



# Overview of Federal Funding in Virginia and 2025 Session Actions

---

May 20, 2025

# Outline

1

Federal Budget / Debt Ceiling Update

2

Overview of Federal Funding in Virginia

3

Potential Congressional Budget Actions and Impacts to Virginia

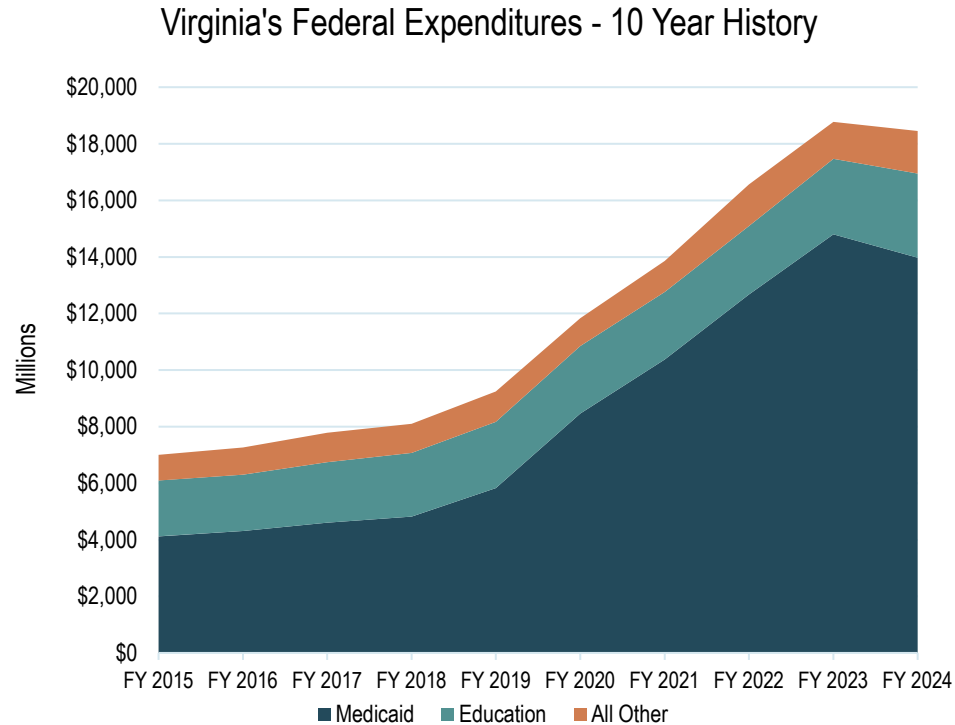
4

2025 Session Select Actions

# Introduction – Federal Budget Update

- Congress passed a full-year continuing resolution that funds the federal government through September 20, 2025.
  - Signed into law on March 15, 2025.
  - Funded most discretionary grant programs at their FY 2024 levels and mandatory programs at their FY 2025 current-law levels.
  - Included funding extensions for certain programs such as TANF and Community Health Centers.
- No action has been taken on the federal debt ceiling.
  - The U.S. Treasury continues to implement extraordinary measures to not exceed the federal debt limit.
  - Once these measures are exhausted, the federal government will not have sufficient resources to make all required payments, which will likely impact payments to states.
  - Treasury Secretary Scott Bessent informed Congress that the U.S. is expected to breach the debt limit sometime in August.

# Virginia's Federal Expenditures Have Grown Substantially

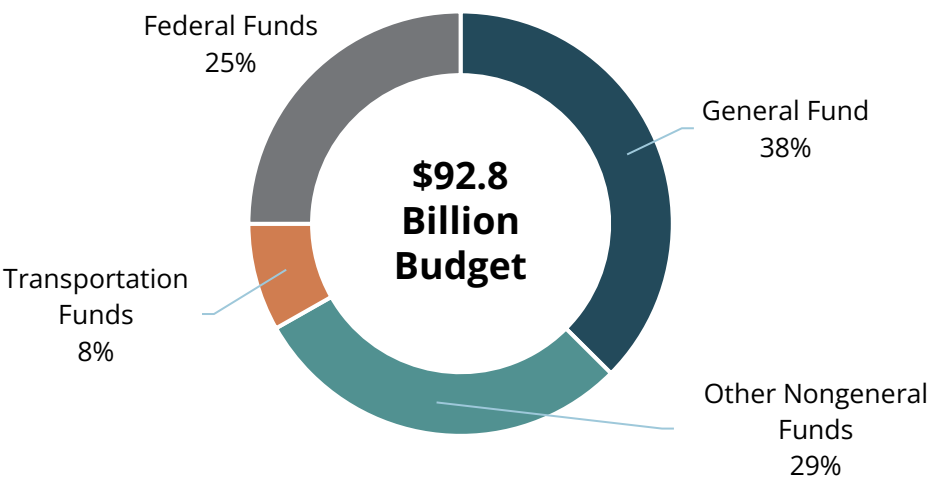


- Virginia's federal spending increased from \$7.0 billion in FY 2015 to \$18.5 billion in FY 2024, an increase of 164 percent.
- Medicaid's share of federal spending in Virginia increased from 59 percent in FY 2015 to 76 percent in FY 2024.
  - Federal COVID-19 relief funds increased the federal share of Medicaid.
- The expansion of Medicaid in FY 2019 is the main reason for Medicaid's increased share.
- Federal transportation funds make up approximately 17 percent of Commonwealth Transportation Fund revenue.

Source: Department of Planning and Budget's Expendwise data system. \* Does not include Federal Highway Funds.

# Federal Share of State Budget is 25 Percent

FY 2025 Budget by Major Fund Source



Fund Source	Appropriation (\$ in Billions)
General	\$34.8
Other	27.2
Federal	23.2
Transportation	7.6
Total	\$92.8

Source: Chapter 725, 2025 Acts of Assembly.  
Note: Federal funding for the Supplemental Nutrition Assistance Program is not appropriated in the state budget and Pell grants are accounted under other revenue.

# Most Federal Funding in FY 2025 is for Health and Human Resources

Secretariat / Program	Federal Funding (\$ in Billions)	Percent of Federal Funding
Health and Human Resources	\$18.8	80.9%
Education	1.9	8.0%
Transportation	1.6	7.0%
All Other	<u>0.9</u>	<u>4.1%</u>
<b>Total</b>	<b>\$23.2</b>	<b>100%</b>

## ***Largest Programs:***

<i>Medicaid</i>	\$14.9	69.0%
<i>Federal Education Assistance (Direct Aid)</i>	1.7	7.2%
<i>Federal Highway Funding</i>	1.6	7.0%
<i>Local Social Services Staff (Various Federal Grants)</i>	0.4	2.0%

Source: Chapter 725, 2025 Acts of Assembly.

# Certain Agencies are More Reliant on Federal Funding

FY 2024 Federal Expenditures as % of Total Expenditures: Top Agencies	Federal Expenditures as % Total Expenditures	
	Federal Trust	Federal Trust - COVID-19 Relief
Virginia Board for People with Disabilities	86.3%	2.8%
Virginia Rehabilitation Center for the Blind and Vision Impaired	85.8	0.0
Department of Military Affairs	74.5	1.3
Wilson Workforce and Rehabilitation Center	69.0	0.0
Department of Medical Assistance Services	64.6	0.2
Davis & McDaniel Veterans Care Center	63.8	0.0
Department for Aging and Rehabilitative Services	63.3	7.9
Department of Social Services	51.5	3.3
Sitter & Barfoot Veterans Care Center	50.2	0.0
Department of Energy (Infrastructure Investment & Jobs Act (IIJA) funds comprised 13.8% of total expenditures.*)	40.8	0.0
Department of Emergency Management	28.5	52.5
Department of Health	25.4	23.0
Secretary of Public Safety and Homeland Security	25.0	0.0
Department of Labor and Industry	24.7	0.0
Department of Education, Central Office Operations (includes Child Care Block Grant)	23.2	52.3

Source: Staff analysis of Department of Planning and Budget's Expendwise data system. \* Excludes IIJA funds, which are coded in a separate fund group.

# Congress is Considering Changes to Medicaid to Reduce Federal Costs

House Committee on Energy and Commerce Proposals		
Major Provisions	Coverage Impact	State GF Impact
Community Engagement Requirement (80 hours a month) for Able-Bodied Adults (verified at initial enrollment and each renewal)	Yes	Yes
Cost Sharing for Expansion Members >100.0% of the Federal Poverty Level	No	No
Modifies Retroactive Coverage from Three Months to One Month Prior to Application for Medicaid	No	Yes
Eligibility Determination for Expansion Members Must be Redetermined Every Six Months	Yes	No
Moratorium on New Federal Rule Related to Streamline Application, Eligibility Determination, Enrollment and Renewal Processes	Yes	Yes

Source: House Committee on Energy and Commerce documents.

Note: Red means the number covered will be lower or the state GF costs will be reduced.



# Potential Supplemental Nutrition Assistance Program (SNAP) Changes Under Consideration Would Impact State Budget

House Committee on Agriculture Proposals		
Major Provisions	Coverage Impact	State GF Impact
State Match Requirement for SNAP Benefits (Minimum of 5.0 percent up to 25.0 percent based on the state's payment error rate)	No	Yes
Administrative Cost Sharing Increased from 50.0 to 75.0 percent for States	No	Yes
Increases the Age from 54 to 64 that Able Bodied Adults without Dependents Must Work to Receive SNAP (Dependent child is changed to be under the age of seven and not 18)	Yes	Yes

Source: House Committee on Agriculture documents.

Note: **Red** means the number covered will be lower or the state GF costs will be reduced and **green** means that state GF costs would be higher.

# Federal Tax Policy May Impact State Conformity to Federal Law

- Budget reconciliation includes extension of expiring Tax Cuts and Jobs Act (TCJA) provisions and new provisions.
- Chapter 725 budget paused rolling conformity for 2025 and 2026; however, Virginia would automatically conform to any federal extender to which Virginia has already conformed.
- Virginia would need to evaluate and conform to any provisions flowing into the Virginia return, such as changes to certain deduction and expensing provisions. Provisions flowing into state returns may not be clear until final passage.
- Certain provisions have an indirect impact to Virginia revenues, such as enhanced federal standard deduction and SALT caps, as taxpayers decide to itemize.
- Currently, it is unclear how new provisions (e.g., elimination of tax on tips and overtime, interest deduction on cars) may flow into the Virginia return and may change throughout the process.
  - TAX estimated exempting tips and overtime from state income tax would reduce state GF revenue in FY 2027 by \$65.0 million and \$248.4 million, respectively. These estimates would be updated to account for all federal actions.

# Veto Actions Increase the Unappropriated Balance by \$853.5 million – Mostly One-Time Resources

(\$ in millions)	FY 2025	FY 2026	Total
Conference Unappropriated Balance	\$9.1	\$6.5	\$15.6
Amendments Adopted at Reconvened	(4.2)	(27.2)	(31.4)
<b>Reconvened Unappropriated Balance</b>	<b>\$13.3</b>	<b>\$33.7</b>	<b>\$47.0</b>
Vetoed Reconvened	(\$4.0)	\$0.0	(\$4.0)
Vetoed Post-Reconvened*	(824.2)	(25.3)	(849.5)
<b>Veto Subtotal (add to Balance)</b>	<b>(\$828.2)</b>	<b>(\$25.3)</b>	<b>(\$853.5)</b>
<b>Chapter 725 Unappropriated Balance*</b>	<b>\$841.5</b>	<b>\$59.0</b>	<b>\$900.5</b>

\* Keeper of the Rolls determined three vetoes were unconstitutional, which reduces the unappropriated balance to \$883.6 million.

# Chapter 725 Provisions to Monitor Federal Actions

- Pauses rolling conformity to provide the General Assembly with the opportunity to conform to federal tax actions.
  - Congress is debating extension of the expiring individual provisions of the TCJA and additional tax policy actions (e.g., exempting tip income and overtime pay).
- Extends standard deduction, earned income tax credit, and pass-through entity tax credit until December 31, 2026.
  - Under TCJA, the state general fund revenue relationship is positive as taxpayers shift to claim the federal standard deduction rather than itemized.
- Establishes a process to get timely revenue estimates from TAX on federal tax amendments and reductions in federal grant revenue from the Department of Planning and Budget **[Governor vetoed]**.
  - Requires the Governor to send down a budget bill if federal tax amendments reduce state general fund by more than \$100.0 million in the current and succeeding fiscal year; or
  - Directs the DPB director to notify the Governor and Senate Finance and Appropriations and House Appropriation Committee Chairs of federal grant reductions by \$100.0 million and requires the Governor to consult with General Assembly leadership if federal grant reductions result in a 1.0 percent increase in general fund spending in the fiscal year.

# Chapter 725 Actions to Monitor Federal Actions (continued)

- Item 470 directs any surplus after any constitutionally required Revenue Stabilization Fund (Rainy-Day Fund) deposit to be reserved at year-end as:
  - \$20.0 million for VMSDEP waiver costs prior to any Revenue Reserve Fund and WQIF Part A deposit;
  - Any Revenue Reserve Fund and WQIF Part A deposit; and
  - Any remaining balance to respond to federal actions in a Special Session during 2025 or the 2026 Session.

# Chapter 725 Provides Tax Relief to Virginians

- **Working Virginians Tax Rebate.** Provides a tax rebate of \$200 for single filers and \$400 for joint filers, up to their tax liability, by October 15<sup>th</sup> (\$977.8 million).
- **Extends Expiring Standard Deduction, Earned Income Tax Credit, Pass-Through Entity Tax.** Extends these expiring tax provisions tied to the TCJA expiration date of December 31, 2025, to December 31, 2026.
- **Increases Standard Deduction.** Increases the standard deduction to \$8,750 for single filers and \$17,500 for joint filers, which is a respective increase of \$250 for single filers and \$500 for joint filers for tax year 2025 and 2026.
- **Refundable Earned Income Tax Credit.** Increases the refundability of the state earned income tax credit from 15.0 to 20.0 percent of the federal credit for tax year 2025 and 2026.
- **Thresholds for Estimated Tax Payments.** Increases the liability threshold for estimated payments from \$150 to \$1,000.