

Virginia's Revenue and Budget Outlook

November 20, 2025

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2025 Session Recap



Chapter 725 Recap

- Adjustments to net GF resources totaled \$4.8 billion, including: \$3.3 billion from economic forecast adjustments; \$1.5 billion from prior year balances; and a \$203.0 million transfer from the Revenue Reserve Fund.
- GF spending adjustments totaled \$3.7 billion in operating and \$1.0 billion in capital.
- Chapter 725 has an unappropriated balance of \$47.0 million over the biennium, compared to the \$17.6 million unappropriated balance assumed in Chapter 2, 2024 Special Session I.
- The Governor exercised line-item vetoes totaling \$853.5 million, which provide additional balances compared to Chapter 725.

Major Actions in Chapter 725 – Focus on Mandatory Spending, Targeted Education Supports, & One-Time Items

Major GF Spending Items in Chapter 725 (\$ in millions)	FY 2024-26 Biennium
Income Tax Rebate	\$977.8
DMAS: Medicaid Utilization and Inflation	632.2
Mandatory Revenue Reserve Fund Deposit	294.5
K-12: Increase Support Cap	222.9
I-81 Corridor Improvement Program	175.0
K-12: \$1,000 Teacher Bonus	134.4
TAX: Revenue Management System Replacement	131.0
K-12: English Language Learner Update	110.7
Children's Services Act Forecast	100.4
SCHEV: Virginia Military Survivors and Dependents Program Tuition Waiver Assistance	90.0
Bonus of 1.5% for State Employees and State-Supported Local Employers	83.1
Higher Education: Maintain Affordability (Institution Operating Support)	55.0
K-12: Special Education Add-On	52.8
Disaster Mitigation	50.0
Community Flood Preparedness Fund [Veto]	50.0
DEQ: Richmond Combined Sewer Overflow	50.0

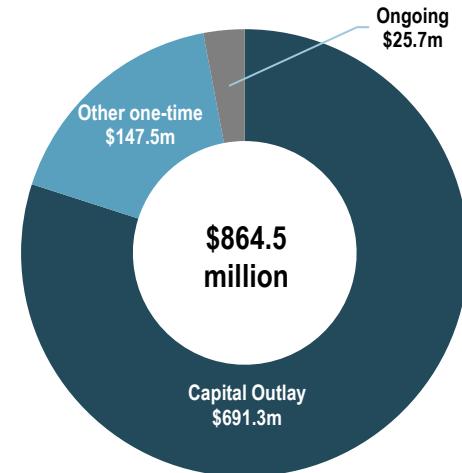
Chapter 725 Provides Tax Relief to Virginians

- **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, 2025 (\$977.8 million).
- **Extends Expiring Standard Deduction, Earned Income Tax Credit, and Pass-Through Entity Tax.** Extends these expiring tax provisions tied to the Tax Cuts and Jobs Act 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.

Veto Actions Increase the “Unappropriated Balance” by \$853.5 million – Mostly One-Time Spending

(\$ in millions)	FY 2025	FY 2026	Total
Chapter 725 Unappropriated Balance	\$13.3	\$33.7	\$47.0
Vetoes-Resource Actions	\$11.0	\$0.0	\$11.0
Vetoes-Spending	(839.2)	(25.3)	(864.5)
Veto Subtotal (add to Balance)	(\$828.2)	(\$25.3)	(\$853.5)
Adjusted Unappropriated Balance	\$841.5	\$59.0	\$900.5

Chapter 725 spending vetoes were 97% one-time items, mainly for capital outlay projects at higher education institutions.



Year-End Balance Sheet Reserved \$838.7 Million for Discretionary Purposes

(GF \$ in millions)	FY 2025
Committed Fund Balance – Appropriation Act	
VMSDEP Tuition Waiver FY 2025 Surplus	\$20.0
Address Reductions to Federal Appropriations in Chapter 725	184.5
Total Committed Fund Balance – General Assembly Commitments	\$204.5
Committed Fund Balance – Statutory	
Revenue Reserve FY 2025 Revenue Surplus	\$312.3
WQIF Part A FY 2025 Revenue Surplus	55.2
WQIF Part B FY 2025 Cash Balances	52.7
Total Committed Fund Balance – Statutory Restrictions	\$420.2
Assigned Fund Balance – Governor Discretionary	
Amount for Additional Budgetary Priorities and Contingencies *	\$838.7
Total Assigned Fund Balance – Governor Discretionary	\$838.7

Amounts **need to be appropriated** by the 2026 General Assembly for these commitments.

Amount **may be appropriated** by the 2026 General Assembly for **one-time priorities**.

Source: Virginia Department of Accounts, 2025 Preliminary Report.

* Includes the FY 2025 vetoed appropriations of \$839.1 million and net sum sufficient adjustments. FY 2026 vetoed appropriations will be reverted in caboose bill.

Revenue Outlook



FY 2025 Economic Growth Outperformed the Forecast

Year-Over-Year Change	Actual	Forecast
VA Employment Growth	1.4%	1.2%
VA Personal Income	5.1	4.8
VA Wages and Salaries	5.0	4.7
VA Real Gross State Product	2.5	1.5
U.S. Real Gross Domestic Product	2.3	1.4
U.S. Real Consumer Spending	2.8	1.7
U.S. CPI	2.6	2.3

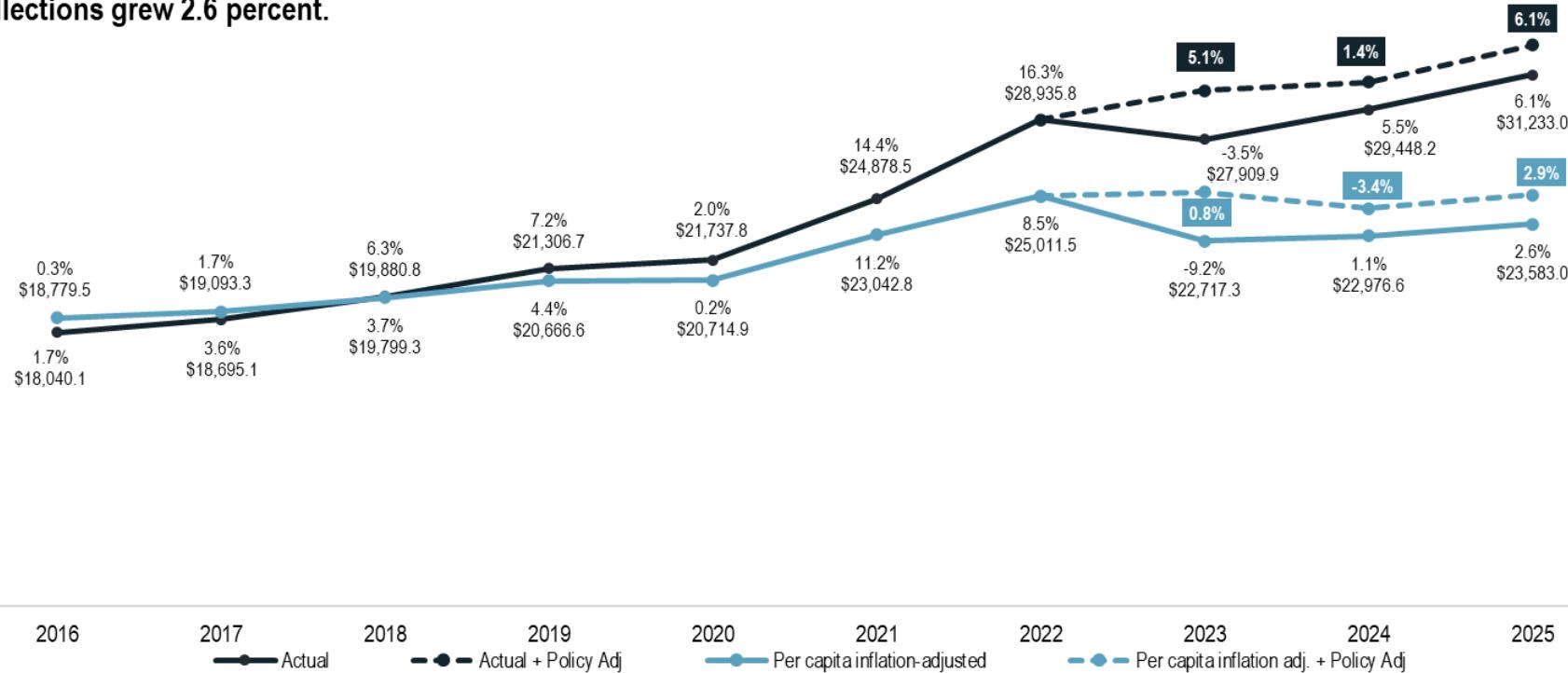
Sources: Virginia Tax.

FY 2025 GF Revenues Exceeded the Official Forecast by \$572.0 million

Source (\$ in millions)	Actuals (year-over-year)				Variance to Ch. 725 Official Forecast
	FY 2024	FY 2025	\$ Change	% Change	
Withholding	\$16,718.2	\$17,561.2	\$842.9	5.0%	(\$19.7)
Nonwithholding	6,563.7	7,518.7	955.0	14.5	729.8
Refunds	(2,971.5)	(3,187.4)	(215.9)	7.3	(375.8)
Net Individual Income Tax	\$20,310.4	\$21,892.4	\$1,582.0	7.8%	\$334.4
Sales and Use	4,709.7	4,812.7	103.1	2.2	14.8
Corporate	1,907.1	1,878.6	(28.5)	(1.5)	87.1
Insurance Premiums	468.2	541.5	73.3	15.6	55.7
Will, Suits, and Deeds	406.5	471.2	64.7	15.9	13.6
All Other	1,646.4	1,636.7	(9.6)	(0.6)	66.6
Total GF Revenues	\$29,448.2	\$31,233.0	\$1,784.9	6.1%	\$572.0

FY 2025 Real GF Revenue Increased 2.6 Percent

In FY 2025, nominal GF revenue collections grew 6.1 percent; however, per capita real GF revenue collections grew 2.6 percent.



Source: Virginia Dept. of Taxation. Quarterly revenue collections adjusted using the U.S. Bureau of Economic Analysis Gross Domestic Product Implicit Price Deflator (Index 2017=100, Seasonally Adjusted) and the U.S. Census Bureau Virginia total resident population. Tax policy actions total \$2,498.7 million in FY 2023, \$1,393.7 million in FY 2024, and \$1,502.5 million in FY 2025.

FY 2026: Year-to-Date Revenue Collections

Major Sources (\$ in millions)	FY 2026 Ch. 725 Forecast	Jul - Oct FY 2026	Jul - Oct FY 2025	% Change		% Req. Growth Nov - Jun
				Actual	Req. by Forecast	
Withholding	\$17,940.3	\$6,051.8	\$5,574.8	8.6%	2.2%	(0.8%)
Nonwithholding	6,373.4	1,533.0	1,579.1	(2.9)	(15.2)	(18.5)
Refunds	(2,599.6)	(594.2)	(651.3)	(8.8)	(18.4)	(20.9)
Net Individual Income	\$21,714.2	\$6,990.6	\$6,502.6	7.5%	(0.8%)	(4.3%)
Sales & Use Tax	4,987.4	1,697.2	1,595.8	6.4	3.6	2.3
Corporate	2,025.5	374.9	461.1	(18.7)	7.8	16.4
Wills/Suits/Deeds	557.0	173.3	157.3	10.1	18.2	22.3
Insurance	503.7	-	-	-	(7.0)	(7.0)
Interest	633.4	284.7	275.4	3.4	6.7	9.5
All Other	939.2	204.5	224.5	(8.9)	(9.9)	(10.2)
Total GF Revenue	\$31,360.4	\$9,725.3	\$9,216.7	5.5%	0.4%	(1.7%)

- GF revenues increased 5.5 percent and are \$508.6 million ahead compared to FY 2025.
- FY 2026 forecast can now be met if revenues contract 1.7 percent over the next eight months.

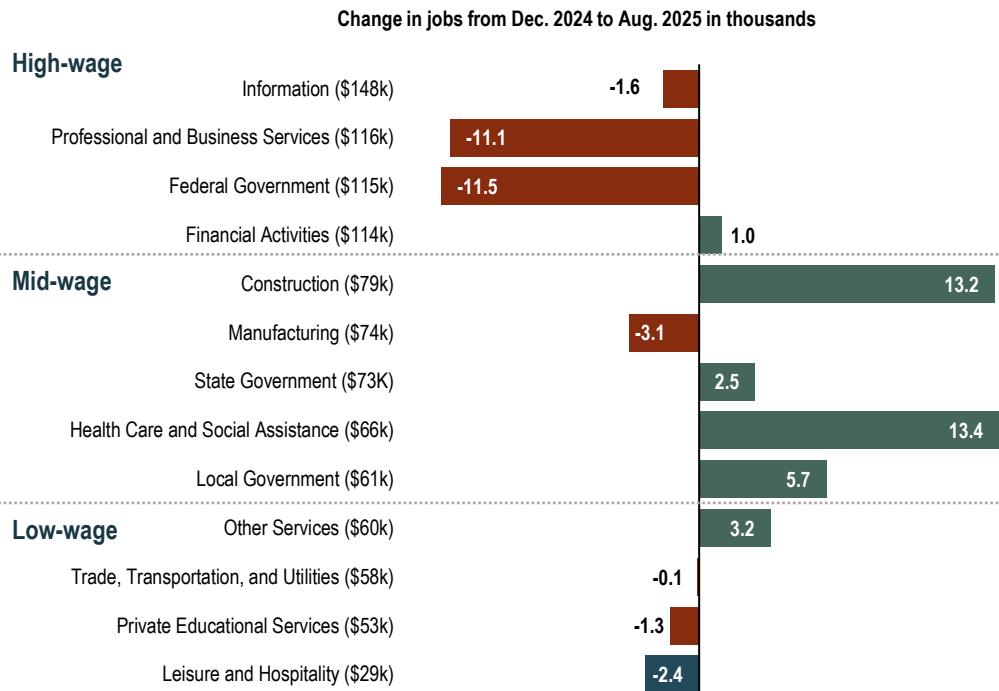
Source: Secretary of Finance, October 2025 Revenue Report.

SFAC Forecast Assumes Baseline Forecast

- FY 2025 revenue base was \$1.8 billion higher than FY 2024 and becomes the base to reforecast growth.
 - Withholding collections increased \$842.9 million over FY 2024.
- SFAC staff forecast assumes the Moody's baseline forecast from September. Moody's baseline forecast is an equal probability that the economy performs better or worse than the projection.
 - Real GDP growth remains weak in the near term with 1.6% in FY 2026, 1.6% in FY 2027, and 2.0% in FY 2027.
 - Employment growth will be slow with low hires and low firings. Unemployment will increase but be offset by slowing labor force participation.
 - Federal Reserve continues reducing the Federal Funds Rate by 25 basis points in December and 25 basis points each quarter until late 2026.
- Economists are generally cautious with most sector job growth contracting. Recent job growth has been concentrated in lower- and mid- wage sectors in Virginia.

Virginia Has Gained More Mid- to Low-Wage Jobs in 2025

From December 2024 to August 2025, Virginia added 7,700 jobs; however, job declines were concentrated in higher paying sectors.

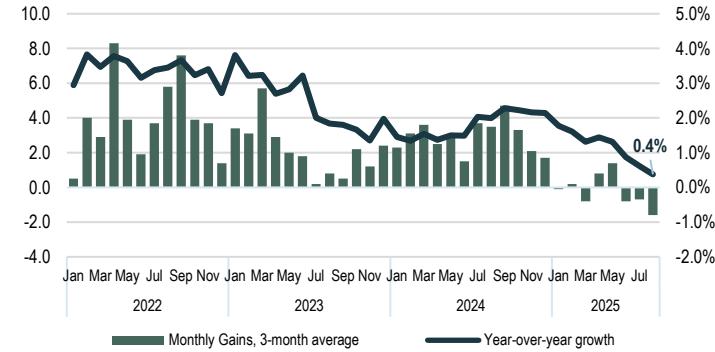


- Jobs increased on net by 7,700 from December 2024 to August 2025 for an annualized growth of 0.3 percent.
 - Gains were largest in mid-wage tiered jobs in construction (13,200) and health care & social assistance (13,400).
 - Declines were largest in high-wage sectors of professional and business services (11,100) and federal government (11,500).
- Job gains year-to-date have been concentrated in lower- to mid-wage sectors.
 - Using the 2024 average wage by sector, sectors with increasing employment had an average wage of \$68,700, compared to \$88,270 for declining sectors.

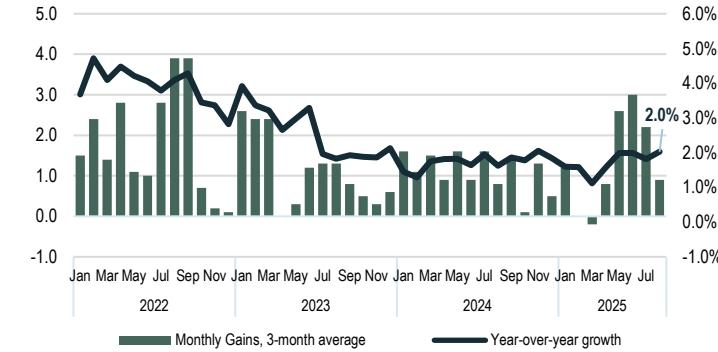
Source: U.S. Bureau of Labor Statistics (BLS); Current Employment Statistics & Quarterly Census of Employment and Wages.
Note: Employment and wage data come from different programs and definitions are not exactly matched.

Year-Over-Year Job Growth is Slowing in Northern Virginia and Hampton Roads

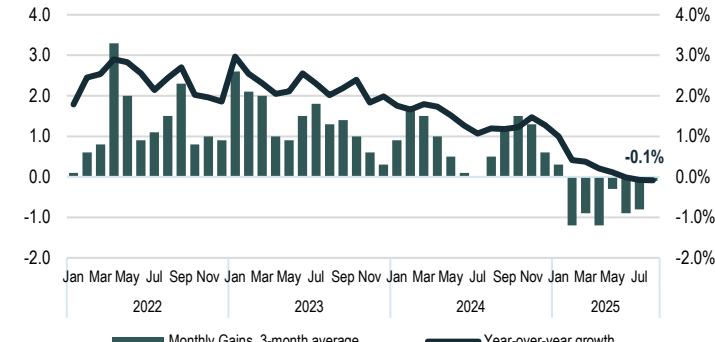
Northern Virginia



Richmond



Hampton Roads



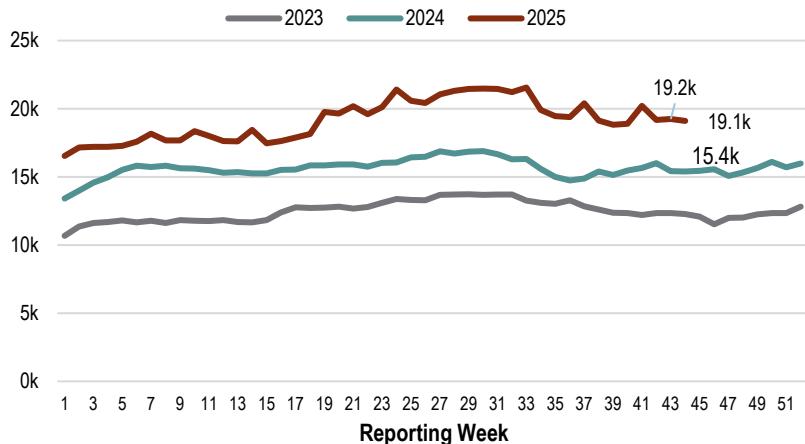
Rest of Virginia



Source: U.S. Bureau of Labor Statistics (BLS); Current Employment Statistics.

Data Suggests a “Low-Firing, Low Hiring” Job Situation

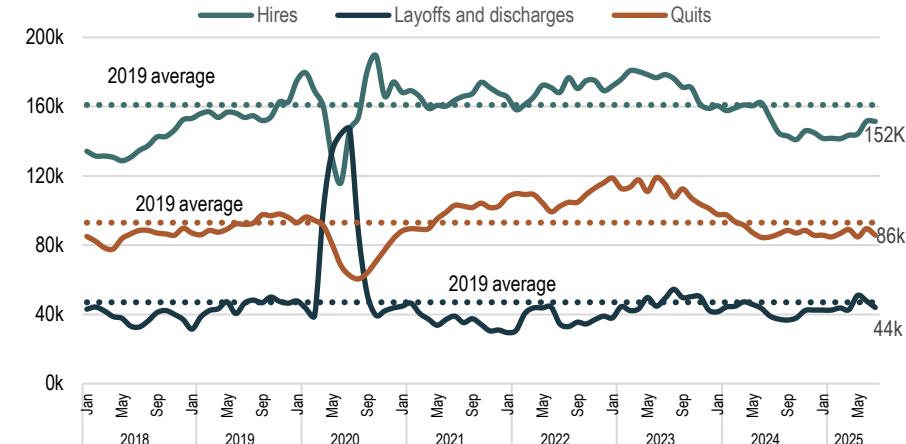
Virginia continued unemployment claims (19,100) were 0.8 percent lower than the previous week (19,246) and were 24.0 percent higher than last year (15,404).



Source: U.S. Employment and Training Administration.

In July, Virginia’s hiring was weaker with fewer quits and lower layoffs.

3-month moving average, in thousands



Source: U.S. Bureau of Labor Statistics. Job Openings and Labor Turnover Survey.

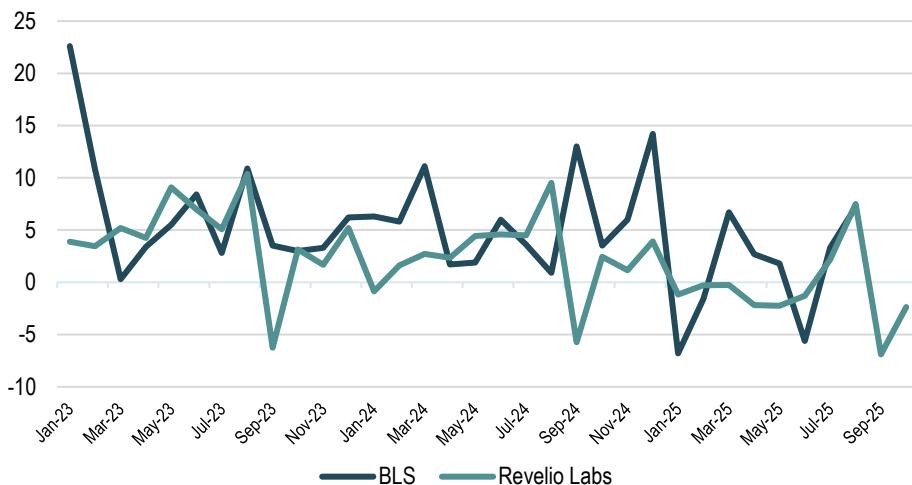
- Virginia’s hiring remains weak at 3.4 percent rate of hires to total employment. Weaker hiring may be explained by fewer workers quitting jobs and tighter immigration policies.
- In the past, declines in employment resulted from both fewer new hires and surging layoffs. Although businesses are cautious, actual layoffs remain low overall. Businesses may be more likely to right size payrolls through hiring freezes rather than through layoffs after experiencing labor shortages following the pandemic.

Private Data Continues to Point to Weaker Labor Demand

- The Institute for Supply Management (ISM) Manufacturing Index fell to 48.7 in October, marking the eighth consecutive month of contraction.
 - Tariffs are a significant issue for manufacturers according to the survey, and are leading to pauses in investment and hiring.
- The ISM Nonmanufacturing Index rose modestly to 52.4 in October, but the trend remains subdued.
- ADP estimates U.S. employment added 42,000 jobs in October, mainly in trade, transportation, & utilities, education & health services, and financial activities.
- Revelio Labs estimates the U.S. lost 9,100 jobs in October, primarily driven by the loss of government workers.

Without government data, private sector data indicates Virginia employment decreased 6,900 jobs in September and 2,250 in October.

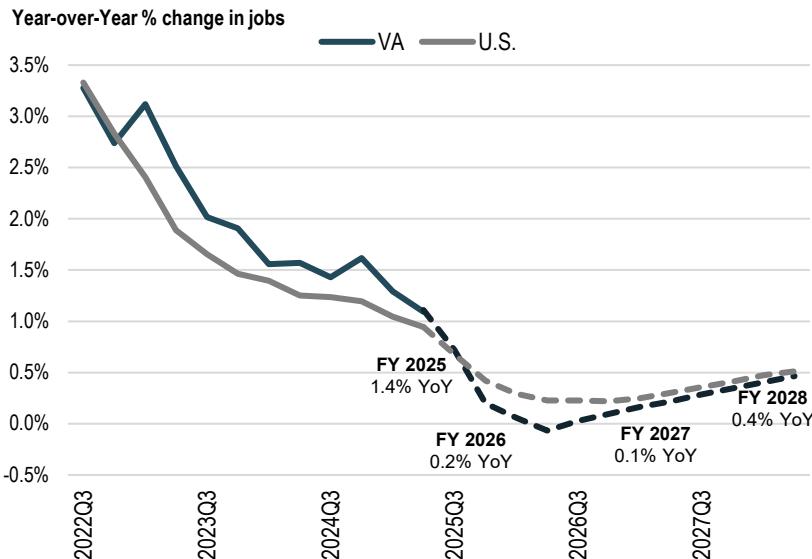
Monthly change in jobs (in thousands)



Source: U.S. Bureau of Labor Statistics (BLS); Revelio Labs.

Virginia Job Growth is Expected to be Flat

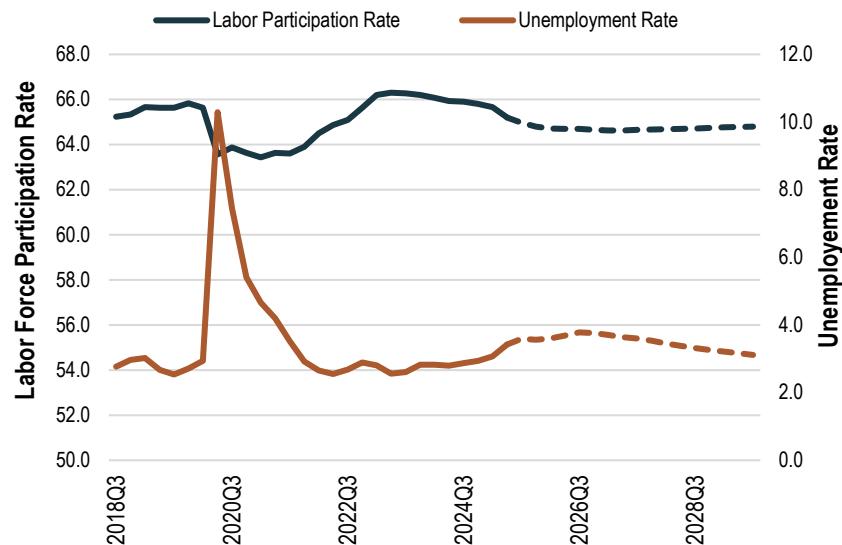
Virginia's job growth is expected to grow at 0.2% in FY 2026, 0.1% in FY 2027, and 0.4% in FY 2028 under the baseline outlook.



Source: U.S. Bureau of Labor Statistics (BLS); Moody's Analytics September Forecast.

- Virginia's hiring is likely to remain weak and layoffs low, resulting in minimal job growth.
- If consumer confidence and spending decrease rapidly, businesses may have to lay off workers.

Virginia's unemployment rate is expected to increase to 3.6% in FY 2026, 3.7% in FY 2027, and decline back to 3.5% in FY 2028 under the baseline outlook.

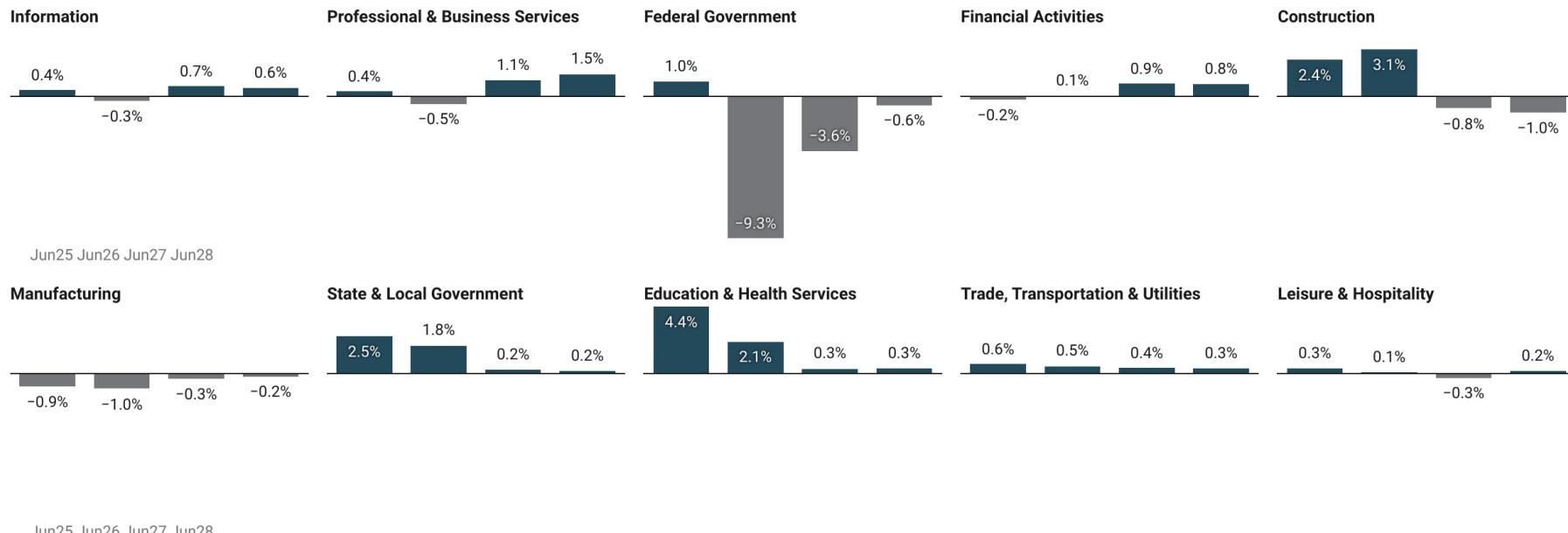


Source: U.S. Bureau of Labor Statistics (BLS); Moody's Analytics Forecasted September Baseline.

Job Growth is Expected to Slow in Most Sectors

Virginia's flat job growth is estimated to result from growth in education & health, state & local government, transportation & utilities, and financial activities while federal and manufacturing sectors contract.

June Year-over-year % change

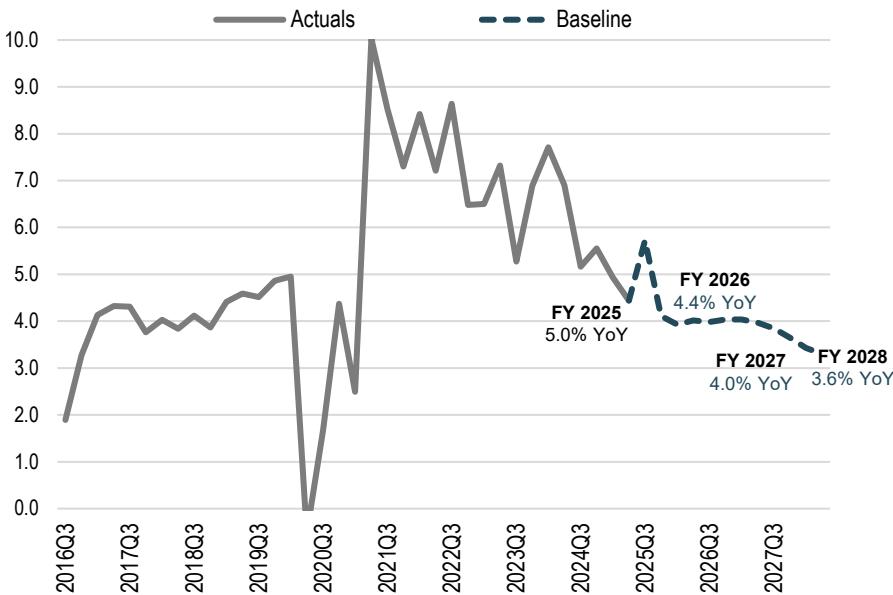


Source: U.S. Bureau of Labor Statistics (BLS); Moody's Analytics September Forecast.

Virginia Wage Growth is Expected to Increase Modestly

Virginia wages and salaries are expected to grow at 4.4% in FY 2026, 4.0% in FY 2027, and 3.6% in FY 2028 under the baseline outlook.

Year-over-Year % change in VA Wages & Salaries



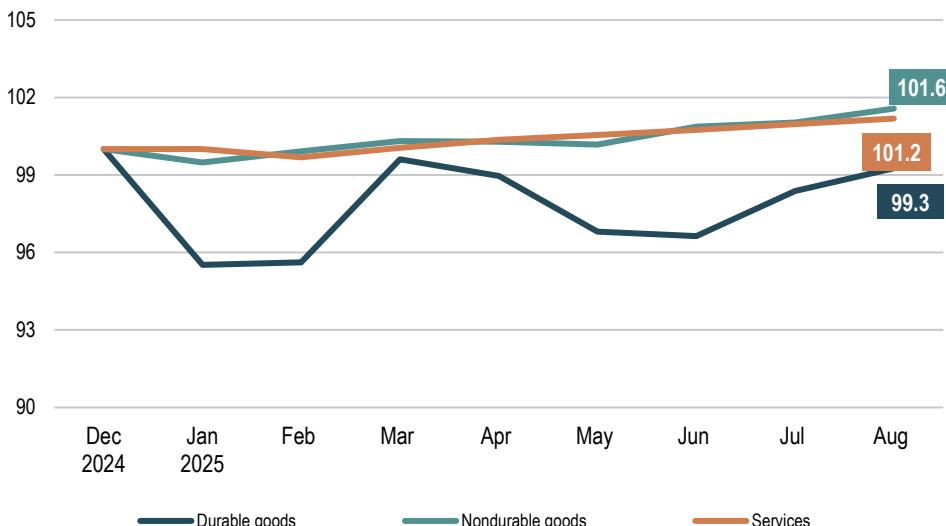
- Job growth will slow in the next biennium; however, wage growth alone should maintain higher withholding collections.
 - Concern will remain if professional and business services and federal jobs contract more than expected.
- Withholding year to date has increased 8.6% through October.
 - First quarter collections for FY 2026 increased 10.6%, compared to 5.5% in FY 2025.
 - October growth at 3.2% YoY appears more reflective of slower job growth environment.
- SFAC staff estimate withholding to increase 4.2% in FY 2026, 4.1% in FY 2027, and 3.8% in FY 2028.

Source: U.S. Bureau of Economic Analysis (BEA); Moody's Analytics September Forecast

Consumer Spending has Softened Year-to-Date

Real consumer spending has been weak overall in 2025, but spending on nondurable goods and food services and accommodations has held up better than durable goods.

Real spending, Dec 2024=100



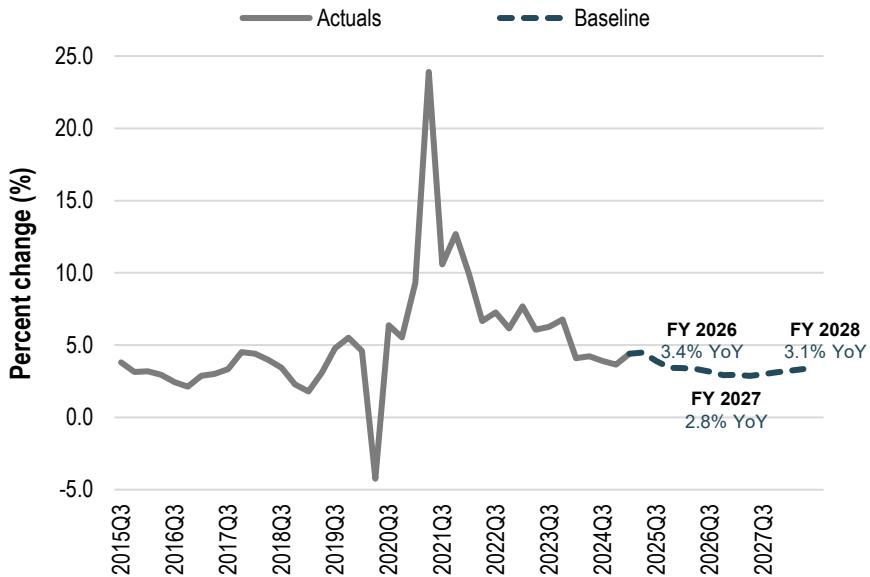
Source: U.S. Bureau of Economic Analysis (BEA); Real Personal Consumption Expenditures revised September 26, 2025.

- Real spending has grown 1.0 percent since December and 2.7 percent year-over-year in August.
- Real consumer spending growth is expected to remain weak as prices rise and buying ahead of tariffs gradually ends.
- Consumer spending growth has been driven by well-to-do Americans.
 - The top 10.0% of Americans (earning \$250,000 or more) comprise 50.0% of spending.
 - Spending by households in the bottom 80.0% of the income distribution has barely kept pace with inflation (Moody's Analytics).

Consumer Spending is Expected to be Flat

Virginia taxable consumption is expected to grow at 3.4% in FY 2026, 2.8% in FY 2027, and 3.1% in FY 2028 under the baseline outlook.

Year-over-Year Growth in VA personal consumption expenditure (PCE)*



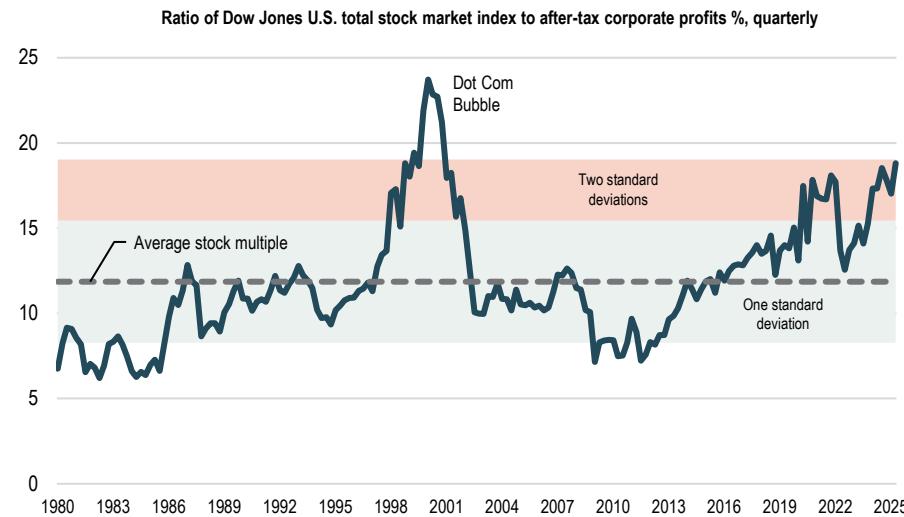
Source: U.S. Bureau of Economic Analysis (BEA); Moody's Analytics September Baseline.

*PCE is calculated as goods less motor vehicles and fuel and groceries, plus accommodation and food services.

- Taxable consumption growth remains flat. Most services are not taxed in Virginia, and services are consumed at twice the rate of goods, limiting growth in the taxable base.
- Virginia disposable personal income is forecasted to grow at 1.5% in FY 2026, 2.1% in FY 2027, and 1.8% in FY 2028 under the baseline forecast.
- SFAC staff estimate GF sales tax collection growth of 3.6% in FY 2026, 3.2% in FY 2027, and 2.9% in FY 2028.
 - Sales tax collections increased on average 3.2% from FY 2016-2020.

U.S. Growth has been Powered by AI & Data Centers

U.S. stock market value is overvalued when compared to after tax corporate profits, and at a level only surpassed in the Y2K bubble.

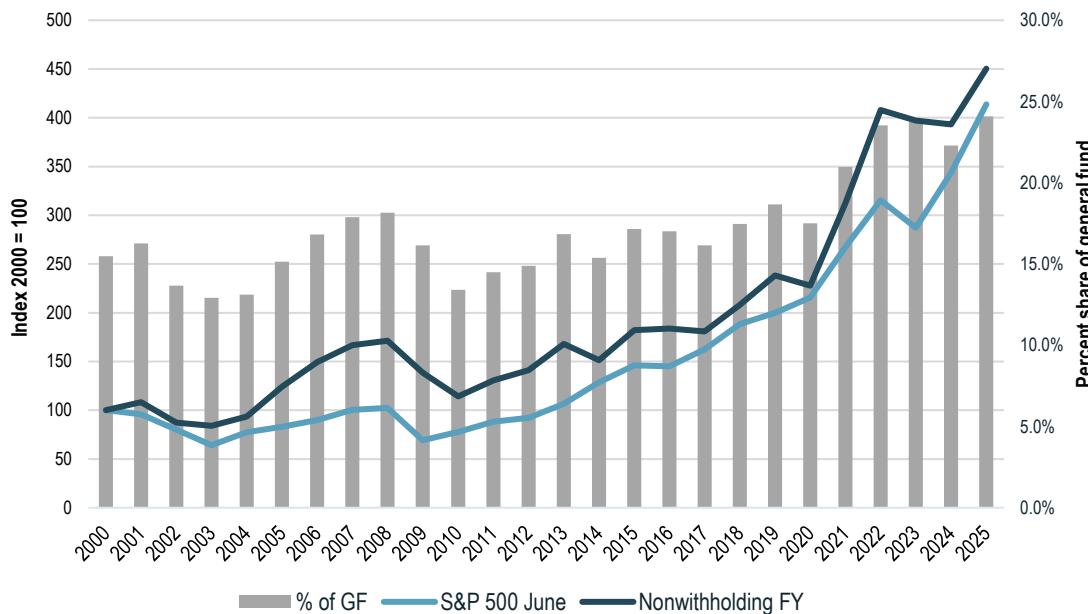


Source: Federal Reserve System, Z.1 Financial Accounts of the US, Dow Jones U.S. Total Market Index; U.S. Bureau of Economic Analysis (BEA), Gross Domestic Product. Shaded areas represent standard deviations from average.

- Real U.S. GDP grew at an annualized rate of 1.6% for the first half of 2025. However, GDP would have barely grown at 0.1% rate if real business fixed investment in information processing equipment and software were excluded.
- Investment in data centers and AI has been a tailwind for economic growth.
- Stock market valuations are about 20 times after-tax corporate profits. This level has only been exceeded by the "Dot Com Bubble."
 - Seven large-cap technology stocks—Apple, Microsoft, Google, Amazon, Nvidia, Meta Platforms, and Tesla—are driving stock market growth.
- If AI adoption rates fail to materialize or lead to profits, stock prices will have to adjust, which would likely cause well-to-do consumers to reduce spending.

Nonwithholding Income is Volatile and Largely Driven by Non-Wage Income Sources – Capital Gains

Stock market returns are a strong proxy for nonwithholding tax collections; however, nonwithholding is volatile and currently comprises nearly 25 percent of general fund collections.



- Nonwithholding income as a share of total GF revenues is close to 25.0 percent.
- Nonwithholding payments largely come in the final quarters of the fiscal year, making it difficult to adjust the revenue forecast.
 - From FY 2016 to 2025, 54.0 percent of nonwithholding was collected in the fourth quarter of the fiscal year.
- To conservatively forecast nonwithholding, SFAC staff adjusted this source downward by 1.0 percent of projected GF revenue.

Source: Staff analysis, Virginia Department of Tax; Standard & Poor's (S&P)

SFAC Revenue Forecast

GF Revenue Sources (\$ in millions)	Actual	SFAC Staff Estimate		
Revenue Source	FY 2025	FY 2026	FY 2027	FY 2028
Individual Income	\$21,892.4	\$22,637.5	\$23,356.8	\$24,262.0
Sales	4,812.7	4,986.0	5,144.2	5,291.2
Corporate	1,878.6	1,925.5	2,022.8	2,155.5
Wills/Suits/Deeds	471.2	491.9	513.8	595.1
All Other	2,178.1	2,180.1	2,185.1	2,115.6
Total GF Revenue	\$31,233.0	\$32,221.0	\$33,222.7	\$34,419.4
<i>Year-over-Year Growth Rate</i>	6.1%	3.2%	3.1%	3.6%
Transfers	\$1,169.0	\$901.4	\$906.2	\$911.1
Revenue Reserve Fund Voluntary Withdrawal	332.3	675.7	0.0	0.0
Total General Fund	\$32,734.3	\$33,798.1	\$34,128.9	\$35,330.5
GF Resources Above Official Forecast	\$865.6			

Risks are Skewed to the Downside

- There are more downside risks at this point to Virginia.
- Risks to the forecast include:
 - Tariffs increasing prices and altering consumer behavior;
 - Labor supply and demand;
 - Federal employment and contracts;
 - Low-income household financial distress;
 - Government shutdown in 2026 (SNAP funded through FFY2026);
 - Federal Reserve interference or misstep; and
 - AI bubble.

Budget Outlook



2026 Session – Two Budget Bills

In even-numbered sessions, action is taken to amend the **current year budget (FY 2026)** and to adopt a **budget for the biennium that starts on July 1, 2026**.

Caboose Budget Bill (SB 29)

- Amends the CURRENT budget for FY 2026 (Chapter 725) to reflect the revised revenue estimate, required spending, and any savings in FY 2026.
- Mainly amendments for technical changes, required updates for K-12 and Medicaid, immediate clean up, or emergency actions.
- Effective upon signature of the Governor until the end of FY 2026 (June 30, 2026).

2026-2028 Biennial Budget (SB 30)

- Appropriates funds and sets official revenue for the next two fiscal years, **FY 2027 and FY 2028**.
- **Most budget amendment requests will be to SB 30.**
- Effective July 1, 2026, to June 30, 2028.

FY 2025 Balances: \$1.2 Billion Available for Appropriation

(GF \$ in millions)	
FY 2025 Preliminary Balance Sheet Reservations	\$1,463.4
Revenue Reserve FY 2025 Revenue Surplus (APA certified deposit amount)	(\$312.3)
Virginia Military Survivors & Dependents Education Program FY 2025 Surplus	(20.0)
WQIF Part A FY 2025 Revenue Surplus	(55.2)
WQIF Part B FY 2025 Cash Balances	(52.7)
Total FY 2025 Remaining Discretionary Balances	\$1,023.2
Revert Portion of Discretionary FY 2025 Unexpended Appropriations	240.0
Adjust Disaster Sum Sufficient (SNAP benefits paid Nov 1 st -8 th by state)	(37.5)
Revert FY 2026 Vetoes (Net of spending and resource actions)	14.3
Available GF Balances for Appropriation	\$1,240.0

Caboose Bill Adjustments

(GF \$ in millions)	FY 2026
Chapter 725 Unappropriated Balance	\$47.0
GF Revenue Above Base (SFAC staff estimate – includes Transfers)	865.6
Available GF Balances	<u>1,240.0</u>
Total Available GF Resources	\$2,152.6
Increased Lottery Profits (Offset K-12 GF portion)	\$40.8
K-12 Adjustments (Sales Tax and Enrollment)	TBD
Debt Service Savings	18.7
Medicaid Forecast	(410.3)
Other Mandatory HHR Forecasts (CHIP, FAMIS, Child Welfare)	(2.4)
Inmate Medical Cost Increases	(27.6)
Net Available Resources/Unappropriated Balance	\$1,771.8

Calculating the Base Budget

- **Base budget** = cost of maintaining **current** services and caseloads (FY 2026 appropriation).
- **One-time** spending items and **vetoes** are **deducted** from the base year budget (e.g. cash reserve deposits).
- Ongoing items that are **not fully-funded** in FY 2026 are **added** to the base (e.g. new position costs, partial-year items).

2026-2028 GF Operating Base Budget Calculation (\$ in millions)	
Ch. 725, FY 2026 GF Approp. x 2	\$65,436.6
Minus: One-time Spending/Savings	(48.0)
Minus: Vetoes	(50.6)
Plus: Annualization of Costs	8.8
Total, Adjustments to Base	(89.8)
Biennial (Two-Year) GF Base	\$65,346.8

Agency GF Requests Total Almost \$4.2 Billion for the Biennium

Secretarial Area (GF \$ in millions)	FY 2027	FY 2028
Administration	\$59.7	\$70.3
Agriculture & Forestry	2.6	2.2
Commerce & Trade	87.5	72.0
Education	450.1	472.5
Executive Offices	5.8	5.8
Finance	2.8	1.5
Health & Human Resources	301.0	622.4
Independent Agencies	0.2	0.02
Judicial	56.2	68.8
Labor	7.9	7.9
Natural & Historic Resources	986.4	188.7
Public Safety & Homeland Security	351.6	333.6
Transportation	-	-
Veterans & Defense Affairs	36.2	20.4
Grand Total	\$2,348.0	\$1,866.2

- Agency requests total over \$4.2 billion GF for the biennium.
 - Mainly in Education, HHR, and Natural & Historic Resources, and Public Safety.
- Requests do not include updated forecasts in HHR or public education.
- The largest categories for requests include new general fund spending, other initiatives, salary increases/regrades, mandates, unavoidable costs, and increasing efficiency/effectiveness.

Source: Analysis of Operating Agency Requests, Department of Planning and Budget, accessed November 17, 2025.

Capital Outlay Requests Total \$5.8 Billion GF

Project Type	GF - Support	NGF	9(c) & 9(d) Debt
New project	\$2,440.7	\$215.5	\$208.5
Detailed planning authorized but not complete	1,075.7	1.3	-
Detailed planning complete	977.1	127.0	39.9
Previously funded umbrella project	488.8	280.5	-
Working drawings not complete	388.8	-	-
Preplanning complete	218.2	-	-
Change in size and scope	145.6	-	-
Preplanning authorized but not complete	75.4	3.0	-
Equipment	40.9	-	-
Non-pool supplement	10.0	70.5	0.0
Total	\$5,861.3	\$697.8	\$248.4

- Higher education institutions request for GF-supported capital projects total \$3.8 billion.
- Governor's vetoes in Chapter 725 were primarily to one-time capital projects, totaling \$691.3 million GF.
 - The 2025 Higher Education Capital Pool accounted for 91.0 percent of the capital vetoes and the projects are now being requested again by the institutions.
- Other needs are expected to include planning funds to continue the new state office building and deferred maintenance umbrella project needs.
- During the 2025 Session, the General Assembly authorized \$71.2 million in tax-supported debt, which the Governor vetoed.
 - Debt capacity model will be updated in December. Capacity is sensitive to actual forecasted revenues and interest rates.
 - Authorized but unissued debt has decreased 36.0 percent from FY 2021 to FY 2024 as the General Assembly funded capital with \$3.1 billion GF cash.

Source: Analysis of Capital Agency Requests, Department of Planning and Budget, accessed October 1, 2025.

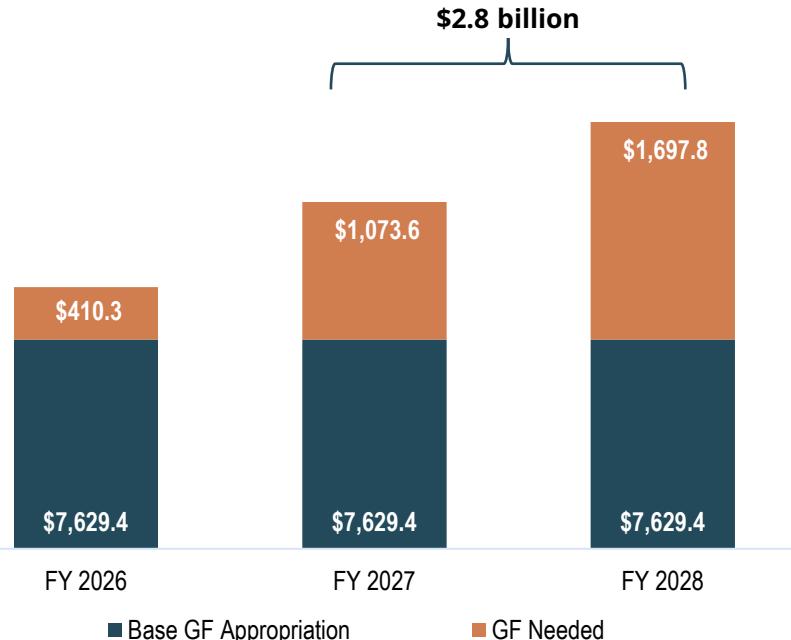
Developing the 2026-2028 Budget

Projected Resources Compared to the Base Budget

(\$ in millions)	FY 2027	FY 2028	2026-2028
SFAC Projected GF Resources	\$34,128.9	\$35,330.5	\$69,459.4
GF Adjusted Base Budget	(32,673.4)	(32,673.4)	(65,346.8)
Resources Above Base	\$1,455.5	\$2,657.1	\$4,112.6

Medicaid Forecast Reflects Significant \$3.2 Billion GF Need for FY 2026 and the Upcoming 2026-2028 Biennial Budget

Forecast projects a funding need of \$410.3 million GF in FY 2026 and \$2.8 billion GF in the 2026-2028 biennium.



- Forecast anticipates overall Medicaid spending will increase:

	FY 2026	FY 2027	FY 2028
New Forecast	15.0%	7.9%	6.6%
Last Year's Forecast	4.5%	4.8%	N/A

- In FY 2025, Medicaid expenditures increased 13.4%.
- Additional GF need is mainly due to higher-than-average managed care rates, growth in higher-cost populations, covering the full costs of the 3,440 developmental disability waiver costs approved in 2024, and a lower federal match rate.
- Medicaid GF appropriation is projected to reach \$9.3 billion in FY 2028.

Source: DMAS 2024 and 2025 Official Medicaid Forecasts.

Budget Outlook 2026 Session: Comparing Projected Resources to Mandatory Spending

Available resources from the economic forecast are not sufficient to cover major budget pressures. Previous balances carry forward to help cover costs, but there are many other spending items that would typically be considered.

2026-2028 Budget Outlook			
(\$ in millions)	FY 2027	FY 2028	2027-2028
SFAC Projected GF Resources	\$34,128.9	\$35,330.5	\$69,459.4
GF Adjusted Base Budget	(32,673.4)	(32,673.4)	(65,346.8)
Resources Above Base	\$1,455.5	\$2,657.1	\$4,112.6
Less: Medicaid Forecast	(\$1,073.6)	(\$1,697.8)	(\$2,771.4)
Less: Shortfall in Health Care Fund	(27.6)	(33.6)	(61.2)
Less: CSA/Children's Health Insurance & Child Welfare Forecast	(87.3)	(174.0)	(261.3)
Less: SNAP Administration + Error Rate (may improve)	(65.5)	(298.3)	(363.8)
Less: K-12 Rebenchmarking (other updates to come, could increase or decrease)	(486.8)	(478.3)	(965.1)
Less: SFAC-Identified Other Mandatory Pressures or Commitments	(135.3)	(162.2)	(297.5)
Net Available Resources after Mandatories	(\$420.6)	(\$187.1)	(\$607.7)

Budget Outlook 2026 Session

One-time balances from FY 2026 will be carried forward and available for one-time uses.

(\$ in millions)	FY 2027	FY 2028	2026-2028
Unreserved Beginning Balance (FY 2026 Unappropriated Balance)	\$1,771.8	-	\$1,771.8
Adjustments to Balances	(0.5)	(0.5)	(1.0)
Net Available Resources after Mandatories	(420.6)	(187.1)	(607.7)
Unappropriated Balance	\$1,350.7	(\$187.6)	\$1,163.1
Other Commitments:			
Less: State Employee Health Insurance Premiums	(\$73.8)	(\$121.6)	(\$195.4)
Less: Increased Debt Service Costs	(20.0)	(47.9)	(67.9)
Less: Deferred Maintenance Program	(200.0)	(200.0)	(400.0)
Less: K-12 Enrollment (subject to final DOE/DPB estimates)	TBD	TBD	TBD
Adjusted Unappropriated Balance (with additional options)	\$1,056.9	(\$557.1)	\$499.8

FY 2026-2030 Outlook

Balances carried-forward are necessary to cover mandatory spending pressures until FY 2030. This is based on a conservative revenue forecast and inflation-adjusted mandatories.

(\$ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Unappropriated Balance *	\$1,272.8	\$1,771.3	\$1,056.3	\$499.3	\$241.3
SFAC Projected GF Revenue	33,798.1	\$34,128.9	\$35,330.5	\$36,689.7	\$38,223.7
SFAC Estimated GF Spending	(33,299.2)	(34,843.3)	(35,887.0)	(36,947.2)	(37,660.2)
Unappropriated Balance	\$1,771.8	\$1,056.9	\$499.8	\$241.8	\$804.8

Additional ongoing pressures are not included in this outlook:

- One percent salary increase for all groups (classified state employees/state supported employees, teachers, and faculty) = approximately \$140.0 million per year.
- Conformity to H.R. 1 could reduce GF revenue by \$568.7 million in FY 2026, \$269.5 million in FY 2027, and \$266.4 million in FY 2028.

* Includes \$500,000 assignment of balances for the Intergovernmental Cash Management Act in FY 2027, FY 2028, FY 2029, and FY 2030.

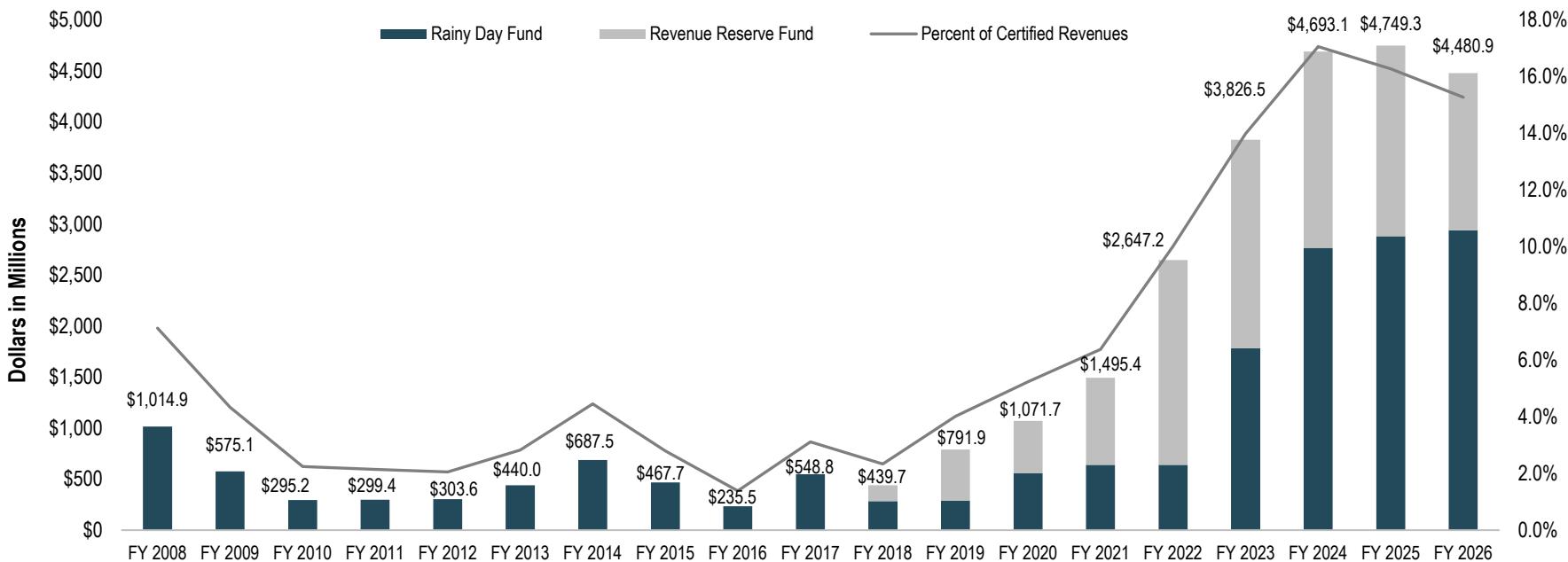
Potential H.R.1 Conformity Revenue Impacts

GF Revenue Impact (\$ in millions)	FY 2026	FY 2027	FY 2028
Individual Provisions:			
Individual Provisions Subtotal			
0.5% floor on charitable contributions (1/1/26)	\$15.8	\$40.4	\$42.5
Miscellaneous individual provisions (1/1/26)	(0.9)	(2.4)	(3.2)
New limit on the value of itemized deductions (repeal of the VA Pease limit) (1/1/26)	(10.2)	(26.1)	(27.9)
Individual Provisions Subtotal	\$4.7	\$11.9	\$11.4
Business Provisions:			
Business Provisions Subtotal			
Restructure of opportunity zones 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 and international provisions	3.9	15.1	23.9
Increases section 179 expensing limit to \$2.5 million (1/1/25)	(28.2)	(19.3)	(16.1)
Increases the business interest deduction (1/1/25-Expires 2030)	(33.6)	(16.0)	(14.8)
Special depreciation allowance for qualified property (7/4/25)	(127.1)	(170.4)	(174.0)
Domestic research deduction (1/1/25-Expires 2030)* (retroactive to December 31, 2021)	(403.6)	(121.4)	(79.0)
Business Provisions Subtotal	(\$573.4)	(\$281.4)	(\$277.8)
Full Conformity (Updating Virginia's Date of Conformity) Total	(\$568.7)	(\$269.5)	(\$266.4)

Source: Virginia TAX revenue estimates.

Reserve Balances Now Represent 15 percent of Income and Sales Tax Collections

Reserves are projected to total \$4.5 billion at FY 2026 year-end close.

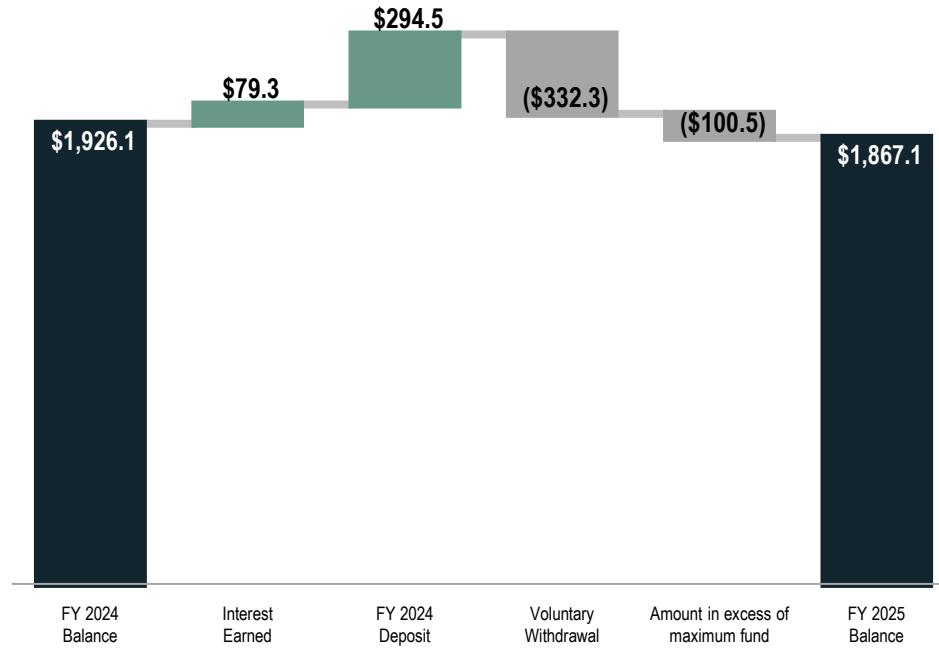


Reserves have Exceeded Allowed Limits, Allowing for Voluntary Withdrawals in FY 2025 and FY 2026

- Constitution sets the limit of the Revenue Stabilization Fund at 15.0 percent of the three-year average of income and sales tax collections, or certified revenues.
- Code of Virginia (§ 2.2-1831.3) sets the combined limit of the two reserve funds at 15.0 percent of the three-year average of certified revenues.
 - During FY 2023 and FY 2024, the Appropriation Act increased the combined limit to 20.0 percent of the three-year average of certified revenues.
- Chapter 725 provides a combined limit of 17.53 percent in FY 2025, and aligns to 15.0 percent by year-end FY 2026.
 - Chapter 725 directs a voluntary withdrawal from the Revenue Reserve Fund of \$332.3 million in FY 2025 and \$675.7 million in FY 2026 to achieve a 15.0 percent limit.
- Chapter 635, 2025 Session, allows the combined reserve limit to be exceeded if the Revenue Reserve Fund balance is less than 10.0 percent of the three-year average of certified revenues.

Revenue Reserve Fund FY 2025 Activity

Dollars are in millions.



Reserves Withdrawal

Two-thirds of the state's reserves are in the more restrictive, constitutional Revenue Stabilization Fund.

Revenue Stabilization Fund (Constitutional)

- Withdrawal allowed when a revised revenue forecast shows at least a 2.0 percent decline of the prior year's actual collections of income and sales tax.
- The maximum amount of the withdrawal is the lesser of:
 - Half of the budget shortfall (difference between the revised GF revenue forecast and GF revenues appropriated in the enacted budget); OR
 - Half of the Fund's balance.

Revenue Reserve Fund (Statutory)

- General Assembly may appropriate a transfer from the Fund when a revised revenue forecast declines 2.0 percent or less from the prior year's total general fund resources collected.
- The maximum amount of the withdrawal is half of the Fund's balance.
- Permits the Governor to withdraw amounts to avoid a cash deficit after May general fund revenue collections and certification that actions to curtail spending will not be sufficient to avoid a cash deficit.

2026 Session Outlook & Key Takeaways

Mandatory budget pressures outpace revenue growth and will require attention to achieve structural balance.

- Medicaid and K-12 rebenchmarking needs outpace revenue growth. Large one-time balances can temporarily bridge the gap but should not be relied upon long-term.
- Federal actions are contributing to pressure on GF revenue and spending.
 - Revenue growth is expected to slow due to cuts in the federal workforce and Virginia's overexposure to professional and business sector jobs also being reduced by federal contract reductions.
 - H.R. 1 shifts significant costs for the SNAP program to Virginia and requires additional spending to implement the work requirement under Medicaid.
 - Members will have to decide how to handle conformity decisions, which could reduce revenue up to \$1.1 billion over the three years.
 - Further federal actions could reduce federal appropriations to the state or modify tax provisions impacting Virginia's revenue.
- Members will need to evaluate options to align future spending with projected resources.

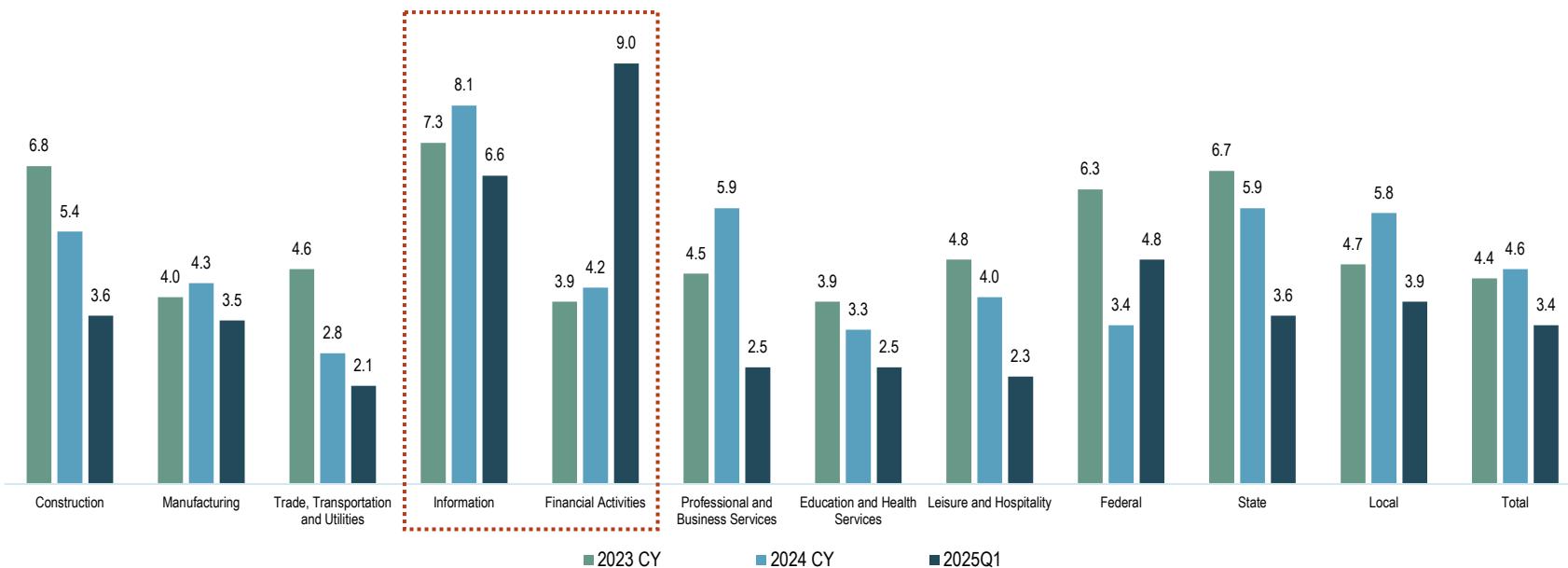
Appendix



Recent Virginia Wage Growth has been Broad-Based

Weekly wages for all jobs in Virginia increased 4.6% in CY2024. Weekly wages in 2025 Q1 increased by 3.4 percent year over year with growth concentrated in higher wage information and financial activities.

Year-over-year % change average weekly wage

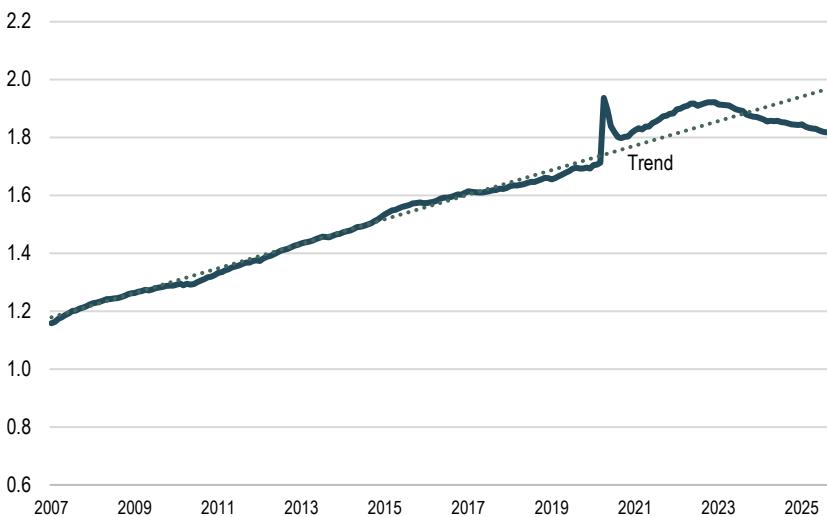


Source: U.S. Bureau of Labor Statistics (BLS); Quarterly Census of Employment and Wages.

Artificial Intelligence may Weaken Labor Demand

Tech employment as a share of U.S. employment has decreased below trend since the introduction of ChatGPT in 2022.

Technology % share of U.S. nonfarm payroll employment



Source: U.S. Bureau of Labor Statistics (BLS). * Technology jobs calculated as Computer Systems Design and Related Services and Computing Infrastructure Providers, Data Processing, Web Hosting, and Related Services.

- As companies continue to promise productivity gains from AI to shareholders, there will be pressure to reign in hiring.
- Challenger Report reported “cost-cutting” and “AI” were the two most cited factors for layoffs in their November report.
- Early career workers (ages 22-25) are currently in the most exposed AI occupations (e.g., software development and customer support).
 - Stanford Digital Lab found employment for 22-25-year-olds in jobs with high AI exposure fell 6.0 percent between late 2022 and July 2025, while employment among workers 30 and older grew between 6.0 percent and 13.0 percent in that same category of jobs.