



VIRGINIA HOUSE
APPROPRIATIONS
COMMITTEE

CHAIRMAN LUKE E. TORIAN

January 14, 2026

BUDGET PROCESS OVERVIEW

VIRGINIA'S BUDGET PROCESS

- The Constitution states that: “No money shall be paid out of the State treasury except in pursuance of appropriation made by law...”
 - The Governor prepares, for consideration by the General Assembly, the biennial budget, and executes it once the legislature completes its actions
 - But the General Assembly must approve all appropriations before expenditures can be made
- Unlike the federal government where there are competing bodies developing revenue estimates, Virginia utilizes a joint forecasting process
- Revenue forecasting occurs concurrent with budget development through two Advisory Boards established in the Code
 - Joint Advisory Board of Economists (JABE)
 - Governor’s Advisory Council on Revenue Estimates (GACRE)
- Code requires that the Governor submits the proposed budget (or amendments thereto) no later than December 20th each year
- This year it was presented to a joint meeting of House Appropriations, House Finance and Senate Finance Committees on December 17, 2025

LEGISLATIVE ROLE IN THE BUDGET PROCESS

- One of the primary responsibilities of the General Assembly is to craft a budget
- “The Governor proposes and the legislature disposes”
 - The House and Senate budgets are actually amendments to the Governor’s introduced budget
 - The General Assembly adds, modifies, endorses or deletes items in the Governor’s proposed budget
 - The General Assembly also increases or decreases proposed funding levels
- In even-numbered years, the General Assembly enacts a two-year or biennial budget and amends the current biennial budget, or “Caboose Bill.” In odd years, the House and Senate address amendments to the biennial budget
- By tradition, the House budget is always the enacted vehicle
- The careers of General Assembly members are generally longer than the Governors’, resulting in the development of an institutional memory that exceeds that of the Governor

LEGISLATIVE BUDGET PROCESS

- House Appropriations & Senate Finance and Appropriations Committees begin budget deliberations in October and November
 - Analyze agency requests - DPB required to provide all submissions to General Assembly within 5 days of presentation to Governor
 - Convene Committee “retreats” to examine the fiscal outlook and emerging issues
- After receiving Governor’s introduced budget, the Committee holds Code-mandated regional public budget hearings in early January prior to the start of Session to get public input
- Once Session begins, each committee has 5 weeks to conduct their budget review in a long session and only 3 weeks during a short session
 - Budget amendment requests by General Assembly Members have to be submitted by the first Friday after the start of the Session
 - Subcommittees review Member amendment requests and develop packages
 - Amendments often are developed by the Subcommittees – not limited to Member or Governor’s requests

COMMITTEE MUST BALANCE COMPETING DEMANDS

- HAC develops budget as a whole, not in silos
 - Differs from Congressional process where each area is considered independently
 - Adding funding in one area necessitates removing funding from another
- Committee budget development process includes:
 - Examining programs and their funding streams
 - Listening to presentations by advocacy groups and agency staff
 - Setting priorities within budgetary constraints
 - Looking for creative and alternative sources for funding (e.g., federal, local, private, in-kind)
 - Developing an advance strategy for budget conference negotiations with Senate counterparts

FINALIZING THE BUDGET

- After each chamber adopts its version of the budget, bills are sent to opposite chamber
- Senate rejects House amendments and overlays its own package; Senate budget dies for lack of consideration in House, and House bill becomes conference vehicle
- Committee of conference is appointed
 - Budget conferees resolve differences between House and Senate budgets
 - Provides opportunities to correct mistakes and get additional input
- Conference committee report is sent back to House and Senate floors for final approval – up or down vote
- Adopted budget is enrolled by HAC Staff and sent to Governor for signature
- Governor's amendments or vetoes considered during Reconvened (Veto) Session

ROLE OF APPROPRIATIONS CHAIRMAN

- Provides overall leadership and direction on House priorities
 - Develops messaging of primary themes – this year 5 priorities highlighted in all releases/presentations
 - Meets daily with Staff Director
- Makes subcommittee assignments and assigns bills and budget amendments for review
- Meets weekly with the subcommittee chairs
 - Key to ensuring respective subcommittee chairs see beyond their subcommittee silo
 - Develops consensus on budget priorities
- Coordinates with House Finance Committee
 - Weekly meeting of Chairs regarding Finance bills with fiscal impacts

ROLE OF APPROPRIATIONS SUBCOMMITTEES

- Hold weekly meetings during Legislative Session
- Review budget amendments in assigned areas
- Consider all bills with fiscal impact assigned by Chairman
- Recommend actions on bills to full Committee
 - Typically all debate occurs at Subcommittee level – Patrons present at Subcommittees, staff present bills at Full Committee level
 - Staff develops summaries on each bill with recommended action for Members
- Make recommendations for budgetary changes based on priorities of the General Assembly, Appropriations Committee, and subcommittees

SUBCOMMITTEES STRUCTURED ALONG AREAS OF GOVERNMENT

Currently have 7 Subcommittees:

- Commerce, Agriculture and Natural Resources
- Compensation & Retirement
- Elementary & Secondary Education
- Capital Outlay and General Government
- Health & Human Resources
- Higher Education
- Transportation and Public Safety

MONEY COMMITTEE STAFF

- The House Appropriations and Senate Finance and Appropriations Committees have year-round staff to provide analysis on the budget from the legislature's perspective
 - They are the only standing committees with full-time, year-round staff assigned to them
- The Committees hires experts in specific policy areas
 - Role is more of a programmatic and policy analyst than an accountant
- These non-partisan staff members provide the Committees:
 - Professional expertise in various budget disciplines;
 - Recommendations on emerging funding issues;
 - Provide alternative approaches;
 - Guidance on spending and revenue trends; and
 - Independent sources of information

GENERAL APPROPRIATIONS COMMITTEE STAFF ASSIGNMENTS

Anne Oman

Revenues and Overall Direction

Susan Massart

Health and Human Resources

Tony Maggio

Higher Education

Michael Jay

Compensation and Retirement, State Employees, Transportation

David Reynolds

Public Safety, Veterans Affairs, Ag. & Forestry, Natural Resources

Kim McKay

Commerce and Trade, Workforce and Labor, Elections

Zack Robbins

K-12 Education

Andrea Peek

Capital Outlay, Legislative Branch, Judicial Branch, General Gov't

Amy Cochran

Behavioral Health & Dev. Svcs., Social Services, State Museums

Carla Karnes

Office Operations



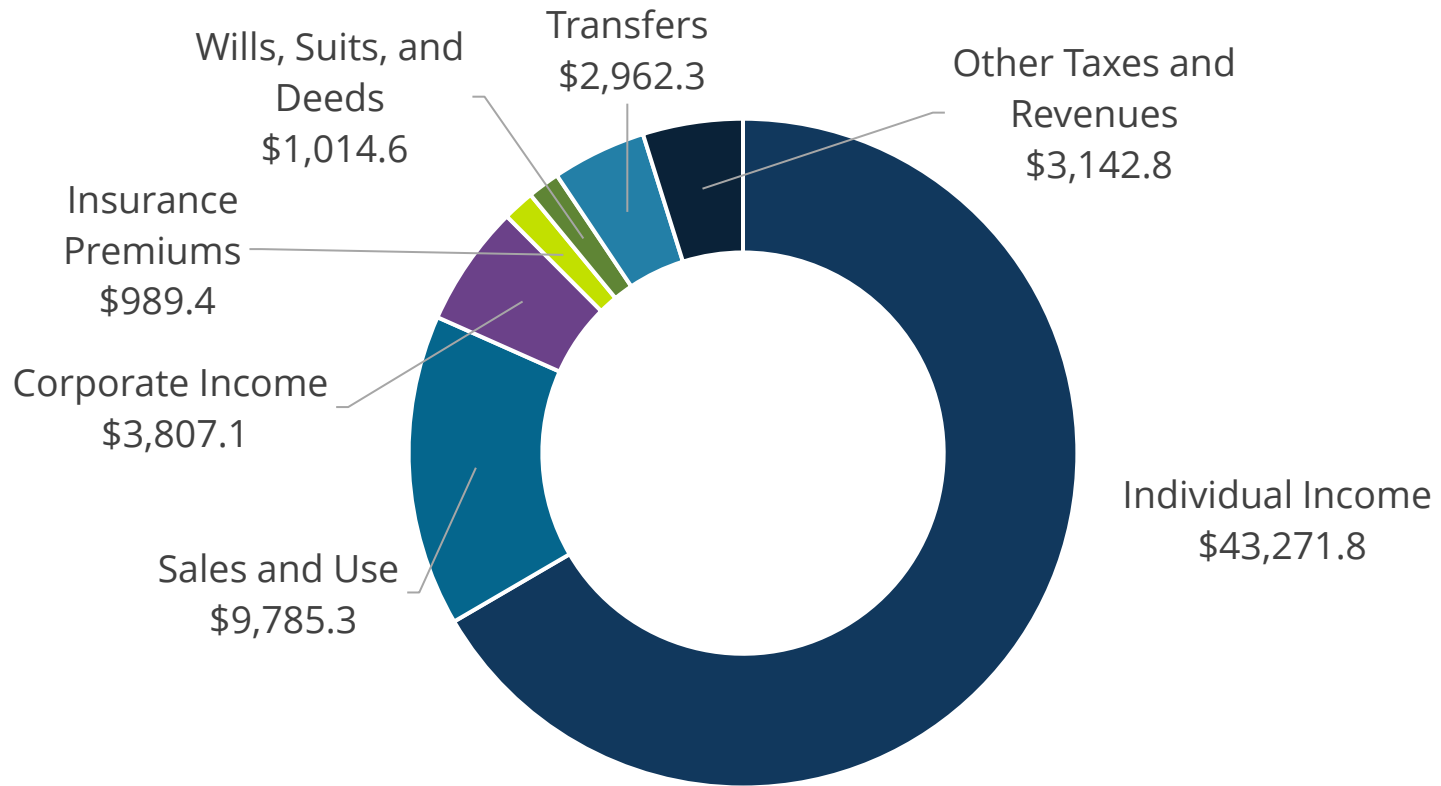
COMPOSITION OF BUDGET: REVENUE SOURCES

VIRGINIA'S BUDGET: SOURCES OF FUNDING

- State revenues are described as either **general funds** or **nongeneral funds**
- General fund (**GF**) revenues include income taxes, sales tax, and corporate taxes that can be used for any purpose. GF revenues can be used for all government activities, with the largest being education, health care, public safety, and social services (**Current GF Revenues + Resources = \$65.0 billion**)
- Nongeneral funds (**NGF**) include both state and federal revenues, tuition and fees, and transportation taxes. NGF revenues tend to be earmarked for specific programs or purposes (**Current NGF = \$116 billion**)

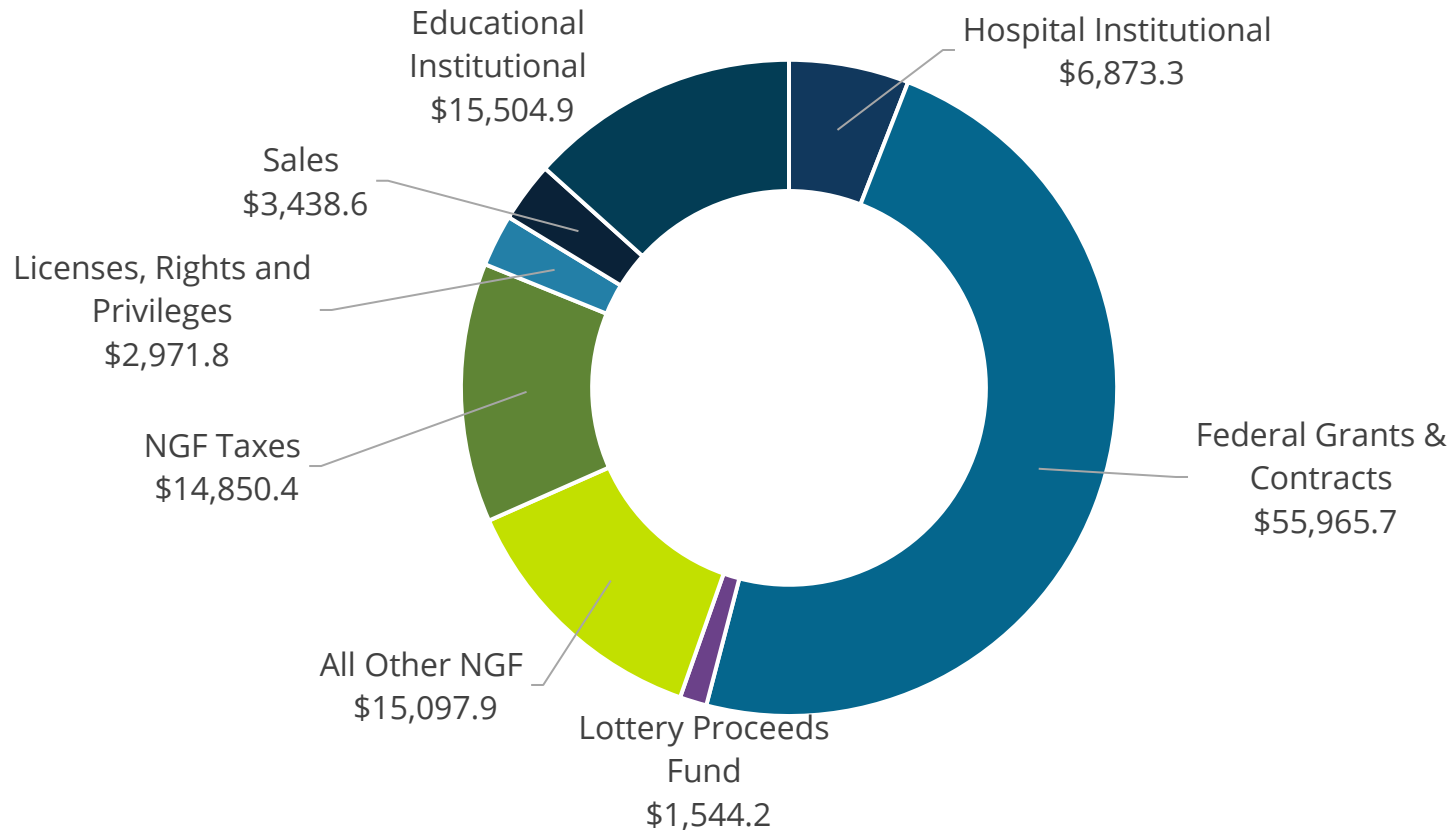
GENERAL FUND REVENUE

**FY 2024-26 GF Revenues & Transfers = \$64.9 Billion
Ch. 725, As Enacted (\$ in millions)**



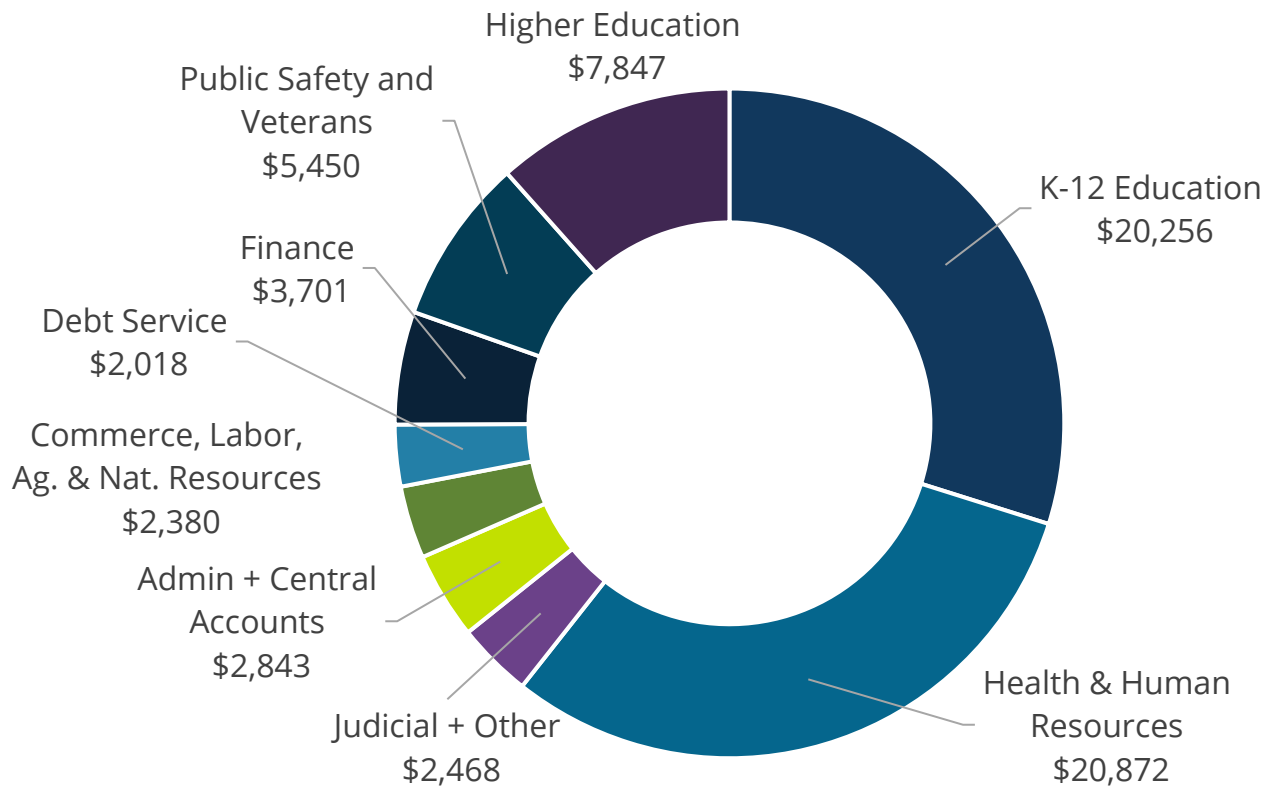
NONGENERAL FUND REVENUE

FY 2024-26 Nongeneral Fund Revenues = \$116.2 Billion Ch. 725, As Enacted (\$ in millions)



SNAPSHOT OF CURRENT BIENNIUM'S GF SPENDING

**FY 2024-26 GF Spending by Secretarial Area = \$67.4 Billion
Ch. 725, As Enacted (\$ in millions)**





BUDGETARY TRENDS

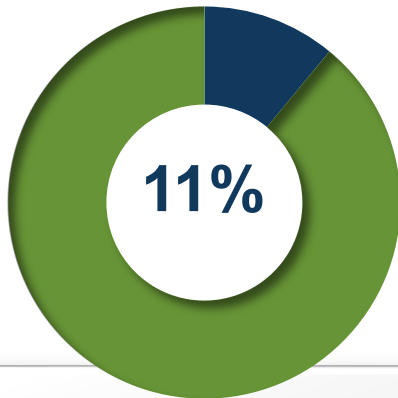
BUDGET DEVELOPMENT REALITY

- The Governor and the General Assembly largely operate on the margins when it comes to the budget
- Majority of funding is driven by federal mandates, state law, and previous “high-priority” commitments that often require funding changes related to enrollment changes and/or population growth
 - Very little discretion on items like Medicaid, K-12 SOQ funding, Corrections, etc.
- Discretionary spending proposed by Governor often competes with spending priorities of the legislature

GROWTH IN MAJOR BUDGET DRIVERS

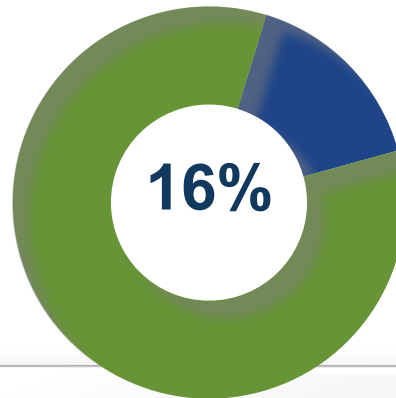
Over last 20 years, Medicaid's share of Virginia's GF budget has doubled

1998-2000



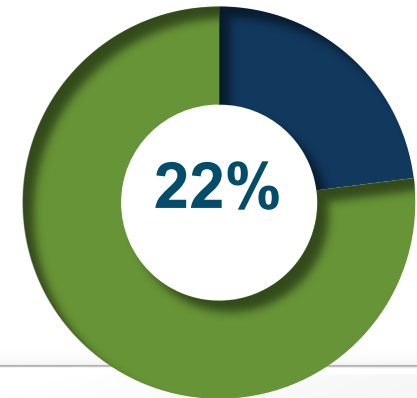
GF Medicaid expenditures totaled \$2.4 billion over the FY 98-00 biennium

2008-2010



By FY 08-10 – in the midst of the Great Recession, it had increased to \$5.5 billion

2024-2026



Medicaid GF expenditures now budgeted at \$15 billion

HOW DO STATES ADDRESS REVENUE DOWNTURNS?

- States have 3 primary tools to offset a budget gap: use of reserves, spending reductions, or tax increases
- The scale of the “Great Recession” was such that only recently have many states replenished their reserve funds or restored programmatic cuts that occurred in the 2008-2010 time frame
- Nationally, state government employment levels remain below 2008 levels

HOW DO STATES ADDRESS REVENUE DOWNTURNS?

- The growth of mandatory costs continues to reduce budget flexibility
- Medicaid has grown as a share of states' fixed costs
 - Because it consumes such a large proportion of state budgets, Moody's explicitly includes Medicaid in its assessment of state budgetary flexibility
- In combination, these trends mean discretionary spending makes up a smaller proportion of states budgets and states have fewer options for reductions when a downturn occurs
- Revenue gains have centered on personal income which is more volatile than sales taxes
 - Exacerbated by gains being disproportionately seen among the highest income individuals which is the most volatile of all and prone to drop-offs in recessions

GUIDEPOSTS FOR ADDRESSING SHORTFALLS

- Be willing to use reserves: Reserves provide more time to consider, delay and debate budget cuts
 - This provides time for more rational examination of programmatic priorities and reduces impetus to use structurally unbalanced and one-time strategies to balance a budget
- Avoid use of unsustainable revenue for recurring expenditures – Virginia’s use of non-withholding collar means revenues have gone to reserves not programs
- Sustain full funding of pension obligations
- Maintain a structurally balanced budget

HOW WAS THE 2002-2004 SHORTFALL ADDRESSED?

- FY 2002 budget gap was nearly \$1.4 billion
 - Actual revenue collections in FY 2002 less than FY 2001
- Given the limited time left in FY 2002, HB 29 managed the budget problem, rather than fixing it
 - Used Rainy Day Fund, Literary Fund, Medicaid “Upper Limit” payment, implemented accelerated sales tax, capped car tax reimbursements, imposed agency budget cuts
- Initial estimate of FY 2002-2004 biennial shortfall totaled \$2.3 billion
 - Budget cuts represented 50% of the actions
 - Cuts to state agencies accounted for about 2/3, local cuts 1/3
 - Fee increases covered 11% of shortfall
 - VRS rate adjustments accounted for 13%
 - Alternative Funding Strategies accounted for 26%
 - Predominantly VDOT and Literary fund revenues

HOW WAS THE 2002-2004 SHORTFALL ADDRESSED?

- Following close of FY 2002, subsequent reforecast increased the FY 2002-04 shortfall by an additional \$1.3 billion
- Governor Warner requested agency 7/11/15% budget reduction plans by September 15 of that year
- Options considered included:
 - Rainy Day Fund
 - Employee Compensation and Benefits
 - Compensation Reserve Fund
 - Un-blend state rate from Teacher rate
 - Blend VaLORs rates with state classified employee rates
 - VDOT General Funds
 - Removed \$106.5 million representing one-third of insurance premium
 - Supplanted \$40 million each year of Route 58 funding with VDOT sources

HOW WAS THE 2002-2004 SHORTFALL ADDRESSED?

- Eliminate/reduce discretionary grant programs
 - Juvenile VJCCCA, Indoor Plumbing, Industrial Site Grants, Cooperative Advertising Program, Reforestation Program, Workforce Development, 1:1,500 ratio for funding deputies
- Reduce Local Aid
 - Comp Board –Treasurers/Commissions of Revenue, Circuit Court Clerks
 - Examine duties (state versus local), block grant
 - “599” Funding – reduce funding based on “revenue bubble”
- Higher Education
 - Reduce general fund support by 15%
 - Reduce Tuition Assistance Grants (TAG)

HOW WAS THE 2002-2004 SHORTFALL ADDRESSED?

- Targeted reductions in K-12
 - Level fund FY 04 to FY 03
 - Remove school construction dollars
 - Reduce/eliminate incentive-based programs
 - Dropout prevention, adult literacy, school nurse incentive fund
 - Cap reimbursement for VRS contributions at state employee rates
- Medicaid Program
 - Provider Payments - Deferred second year inflation adjustment to providers, reduce hospital reimbursements from 87% to 80%
 - Eliminate/reduce service expansions
 - Cancer treatment/screening, organ transplants, substance abuse treatment, implement closed formulary or established preferred drug list with rebate

HOW WAS THE 2002-2004 SHORTFALL ADDRESSED?

- Other Health & Human Resource Programs
 - Comprehensive Services Act – cost share at 50%. Currently ranges from 32% to 53%
 - Health Departments – increase local share of expenses to 50%
- Other
 - Continue deferral of nongeneral fund agency interest earnings
 - In FY 2003, the budget delayed by one-quarter the interest payment on balances
 - Continue the delay through FY 2004

THE GREAT RECESSION

- There was a series of revenue reductions for the 2008-2010 biennium, totaling more than \$5.6 billion

<u>Date</u>	<u>Reductions in Millions</u>
August 2007	-\$ 849.1
February 2008	- 1,064.5
October 2008	- 2,513.7
December 2008	- 373.6
February 2009	<u>- 821.5</u>
Total	-\$5,622.4

- Percentage loss in general fund revenue for FY 2009 was more than double the FY 2002 recession

HOW GREAT RECESSION SHORTFALL ADDRESSED?

Action	GF \$ in Millions
Rainy Day Fund Withdrawals	\$490.0
Tax Policy/Other Revenue Items	\$450.0
Supplanting Debt for Cash for Capital Outlay	\$355.0
Use of ARRA Stimulus Medicaid Match	\$996.0
ARRA State Flexible Funds	\$109.0
ARRA K-12 Funds (Supplant)	\$365.0
Budget Reductions	\$1,925.0
Total:	\$4,690.0

- “One Timers” were half the strategies used to close the FY 2008-2010 budget gap

HOW GREAT RECESSION SHORTFALL ADDRESSED?

- Allow agencies to forgo WTA payments to the VRS
 - Cost rolled into unfunded liability
- Considered facility closures, agency/program consolidations
 - Mental Health facilities, School for Deaf and Blind
 - Tourism Authority, Department of Business Assistance, Internal Auditor, Competition Council, Commonwealth Attorney Service Council
 - Merge ABC law enforcement into State Police
- Reduced K-12 sales tax and HB 599 funding based on revenue forecast changes
- Freeze on hiring, travel and consulting contracts
- One-day furloughs
- Capture NGF balances

HOW GREAT RECESSION SHORTFALL ADDRESSED?

- Reversion of agency year-end balances
- Institute K-12 support services ratio (on-going)
- Position eliminations – 929 positions, resulting in 593 layoffs
- Deferral of employer retirement contributions in last quarter of FY 2010
- Closure of Brunswick and Botetourt Correctional facilities

VIRGINIA'S REVENUE FORECASTING PROCESS

- § 2.2-1503.3, Code of Virginia, states that:
 - Within 5 days of the preliminary close of the fiscal year, the State Comptroller shall submit a comparison of revenue collections to the official budget estimate
 - If the collections are 1.0% or more below the official forecast, the Governor must prepare a re-estimate which must be submitted to the Chairs of the Money Committees by September 1
- The revenue forecast process must mirror the requirements of the standard annual forecast and be based on:
 - Forecasts of economic activity in the Commonwealth
 - Review by an advisory board of economists with respect to economic assumptions and technical econometric methodology
 - Review by an advisory council of revenue estimates with respect to economic assumptions and the general economic climate of the Commonwealth
 - Any such other advisory bodies as the Governor may desire

JOINT ADVISORY BOARD OF ECONOMISTS (JABE)

- The Department of Taxation will develop and present the revised Virginia economic outlook to JABE
- The board recommends a standard and an alternative economic forecast
- Input from members is used to make specific adjustments to the outlook with regards to employment, income and housing
- Currently, the board includes 15 members:
 - 6 from private industry — Magnum Economics, Chmura Economics, KPMG, Wells Fargo, Federal Reserve
 - 7 from Virginia state colleges and universities — William & Mary, George Mason, UVA, Roanoke College, Lynchburg College, Virginia Wesleyan, ODU
 - Staff Directors of the House Appropriations and Senate Finance Committees
- The board looks only at the underlying economic factors, not the revenue forecast itself

Governor's Advisory Council on Revenue Estimates (GACRE)

- TAX uses the input received from JABE to modify the economic outlook and develop and present a revenue forecast for each economic scenario to GACRE
- Members evaluate the validity of the forecasts and provide insight into their particular businesses and industries
- Members make recommendations on various sectors and factors, including financial markets, employment, and income
- Members evaluate the validity of the forecasts and provide insight into their particular businesses and industries
- Board includes 16 members from private industry — Federal Reserve Bank, Dominion Resources, Huntington Ingalls, Anthem, Capital One, Verizon, Carilion Clinic, etc.
- The Governor and General Assembly leaders (5 House Members) are also board members
 - In 13 states, the General Assembly or the Legislative Branch participate in the Revenue Estimating Process