S&P Global Ratings

Virginia Senate Finance and Appropriations Committee

U.S. States Navigate A New Era of Policy Shifts and Heightened Uncertainty

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November 20, 2025

Today's Topics

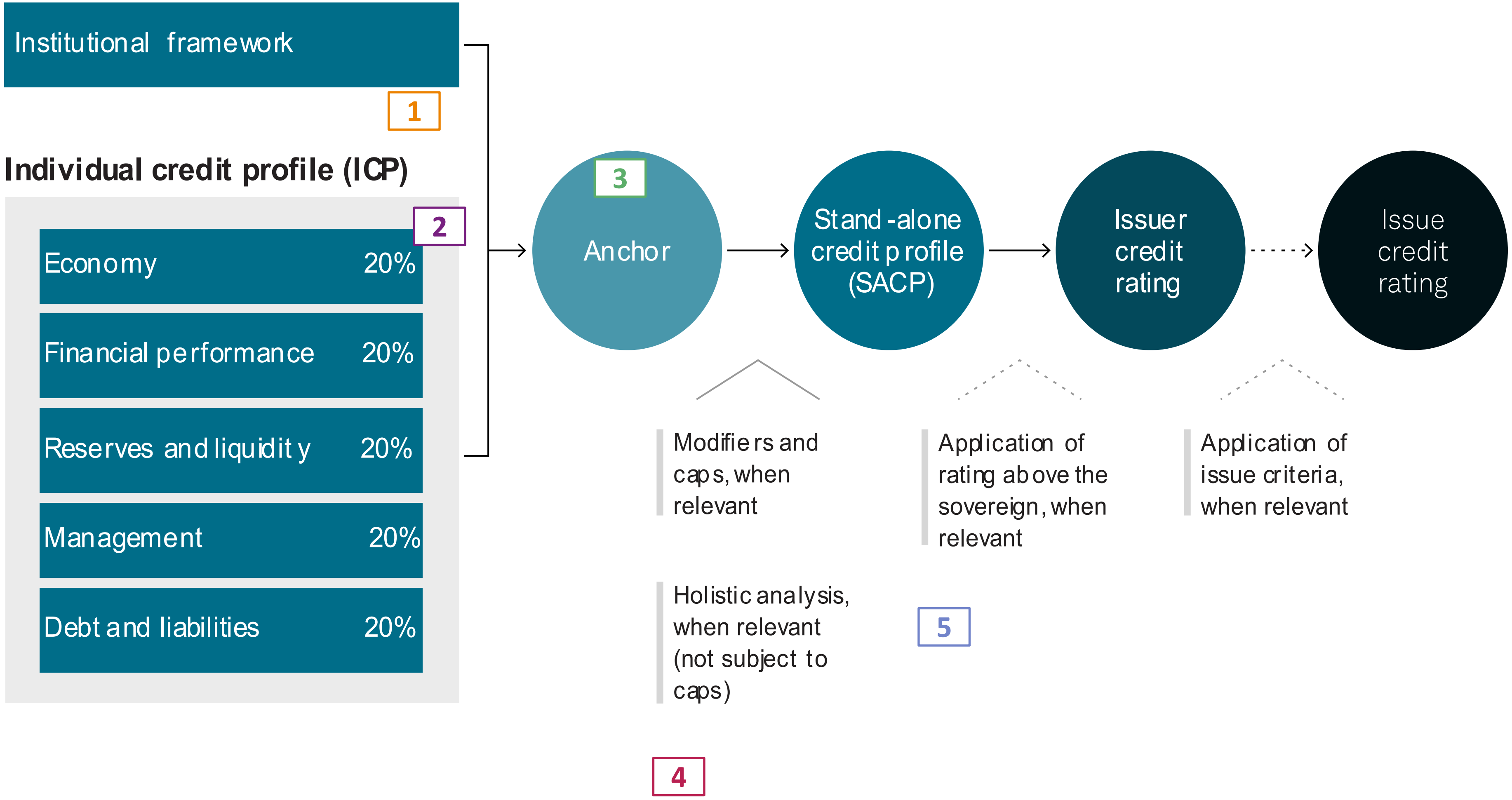
- Understanding Our Rating Approach
- U.S. Economic Outlook
- State Trends & Federal Policy Changes We're Watching
- Q&A

U.S. Public Finance I Understanding S&P Global's Ratings

- An issuer's ***ability*** and ***willingness*** to pay debt in a ***timely*** manner
- Credit ratings are ***forward looking***
- S&P Global ratings are ***opinions***, not guarantees of credit quality or exact measures of the probability that a particular issuer or particular debt issue will default
- The Ratings scale ***is relative*** and based on the creditworthiness of an issuer or credit quality of an individual debt issue, from strongest to weakest, within a universe of credit risk
- Criteria provide the analytic framework to derive the rating opinion

Understanding Credit Ratings | S&P Global Ratings (spglobal.com)

U.S. Public Finance | The Analytical Framework for Rating U.S. Governments



We determine the issuer credit rating (ICR) by:

1. Assessing the Institutional Framework (IF)
2. Establishing the individual credit profile (ICP)
3. Combining IF and the ICP to establish the anchor
4. When relevant, adjusting the anchor for credit-specific modifiers and caps
5. When relevant, applying our methodology for rating U.S. governments above the sovereign

U.S. Economic Outlook

U.S. Economic Outlook | Policy Push And Pull

Our forecast for U.S. real GDP growth will slow to 1.9% (yoy) by Q4 2025 and tick down to 1.8% by year-end 2026.

The combined effects of U.S. trade, immigration, and federal government cost-saving policies are adding downside risk the economy.

The U.S. tariffs that took effect this month push the U.S. effective tariff rate to more than 17%—about 7.3x the 2024 rate of 2.3%.

U.S. tax and spending bill and lower interest rates will boost 2026 growth, but we're watching financial effects on public entities.

High-tech investment is a tailwind, with significant capital investments in data centers, intellectual property, and utilities.

We think there will be two more 25-basis-point rate cuts before the end of this year and another 50 basis points of easing in 2026.

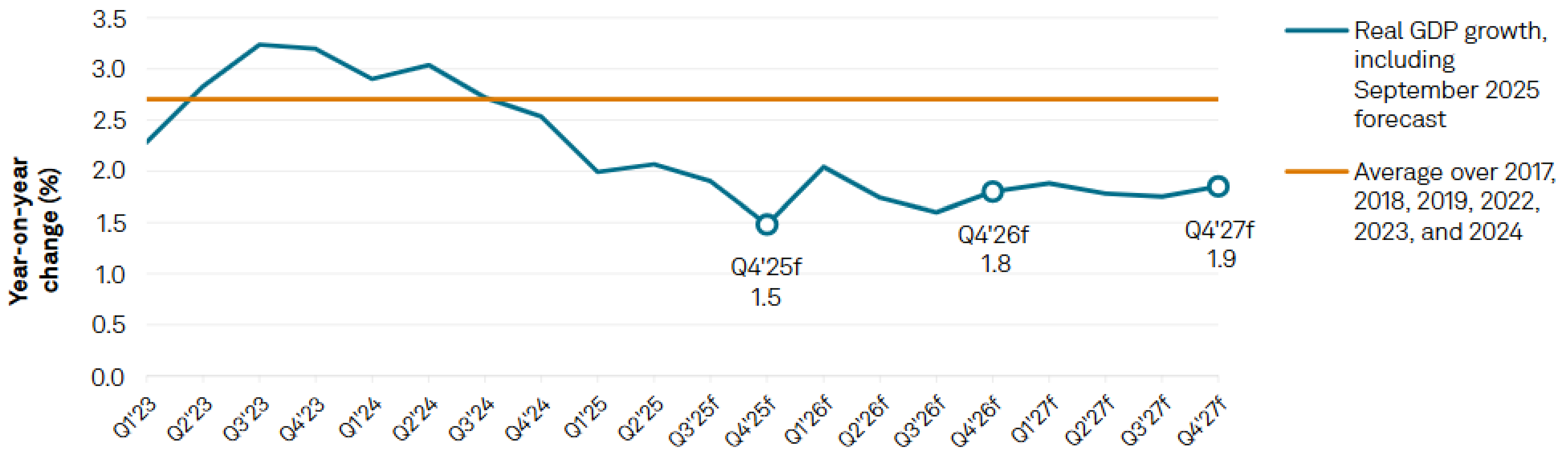
Near-term, we're likely to see transmission of tariff costs to consumers, reduced business investment, and slower hiring.

A "bifurcated" U.S. economy between high-income earners and low-to-middle-income earners is more visible.

U.S. Economic Recession Risks Have Receded Slightly, For Now

The effect of tariffs and still tight monetary policy on economic activity, will likely result in weaker consumer, business, and federal government spending in the second half of the year. While below 2024 real GDP growth (2.8%), our baseline forecast shows economic growth slowing to 1.9% (year over year) and 1.5% (Q4/Q4). Year-over-year trend slows further 1.8% in 2026.

U.S. real GDP growth



f--Forecast. Sources: National Income and Production Accounts (via DataInsight Desktop) and S&P Global Ratings Economics.

Source: Economic Outlook U.S. Q4 2025: Below-Trend Growth Persists Amid A Swirl Of Policy Shifts, September 23, 2025

U.S. Economic Forecast | By the Numbers

S&P Global Ratings baseline U.S. economic outlook (select indicators), September 2025

	2023	2024	2025f	2026f	2027f	2028f
Real GDP (% change)	2.9	2.8	1.9	1.8	1.8	2.0
CPI (% y/y)	4.1	3.0	2.9	2.8	2.4	1.9
Unemployment rate (%)	3.6	4.0	4.3	4.6	4.2	4.0
Federal Funds Rate (%)	5.0	5.1	4.2	3.4	3.1	3.1
Mortgage rate (30-year conventional,%)	6.8	6.7	6.6	5.8	5.1	5.0

Virginia's Economic Forecast | By the Numbers

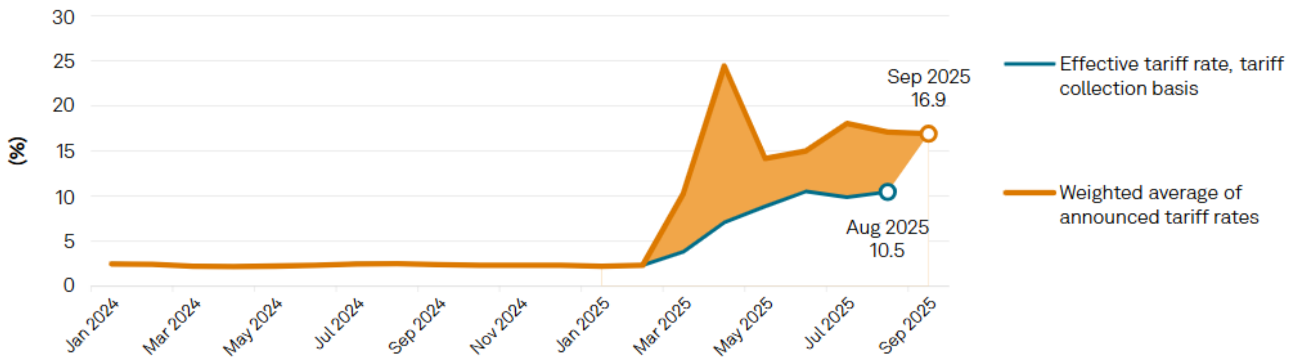
S&P Global Market Intelligence baseline Virginia economic outlook (select indicators), November 2025

	2023	2024	2025f	2026f	2027f	2028f
Real GSP (% change)	3.0	2.4	1.3	0.9	1.5	1.5
Employment (% change)	2.4	1.5	0.8	0.0	0.3	0.2
Unemployment rate (%)	2.7	2.9	3.5	4.0	3.9	3.8
Personal Income (% change)	6.4	5.6	4.6	4.6	5.3	4.5
Population (% change)	0.6	0.9	0.6	0.3	0.2	0.2

Tariff-induced uncertainty clouds the U.S. economic outlook

The U.S. effective tariff rate based on revenue collected in the past two months stands near 11%. Moving forward, we calculate the announced levies will push the effective tariff rate to around 17% — about 7.3x the rate of 2.3% in 2024. Uneven effects and timing could dampen both business and consumer activity.

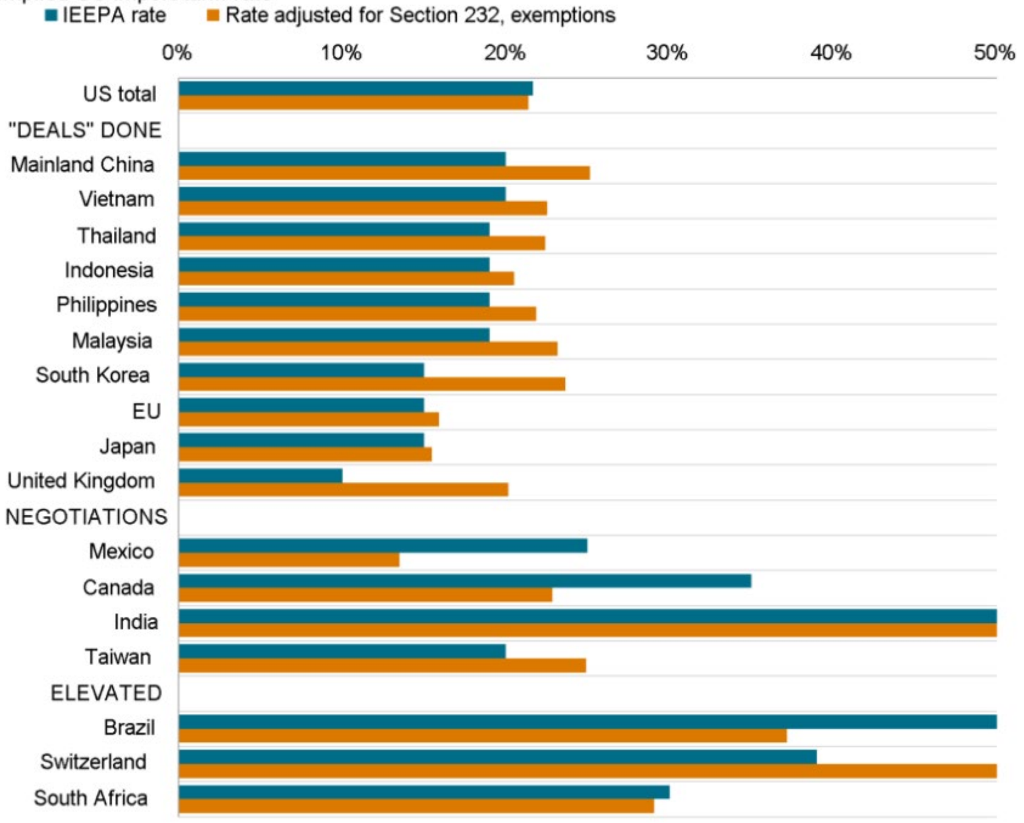
Weighted average of announced U.S. tariff rates versus average effective tariff rate



Notes: Imports for July were used to calculate the current effective tariff rate for August. We used a running estimate for August with respect to the daily revenue collection reported in the Monthly Treasury Statements. Sources: U.S. International Trade Commission DataWeb, White House, Federal Register, and S&P Global Ratings Economics' calculations.

Dealmaking does not necessarily deliver radically reduced rates

Implied US import tariff rate

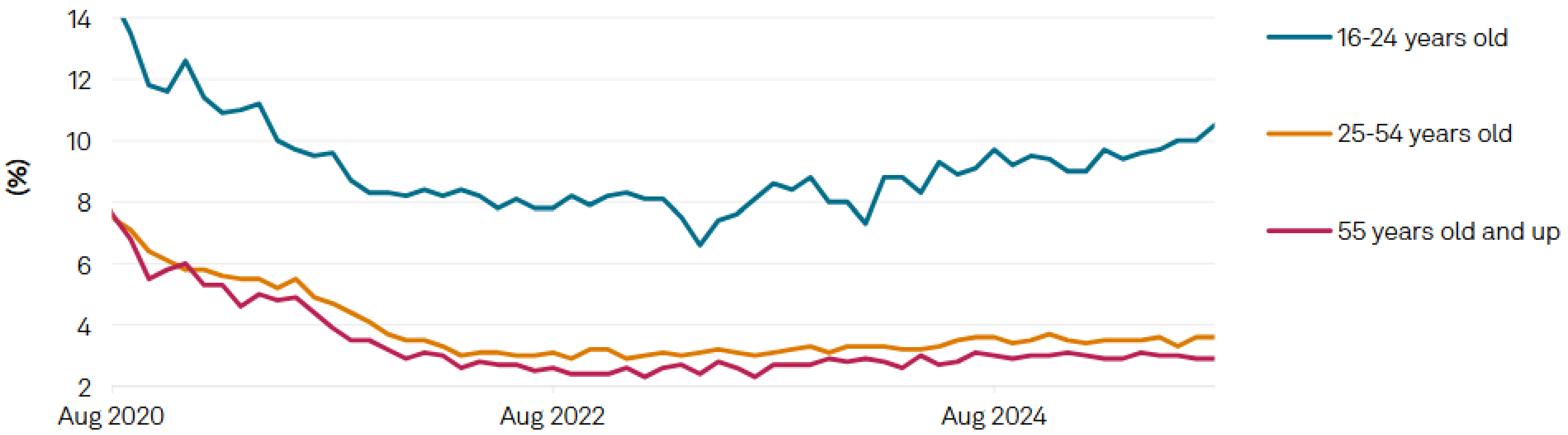


Data compiled Oct. 16, 2025.
IEEPA = International Emergency Economic Powers Act.
Source: S&P Global Market Intelligence.

A “Low-Hire, Low Fire” Labor Dynamic Dampens Youth Employment

New entrants to the labor force, especially people who are early on in their careers, appear to be bearing the brunt of the current "low hire, low fire" labor dynamic.

Unemployment rates in the U.S. across working-age groups

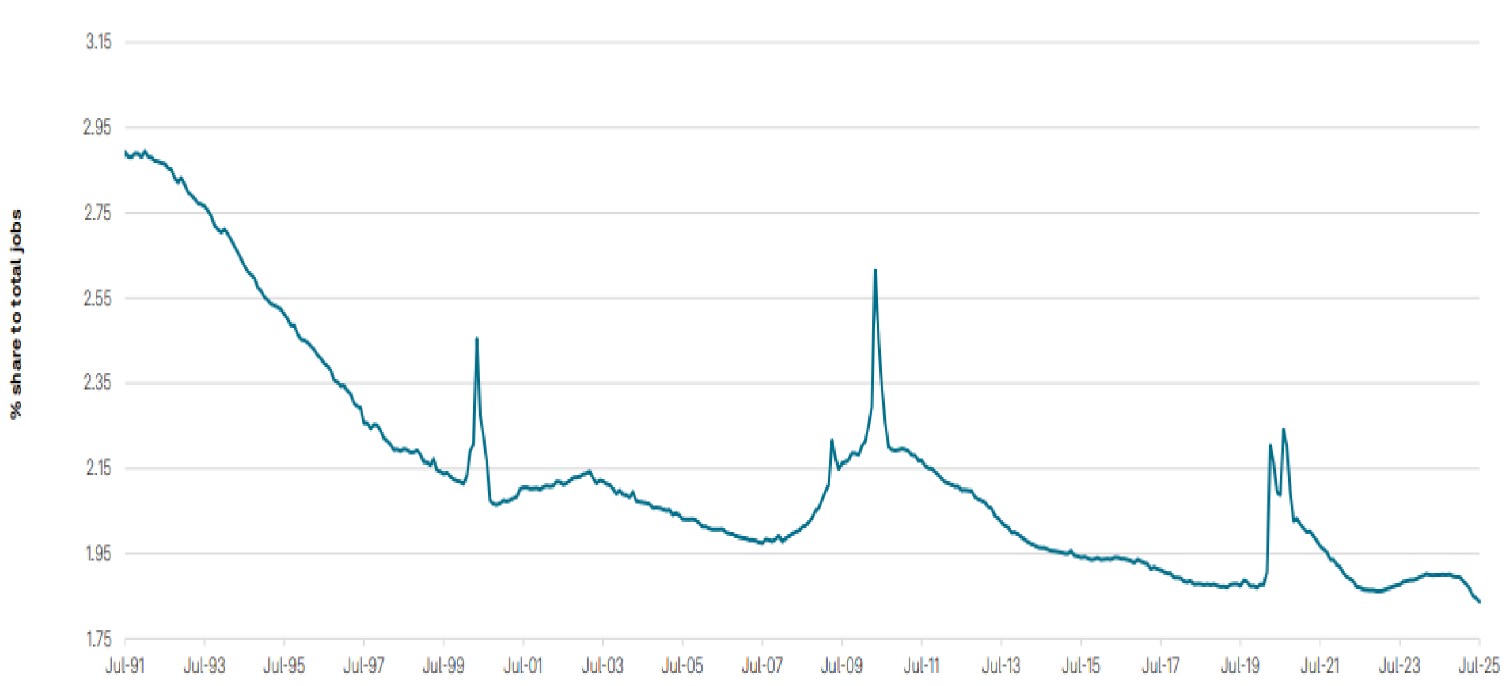


Data through August 2025. Sources: U.S. Bureau of Labor Statistics (via DataInsights Desktop) and S&P Global Ratings Economics.

Public Sector's Share Of Total Employment Is Declining

Federal employment remains a tiny share (under 2%), while state and local governments dominate public payrolls, driven by education, healthcare, and public safety roles.

Federal government employment to total nonfarm employment



Data through July 2025. Sources: BLS and S&P Global Economics.

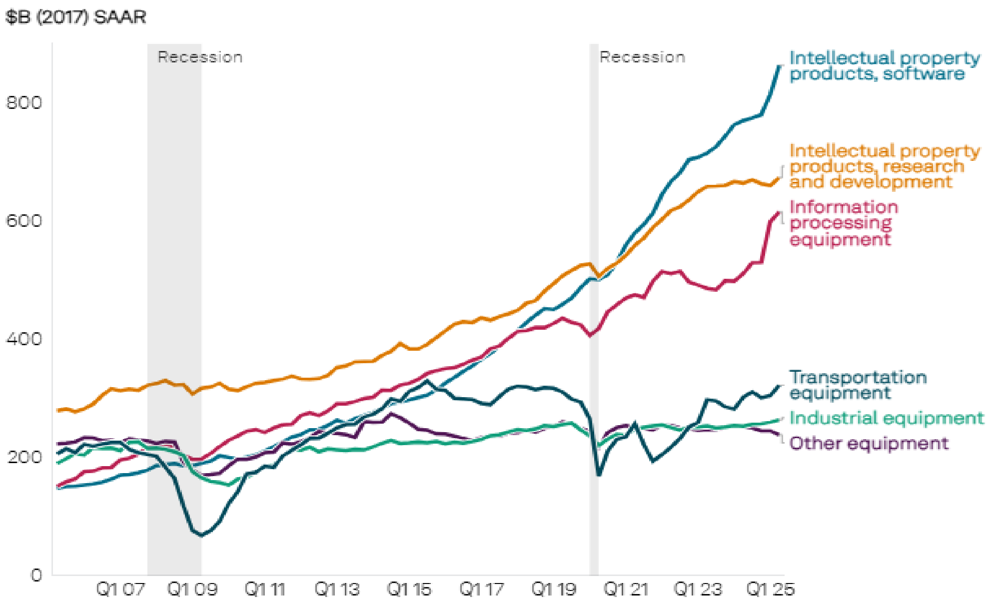
- Nationally, year-to-date federal government separations (employees that leave the payroll for any reason) are up 10% compared to same period last year, while YTD hiring is down 29%.
- The federal government has reduced net employment levels by more than 80,000 between January and July 2025. 11,200 of those jobs were in Virginia.
- Excluding federal employment, Virginia's year-over-year employment growth was 1.1% in June 2025, a similar growth rate to the past year. Growth is driven mainly by education and health services, and local government.

Boom Times For Data Centers

Intellectual Property Products (largely AI-related) CapEx investment is outpacing all other sectors. Business investment related to AI is offsetting weakness in other investment areas and in the economy at large.

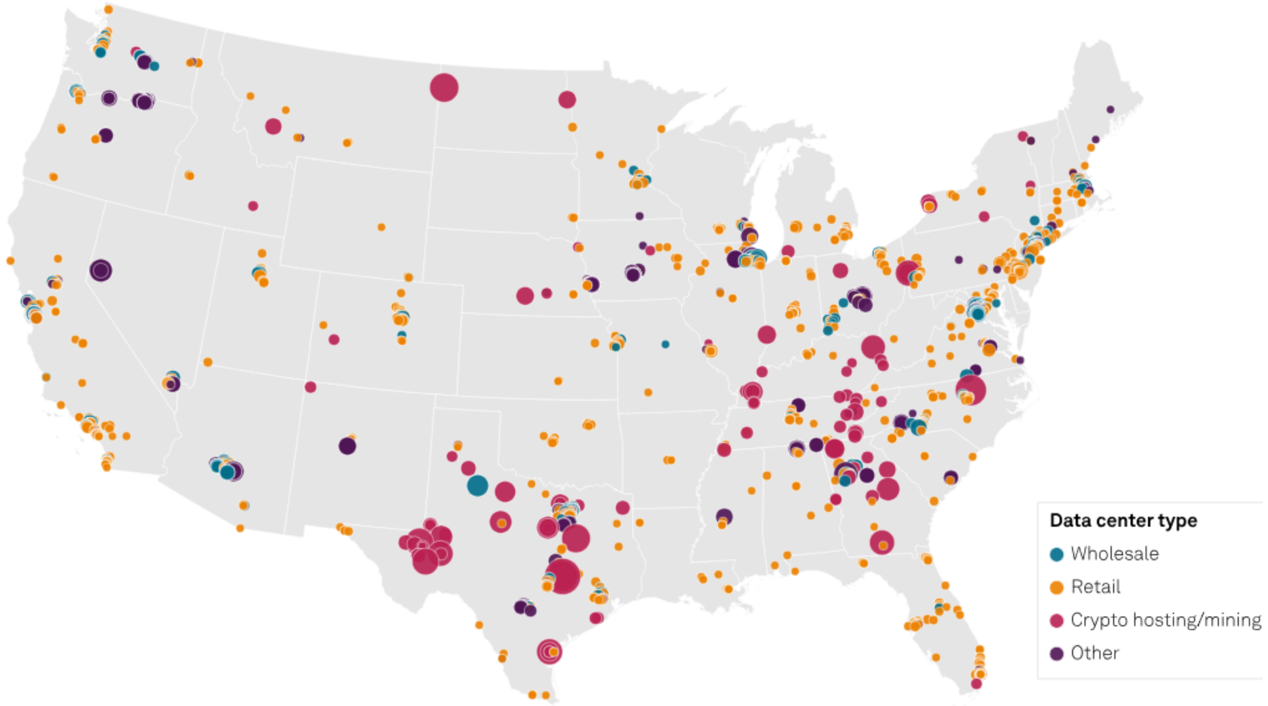
Capital expenditure on IPP now outruns more traditional spending on transport and industrial equipment

Hover over/click lines to view exact values



As of Q2 2025.
SAAR = seasonally adjusted annual rate.
Source: U.S. National Income and Production Accounts (NIPA) via S&P Global Market Intelligence DataInsight Desktop, S&P Global Ratings Economics.

Operational data centers in the contiguous U.S.*

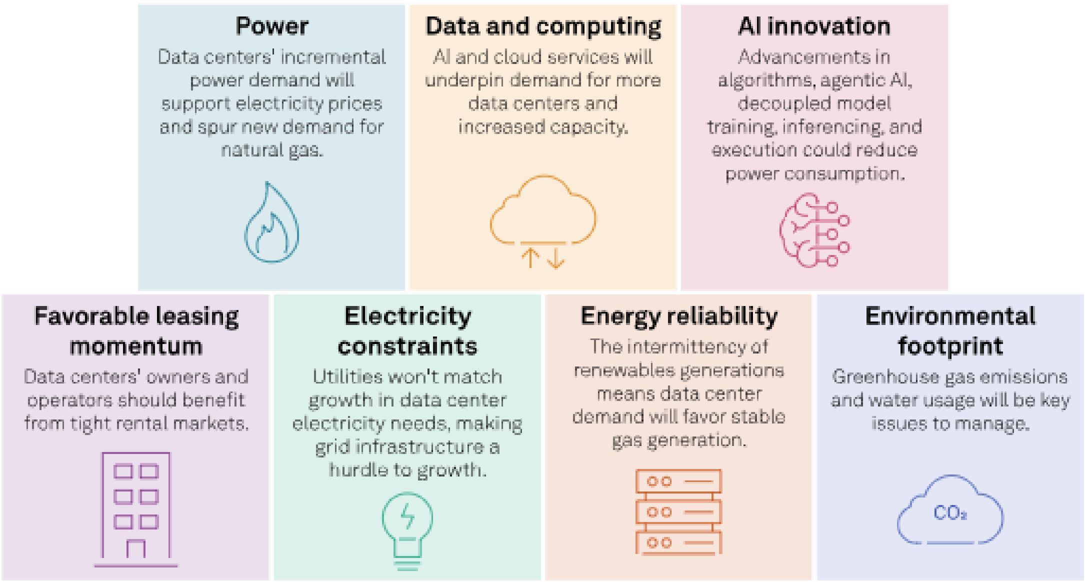


*Data as of first-quarter 2025. The circles are sized accordingly to kW of UPS power utilization in each data center. kW--Kilowatt. UPS--Uninterruptible power supply.
Sources: S&P Global Market Intelligence 451 Research and S&P Global Ratings.

Rapid Growth In Data Center Development Creates Opportunities And Issues

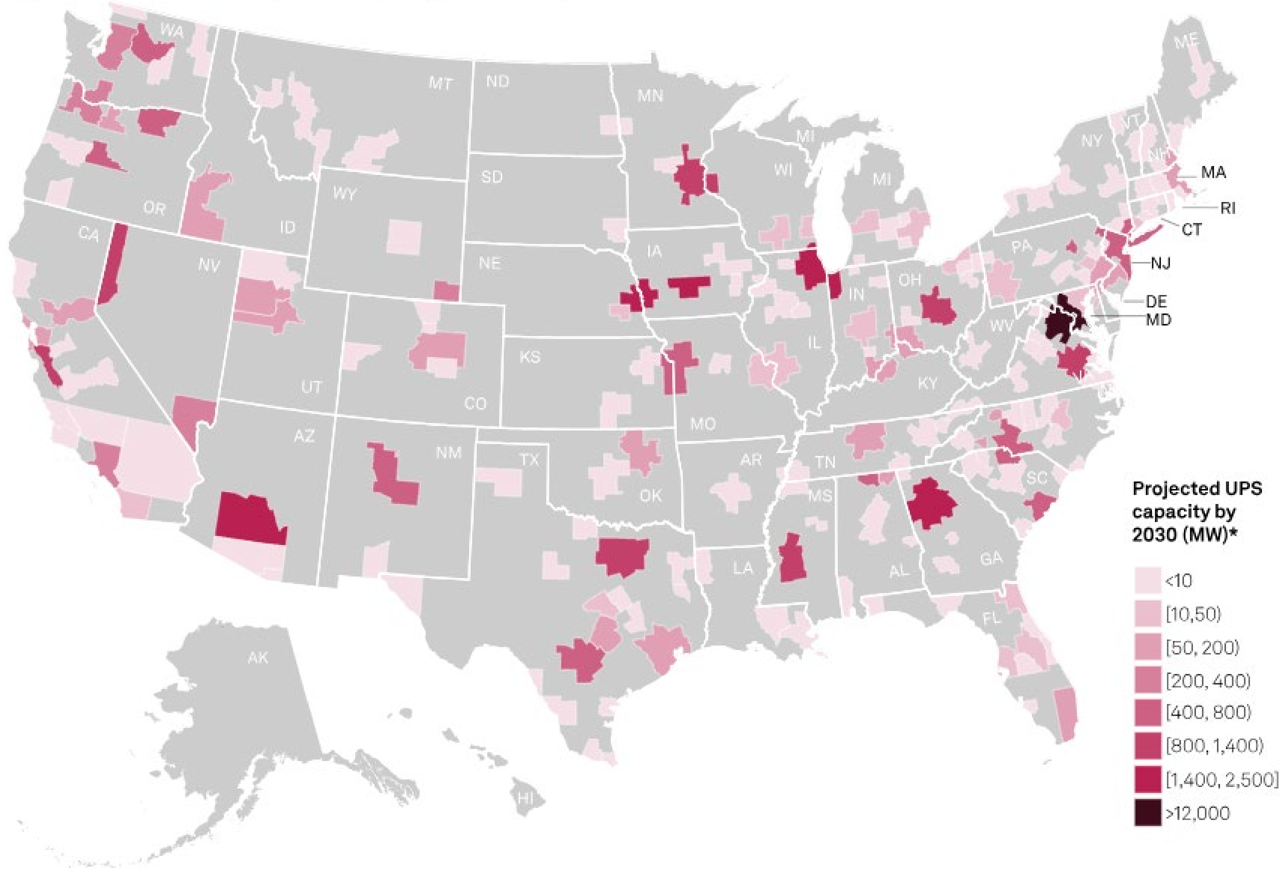
Surging Demand Will Benefit And Test The U.S. Power Sector, Labor Dynamics, and Productivity

Data center growth: Key considerations



Source: S&P Global Ratings.

Significant expansion of power capacity across key U.S. markets

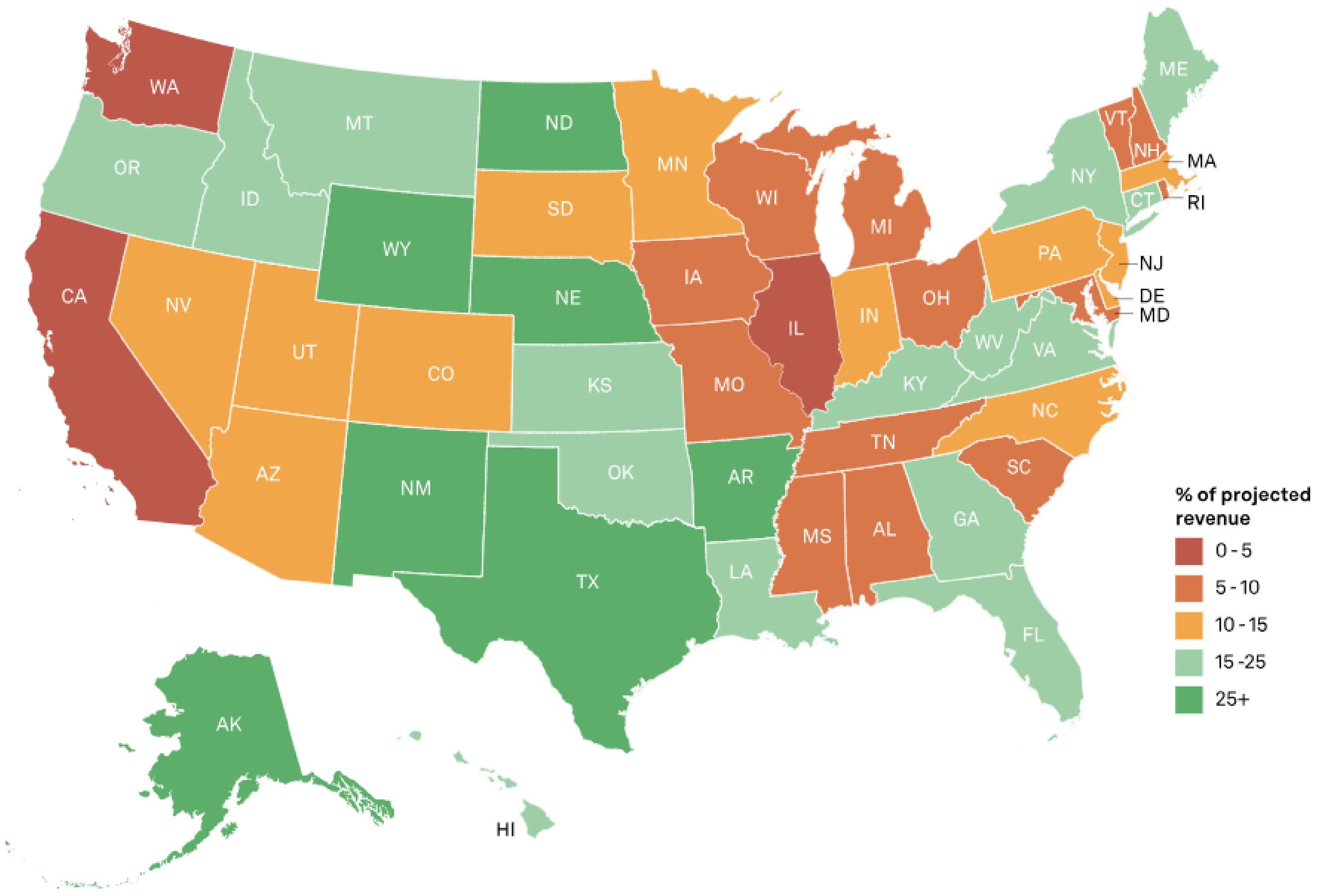


State Trends & Federal Policy Changes We're Watching

Reserves Provide A Financial Buffer For Many States

State balance sheets remain healthy, with rainy-day funds largely maintained near all-time highs, which could provide short-term financial relief as budget officers navigate potentially worsening financial conditions.

States' projected 2026 reserves (% of projected revenue)



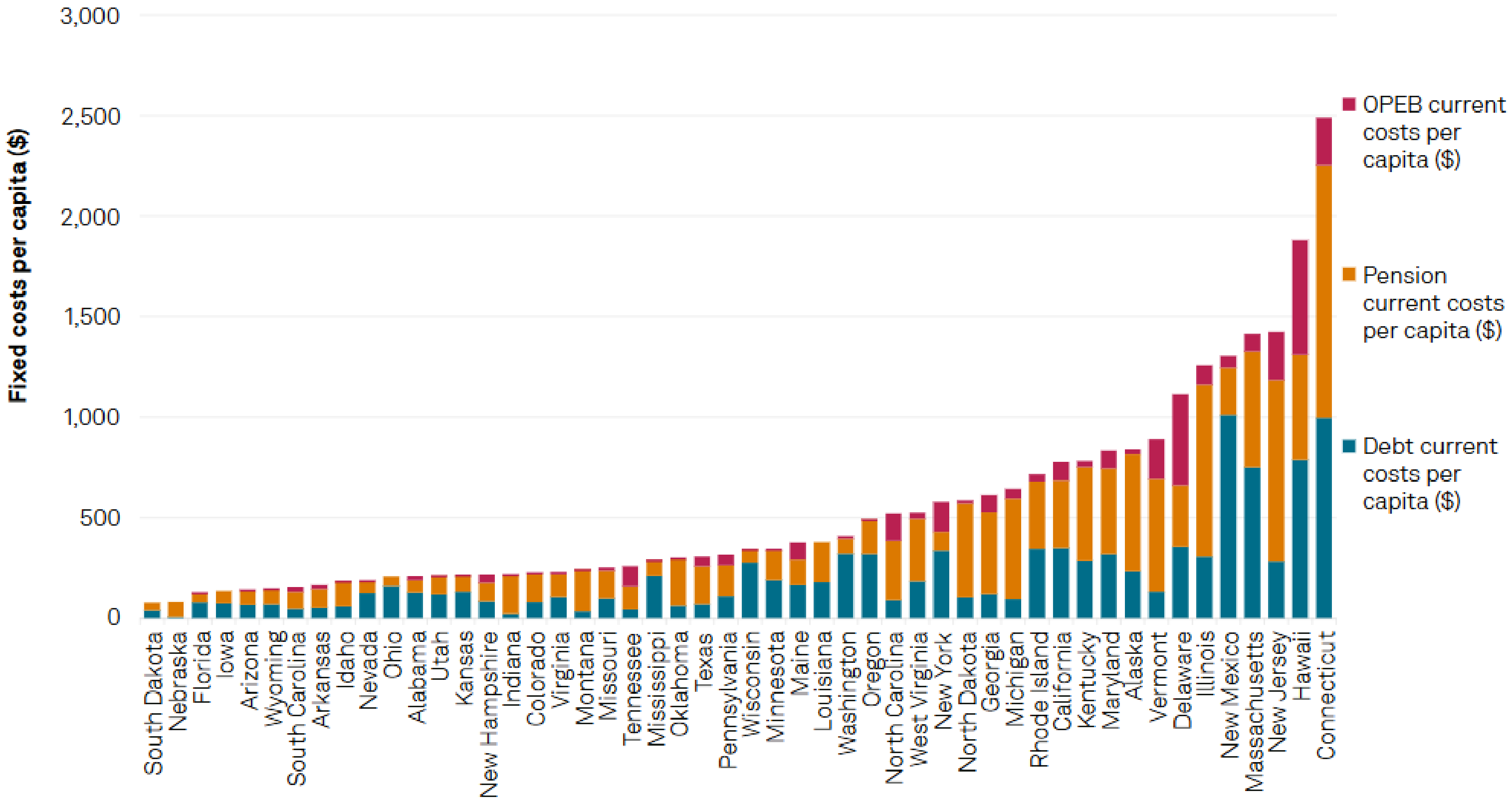
Source: State fiscal 2026 executive budgets.

- In most cases, states have maintained structural balanced operations and sustained healthy liquidity to cushion potential economic or budgetary disruptions.
- We expect state reserves to remain near all-time highs, with average reserve levels at approximately 17% of projected revenue for fiscal 2026.
- Projected fiscal 2026 reserves levels are sufficient to close a budget gap from a 5% revenue decline for 47 states (exceptions are California, Illinois, and Washington), and 34 could withstand a 10% revenue drop.

Combined Debt, Pension, and OPEB Costs Remain Low For Most States

U.S. states' fixed costs per capita for fiscal 2024

(median fixed costs per capita in 2024 = $331)



- **On a per capita basis**, Florida, Iowa, Nebraska, South Dakota, and Wyoming have the lowest current (fixed) costs, with each of these states below $140 per capita.
- **Seven states**--Connecticut, Delaware, Hawaii, Illinois, Massachusetts, New Jersey, and New Mexico--had fixed costs of more than $1,000 per capita in 2024.
- We expect states' new-sale issuance to accelerate in fiscal years 2025 and 2026 as the Federal Reserve continues to ease monetary policy and states provide matching funding to supplement pandemic-era federal resources that states received and are using for capital infrastructure programs.

Source: S&P Global Ratings. *2024 annual comprehensive financial reports are unavailable for Arizona, Illinois, Mississippi, Nevada, Oklahoma. For these states, S&P Global Ratings carried forward certain debt, pension, and OPEB costs from fiscal 2023.

S&P Global Ratings | What We're Watching

Policy Shifts

Future changes to federal policy likely to reverberate at the state and local level

Federal Reconciliation

Medicaid and SNAP impactful to states and health sectors, but will have a broad reach

Tariffs

Uncertainty not directly affecting public finance, but indirect economic impacts will

Affordability

Increasing costs (e.g., housing, insurance, health, etc.) can increase demand for public services

Natural Hazards

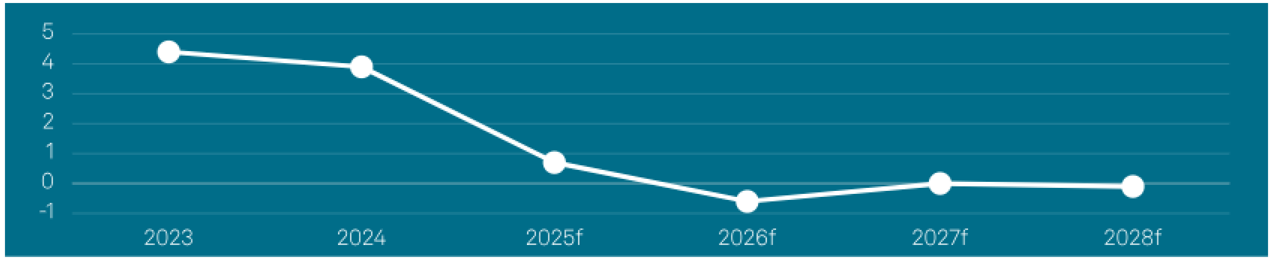
Extreme weather continues to inflict uncertainty and economic harm

Wildcards

- Technological Disruption
- Geopolitical Tensions
- Demographics

U.S. Public Finance I H.R.1, the Federal Tax and Spending Bill

State and Local Government Spending on a Downward Trend



$9,155 versus **$5,994** — Average SALT deduction in Connecticut compared with Wyoming, the highest and lowest deduction rates in 2022

$1.1 trillion — Lost GDP through 2034 due to foregone clean energy manufacturing and construction

15% — Estimated percentage of Medicaid spending affected by Medicaid cuts over 10 years

1.2 million — Estimated increase in affordable housing units over 10 years provided by housing tax credits

$2.9 trillion — Estimated investment necessary over 10 years to achieve good repair of infrastructure assets

$3.4 trillion — Total size of final tax bill

- Less near-term impact on state ratings than earlier proposals, but there are longer-term implications for credit quality.
- U.S. states and not-for-profit health care providers are likely to be affected by new Medicaid stipulations.
- Modifications to some federal income tax provisions could benefit individuals in states with high tax burdens and potentially support employees in some industries.

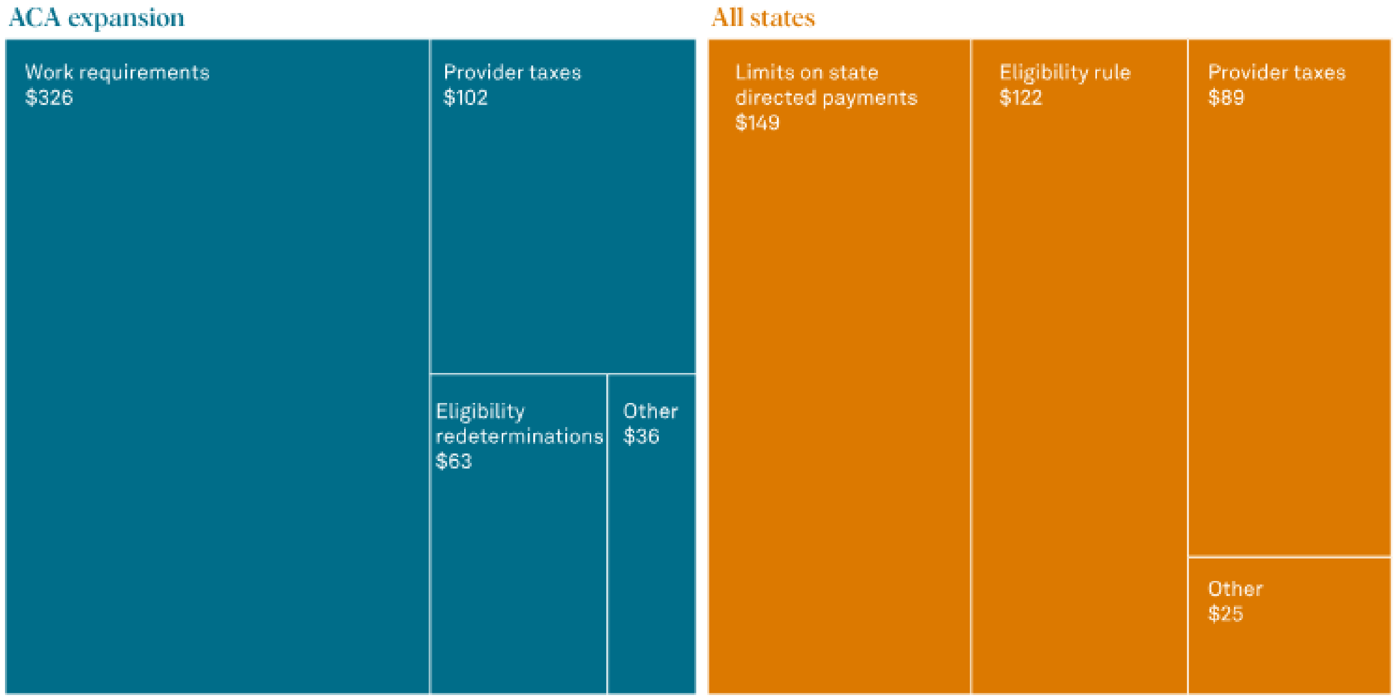
The Tax Bill Comes Due: Near-Term Risks Are Low, Long-Term Pressures Rising For U.S. Public Finance Entities, July 7, 2025

f--Forecast. SALT--State and local tax.
Sources: Bipartisan Policy Center/IRS, Energy Innovation Fund, Kaiser Family Foundation, Novogradac & Co., American Society of Civil Engineers, CBO, Energy Information Administration, S&P Global Ratings.

Federal Medicaid Program Reductions In The Federal Tax and Spending Bill

Changes from the recent bill that will likely affect states to varying degrees

CBO's Estimated 10-year federal spending cuts, by policy category ($ bil.)



Note: Over the 10-year period, the Medicaid spending reductions total $911B, including $79B in estimated Medicaid spending interactions. Without accounting for interactions, the total is $990B. See Methods in "Allocating CBO's Estimates of Federal Medicaid Spending Reductions Across the States: Enacted Reconciliation Package" for more details.
Source: KFF analysis of CBO estimates of the enacted reconciliation package

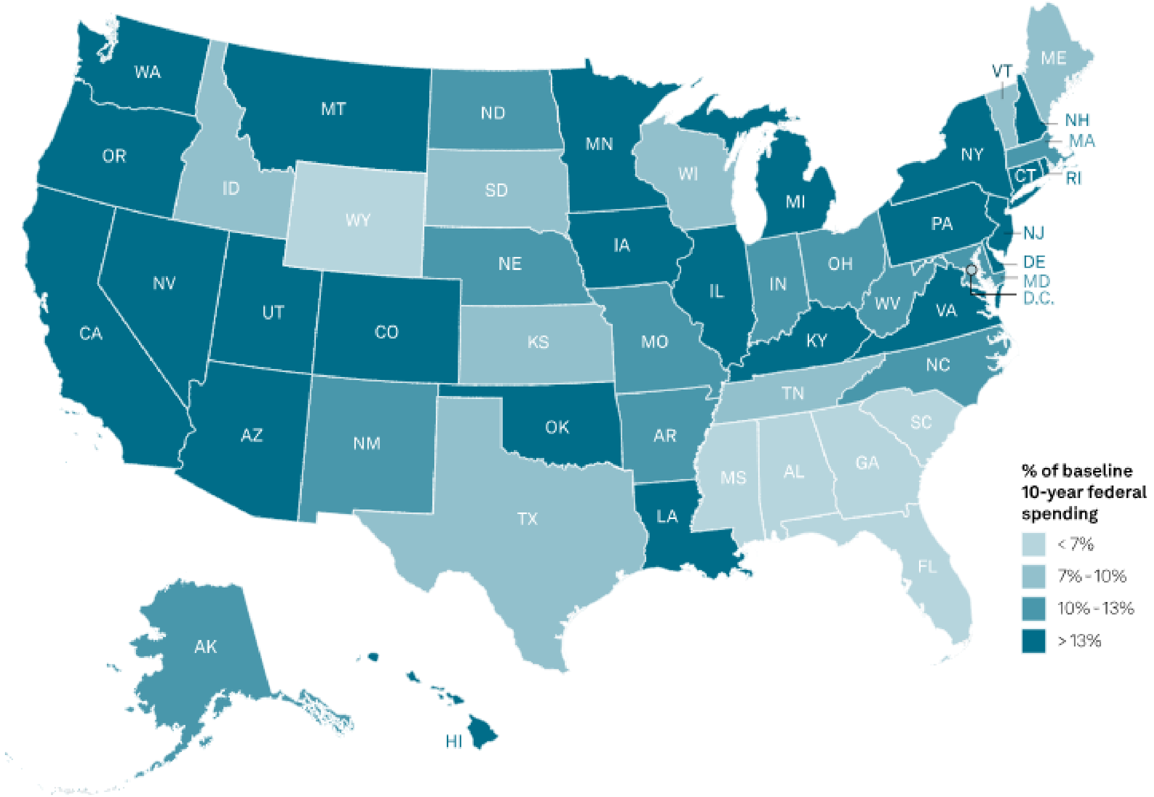
Source: Commentary | "U.S. Budget Bill Is Negative For Health Care Services Although Financial Impact Will Likely Unfold Over Time And Vary By State And Issuer," August 19, 2025

- Work requirements for the ACA-based Medicaid expansion population beginning at the end of 2026, although these could be delayed upon state request and federal approval until the end of 2028;
- Redetermination of Medicaid eligibility at least twice a year (up from once a year);
- Freeze of provider-fee tax programs in non-Medicaid expansion states beginning July 4, 2025;
- Gradual provider-fee tax decreases for Medicaid expansion state programs that are above 3.5% of net patient revenues starting in 2028 to reach 3.5% by 2032;
- State-directed payment programs will gradually decrease to either 100% of Medicare rates (Medicaid expansion states) or 110% of Medicare rates (non-Medicaid expansion states) beginning in 2028;
- Updated language and provisions around the ACA health exchange enrollment could adversely affect that group of insured lives; and
- Removal of the temporary federal funding incentive, implemented by the American Rescue Plan Act, for states to pursue Medicaid expansion.

State-Specific Impacts of The Federal Tax and Spending Bill on Health

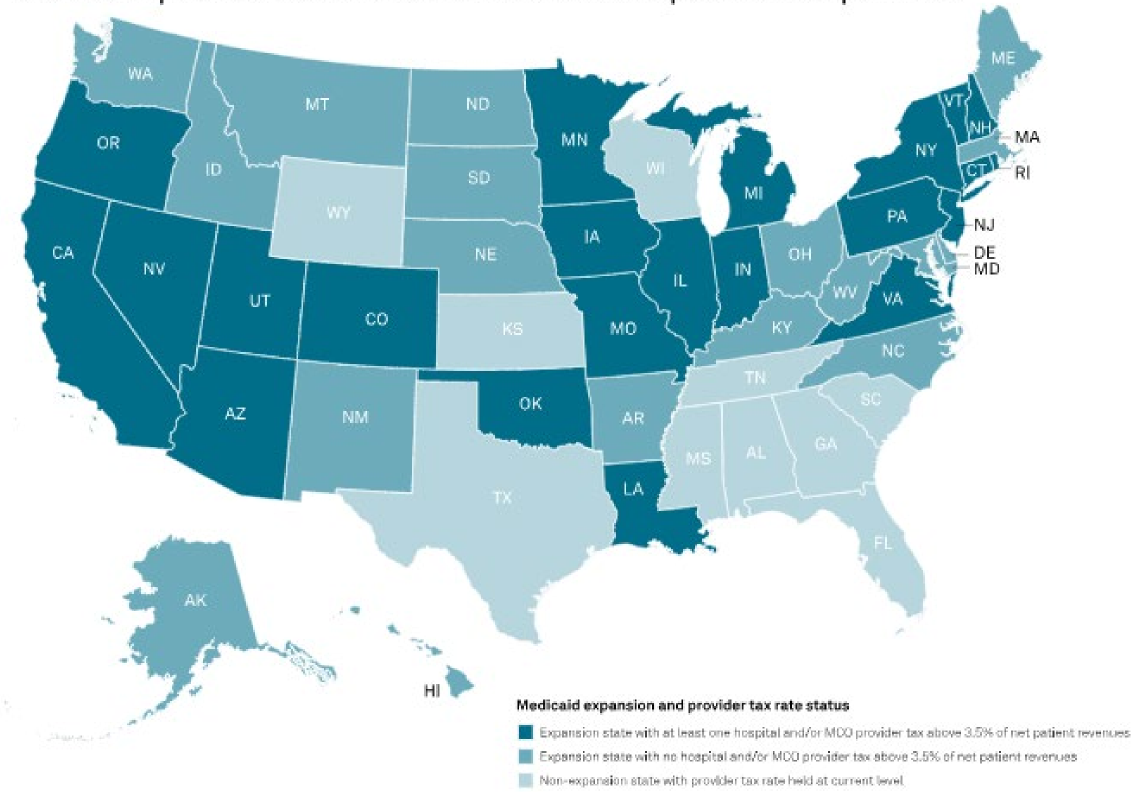
Backloaded provider-fee tax and directed payment program changes, along with short-term additional funds for rural hospitals, provide planning and transition time

Federal Medicaid cuts in the enacted reconciliation package, by state
As a % of 10-year baseline federal spending (2025-2034)



Source: Annual KFF survey of state Medicaid officials conducted by Health Management Associates, October 2024.

22 Medicaid expansion states face reduced federal revenues from provider tax rate phase down

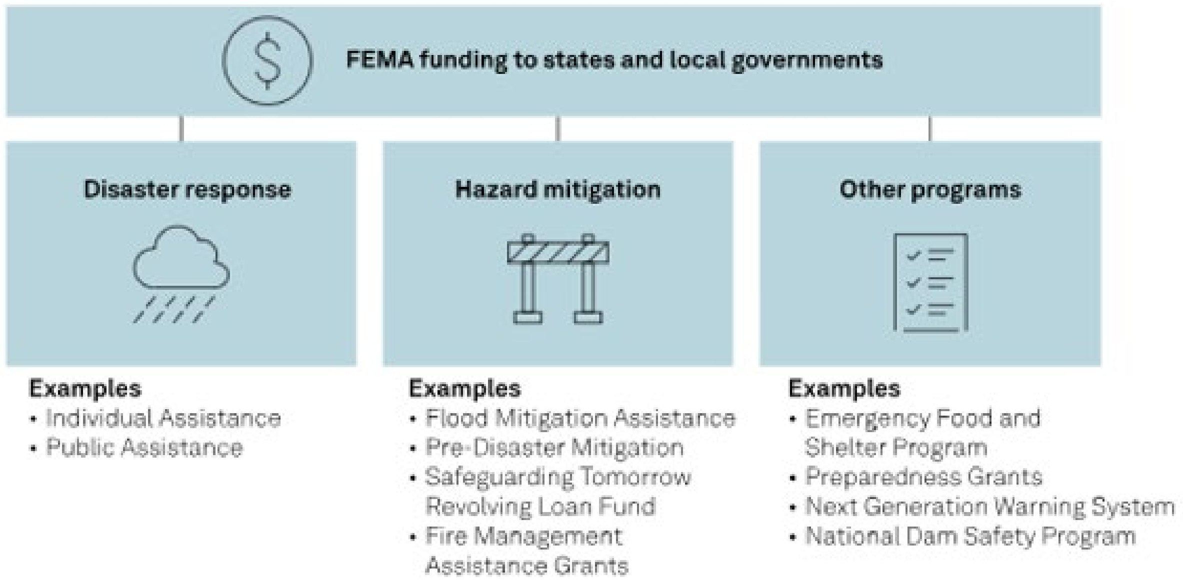


MCO--Managed care organization. Illinois has both a hospital and MCO tax that exceed 3.5% of net patient revenues. California, Louisiana New Jersey, and Pennsylvania levy an MCO provider tax rate exceeding 3.5% of net patient revenues. Other referenced states levy a hospital provider tax rate exceeding 3.5% of net patient revenues.
Source: S&P Global Ratings.

Sources:
Commentary | "**U.S. Budget Bill Is Negative For Health Care Services Although Financial Impact Will Likely Unfold Over Time And Vary By State And Issuer**," August 19, 2025
Credit FAQ | **"The Changing U.S. Federal-State Relationship's Impact On State Credit Quality,"** September 24, 2025

U.S. Public Finance I Federal Disaster Relief Funding Proposals Raises Risks

FEMA provides disaster and hazard mitigation financial support through multiple programs



Certain Hazard mitigation programs, such as Building Resilient Infrastructure and Communities (BRIC) are currently paused. Source: FEMA.

Proposed Changes

Raising the threshold for per capita damage required to obtain a disaster declaration by up to 400%

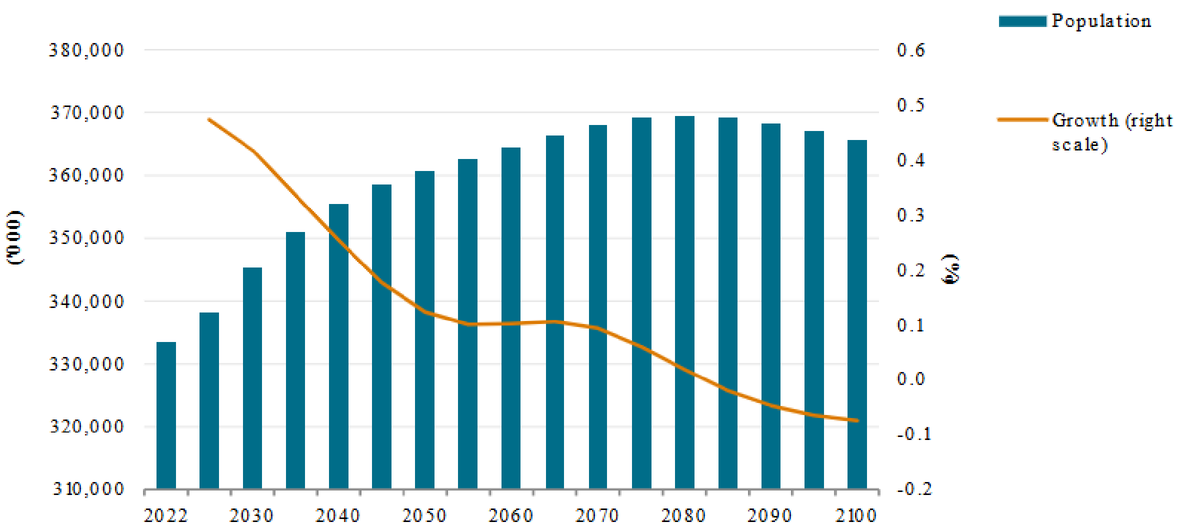
Limiting the federal cost-sharing portion of disaster recovery

Placing greater emphasis on state and local government's preparedness and response to disasters

Read more: Federal Disaster Relief Funding Proposals Could Elevate Credit Risks For U.S. Governments, June 3, 2025

Projected U.S. Population Growth Slowdown Has Long-Term Implications, Including Changing Service Delivery Needs And A Smaller Workforce

U.S. Projected Population Growth Trends Will Show Multi-Year Declines Starting Later This Century



Source: U.S. Census Bureau.

Impacts of Demographic Trends and Aging On Public Finance Entities

	Education	Health care	Housing	Municipal utilities/power	States and local governments	Transportation
Slowing economic output	N/A	N/A	N/A	N/A	High impact	N/A
Changing stakeholder/ service demand (including enrollment, enplanements)	High impact	Low impact	High impact	Low impact	N/A	Moderate impact
Declining labor force participation	Moderate impact	Moderate impact	Low impact	Moderate impact	High impact	Moderate impact
Escalating service costs (including Medicaid, wages, pension)	Moderate impact	High impact	N/A	Low impact	High impact	Low impact
Reduced affordability of services provided	Moderate impact	Low impact	High impact	High impact	Low impact	N/A

WEAKNESS

High impact Direct and significant impact on budget or operations that could lead to pressures without actions of management.

Moderate impact Indirect impact on budget or significant ability to adjust budget or services to adjust to changing trends.

Low impact Limited impact on budget or operations.

N/A--Not applicable. Source: S&P Global Ratings.

Commentary: **Changing Demographic Trends Could Affect U.S. Public Finance Issuers' Creditworthiness In Varying Ways**, published June 26, 2025

U.S. Public Finance I Top 10 Credit Characteristics of Highly Rated Issuers

- Focus on structural balance
- Strong liquidity management
- Regular economic and revenue updates to identify shortfalls early
- An established rainy day/budget stabilization reserve
- Prioritized spending plans and established contingency plans
- Strong long term and contingent liability management
- Comprehensive multi-year financial planning
- Formal debt management policy
- Capital planning process, including risk mitigation
- Well defined and coordinated economic development strategy

Q&A

Appendix

U.S. Public Finance I Supplemental Nutrition Assistance Program (SNAP) Payment Error Rate State Contribution Levels

Error rate (%)	State required match (%)
Below 6	0
6 to 8	5
8 to 10	10
Over 10	15

SNAP--Supplemental Nutrition Assistance Program.

Timeline Of Key Health Policy Provisions In Federal Tax And Spending Bill

Less near-term impact on ratings, but there could be longer-term implications for state credit quality

2025

Dec. 15
Rural Health Transformation Program deadline for CMS approval/denial of applications

2026

Jan. 1
Expiration of enhanced tax credits on the health echanges

Oct. 1
Non-citizen Medicaid eligibility limitations on federal funding

2027

Jan. 1
- Eligibility redeterminations for Medicaid expansion population required every six months begins
- Implementation of Medicaid work/community engagement requirements
- Limit retroactive coverage for Medicaid/CHIP for new applicants

Oct. 1
Impose moratorium on provider taxes, reducing the 6% threshold rate by 0.5% annually until it reaches 3.5%

2028

Jan. 1
SDP reductions begin, reducing payments to hospitals/providers by 10% per year until the SDPs are not greater than 100% of Medicare payments

Oct. 1
Requires states to impose cost sharing of up to $35 per service on expansion adults with incomes 100%-138% FPL

CMS—Centers for Medicare & Medicaid Services. CHIP—Children's Health Insurance Program. SDP—State-directed payment. FPL—Federal poverty level.
Source: S&P Global Ratings.

spglobal.com/ratings