending assumption of \$500+ million required to meet needs for the remainder of FY 2026 will reduce resources available to carryforward into the next biennium to \$1.7 billion

ADJUSTED BASE BUDGET FOR FY 2026-28 (GF DOLLARS IN MILLIONS)

- **Base budget** = cost of maintaining **current** services and caseloads (FY 2026 appropriation)
- **One-time spending items are deducted** from the base year budget
- On-going items that are **not fully funded** in FY 2026 are **added** to the base (e.g. partial-year items)

2026-2028 Base Budget Calculation	FY 2027	FY 2028
FY 2026 GF Appropriation (Chapter 725)	\$32,918.3	\$32,918.3
Remove GF for Capital Outlay	-200.0	-200.0
Remove Vetoed Appropriation	-25.3	-25.3
Remove One-Time Spending	-23.9	-23.9
Technical Adjustments and Annualization	15.7	15.7
HAC Estimated Base Budget	\$32,684.8	\$32,684.8

OPERATING REQUESTS TOTAL \$4.2 BILLION GF

Secretarial Area (\$ In Millions)	FY 2027	FY 2028
Administration	\$25.0	\$30.0
Ag and Forestry	11.1	9.7
Commerce/Trade	280.3	274.7
K-12 Education	105.0	60.0
Higher Education	758.2	636.4
Executive Offices	3.4	3.4
Health & Human Resources	312.0	356.7
Judicial	3.2	5.4
Labor	14.3	14.3
Natural Resources	344.3	87.5
Public Safety	119.4	128.7
Transportation	6.8	6.8
Veterans and Defense	41.5	14.7

- Agency budget requests total \$2.3 billion in FY 2027 and \$1.9 billion in FY 2028
 - Largest requests come from higher education, HHR, natural resources and commerce and trade
- Excluded from this total are forecast driven costs – the largest being Medicaid, K-12 rebenchmarking or any systemwide costs employee compensation and benefits adjustments

CAPITAL OUTLAY REQUESTS

TOTAL \$5.8 BILLION GF

Type of Project

GF Cost
(\$ in
Millions)

Already in Pipeline:

In Detailed Planning (full project cost)	\$1,117
Previously Planned (Ready for Construction)	2,146
FF&E	38

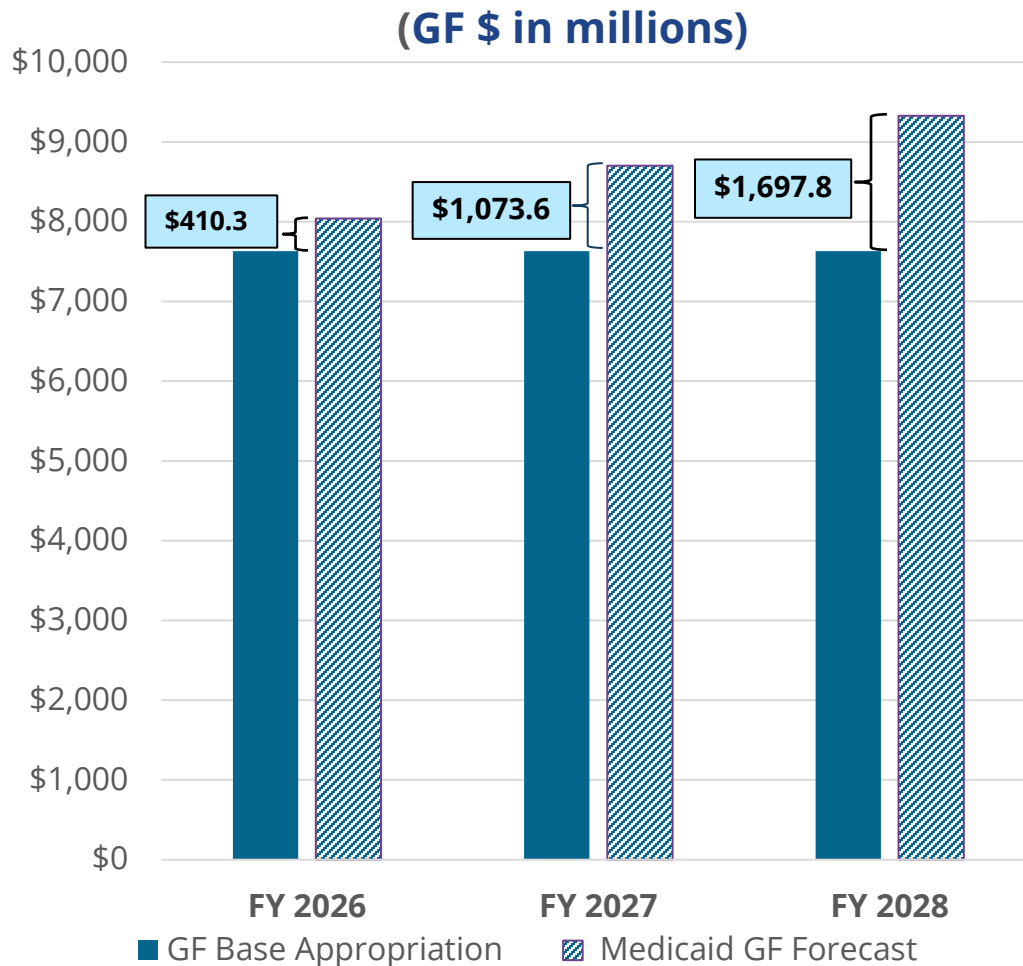
New to Pipeline:

New Project	2,016
Acquisition	203
Maintenance/Infrastructure Upgrades	307

Grand Total	\$5,827
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- Higher education institutions comprise majority of requests, totaling \$4.3 billion GF – almost $\frac{3}{4}$ of the total
- In addition to GF requests, NGF and NGF debt (9c, 9d) requests total \$978 million
- Other high dollar needs for already planned projects include:
 - Replacement of Supreme Court Building
 - Equipment, furnishings and fixtures for projects coming online
- Since 2020 General Assembly has appropriated \$5.1 billion in GF cash for capital. Due to resource constraints, bonds may need to be considered as the primary source for any capital expenditures this year

NOV. 2025 GF MEDICAID FORECAST INCREASE TOTALS \$3.2 B.



General fund spending on Medicaid's non-expansion enrollees is estimated to increase by \$410.3 million in FY 2026 and by \$2.8 billion over the 2026-28 biennium

While enrollment has been dropping since the peak of the Public Health Emergency, remaining enrollees demonstrate higher levels of need

The forecast is driven by higher managed care rates that reflect higher utilization of services, utilization of higher cost services, and enrollment growth of individuals with higher medical needs

Spending on this chart does not include Medicaid expansion, funded through a hospital assessment and federal funds

AVAILABLE REVENUES SHOULD EXCEED BASE BUDGET BY \$ 5.7 B

\$ in millions	FY 2027	FY 2028	Biennium
HAC Revenue Estimate	\$34,042.8	\$35,155.3	\$69,198.1
Carryforward (assumes only \$500 million spending in FY 2026/caboose)	1,743.2		1,743.2
Assumed Reversion from Revenue Reserve	<u>184.5</u>		<u>184.5</u>
Total Resources	\$35,970.5	\$35,155.3	\$71,125.8
Base Budget	32,684.8	32,684.8	65,369.6
Revenues Remaining After Base	\$3,285.7	\$2,470.5	\$5,756.2

\$1.2 BILLION AVAILABLE AFTER MANDATORY SPENDING PRESSURES

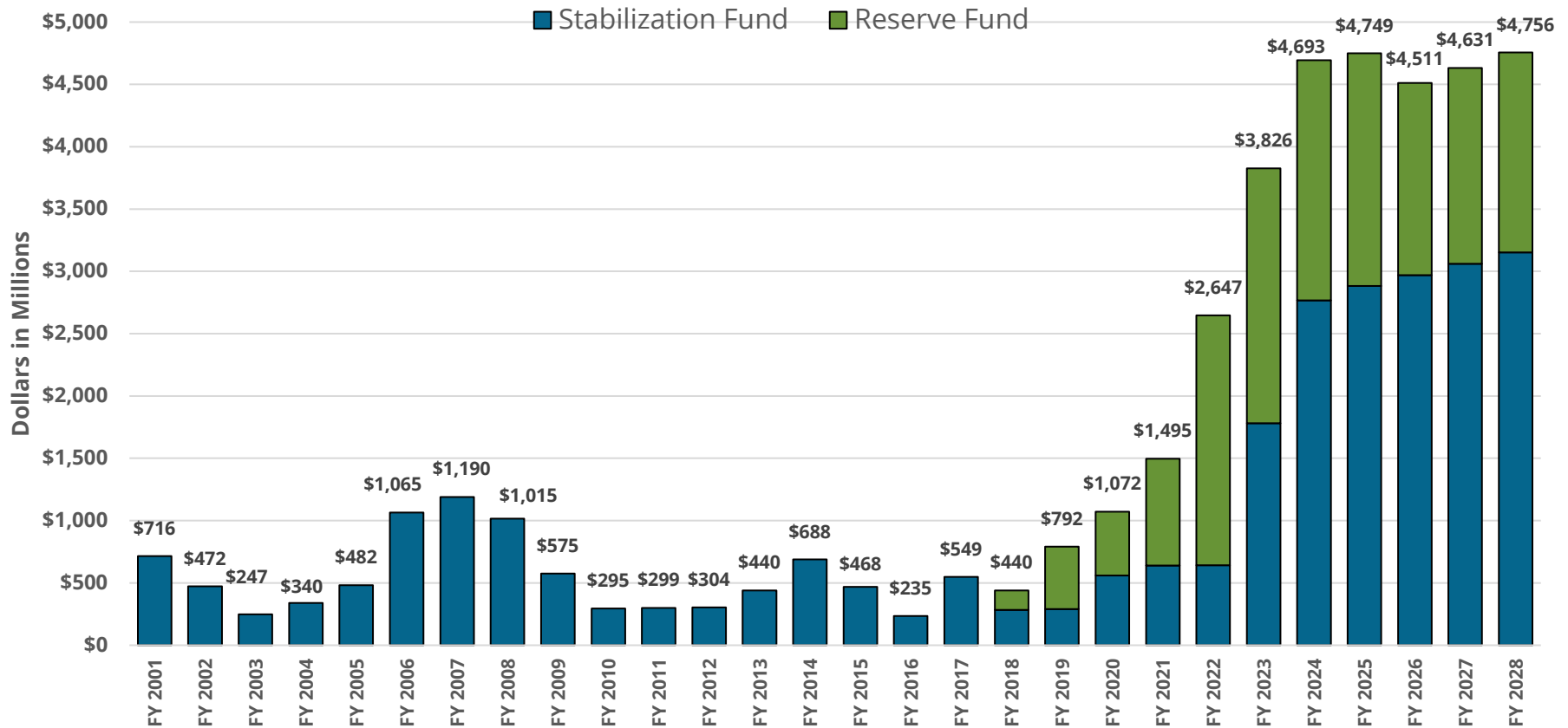
\$ in millions	FY 2027	FY 2028	Biennium
GF Resources Above Base	\$3,285.7	\$2,470.5	\$5,756.2
Medicaid Forecast	1,073.6	1,697.8	2,771.4
K-12 Rebenchmarking	426.1	417.6	843.7
CSA Forecast	56.9	121.3	178.2
FAMIS/M-CHIP Forecast	29.6	55.2	84.8
H.R. 1 Mandated Spending	102.1	346.8	448.9
Other Mandatory Spending	70.9	102.9	173.8
Subtotal Mandatory Spending	1,759.2	2,741.6	4,500.8
Remaining Resources	\$1,526.5	(\$271.1)	\$1,255.4
Federal Conformity Costs			Up to \$1.1 b.
Identified High Priority Spending	\$1,683.0	\$571.3	\$2,254.3

STATUS OF RESERVE FUNDS

- Virginia has two reserve funds – the Revenue Stabilization Fund, or Rainy Day Fund, which is set out in the Constitution – and the more recently created Revenue Reserve Fund which is governed by the Code
- Use of the Rainy Day Fund is tightly prescribed. It can only be accessed to address a shortfall of at least 2% between GF appropriations and the official forecast in an adopted budget
 - In other words, it cannot be used to cover costs in an upcoming biennial budget that has yet to be adopted
 - Nor can it be used to address nongeneral fund spending requirements, like new federal mandates, or to backfill lost federal funds
- The Revenue Reserve Fund is more flexible, and because its governance is not prescribed by the Constitution, could be used to address these other sorts of pressing or emergency needs
- Currently about 2/3 of Virginia's reserves are in the Rainy Day Fund with the remainder in the Revenue Reserve fund, meaning about \$1.5 billion could be utilized without meeting the Rainy Day Fund requirements

NEARLY \$4.8 BILLION IN PROJECTED RESERVES BY 2028

Total of All Reserves



ESTIMATED COSTS OF ADDRESSING FEDERAL REDUCTIONS

- H.R. 1 will result in substantial mandatory costs being shifted from the federal government to the State
- In current biennium, expect costs of at least \$440 million to begin preparing for those changes
- Virginia will face exponentially higher costs – in particular from changes to the Medicaid and SNAP programs – beginning in the FY 2028-2030 biennium
- Recently adopted continuing resolution only keeps the federal government open through January 2026

FEDERAL DISINVESTMENT HAS STATE FISCAL IMPACTS

\$ in millions	FY 2027	FY 2028
<u>Mandatory Items</u>		
SNAP Admin. Cost Shift	\$65.5	\$87.3
SNAP Benefit Cost Share	-	211.0
Medicaid Eligibility Requirements	31.8	45.0
Subtotal Mandatory	97.3	343.3
<u>High Priority</u>		
State Enhanced Premium Tax Credit (1/2 for those up to 400% FPL, ½ for those above)	200.0	200.0
DSS IT Upgrades and Personnel	4.8	3.5
Subtotal High Priority	204.8	338.0
Total Mandatory & High Priority	\$302.1	\$681.3

CONFORMITY TO FEDERAL TAX CHANGES

- Virginia traditionally has been a “fixed date conformity” state meaning action by the General Assembly is required to move forward the date by which we conform to most provisions of the federal tax Code
- In 2023 legislation was adopted implementing “rolling conformity” whereby state law automatically conforms to “above the line” provisions that impact the calculation of FAGI (federally adjusted gross income)
- Virginia also has chosen to selectively deconform to certain provisions of the federal tax code, as set out in §58.1-301
- In anticipation of sweeping federal action, the 12th enactment of Chapter 725 paused conformity to tax changes made in calendar years 2025 and 2026
 - This was intended to give the General Assembly the opportunity to evaluate the impact of the changes instead of automatically mirroring them
- Table on next page outlines the costs associated with conforming to “above the line” tax policy changes included in H.R. 1, which the General Assembly could choose to conform to in whole or in part

FULLY UPDATING VA'S DATE OF CONFORMITY WOULD COST \$1.1 B

(\$ in millions)	FY 2026	FY 2027	FY 2028
Individual Provisions:			
0.5% floor on charitable contributions (1/1/2026)	\$15.8	\$40.4	\$42.5
Miscellaneous individual provisions (1/1/2026)	(0.9)	(2.4)	(3.2)
New limit on value of itemized deductions (repeal of the VA Pease limit) (1/1/2026)	(10.2)	(26.1)	(27.9)
Subtotal: Individual Provisions	\$4.7	\$11.9	\$11.4
Business Provisions			
Restructure of opportunity zone program (7/4/25)	\$10.9	\$22.9	(\$27.0)
1% floor on charitable contributions (1/1/26)	4.3	7.7	9.2
Miscellaneous business & international provisions	3.9	15.1	23.9
Increases section 179 expensing limit to \$2.5 m	(28.2)	(19.3)	(16.1)
Increases the business interest deduction	(33.6)	(16.0)	(14.8)
Special depreciation allowance/qualified property	(127.1)	(170.4)	(174.0)
Domestic research deduct (retroactive to 12/31/21)	(403.6)	(121.4)	(79.0)
Subtotal: Business Provisions	(573.4)	(281.4)	(277.8)
Grand Total	(\$568.7)	(\$269.5)	(\$266.4)

INDIRECT IMPACTS OF H.R. 1

(\$ in millions)	FY 2026	FY 2027	FY 2028
Federal Standard Deduction Increase	\$53.2	\$28.4	\$19.5
Payments from partnerships to partners (compliance)	13.7	18.8	18.0
Exceptions from limit on business meals deduction	9.3	15.7	17.3
New SALT cap (TY 2025-2029)	(51.3)	(39.4)	(41.4)
Grand Total	(\$24.9)	(\$23.5)	(\$13.4)

Source: Virginia Department of Taxation Updated Estimates 11/12/2025.

- These amounts do not affect conformity. Virginia will automatically be impacted by these changes and they will be embedded in the revenue forecast presented to GACRE. Costs result to Virginia tax collections because these changes impact who decides to itemize or take the standard deduction at the federal level

STATE MAY FACE ADDITIONAL BUDGET PRESSURES

- General Assembly has expressed support for additional investments in initiatives addressing the high cost of living and enhancing services
 - Substantial biennial costs are associated with proposals to transition to a student-based formula for K-12 (\$1.6 billion), address the childcare subsidy waitlist (\$280 million), make affordable housing investments (\$160 million), and address higher education affordability (\$200 million)
- There remains a risk of further federal disinvestment that could have effects on state spending
 - K-12 funding reform, particularly discussions of converting federal funding streams to block grants
 - FEMA reforms affecting disaster planning, response, and recovery
 - Additional federal healthcare reforms
 - Potential reductions or block granting of federal rental assistance

LOOKING AHEAD TO 2026 SESSION

- The past 4 years have afforded flexibility to respond to most budget drivers
- In the upcoming biennium needs beyond mandatory spending will only be met because of the availability of carry-forward balances
- Growth of core services – driven by Medicaid and K-12 – will continue to outstrip revenue growth going forward
 - While mandatory program increases can be met, high priority expenditures will have to be weighed and balanced against one another
- The concern about structural imbalance expressed the past few years is finally here

The slide features a white background with a dark blue horizontal bar across the middle. A thin olive green vertical bar is on the left side of the blue bar. The word "APPENDICES" is written in white, uppercase, sans-serif font within the blue bar. Below the blue bar is a thick lime green horizontal bar.

APPENDICES

MANDATORY SPENDING INCREASES

General Fund (\$ in millions)		FY 2027	FY 2028
Judicial			
	Courts- Criminal Fund	\$26.0	\$22.0
Finance			
	TRS- Debt Service	(\$15.5)	\$12.3
Commerce and Trade/Labor			
	Custom Performance	\$33.6	\$40.2
Elementary and Secondary Education			
	Rebenchmarking	\$426.1	\$417.6
Health and Human Resources			
	DMAS - Medicaid Utilization and Inflation	\$1,073.6	\$1,697.8
	DMAS & DSS - New Federal Medicaid Eligibility Requirements	\$31.8	\$45.0
	DMAS - CHIP and FAMIS Forecast	\$29.6	\$55.2
	CSA - Increase in CSA Caseload and Cost	\$56.9	\$121.3
	DSS - Child Welfare Forecast	(\$3.8)	(\$4.1)
	DSS - Match Requirement for SNAP Benefits		\$211.0
	DSS - Increase in State Share of SNAP Admin Costs	\$65.5	\$87.3
	DSS - Efforts to Improve SNAP Error Rate	\$4.8	\$3.5
	DSS - Fund Foster Care and Adoptions COLA	\$1.6	\$1.6
Public Safety			
	DOC - Increased Inmate Medical Costs	\$29.0	\$30.9
Grand Total, Mandatory Items		\$1,729.6	\$2,686.4

BIG BILL HIGH PRIORITY BUDGET DRIVERS CONTINUED

General Fund (\$ in millions)		FY 2027	FY 2028
Health and Human Resources, Continued			
	VDH – Operational Costs for Electronic Health Record System	\$9.5	\$9.4
	VDH – Inspections, Positions, and Services in Critical Offices	8.8	7.1
	DARS – Matching Funds for Fed. Voc-Rehab Funding	5.8	5.8
	DSS – Increased Contract Costs for Federally Mandated Notices	4.7	5.1
	DMAS – Redesign Comm. & Residential Psych. Treatment Svs.	4.3	6.5
	VDH – Public Drinking Water Program	3.5	3.5
	DSS – Workforce Recruitment and Retention for LDSS	3.3	3.5
	DBHDS – Statewide Implementation of Marcus Alert	2.4	3.6
	DARS – Long Term Care Ombudsman for AAAS	2.0	2.0
	VDH – Fund Rent Increases in Central & Local Offices	1.5	1.5
	DSS – State Oversight of Social Services	0.7	2.7
Natural and Historic Resources			
	DCR – Ag BMP Needs Assessment	402.5	0.0
Public Safety and Homeland Security			
	VSP – Phase 2 VITA Transformation	11.0	11.0
	DVS – Puller Veterans Care Center Startup	15.7	2.0
	VDEM – Offset Lost FEMA Funding for Urban Areas	2.3	2.3

BIG BILL HIGH PRIORITY BUDGET DRIVERS CONTINUED

General Fund (\$ in millions)		FY 2027	FY 2028
Capital Outlay			
Capital – WWTP Upgrade Reimbursements		\$330.0	\$0.0
Capital – Maintenance Reserve		TBD	TBD
Capital – FF&E for Projects Nearing Completion		37.6	0.0
Capital – New Courts Building – Construction		366.3	22.5
Central Appropriations			
Raise for State/State-Supported Employees (2% min. per financial plan)		138.4	138.4
Raise for Teachers (2% min. per financial plan)			
Grant Total, High Priority Items		\$1,683.0	\$571.3

CABOOSE MANDATORY BUDGET DRIVERS

General Fund (\$ in millions)		FY 2026
Finance		
	TRS – Debt Service	(\$54.2)
Commerce and Trade/Labor		
	Economic Development Project Adjustments	(1.8)
Health and Human Resources		
	DMAS – Medicaid Utilization and Inflation	410.3
	CSA – Increase in CSA Caseload and Cost	4.2
	DSS – Fund Foster Care and Adoptions COLA	0.4
	DSS – Child Welfare Forecast	(4.9)
Grant Total, Mandatory Items		\$354.0

CABOOSE HIGH PRIORITY BUDGET DRIVERS

General Fund (\$ in millions)		FY 2026
Health and Human Resources		
DSS – Increased Contract Costs for Federally Mandated Notices		\$4.4
DMAS – Cover Virginia Call Center		3.8
VDH – Fund Rent Increases in Central & Local Offices		1.3
VDH – Backfill Federal Funds for Core Services		1.5
Public Safety and Homeland Security		
DOC – Increased Inmate Medical Costs		27.6
Capital Outlay		
Capital – WWTP Upgrade Reimbursements		TBD
Grant Total, High Priority Items		\$38.6

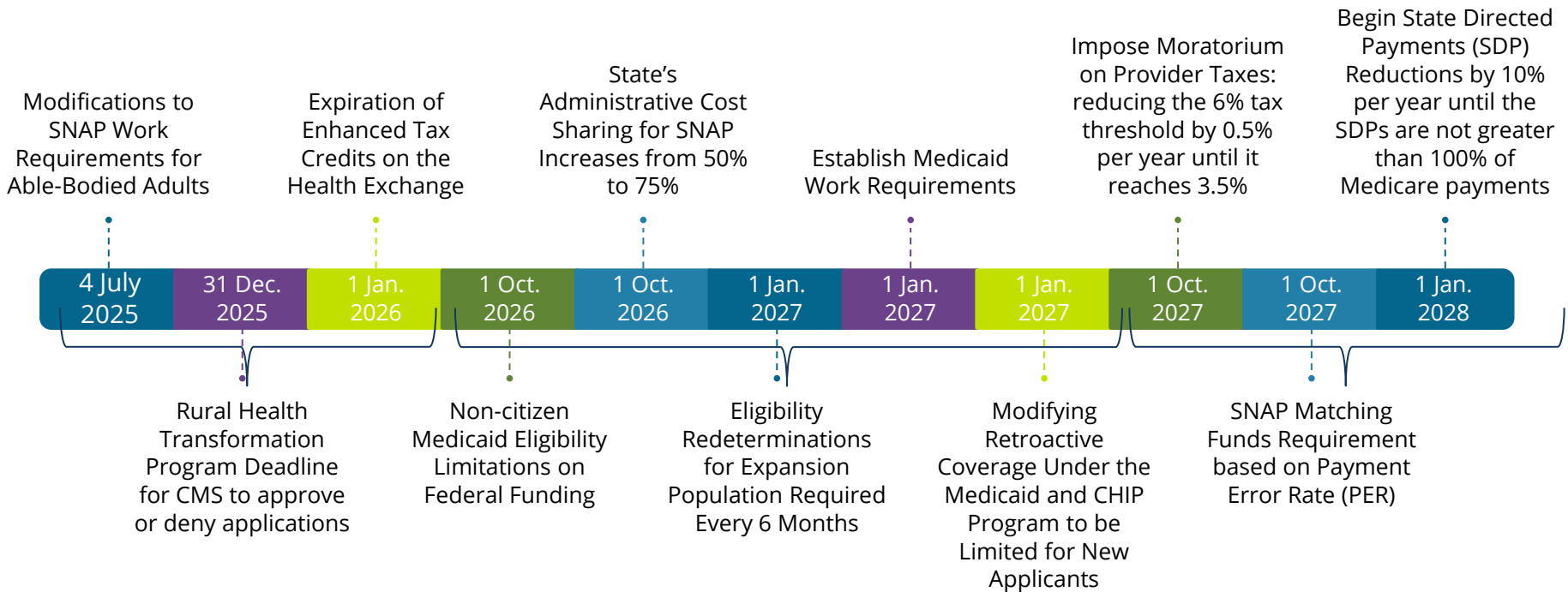
H.R.1 TAX POLICY CHANGES

- H.R.1 includes individual and business tax policy changes that can be placed in 3 major categories
- The first is extensions to existing tax policy – the largest being the Tax Cuts and Jobs Act (TCJA) which was set to expire at the end of 2025
- The TCJA-related individual provisions comprise most of the value of the tax cuts in the legislation
- H.R. 1 makes the 2017 tax changes permanent, including the larger standard deduction, child tax credit, lower tax rates, and tighter limitations to certain itemized deductions such as the deduction for home mortgage interest
- Virginia will automatically conform to these provisions and they will have little impact on state revenues as the forecast assumed the federal government would extend these provisions

H.R.1 TAX POLICY CHANGES

- The second category contains new adjustments to “above the line” individual and business tax deductions and exclusions. These items impact the calculation of Federal Adjusted Gross Income
 - These provisions will flow through to Virginia returns only if legislation is adopted to move forward Virginia’s conformity date at which point they would impact Virginia’s revenue collections
 - Choosing not to conform would result in administrative changes because of our reliance on FAGI as a starting point
 - Included in this category are temporary items like the additional senior deduction and changes to the SALT cap, as well as the child tax credit and allowing itemization of charitable deductions on top of taking the standard deduction
- The third and final category includes new “below the line” deductions. These items are deducted after Federal Adjusted Gross Income is determined
 - Within this category are both itemized deductions, which typically flow through at the state level, and,
 - Non-itemized deductions, which would not impact Virginia even if conformity legislation is adopted. To mirror these policies, Virginia would have to adopt stand-alone legislation creating similar programs
 - Items of note within this category are new first-year business expensing provisions, taxes on overtime, deducting car loan interest, and not taxing all tip income
 - Because these are calculated after determining FAGI, not conforming would not increase any administrative burdens at the state level

TIMELINE OF KEY HEALTH POLICY PROVISIONS OF H.R. 1



FY 26

- Rural Health Transformation Disbursements Begin
- Initiatives to Improve SNAP Error Rates Begin

FY 27

- Increased SNAP Administration Costs (3/4 Fiscal Year)
- Enhance Medicaid Eligibility Workforce
- Increased Administrative Costs and Systems Changes
- Reduced Medicaid Costs for those choosing not to comply with work requirements

FY 28

- Increased SNAP Administration Costs (Full Year)
- SNAP Error Rate Costs Begin (3/4 Fiscal Year)
- Begin Reduction of State Directed Payments to Hospitals



REVENUE IMPACT FROM MAJOR STATE TAX POLICY ACTIONS

Tax Relief Measures (\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026
Individual: Increase Standard Deduction to \$8,000/\$16,000	(\$1,015.8)	(\$707.4)	(\$719.4)	(\$730.8)
Individual: Increase Standard Deduction to \$8,500/\$17,000	-	(48.1)	(101.7)	(102.6)
Individual: Increase Standard Deduction to \$8,750/\$17,500				(70.5)
Sales and Use: Eliminate State Tax on Groceries (1.5%)	(115.0)	(267.2)	(272.5)	(273.6)
Individual: Refundable Earned Income Tax Credit to 15% of Federal	(159.0)	(156.0)	(159.6)	(155.0)
Individual: Refundable Earned Income Tax Credit to 20% of Federal				(35.0)
Individual: Military Retirement Subtraction for Age 55+	(145.0)	(156.0)	(182.0)	(194.4)
Individual: Military Retirement Subtraction, Eliminate Age Limitation	-	(37.8)	(33.4)	(34.7)
Individual/Corp: Business Interest Deduction from 20% to 30% of Federal	(15.3)	(10.9)	(11.3)	(11.8)
Individual/Corp: Increase Business Interest Deduction from 30% to 50%	-	(10.3)	(22.6)	(23.5)
Individual: Reduce Estimated Payment Threshold	-	-	-	(10.4)
Total Permanent Tax Cuts	(\$1,450.1)	(\$1,393.7)	(\$1,502.5)	(\$1,642.3)
Individual: 2022 Tax Rebate (\$250/\$500)	(1,048.6)	-	-	-
Individual: 2023 Tax Rebate (\$200/\$400) (Paid from Special Fund)	-	(906.8)	-	-
Individual: 2025 Tax Rebate (\$200/\$400) (Paid from Special Fund)			(977.8)	
Total Permanent + One-Time Tax Cuts	(\$2,498.7)	(\$2,300.5)	(\$2,480.3)	(\$1,642.3)

COST OF POTENTIAL LEGISLATIVE INITIATIVES

General Fund (\$ in millions)	Cost (biennial unless one-time)
Address Childcare Subsidy Waitlist	280.0
Support Investments in Affordable Housing (scalable)	120.0-160.0
Backfill Federal Enhanced Premium Tax Credits for ACA (1/2 for up to 400% FPL)	400.0
Personal Care Attendants – Add'l 3% Increase	71.2
Increase Minimum Wage to \$15.00	55.0
Collective Bargaining Staffing and Infrastructure	45.0
Operating needs within existing natural resources programs	20.0-90.0
Maintenance Reserve Funding	400.0
Higher Education Affordability (stem tuition increases/financial aid)	150.0-200.0
Life Sciences Initiatives (one-time)	60.0-110.0
WMATA Operating Funding	306.0
WMATA Capital Funding Needs	153.0
K-12 Student Based Formula	1,600.0