



Virginia's Revenue and Budget Outlook

November 21, 2024

Outline

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2024 Session and Special Session I Recap



2024 Session and Special Session I

March 9th

GA adjourned with adopted budgets (HB 29 and HB 30).

April 8th

Governor sent reconvened amendments to remove “New Economy” sales tax and to balance spending with less revenue.

April 17th

House ruled Governor’s amendments were not specific and severable and passed both bills by for the day.

May 13th

GA convened in Special Session and enacted HB/SB 6001 and HB/SB 6002, which the Governor signed immediately.

July 18th

GA removed VMSDEP* program changes and reserved \$90.0 million from the FY 2024 surplus for program’s costs (HB 6004/SB 6012).

Effectively killing both bills.

Using actual FY 2024 revenues, NGF revenue sources, and debt capacity, funding priorities were maintained while removing the “New Economy” sales tax revenue.

Year-end surplus reservation must be appropriated in the 2025 session.

* Virginia Military Survivors and Dependents Education Program

Chapters 1 and 2 – Key Spending Themes

- Final adopted budget did not include major general fund tax policy changes.
- To close the revenue and spending gap without sales tax modernization, FY 2024 revenue forecast was adjusted upwards by \$525.0 million, recognizing increased Health Care Fund revenue, Lottery profits, and savings in preschool nonparticipation, and swapped a portion of GF cash for tax-supported debt for capital funding.
- Prioritized funding for PreK-12 education and pay increases for teachers, state, and state-supported local employees.
- In Health and Human Resources, support was focused on behavioral health, crisis funding, and Medicaid provider rate increases.
- Revenue Reserve Fund withdrawal was spread between the two years and primarily used for one-time funding items.
- Included contingent reservation of any FY 2024 surplus: \$175.0 million for I-81 improvements and \$400.0 million to supplant tax-supported debt for GF cash to fund wastewater improvement projects.
 - In July, the General Assembly reserved \$90.0 million from the actual FY 2024 surplus for VMSDEP waiver costs.

Actions to Maintain Funding Priorities without Modernizing Sales Tax with “New Economy” Categories

**Reflect FY 2024
Revenue Collections**

**Adopt Technical
Amendments**

**Utilize Additional
Debt to Support
Capital Outlay
Projects**

**Reduce Medicaid
Reserve & Recognize
Health Care Fund
Revenue**

**Capture VPI
Nonparticipation
Savings & Recognize
FY 2024 Lottery
Profits**

Chapter 2 Ends the Biennium with \$17.6 Million

GF \$ in millions	FY 2024	FY 2025	FY 2026	Biennium
Unappropriated Balance, as Enrolled 2024 Regular Session	\$2,490.9	\$2.8	\$15.1	\$17.9
Carryforward Adjustment	-	498.7	-	498.7
GF Resource Adjustments	464.9	(708.2)	(591.1)	(1,299.3)
Less Spending Actions	(33.8)	(458.7)	(341.5)	(800.2)
Ending Balance, Chapters 1 & 2, 2024 Special Session I	\$2,989.6	\$252.0	(\$234.4)	\$17.6
Carryforward Adjustment (Difference between HB 29 and Chapter 1)	\$498.7			

May not sum due to rounding.

FY 2024 Revenue Performance



FY 2024 Economic Growth Outperformed the Forecast

Year-over-Year % Change	Actual	Forecast	Actual Less Forecast
VA Wages and Salaries	6.7%	4.6%	2.2%
VA Personal Income	5.5	3.9	1.6
VA Job Growth	1.8	0.1	1.7
VA Real Gross State Product	2.6	1.4	1.3
US Real Consumer Spending	2.4	1.5	0.9

Source: Virginia TAX.

FY 2024 GF Revenue Increased \$1.5 Billion over FY 2023

- FY 2024 general fund revenue increased \$1.5 billion (or 5.5 percent) over FY 2023.
- GF revenue exceeded the official forecast by \$1.2 billion.
 - Nonwithholding accounted for 64 percent (\$749.9 million) of surplus revenue and refunds accounted for 29 percent (\$342.9 million).
- Payroll withholding grew 4.8 percent over FY 2023 and comprises half of the year-over-year growth (\$761.1 million).
- Corporate income tax, nonwithholding, sales and use tax, and recordation tax collections were all lower year-over-year, but were offset by increases in other revenue sources, mainly interest income.

FY 2024 GF Revenues Exceeded the Official Forecast by \$1.2 Billion

Source, \$ in millions	Actuals				Variance to Ch. 1 Official Forecast
	FY 2023	FY 2024	Change	% Change	
Withholding	\$15,957.2	\$16,718.2	\$761.1	4.8%	\$154.7
Nonwithholding	6,629.2	6,563.7	(65.5)	(1.0)	749.9
Refunds	<u>(3,602.8)</u>	<u>(2,971.5)</u>	<u>631.3</u>	<u>(17.5)</u>	<u>342.9</u>
Net Individual Income Tax	\$18,983.6	\$20,310.4	\$1,326.9	7.0	\$1,247.5
Sales and Use	4,734.6	4,709.7	(24.9)	(0.5)	193.9
Corporate	2,031.1	1,907.1	(124.1)	(6.1)	(306.4)
Insurance Premiums	450.9	468.2	17.3	3.8	21.9
Will, Suits, and Deeds	430.6	406.5	(24.0)	(5.6)	(19.1)
All Other	<u>1,279.2</u>	<u>1,646.4</u>	<u>367.2</u>	<u>28.7</u>	<u>30.9</u>
Total GF Revenues	\$27,909.9	\$29,448.2	\$1,538.3	5.5%	\$1,168.7

Year-End Balance Sheet Reserved \$294.4 million for Discretionary Purposes

(GF \$ in millions)	FY 2024
Committed Fund Balance – Appropriation Act	
I-81 Corridor Improvement Program	\$175.0
Water Quality Improvement Fund Matching Grants	400.0
Virginia Military Survivors & Dependents Education Program	<u>90.0</u>
Total Committed Fund Balance – General Assembly Commitments	\$665.0
Committed Fund Balance – Statutory	
Revenue Reserve FY 2024 Revenue Surplus	\$288.7
WQIF Part A FY 2024 Revenue Surplus	59.4
WQIF Part B FY 2024 Cash Balances	<u>34.3</u>
Total Committed Fund Balance – Statutory Restrictions	\$382.4
Assigned Fund Balance – Governor Discretionary	
Amount for Additional Taxpayer Relief and Other Budgetary Priorities	\$205.9
Amount to Support Additional Medicaid Contingency	<u>88.5</u>
Total Assigned Fund Balance – Governor Discretionary	\$294.4

Amounts **need to be appropriated** by the 2025 General Assembly for these commitments.

Auditor of Public Accounts has certified the reserve deposit is **\$294.5 million** based on FY 2024 actual revenue.

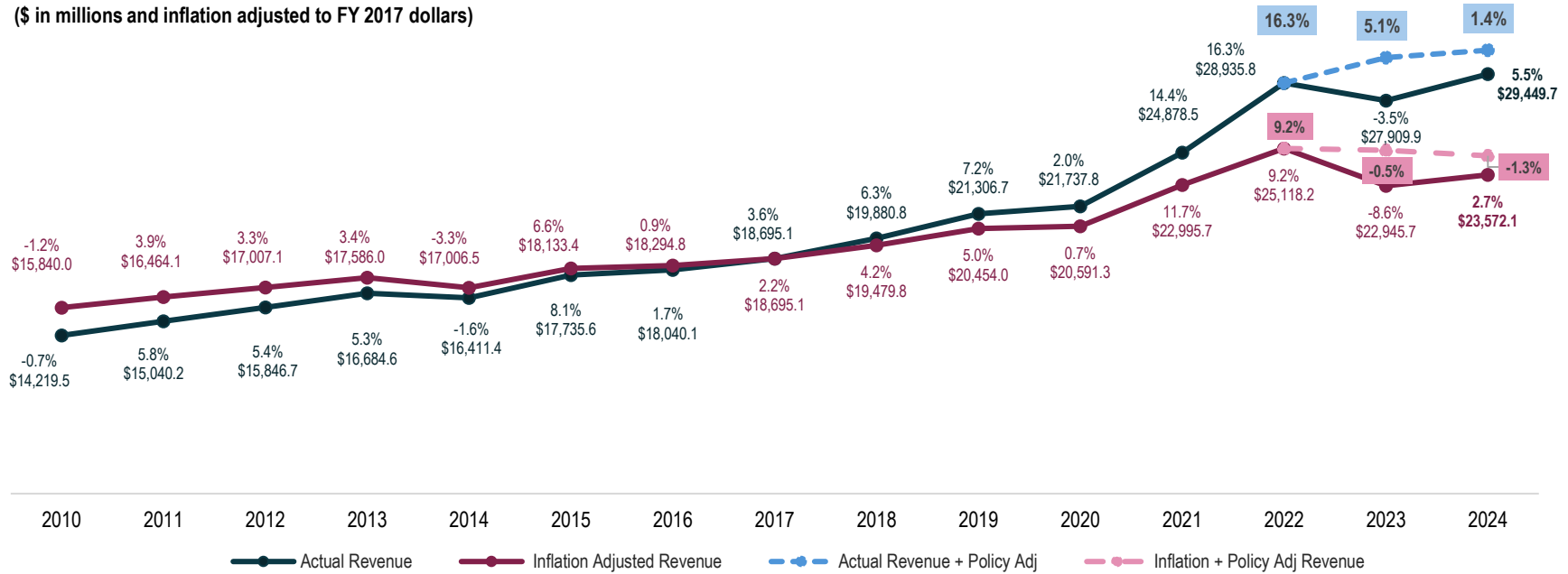
Amount **may be appropriated** by the 2025 General Assembly for any **one-time priority**.

Source: Virginia Department of Accounts, 2024 Preliminary Report.

Adjusted for Policy and Inflation, GF Revenues Increased 20 Percent Since 2020

In FY 2024, nominal GF revenue collections grew 5.5%; however, inflation adjusted GF revenue collections grew 2.7% over FY 2023 and declined 1.3% when adjusted for tax policy and inflation.

(\$ in millions and inflation adjusted to FY 2017 dollars)



Source: Staff analysis of Secretary of Finance Presentations. Inflation adjusted to FY 2017 dollars using the U.S. Bureau of Economic Analysis Gross Domestic Product Implicit Price Deflator, accessed Aug 5, 2024. Fiscal year GDP implicit price deflator is calculated using the four-quarter moving average.

Revenue Outlook



FY 2024 Revenue is the Starting Point for Reforecast

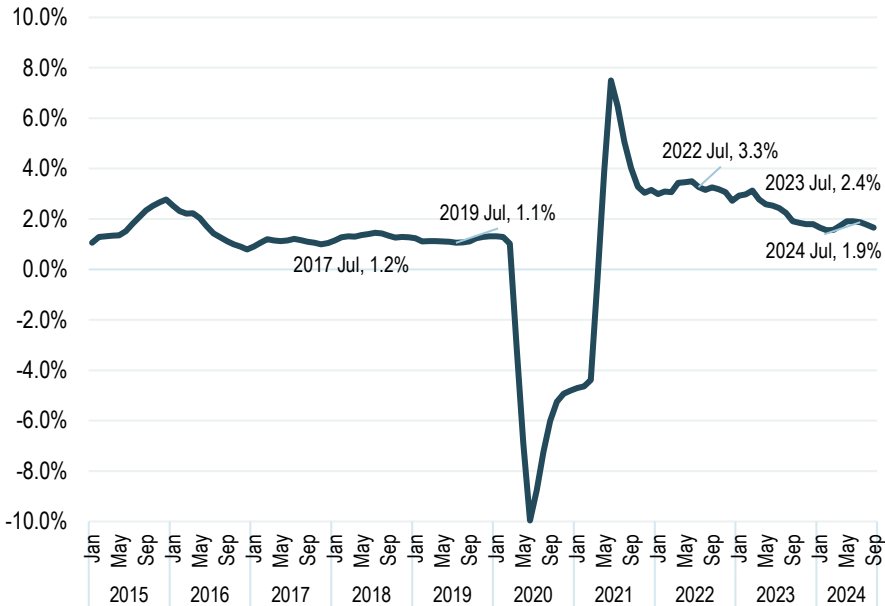
- FY 2024 revenue base is \$1.5 billion higher than FY 2023 and is now the base to reforecast growth.
 - Withholding collections increased \$761.1 million over FY 2023.
- Official forecasts in Chapters 1 & 2 assumed a recession in Q2 CY 2024 (Q4 FY 2024) continuing into FY 2025, which has not materialized.
 - FY 2025 YTD revenues could contract 7.7 percent, and forecast would still be met.
- FY 2024 forecast was adjusted upwards by \$525.0 million based on actual withholding collections, but FY 2025 and FY 2026 forecasts were not adjusted.
 - Withholding income is stable and growth has rarely been negative year-over-year.

SFAC Forecast Assumes Baseline Forecast

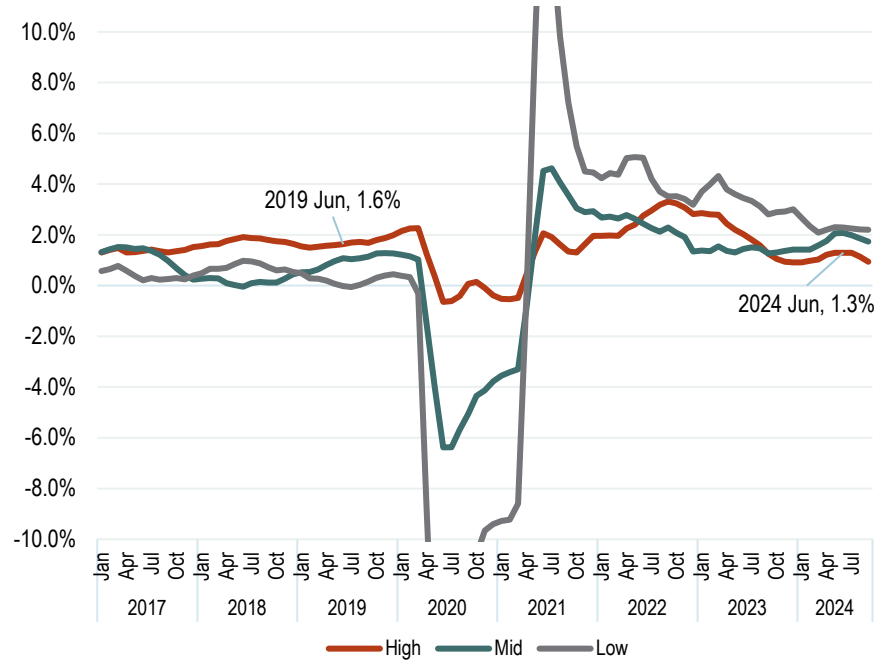
- Business leaders and economists express more optimism compared to last year.
- SFAC staff forecast uses the baseline forecast from September developed by Virginia TAX. Baseline forecast is more conservative relative to the consensus forecast of other professional economists.
- Baseline forecast assumes the delayed tightening effects of monetary policy and depletion of excess household savings constraining growth in the near-term.
- Employers are expected to add fewer jobs and wage growth is expected to slow as economy reaches full employment.
- Protracted delay in Congress to resolve fiscal disputes and geopolitical concerns increasing oil prices could further weaken consumer and business sentiment.

Virginia's Employment Growth is Slowing; Growth has been Concentrated in Low- and Mid-Tier Wage Jobs

Virginia job growth is slowing with the 3-month average growing 1.9% year-over-year in July 2024.



Recent Virginia job growth has been stronger in low- and mid-tier wage jobs. (3-month moving average year-over-year)



Source: U.S. Bureau of Labor Statistics (BLS): Current Employment Statistics (CES). Seasonally adjusted total nonfarm employees.

Source: U.S. Bureau of Labor Statistics (BLS): Current Employment Statistics (CES), Quarterly Census of Employment and Wages (QCEW); Moody's Analytics Estimated

Job Growth is Expected to Slow and Decrease in Most Sectors in FY 2025

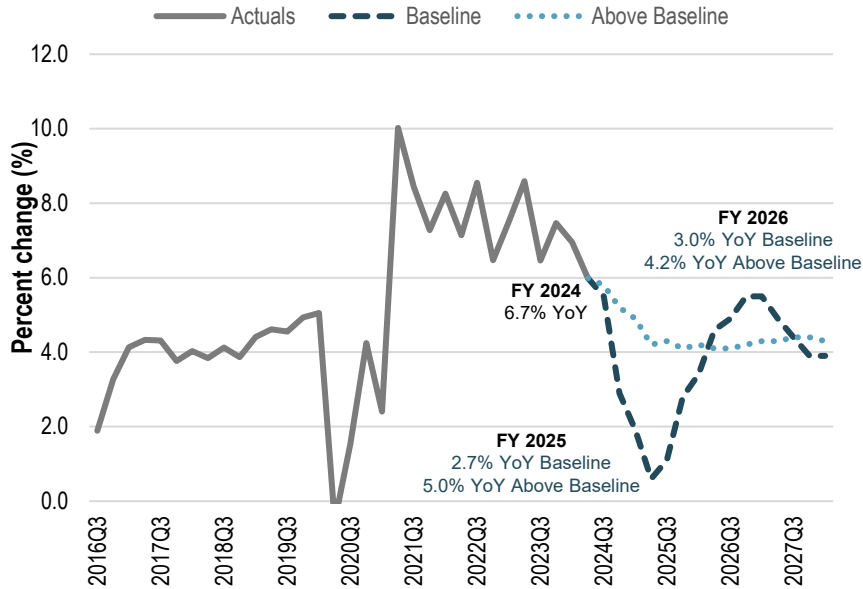
Year-over-Year Growth	FY 2024 Actual	FY 2025	FY 2026
Total Nonagricultural	1.8%	0.1%	0.2%
Professional & Business Services	0.1	(0.1)	0.9
Total Government	2.4	0.9	(0.2)
Trade, Transportation, and Utilities	0.5	(0.3)	0.2
Education & Health Services	4.6	1.6	0.3
Leisure & Hospitality	3.0	(1.4)	0.0
Manufacturing	0.8	(0.1)	(0.3)
Construction	2.7	1.2	0.0
Financial Activities	0.9	(1.0)	(0.2)

Source: Virginia TAX September Baseline Forecast.

Virginia Wage Growth is Expected to Slow

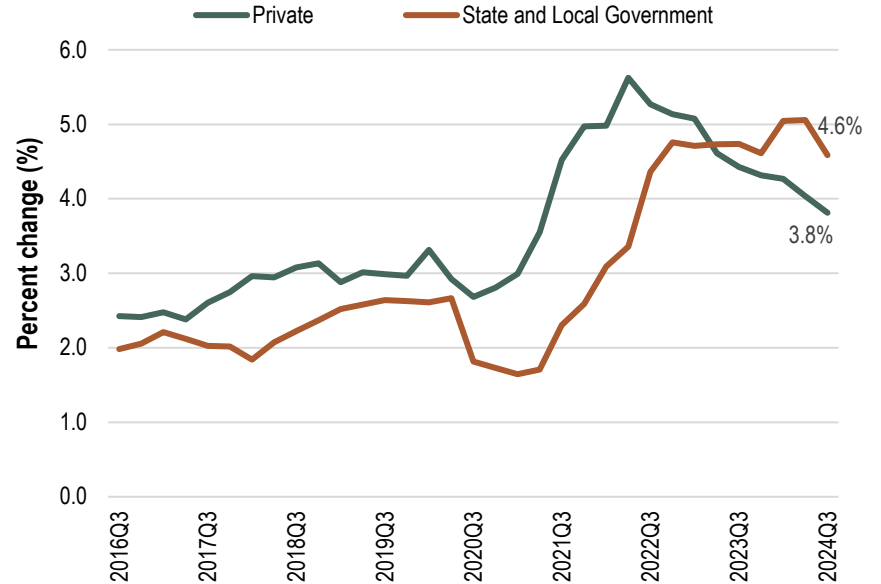
Virginia wages and salaries are expected to grow at 2.7% in FY 2025 and 3.0% in FY 2026 under the baseline outlook.

Year-over-Year Growth in VA Wages & Salaries



Employers' cost for wages and salaries increased 3.9% in September. Private industry wages increased 3.8%.

Year-over-Year Growth in Employment Cost Index Wages and Salaries



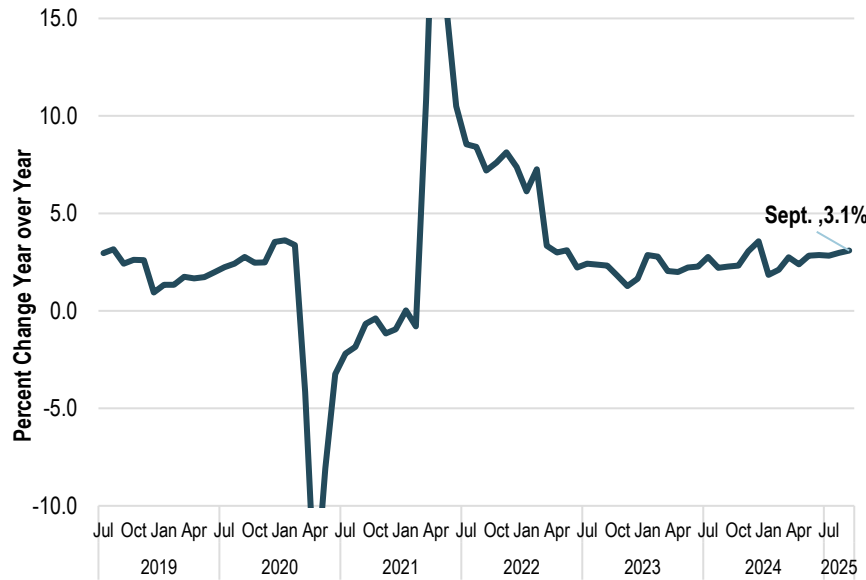
Source: U.S. Bureau of Labor Statistics (BLS); Virginia TAX September Forecasts.

Source: Federal Reserve Bank of St. Louis, Employment Cost Index: Wages and Salaries.

Consumers Continue to Spend

U.S. real GDP grew 2.8 percent annually in the 3rd quarter with real spending contributing 2.5 percentage points.

Real consumer spending continues to grow steadily. In September, spending increased 3.1% from the prior year.



Source: U.S. Bureau of Economic Analysis (BEA). Real Personal Consumption Expenditures.

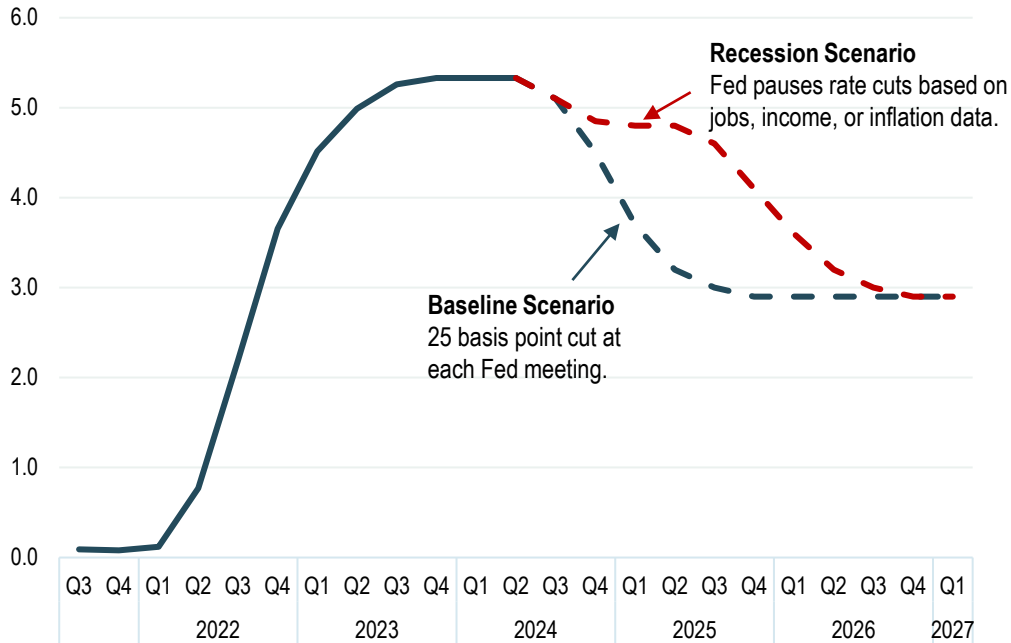
Consumption has shifted back to services. Virginians are spending roughly two times more on services similar to pre-pandemic levels.



Source: U.S. Bureau of Economic Analysis (BEA). Personal Consumption Expenditures.

Federal Reserve Actions May Stall Consumer Confidence

Federal funds rate is expected to decrease 25 basis points reaching a neutral rate of 3.0 percent.



Sources: U.S. Board of Governors of the Federal Reserve System; Virginia TAX September Forecast.

- Federal Reserve (Fed) reduced the federal funds rate by 25-basis points to 4.5 - 4.75 percent at the November meeting.
- Expectations for a 25-basis point cut at the December meeting have decreased from 76.8 to 62.1 probability (CME Group, compared to Oct. as of Nov. 18, 2024).
- If the Fed pauses rate cuts, this could dampen credit sensitive spending and consumer confidence, pushing U.S. into recession.

FY 2025: Year-to-Date Revenue Collections

Major Sources (\$ in millions)	FY 2025 Ch. 2 Forecast	Jul - Oct FY 2025	Jul - Oct FY 2024	% Change		% Req. Growth Nov - Jun
				Actual	Req. by Forecast	
Withholding	\$16,629.4	\$5,574.8	\$5,140.6	8.4%	(0.5%)	(4.5%)
Nonwithholding	5,631.1	1,579.1	1,291.0	22.3	(14.2)	(23.2)
Refunds	<u>(3,015.8)</u>	<u>(651.3)</u>	<u>(738.8)</u>	<u>(11.8)</u>	<u>1.5</u>	<u>5.9</u>
Net Individual	\$19,244.7	\$6,502.6	\$5,692.8	14.2	(5.2)	(12.8)
Sales & Use Tax	4,692.3	1,595.9	1,589.4	0.4	(0.4)	(0.8)
Corporate	2,065.5	461.1	611.6	(24.6)	8.3	23.9
Wills/Suits/Deeds	456.7	157.3	136.0	15.6	12.4	10.7
Insurance	439.3	-	-	-	(6.2)	(6.2)
Interest	724.3	275.4	285.3	(3.5)	3.5	8.3
All Other	<u>941.0</u>	<u>224.5</u>	<u>169.8</u>	<u>32.2</u>	<u>(0.6)</u>	<u>(7.8)</u>
Total GF Revenue	\$28,563.8	\$9,216.7	\$8,484.9	8.6%	(3.0%)	(7.7%)

- GF revenues increased 8.6 percent and are \$731.8 million ahead compared to FY 2024.
- FY 2025 forecast can now be met even if revenues contract 7.7 percent over the next eight months.

Source: Secretary of Finance, October 2024 Revenue Report.

Adjustments to Economic Outlook

FY 2025 Year-over-Year Growth				
	VA Job Growth	VA Wage/Salary Growth	U.S. Real Consumer Spending	VA Personal Income Growth
Official Forecast	(0.1%)	3.5%	1.2%	3.2%
Sept. Baseline	0.1%	2.7%	2.0%	3.1%

FY 2026 Year-over-Year Growth				
	VA Job Growth	VA Wage/Salary Growth	U.S. Real Consumer Spending	VA Personal Income Growth
Official Forecast	2.5%	5.9%	2.5%	4.4%
Sept. Baseline	0.2%	3.0%	2.2%	3.8%

Source: Virginia TAX September Baseline Forecast.

SFAC Staff General Fund Revenue Forecast

GF Revenue Sources (\$ in millions)	Actual	SFAC Staff Estimate	
	FY 2024	FY 2025	FY 2026
Revenue Source			
Individual Income	\$20,310.4	\$21,218.5	\$21,701.8
Sales	4,709.7	4,810.4	5,000.3
Corporate	1,907.1	1,986.6	2,082.0
Wills/Suits/Deeds	406.5	437.4	466.3
All Other	<u>2,114.6</u>	<u>2,094.2</u>	<u>2,077.9</u>
Total GF Revenue	\$29,448.2	\$30,547.1	\$31,328.2
<i>Year-over-Year Growth Rate</i>	5.5%	3.7%	2.6%
Transfers (FY 2024 includes 2023 Tax Rebate transfer from GF to NGF)	12.7	1,012.0	978.2
Revenue Reserve Fund Voluntary Withdrawal	<u>0.0</u>	<u>129.4</u>	<u>675.7</u>
Total General Fund	\$29,460.9	\$31,688.5	\$32,982.1
GF Resources Above Official Forecast		\$1,999.6	\$991.8

Risks Could Alter the Forecast

- Economic policy will shift with changes in the federal government.
- There are both upsides and downsides to the forecast:
 - Monetary policy actions;
 - Higher tariffs;
 - Federal employment;
 - Federal debt and spending;
 - Federal Reserve interference;
 - Labor tightness over immigration;
 - Oil prices;
 - Labor strikes; and
 - Expanded conflicts in the Middle East and increasing tensions with China.

Source: Moody's Analytics, Road to Recession, November 13, 2024.

2024-2026 Budget Pressures and 2025 Session Outlook



2025 Session: Amending the Adopted Budget

- In odd-numbered sessions, action is taken to amend the previously adopted biennial budget for the current and next fiscal year.
 - Current budget (Chapter 2, 2024 Special Session I) covers July 1, 2024, through June 30, 2026 (i.e. FY 2025 and FY 2026).
 - FY 2026 will be the base year for developing the 2026-28 biennial budget.
 - On December 18th, the Governor will present the introduced budget for the 2025 Session to the General Assembly.

Agency GF Requests Total Almost \$1.4 Billion for the Biennium

Secretarial Area (GF \$ in millions)	FY 2025	FY 2026
Administration	\$1.3	\$76.3
Agriculture & Forestry	0.5	5.6
Commerce & Trade	6.4	183.7
Education	74.9	585.4
Executive Offices	3.2	4.2
Finance	2.5	35.1
Health & Human Resources	35.9	136.0
Independent Agencies	0.0	0.0
Judicial	0.0	13.6
Labor	4.6	11.6
Natural Resources	5.1	13.6
Public Safety & Homeland Security	11.6	139.9
Transportation	0.0	0.0
Veterans & Defense Affairs	<u>0.0</u>	<u>20.7</u>
Grand Total	\$145.9	\$1,225.5

- Agency requests total almost \$1.4 billion GF for the biennium.
 - Mainly in Education, Commerce & Trade, HHR, and Public Safety.
- Requests do not include updated forecasts in HHR or public education.

Source: Analysis of Operating Agency Requests, Department of Planning and Budget, accessed November 17, 2024.

Capital Outlay Requests Total \$3.1 Billion GF

Project Stage (\$ in millions)	General Fund Support	NGF Portion (includes 9(c) and 9(d) Rev. bonds)
New project	\$1,605.6	\$43.4
Change to size and scope	75.5	0.0
Supplement	11.7	0.0
Previously funded umbrella project	84.1	0.0
Detailed planning, complete	35.7	0.0
Detailed planning authorized, not complete	986.5	157.4
Schematic authorized, not complete	40.7	32.9
Preplanning authorized, not complete	<u>218.8</u>	<u>0.0</u>
Grand Total	\$3,058.6	\$233.7

Source: Analysis of Capital Agency Requests, Department of Planning and Budget.
 Note: Includes capital requests for general fund, Virginia College Building Authority bonds, and/or Virginia Public Building Authority bonds, excluding requests for equipment only.

- Higher education institutions request for GF-supported capital projects total \$2.2 billion.
- Maintenance reserve/infrastructure and life/safety emergency project requests total \$1.1 billion in GF support.
- Other needs are expected to include:
 - New state office building;
 - Supplements for previously authorized projects; and
 - Capital equipment for projects nearing completion.
- During the 2024 Session, the General Assembly authorized \$900.9 million in tax-supported debt.
 - Debt capacity model will be updated in December. Capacity is sensitive to actual forecasted revenues and interest rates.

2025 Session: General Assembly Needs to Appropriate \$1.0 Billion Reserved from FY 2024 Balances

(GF \$ in millions)

FY 2024 Preliminary Balance Sheet Reservations	\$1,341.8
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2025 General Assembly Appropriation

I-81 Corridor Improvement Program	(\$175.0)
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Water Quality Improvement Fund Matching Grants: Wastewater Improvement	(400.0)
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Virginia Military Survivors & Dependents Education Program	(90.0)
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Revenue Reserve FY 2024 Revenue Surplus (APA certified deposit amount)	(294.5)
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WQIF Part A FY 2024 Revenue Surplus	(59.4)
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WQIF Part B FY 2024 Cash Balances	(34.3)
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Total Prior Commitments and Statutory Reservations	(\$1,053.2)
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Total FY 2024 Remaining Discretionary Balances	\$288.6
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SFAC Resource Adjustments Total \$3.4 Billion

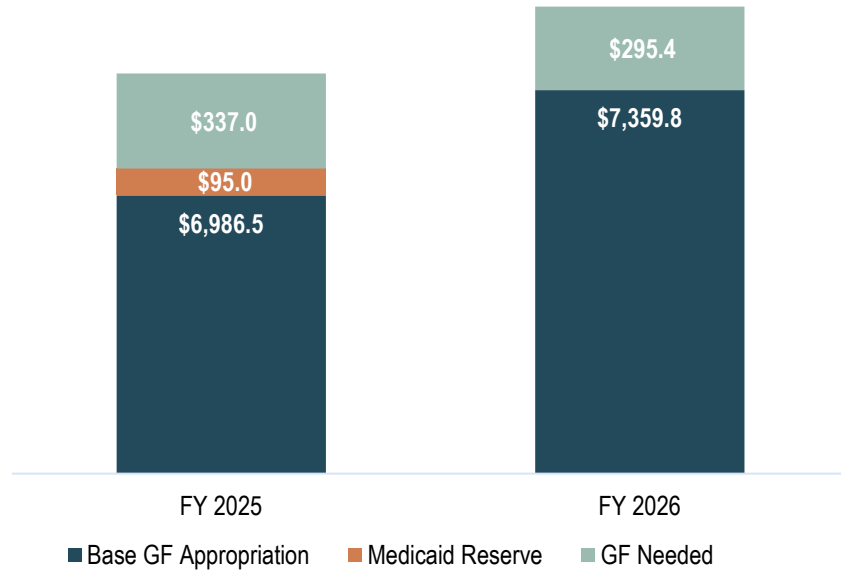
(GF \$ in millions)	FY 2025	FY 2026	2024-26
SFAC Staff GF Forecast	\$31,688.5	\$32,982.1	\$64,670.6
Official Forecast Chapter 2	<u>29,691.9</u>	<u>31,990.3</u>	<u>61,682.1</u>
GF Revenue Above Base (includes Transfers)	\$1,996.6	\$991.8	\$2,998.4
Remaining Discretionary FY 2024 GF Balances	\$288.6		
Portion of Discretionary FY 2024 Unexpended Appropriations	145.7		
Preliminary Adjustment for Natural Disaster Sum Sufficient	<u>(50.0)</u>		
Available GF Balances	\$384.3		
GF Resources above Chapter 2 Base*	\$2,380.9	\$991.8	\$3,372.7

*Does not include \$17.6 million Chapter 2 unappropriated balance.

Medicaid Forecast Reflects Unprecedented GF Need for an Amended Budget

Net of the \$95.0 million Medicaid Reserve, the Forecast projects a funding need of \$632.4 million GF.

(\$ in millions)



- Medicaid Forecast projects a net GF need of **\$632.4 million GF for the 2024-2026 Biennium.**
 - **Without the \$95.0 million Medicaid Reserve, the need would be \$727.4 million.**
 - Last year’s forecast projected a \$714.0 million GF biennial need.
 - Additional GF need is due to payment delays from FY 2024, higher managed care rates, an increase in Medicare premium costs, other increases in health care costs, and a lower federal match rate in FY 2026.

Medicaid Forecast	FY 2025	FY 2026
2024 Fall	12.0%	4.5%
2023 Fall	8.3%	6.2%

FY 2025 Budget Outlook: \$2.5 Billion Available for Appropriation after \$870.8 Million in Mandatory Spending Pressures

(GF \$ in million)	FY 2025	FY 2026	2024-26
GF Resources above Base	\$2,380.9	\$991.8	\$3,372.7
Less: Medicaid Forecast ¹	(337.0)	(295.4)	(632.4)
Less: Other HHR Forecasts	(33.6)	(95.1)	(128.7)
Less: K-12 Sales Tax Forecast	(19.3)	(18.0)	(37.3)
Less: K-12 ADM & Enrollment Projections	(13.3)	(18.9)	(32.2)
Less: Other Spending Pressures	<u>0.0</u>	<u>(40.2)</u>	<u>(40.2)</u>
Subtotal Mandatory Spending Pressures	(\$403.2)	(\$467.6)	(\$870.8)
Remaining GF Resources Above Base	\$1,977.7	\$524.2	\$2,501.9
Plus: Chapter 2 Unappropriated Balance	<u>252.0</u>	<u>(234.4)</u>	<u>17.6</u>
Total GF Resources Available for Appropriation	\$2,229.7	\$289.3 ²	\$2,519.0 ²

¹ Excludes \$95.0 million from the Medicaid reserve appropriated in Chapter 2, which reduces the forecasted need.

² Does not sum to total as it excludes \$500,000 balance adjustment.

2025 Session Outlook & Six-Year Forecast

Sufficient resources to cover mandatory spending in current biennium and following biennia. There may be insufficient capacity in FY 2027 if actions in the 2025 Session increase ongoing items above the forecasted \$290.0 million in FY 2026.

(GF \$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Balances (Prior Year and Adjustments)	\$3,420.9	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)
Chapter 2 GF Revenue <small>(includes Transfers)</small>	\$29,691.9	\$31,990.3	\$32,640.0	\$33,837.1	\$34,784.1	\$36,104.5
SFAC Forecast Adjustment	<u>1,996.6</u>	<u>991.8</u>	<u>1,029.2</u>	<u>1,002.0</u>	<u>1,374.2</u>	<u>1,449.1</u>
SFAC GF Revenue	\$31,688.5	\$32,982.1	\$33,669.2	\$34,839.1	\$36,158.3	\$37,553.6
Chapter 2 GF Base Spending	\$32,476.4	\$32,224.2	\$32,723.0	\$33,613.5	34,220.8	35,046.1
SFAC Mandatory Spending Pressures	<u>403.2</u>	<u>467.6</u>	<u>652.8</u>	<u>589.0</u>	<u>1,059.0</u>	<u>1,284.9</u>
SFAC GF Base Spending	\$32,879.6	\$32,692.3	\$33,375.8	\$34,202.5	\$35,279.8	\$36,330.9
Ending Balance	\$2,229.7	\$289.3	\$292.9	\$636.1	\$878.0	\$1,222.2
Assume \$2.2 billion is allocated for one-time items to minimize structural imbalance.			<u>(289.3)</u>	<u>(289.3)</u>	<u>(289.3)</u>	<u>(289.3)</u>
Assume \$289.3 million is allocated for ongoing items (spending or tax policy).						
			\$3.6	\$346.8	\$588.7	\$932.9

SFAC Update to Six-Year Plan: Assumptions

Assumptions:

- SFAC forecasted GF revenue growth (excluding transfers): 4.6 percent in FY 2027, 3.5 percent in FY 2028, 3.8 percent in FY 2029, and 3.9 percent in FY 2030;
- 2.0 percent salary increases for SOQ-funded positions, state, and state-supported local employees (previously included in Executive Branch Plan);
- Medicaid adjusted for fall 2024 forecast and assumes CMS actuarial rates in outyears (5.7 percent);
- Adjusts Direct Aid spending for inflation (2.3 percent compounded growth);
- Assumes cash funding for maintenance reserve at FY 2026 levels and equipment for projects; and
- Assumes Rainy Day Fund deposits based on SFAC staff forecasted revenue growth.

Caveats:

- Forecasted revenue and mandatory forecasts may increase or decrease based on economic conditions.

Reminder: Chapter 2 Funded Significant Ongoing Spending Items in FY 2026

Spending Item (GF \$ in millions)	FY 2026
Medicaid and Children's Health Insurance Utilization and Inflation	\$815.1
Teacher and State Employee Pay Raises (3% in each year)	733.5
K-12 Rebenchmarking and Other Policy Changes (At-Risk, ELL and reading specialists)	341.3
Child Care Subsidy Program (excludes VPI participation savings)	266.5
Higher Education Funding Actions	177.2
Medicaid Developmental Disability Waivers and Personal Care Rates	176.6
Debt Service	59.3
Children's Services Act	48.5
Individual Health Insurance Reinsurance Program	47.0
State Employee Health Insurance Premiums	39.1

2025 Session Priorities: Estimates for One-Time Spending Requests

(GF \$ in millions)	FY 2025
Cash for Capital Projects in Planning (including project supplements)	\$1,850.0
1% Bonus - Teachers	~58.0
1% Bonus - State & State-Supported Local	~58.0
Resiliency Items & Extreme Weather (dam safety, flood prevention, etc.)	150.0
Additional Transportation Investments	350.0
Sites – Economic Development	TBD
Other Post Employment Benefits	TBD
VRS Lump Sum Payments	TBD

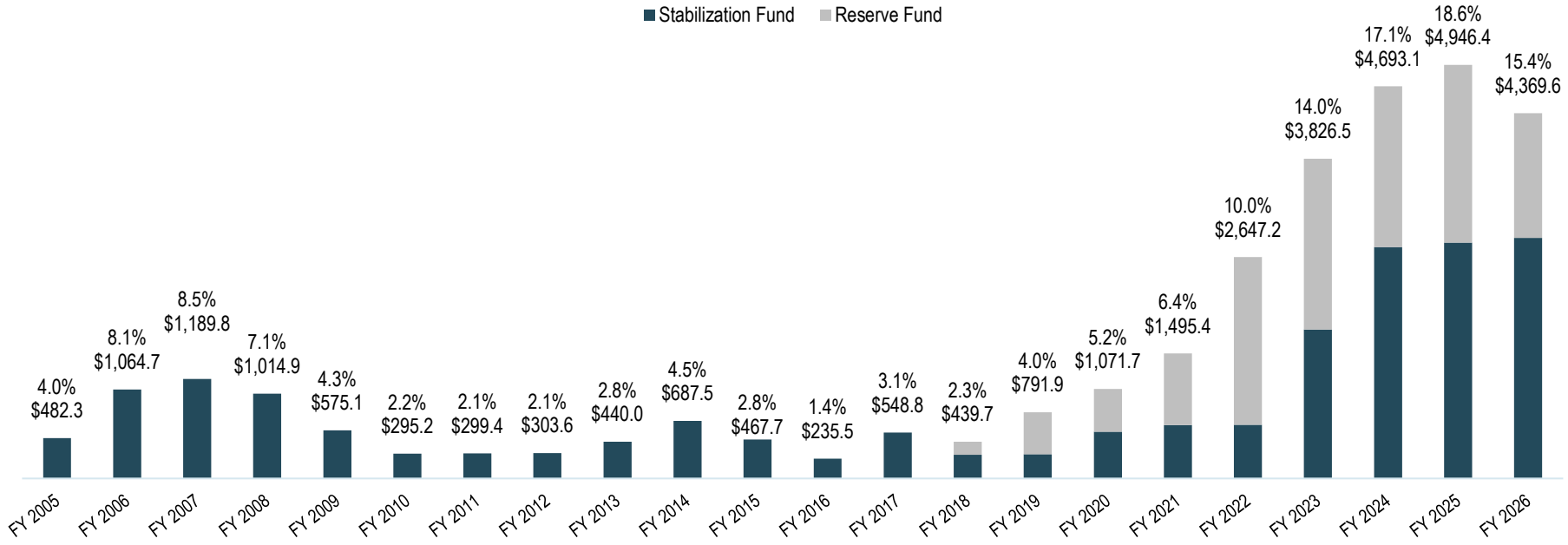
2025 Session Priorities: Estimates for Ongoing Spending Requests

(GF \$ in millions)	FY 2026
Public Education (progress on JLARC near-term recommendations)	\$75.0
1% Salary Increase - Teachers	~61.0
1% Salary Increase - State & State-Supported Local	~61.0
State Employee Health Insurance Premium	27.0
DMAS – Personal Care 3% Rate Increase	28.5
Behavioral Health Crisis Services	28.2
Virginia Department of Health Investments	2.1 - 35.4

Reserve Balances Totaled \$4.7 Billion at FY 2024 Year-End

By FY 2026, reserves are estimated to represent 15.4 percent of certified GF revenues and exceed the 15.0 percent cap provided in Code. However, the Appropriation Act extends the cap to 20.0 percent for this biennium.

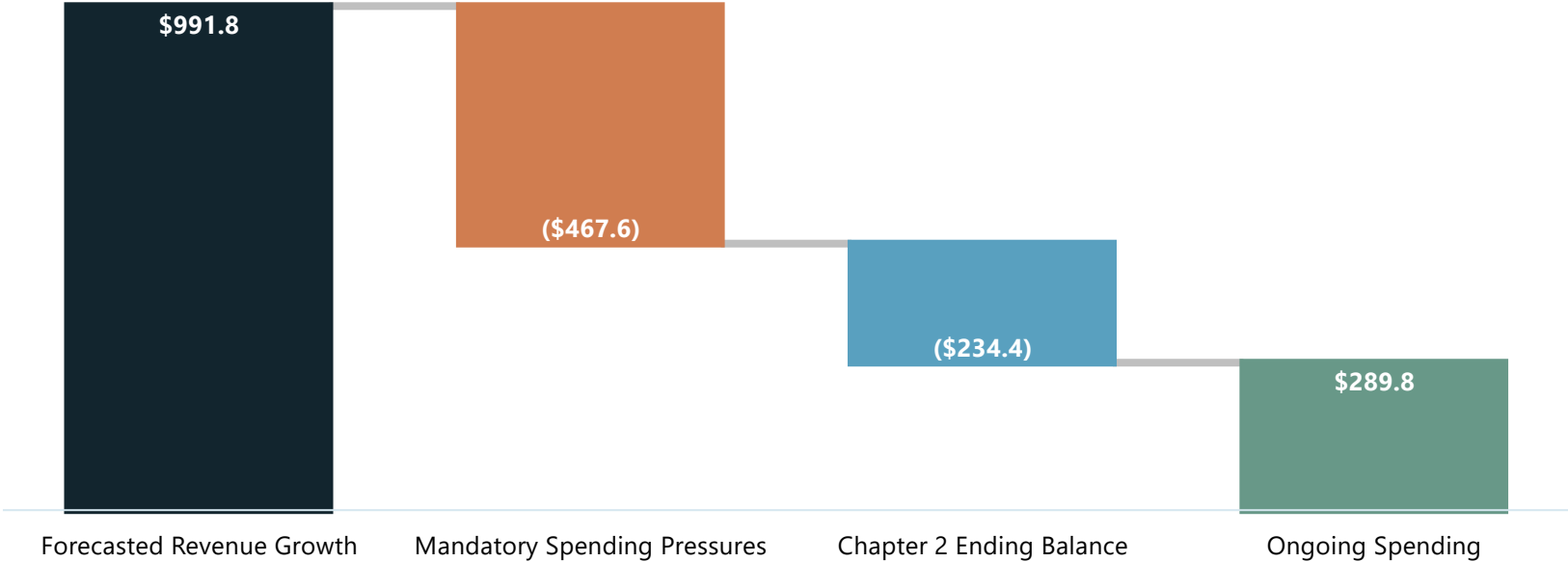
Total of All Reserves



Source: SFAC Staff Analysis, Secretary of Finance Joint Money Committee August 2024 Report.

2025 Session Outlook: Majority of FY 2026 Revenue Growth is Already Consumed by Mandatory Drivers and Prior Actions

FY 2026 SFAC Revenue and Spending Forecast



2025 Session Outlook & Key Takeaways

- Additional forecasted revenue growth is sufficient for must-do, mandatory items; however, \$2.2 billion in remaining resources are one-time only.
- FY 2026 appropriated spending in Chapter 2 has an ongoing resource deficit (meaning prior year balances covered a portion of the spending) and consumes almost a quarter of the SFAC FY 2026 forecasted revenue growth.
- Increased FY 2026 mandatory spending will consume almost 50 percent of the SFAC FY 2026 forecasted revenue growth and increases the base spending in the following four fiscal years.
- SFAC staff six-year outlook indicates ongoing spending must be aligned in FY 2026 with the remaining forecasted revenue growth for FY 2027 after additional mandatory budget pressures.
 - Executive branch six-year plans have acknowledged the issue in FY 2027.
- If balances are used to fund ongoing actions in FY 2026, future revenue growth in the next biennium may be consumed prior to any additional increases for mandatory forecasts or other priorities.
- The General Assembly can use significant one-time resources for one-time items, including those that reduce future liabilities.