



REVIEW OF FISCAL YEAR 2025 REVENUES AND THE FISCAL CONDITION OF THE COMMONWEALTH

**A PRESENTATION TO THE SENATE FINANCE & APPROPRIATIONS,
HOUSE APPROPRIATIONS, AND HOUSE FINANCE COMMITTEES**

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TOPICS FOR DISCUSSION

FISCAL YEAR 2025 IN REVIEW

FISCAL CONDITION OF THE COMMONWEALTH

LOOKING AHEAD

FISCAL YEAR 2025 IN REVIEW

- Fiscal Year 2025 revenues exceeded the official forecast assumed in the 2025 Appropriation Act (Chapter 725, 2025 Acts of Assembly) by \$572.0 million, a positive variance of 1.9%. Higher than expected revenue collections are primarily attributable to strong individual income tax nonwithholding revenues which were partially offset by higher than anticipated individual income tax refunds.
- Collections exceeded the original “Common Ground” budget forecast (Chapter 2, Acts of Assembly, 2024 Special Session I) by \$2.67 billion (9.3%).
- Total general fund revenues grew \$1.78 billion (6.1%) over the prior fiscal year.
- Net individual income tax collections were \$334.3 million (1.6%) ahead of forecast and \$1.58 billion (7.8%) above prior year collections.
- Sales tax collections finished the year slightly ahead of forecast by \$14.8 million (0.3%) and up \$103.1 million (2.2%) compared to last year, and net corporate income tax collections were \$87.1 million (4.9%) above forecast.
- Economic conditions in Fiscal Year 2025 were generally aligned with the economic assumptions underpinning the revenue forecast.
- Federal government job reductions have begun to appear in the data, driven mainly by reduced hiring. However, these reductions have not yet significantly impacted withholding collections.
- The University of Michigan Consumer Sentiment Index has improved after declining in the first quarter on uncertainty around tariffs.

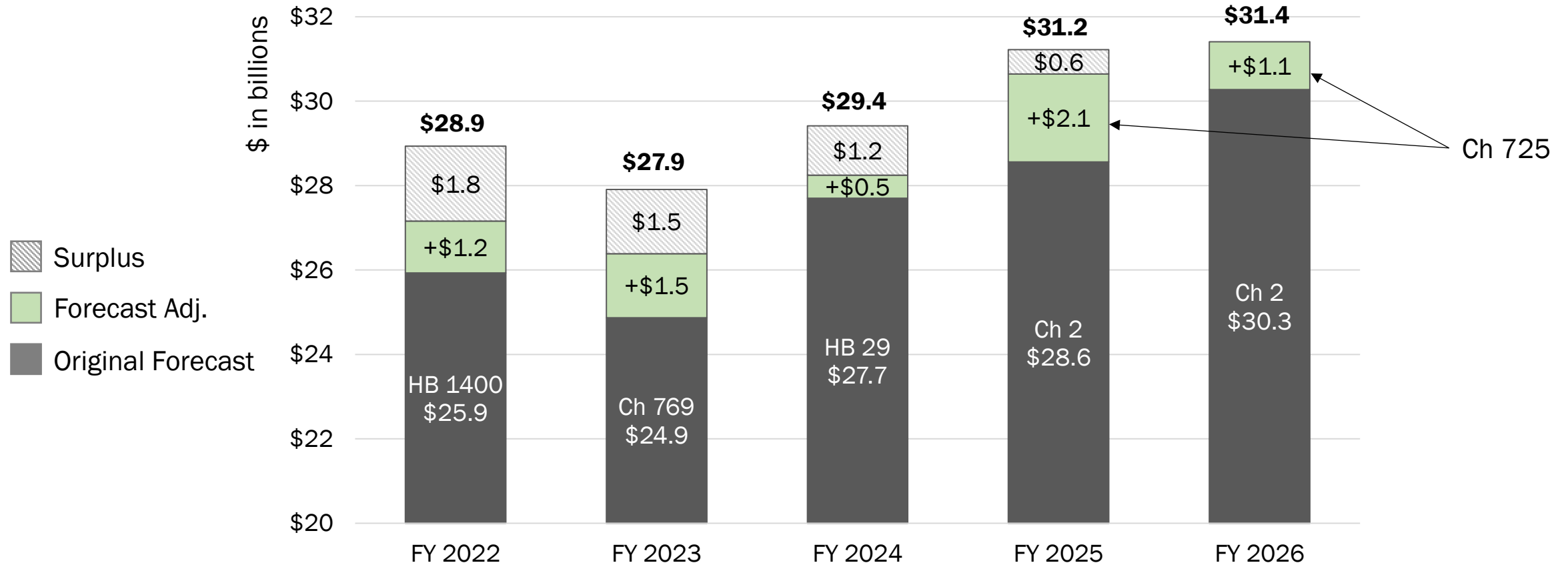
FY 2025 GF REVENUES EXCEEDED THE OFFICIAL FORECAST BY \$572 MILLION AND EXCEEDED THE “COMMON GROUND” BUDGET FORECAST BY \$2.7 BILLION

SOURCE, \$ Mil	Actuals				Chapter 2 FY 2025		Chapter 725 FY 2025	
	FY 2024	FY 2025	\$ Growth	% Growth	Variance \$	Variance %	Variance \$	Variance %
Withholding	\$ 16,718.2	\$ 17,561.2	\$ 842.9	5.0%	\$ 931.8	5.6%	\$ (19.7)	-0.1%
Nonwithholding	6,563.7	7,518.7	955.0	14.5%	1,887.6	33.5%	729.8	10.7%
IIT Refunds	(2,971.5)	(3,187.4)	(215.9)	7.3%	(171.6)	5.7%	(375.8)	13.4%
Net Individual Income	\$ 20,310.4	\$ 21,892.4	\$ 1,582.0	7.8%	\$ 2,647.7	13.8%	\$ 334.4	1.6%
Sales & Use Tax	4,709.7	4,812.7	103.1	2.2%	120.4	2.6%	14.8	0.3%
Corporate Income Tax	1,907.1	1,878.6	(28.5)	-1.5%	(186.9)	-9.0%	87.1	4.9%
Insurance	468.2	541.5	73.3	15.6%	102.1	23.3%	55.7	11.5%
Wills, Suits, Deeds	406.5	471.2	64.7	15.9%	14.5	3.2%	13.6	3.0%
Interest Income	699.8	593.8	(106.0)	-15.1%	(130.5)	-18.0%	(23.4)	-3.8%
All Other	946.5	1,042.9	96.4	10.2%	101.9	10.8%	90.0	9.4%
Total GF Revenues	\$ 29,448.2	\$ 31,233.0	\$ 1,784.9	6.1%	\$ 2,669.3	9.3%	\$ 572.0	1.9%
Transfers	\$ 12.7	\$ 1,501.3	\$ 1,488.6	***	\$ 373.2	33.1%	\$ 111.0	8.0%
Total General Fund	\$ 29,460.8	\$ 32,734.3	\$ 3,273.5	11.1%	\$ 3,042.4	10.2%	\$ 683.0	2.1%

***Percentage is greater than 1000%.

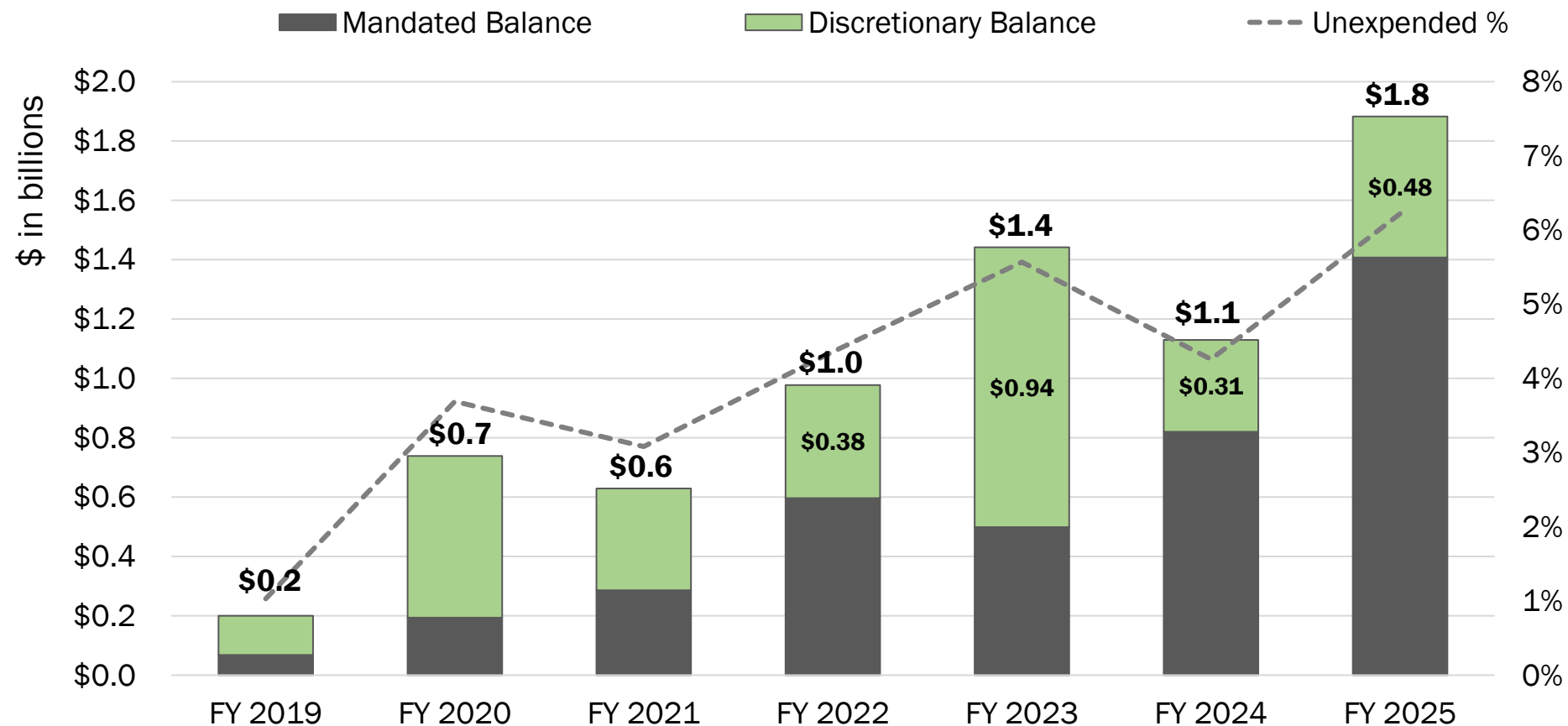
- Payroll withholding and sales and use tax revenues – the best indicators of underlying economic growth – grew year-over-year by 5.0% and 2.2%, respectively. Combined, these sources were within 0.1% of forecast.

\$10 BILLION IN REVENUE SURPLUSES VS. ORIGINAL FORECASTS



\$1.8 BILLION IN UNSPENT APPROPRIATIONS IN FY 2025

UNEXPENDED GF BALANCES



Source: Department of Planning and Budget.

ECONOMIC GROWTH IN FY 2025 MET OR EXCEEDED OUR EXPECTATIONS

Key Economic Variables: Actuals and Forecast

Virginia data, Y/Y percent change unless otherwise noted

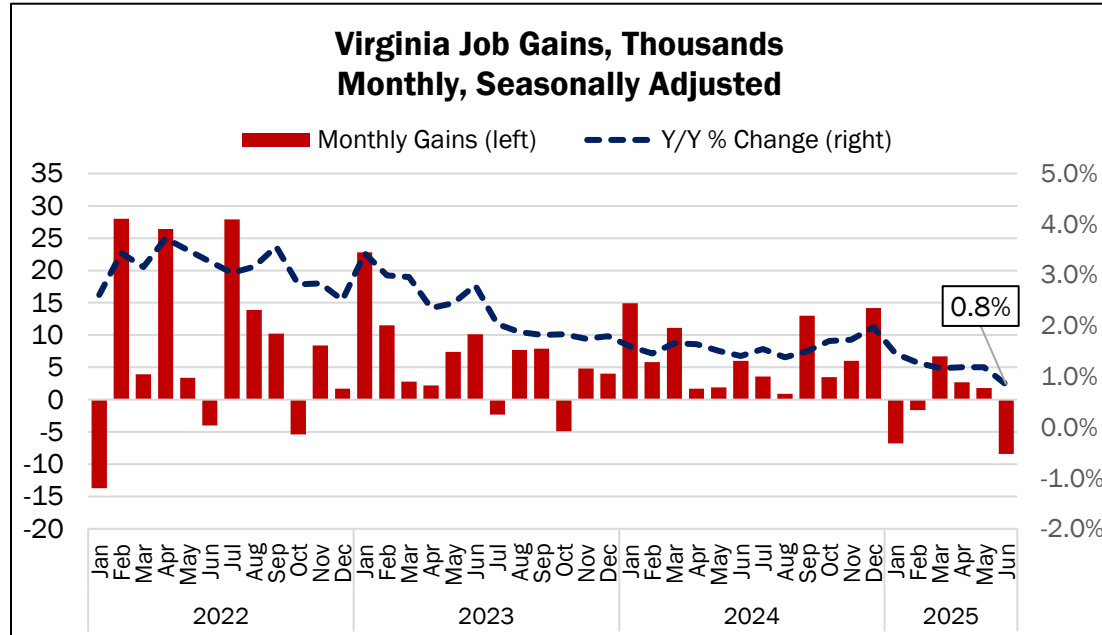
	FY 2025 Forecast	FY 2025 Actual	Actual Minus Forecast
Real Gross State Product	1.5	2.6*	1.1
Employment Growth	1.2	1.4	0.2
Total Personal Income	4.9	5.1*	0.2
Average Wage	3.7	3.7*	0.0
Taxable Sales	3.9	4.3	0.4
Unemployment Rate (%)	3.1	3.1	0.0
Core PCE Inflation (US)	2.3	2.7	0.4

Source: Bureau of Labor Statistics; Bureau of Economic Analysis; Moody's Analytics.

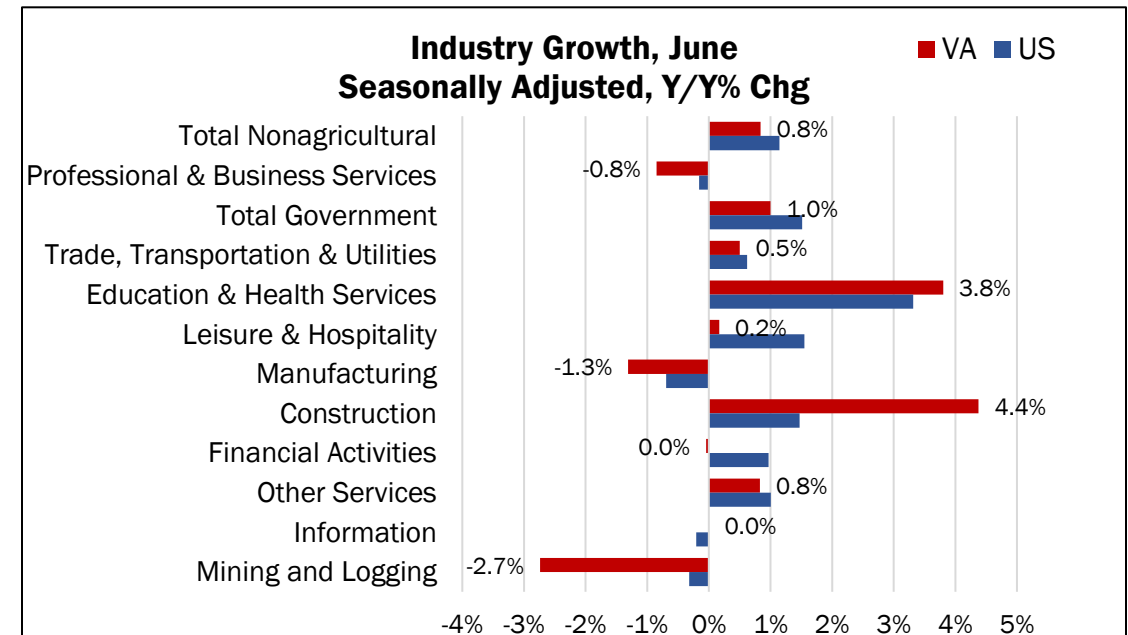
*Includes Moody's Analytics forecasted values for most recent quarter.

- Virginia employment for Fiscal Year 2025 remained very close to estimates. Unemployment also behaved as expected over the course of the fiscal year.
- Total Personal Income remained close to forecast while still growing 0.2 percentage points more than expected. Average wages in 2025 grew as predicted.

JOB GROWTH HAS SLOWED IN RECENT MONTHS



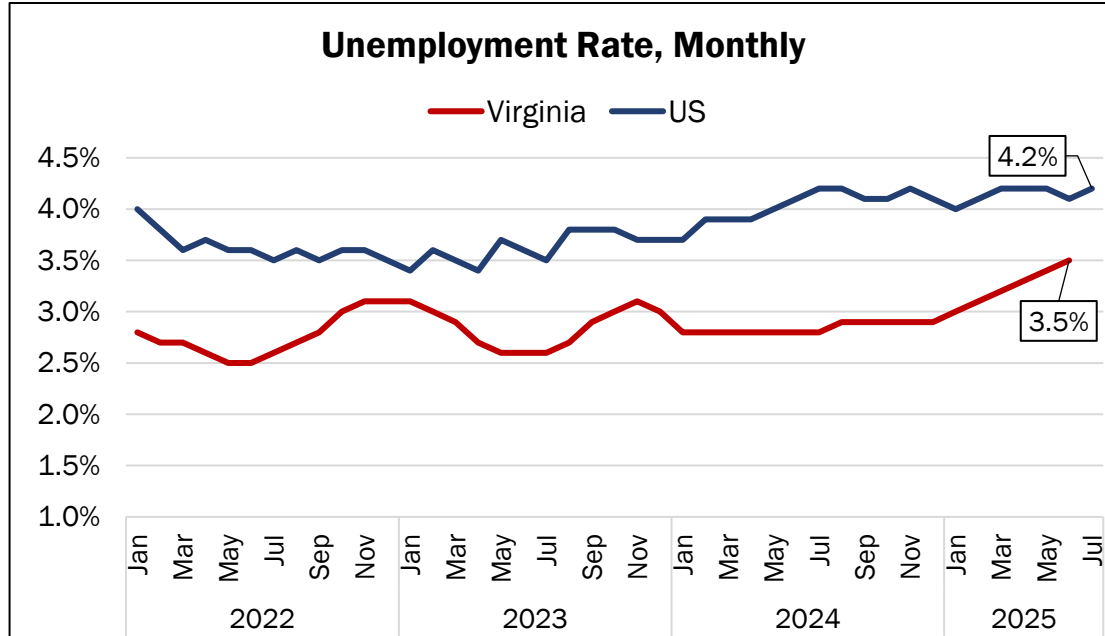
Source: US Bureau of Labor Statistics.



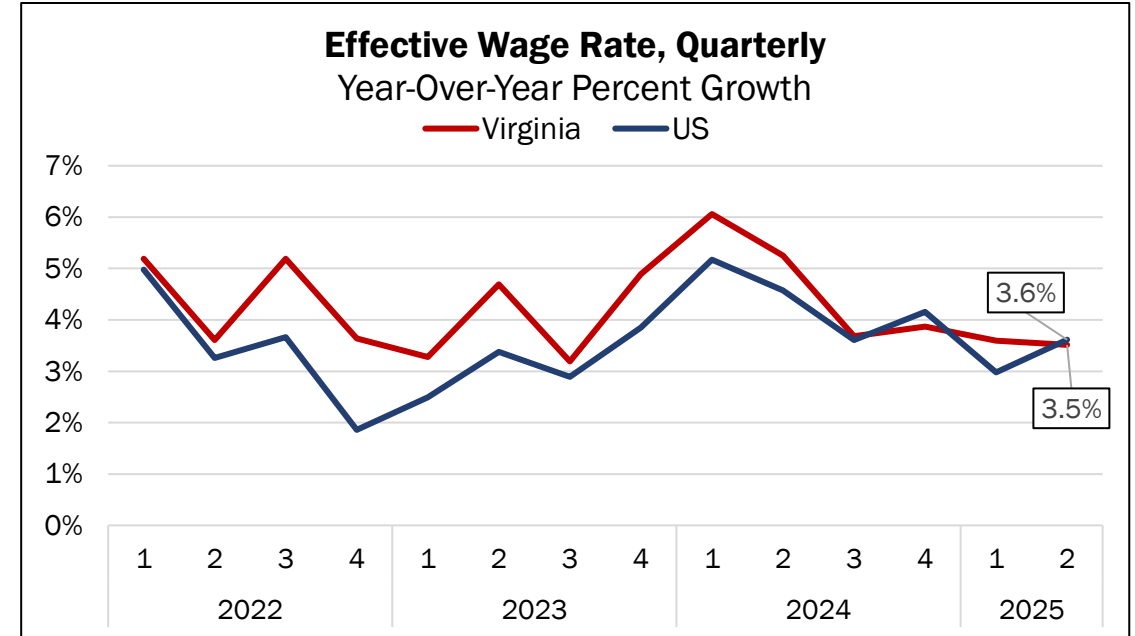
Source: US Bureau of Labor Statistics.

- Total payrolls (private and government) were lower by 8,400 for the month of June but are still 0.8 percent higher than in June 2024. Private sector employment decreased by 8,200 while total government employment decreased by 200.
- The only job gains occurred in the Construction sector which marked a gain of 1,700.
- The largest losses occurred in the Professional & Business Services (-3,500) and Education & Health Services (-2,200).
- Federal government payrolls for those working in Virginia have declined by 11,200 since January.

NATIONAL AND VIRGINIA UNEMPLOYMENT IS RISING; WAGE GROWTH STEADY



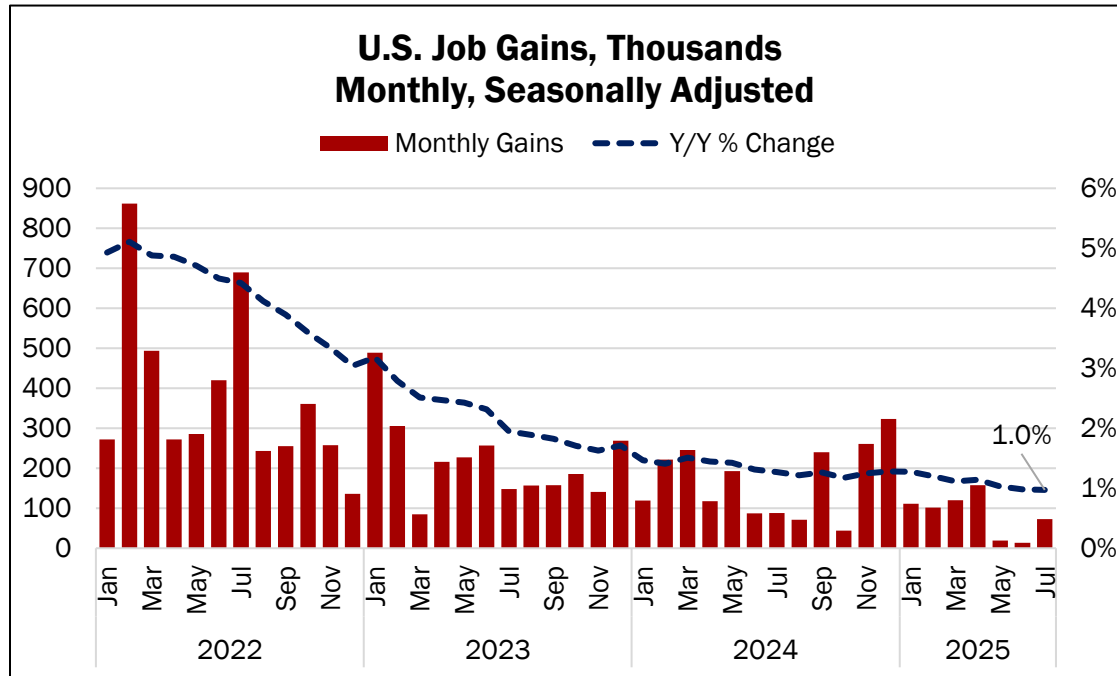
Source: U.S. Bureau of Labor Statistics.



Source: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis; Moody's Analytics.

- Virginia's unemployment rate ticked up to 3.5 percent (+0.1 percentage point) in June, which continues the upward trend which began in January. The Commonwealth's labor force participation rate decreased by 0.2 percentage points to 65.0 percent in June.
- The U.S. unemployment rate ticked back up to 4.2 percent (+0.1 percentage point) in July continuing to stay relatively stable.
- The effective wage rate in Virginia has grown approximately on par with the nation over the past year.

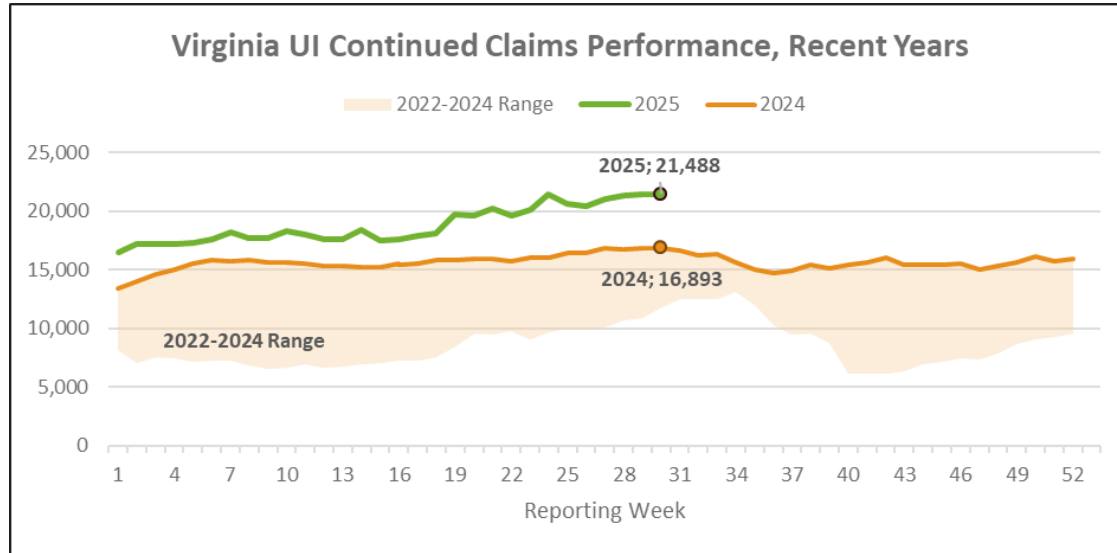
US EMPLOYMENT GROWTH



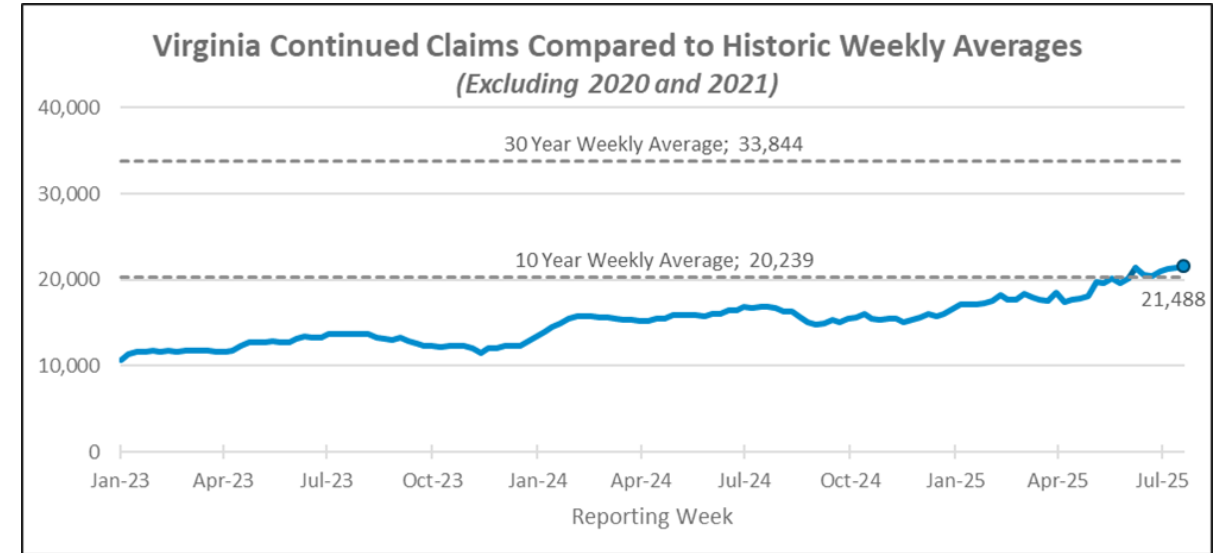
Source: US Bureau of Labor Statistics

- U.S. nonfarm payrolls increased 73,000 in July; however, prior month revisions were significant.
- Payroll gains for May and June were revised lower by a combined 258,000, which is the largest downward revision on record outside of the pandemic. The June gain was revised lower by 133,000 to 14,000, and the May figure was revised lower by 125,000, from 144,000 to 19,000.
- The three-month average gain now sits at just 35,000, compared with 150,000 in the last report.
- Private sector payrolls rose 83,000 in July but were revised down by 139,000 in prior months.
- The largest gain in July was health care & social assistance (73,000). Manufacturing declined 11,000 while government (federal, state, and local) declined 10,000.
- Federal government employment continued to decline in July (-12,000) and is down by 84,000 since reaching a peak in January.

UNEMPLOYMENT CLAIMS ARE RISING, BUT THEY ARE RISING FROM HISTORIC LOWS



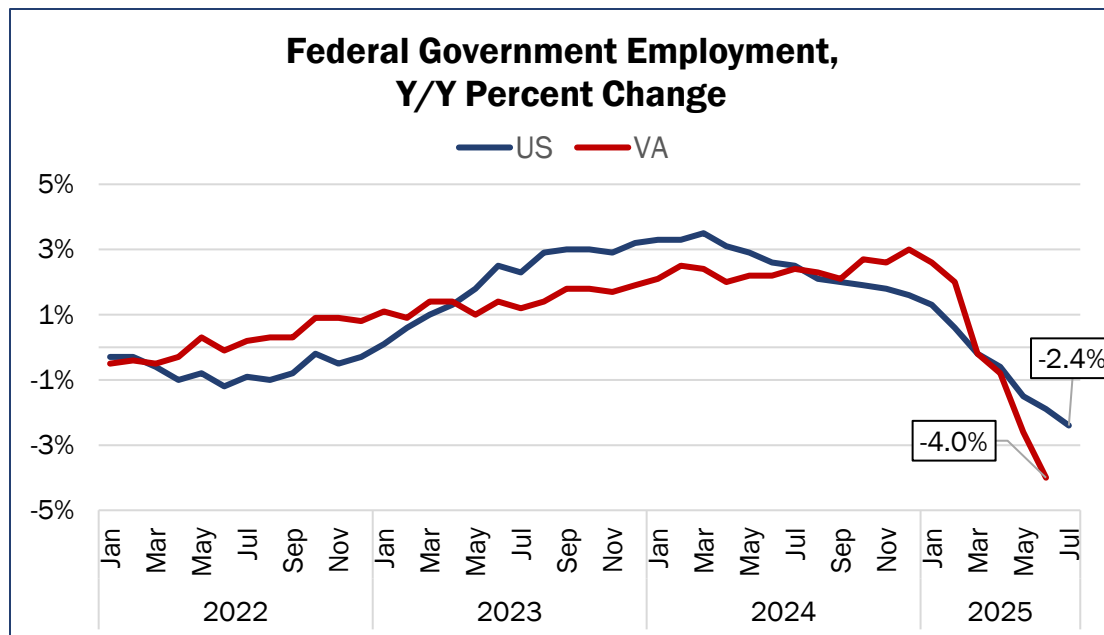
Source: US Department of Labor, Employment and Training Administration.



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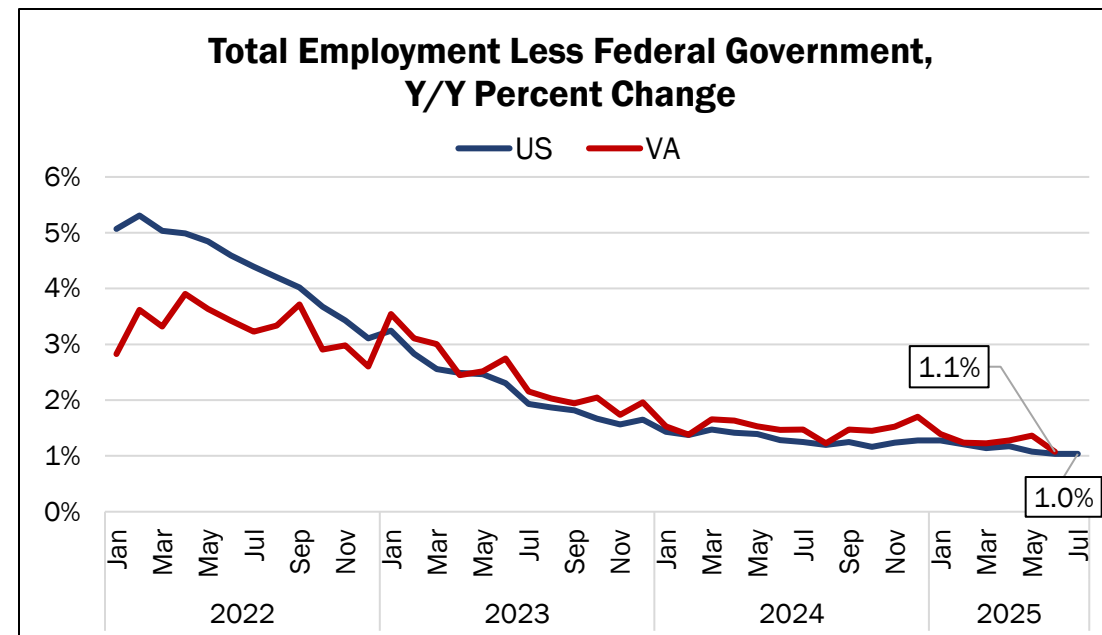
- Continued claims, are higher year-over-year by approximately 4,600 or 27%.
- While continued claims are clearly up, they are increasing off a base of exceptionally low unemployment.
- Current levels are only modestly above the 10-year average (excluding Covid) of 20,239.

WHILE FEDERAL EMPLOYMENT HAS DECLINED SINCE JANUARY, OTHER SECTORS CONTINUE TO GROW YEAR-OVER-YEAR



Source: US Bureau of Labor Statistics.

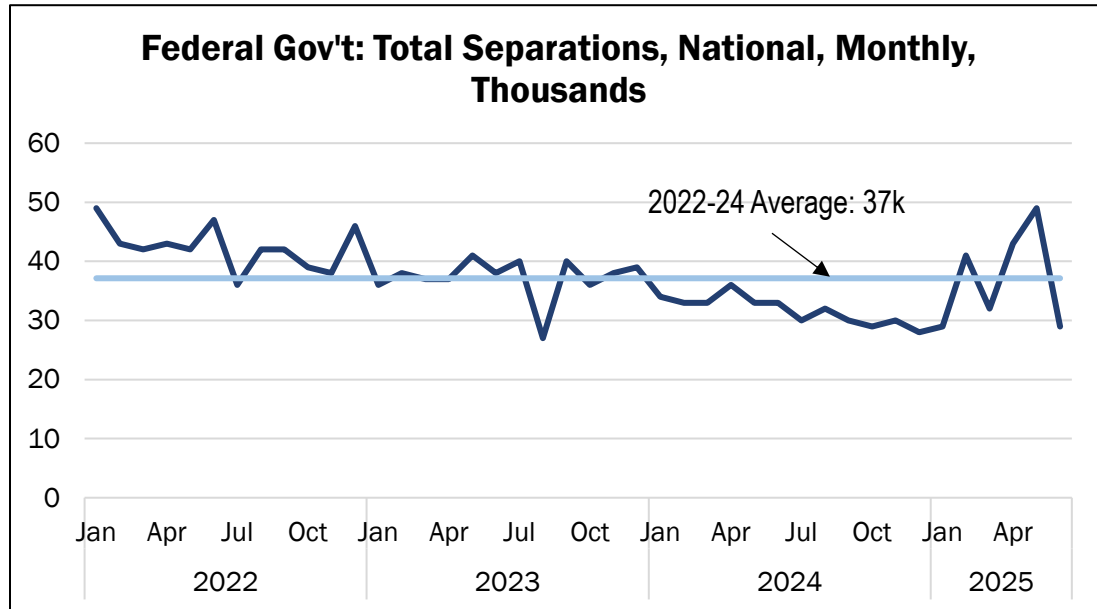
- The federal government has reduced net employment levels by more than 80,000 since January.
- 11,200 of those jobs are located in the Commonwealth.



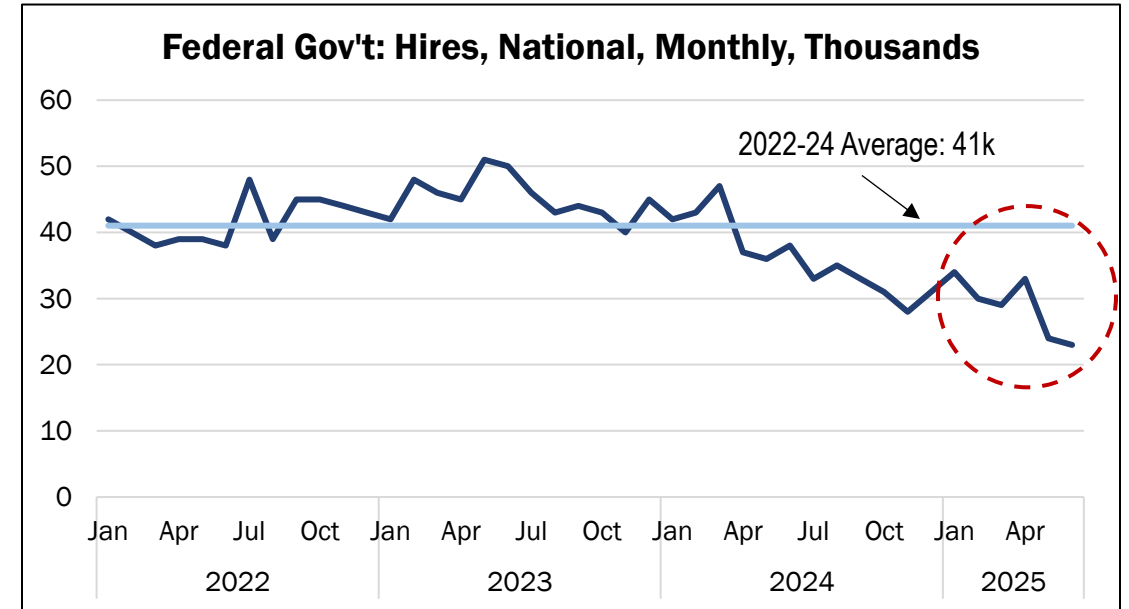
Source: US Bureau of Labor Statistics.

- Excluding federal employment, year-over-year employment in Virginia grew 1.1% in June, within the range of growth seen consistently over the last year.
- Growth is driven mainly by private education and health services, up 23,100 jobs year-over-year, and local government, up 10,000 year-over-year.

FEDERAL REDUCTIONS HAVE LARGELY BEEN DRIVEN BY REDUCED HIRING



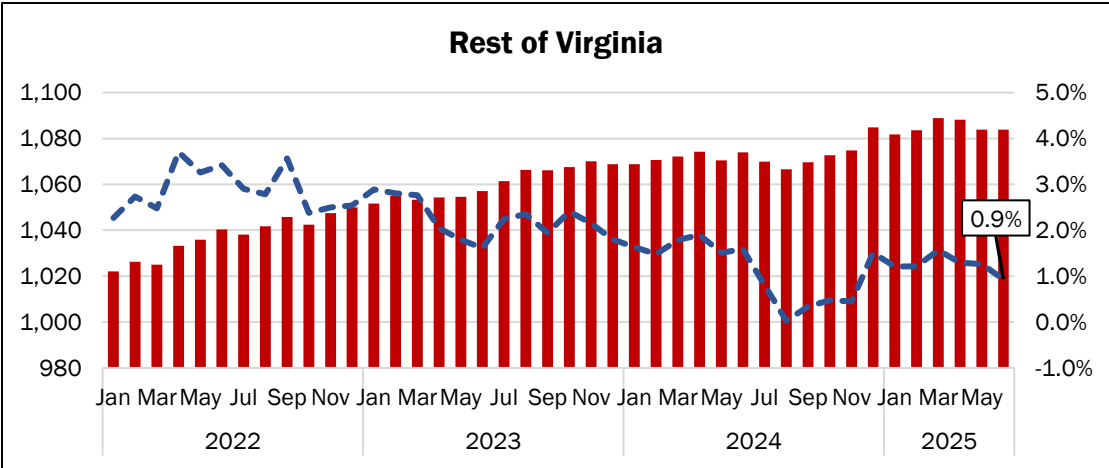
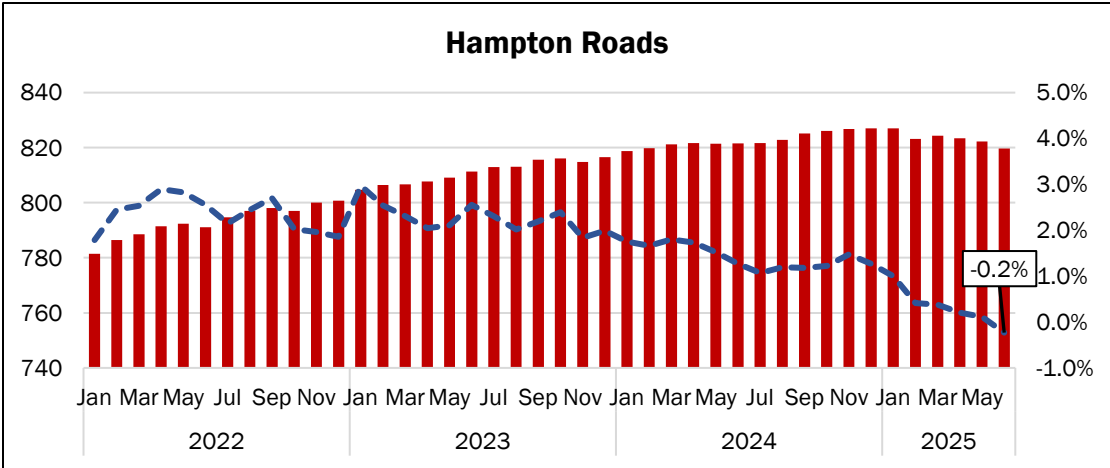
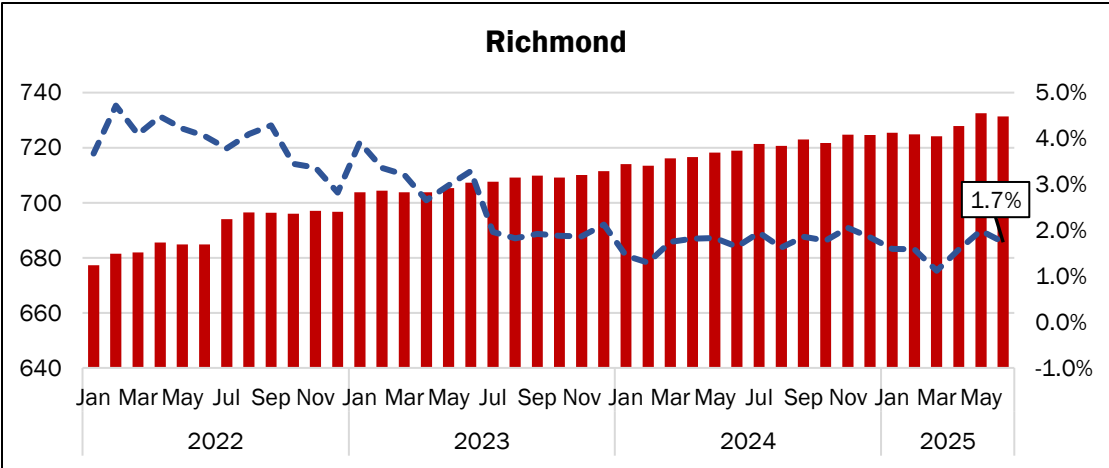
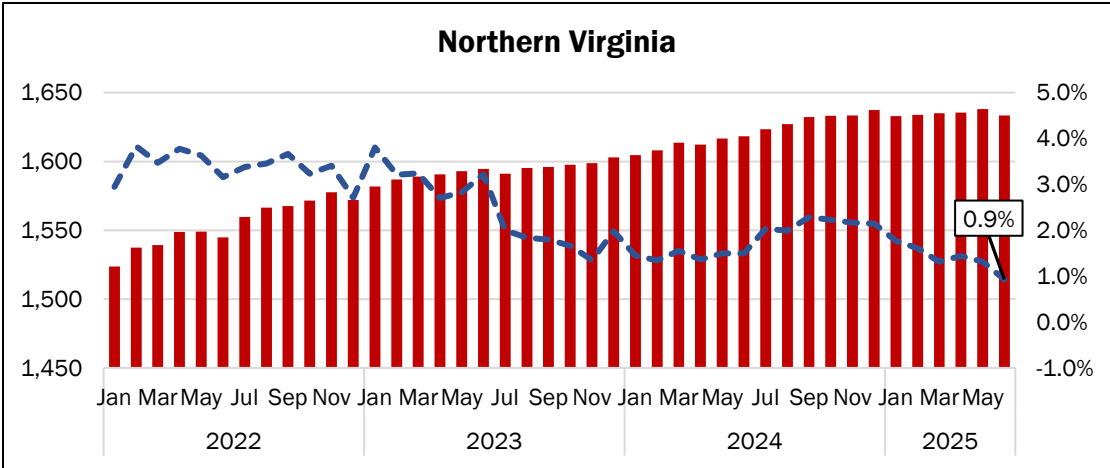
Source: Bureau of Labor Statistics, JOLTS.



Source: Bureau of Labor Statistics, JOLTS.

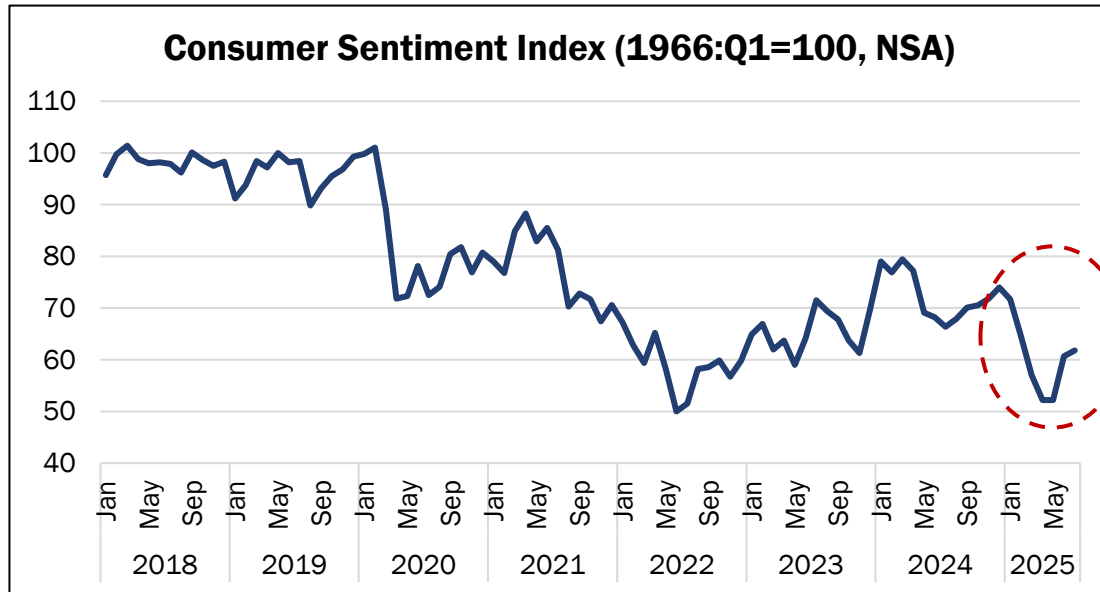
- Nationally, year-to-date federal government separations (employees that leave the payroll for any reason) are up 10% versus the same period last year, while YTD hires are down 29%.
- A federal hiring freeze originally implemented on January 20, 2025, prohibits filling vacant federal civilian positions or creating new ones, with minor exceptions.

YEAR-OVER-YEAR EMPLOYMENT GROWTH IS POSITIVE IN MAJOR METRO REGIONS EXCEPT HAMPTON ROADS FOR THE MONTH OF JUNE

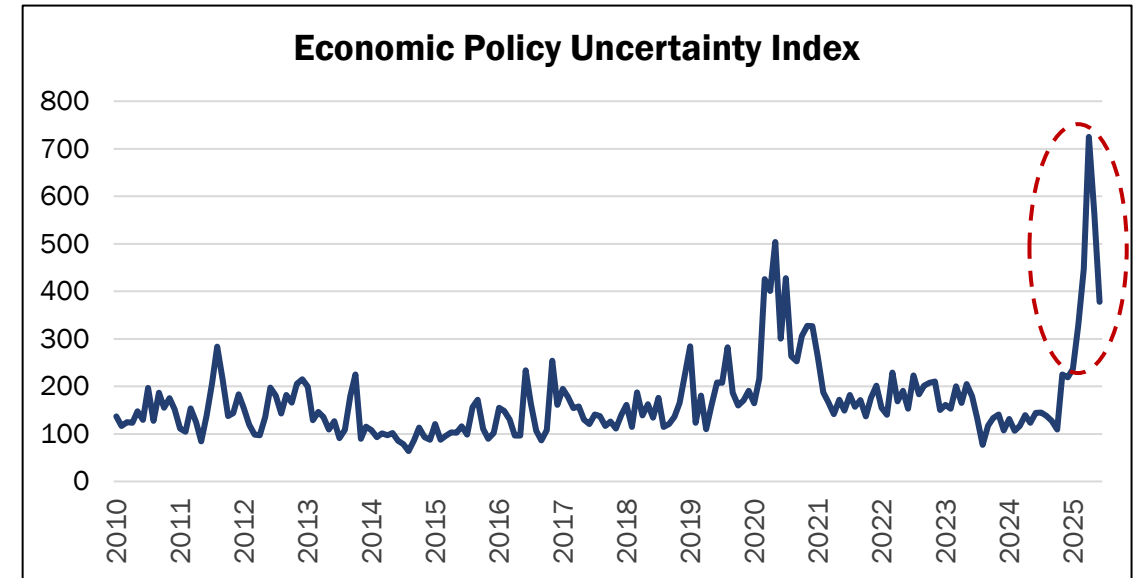


Source: Bureau of Labor Statistics, Current Employment Statistics (CES); Includes: Arlington-Alexandria-Reston Metropolitan Division, Richmond MSA, Virginia Beach-Chesapeake-Norfolk MSA. 'Rest of Virginia' calculated as VA statewide total less the three regions listed above.

UNCERTAINTY AROUND FEDERAL POLICY HAS BEGUN TO MODERATE



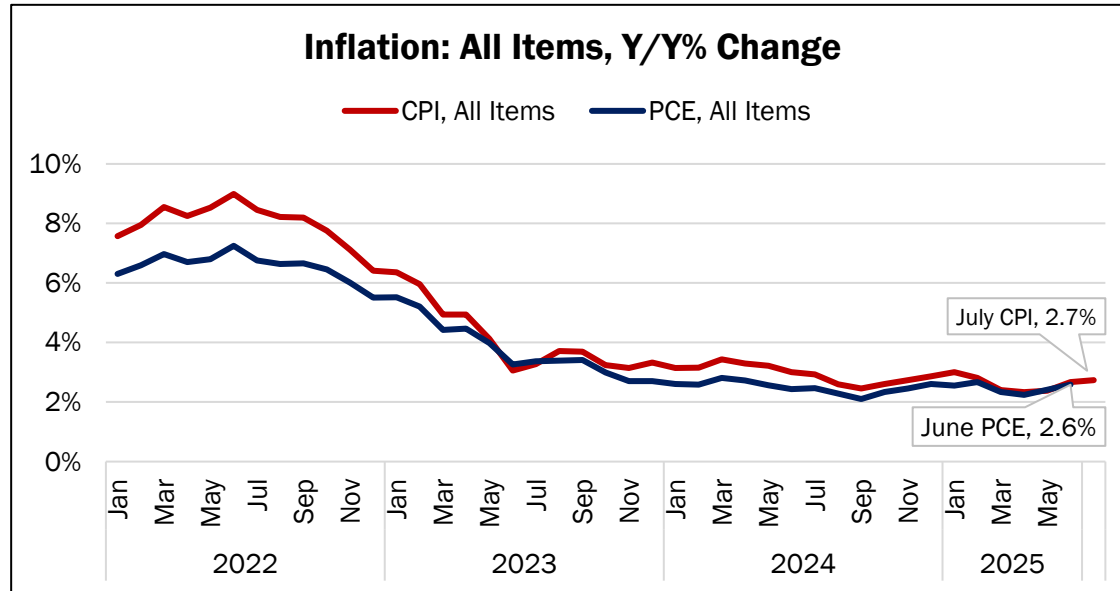
Source: University of Michigan; Federal Reserve Bank of St. Louis.



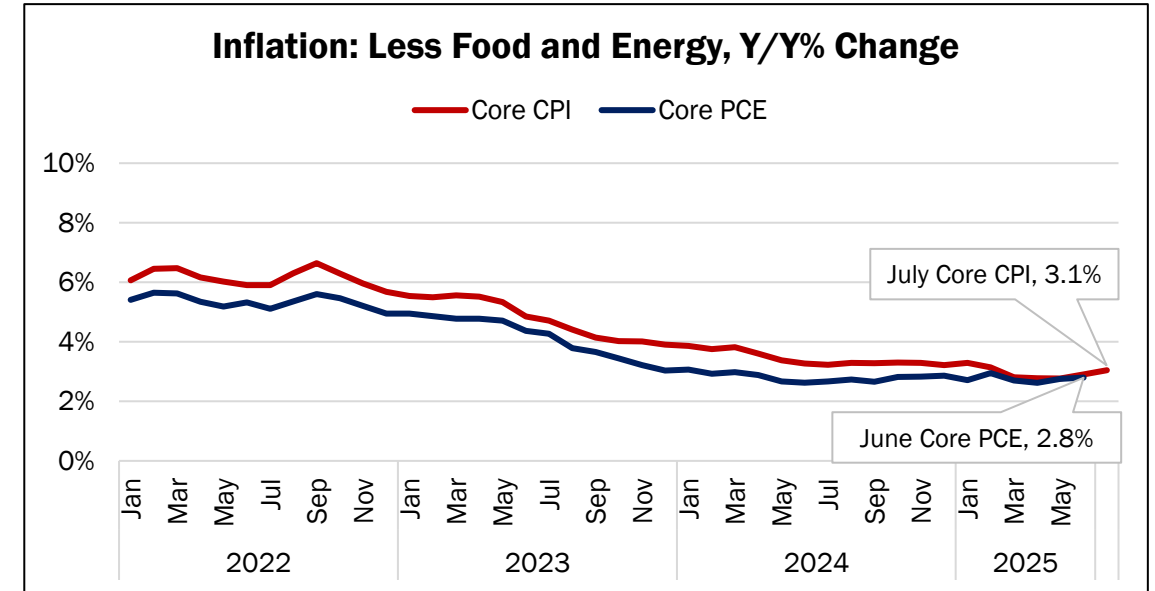
Source: Baker, Scott R., Bloom, Nick and Davis, Steven J., Economic Policy Uncertainty Index: News-Based Index for the United States, Federal Reserve Bank of St. Louis.

- The University of Michigan Consumer Sentiment Index has improved after declining in the first quarter on uncertainty around tariffs.
- The Economic Policy Uncertainty Index measures policy-related uncertainty in the U.S using newspaper coverage of policy-related economic uncertainty; the number of federal tax code provisions set to expire; and the dispersion between individual forecasters' predictions about future levels of the Consumer Price Index, Federal Expenditures, and State and Local Expenditures.
- With passage of the One Big Beautiful Bill Act and recent tariff agreements announced with major trading partners, policy uncertainty has begun to moderate.

INFLATION REMAINS CONSISTENT WITH 2024 LEVELS



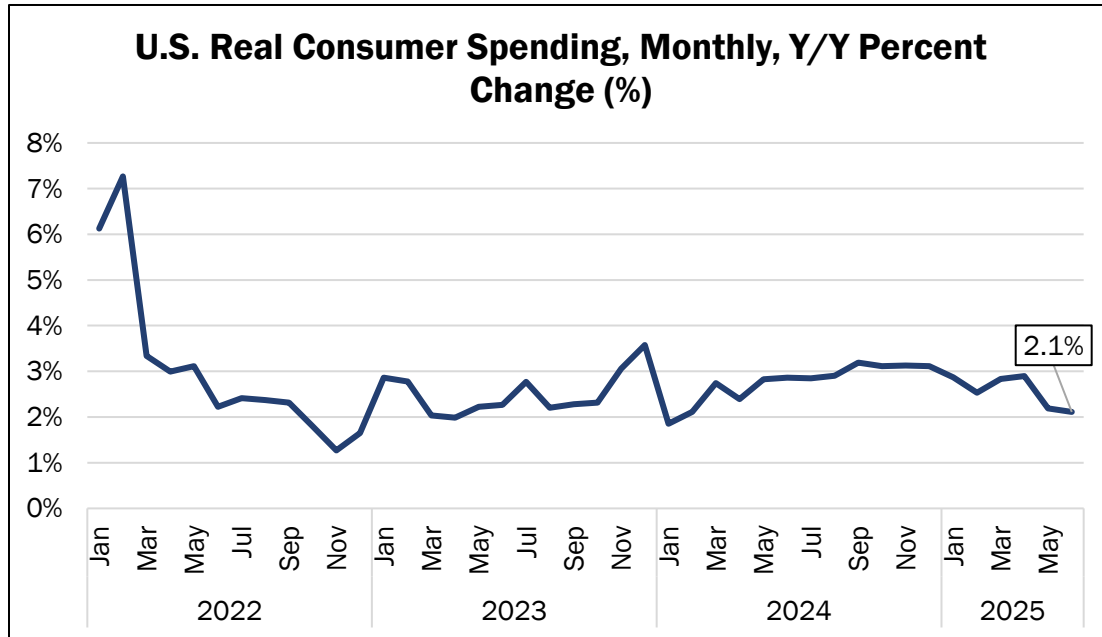
Source: U.S. Bureau of Labor Statistics.



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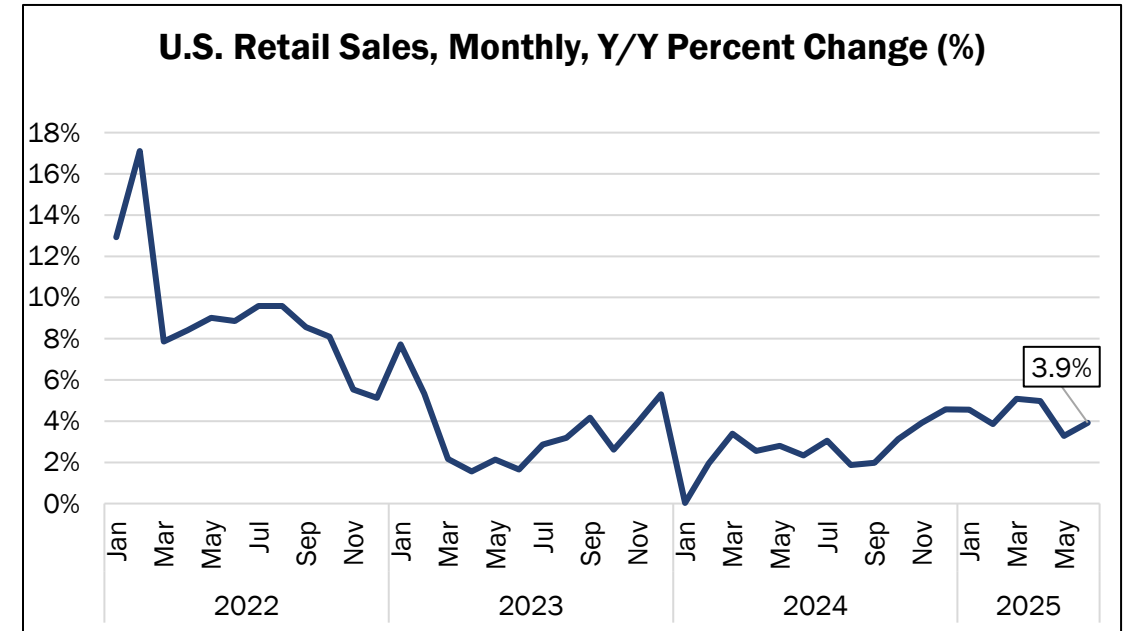
- The 12-month change in the Consumer Price Index was unchanged in July at 2.7%, slightly below the 2024 annual rate of 2.9%. The “Core” CPI which excludes food and energy increased slightly to 3.1% over the year in July.
- From the same month one year ago, the PCE price index for June increased 2.6%. Excluding food and energy, The “Core” PCE price index was up 2.8% from one year ago, unchanged from May’s upwardly revised figure. PCE and Core CPI averaged 2.6% and 2.8%, respectively, in calendar year 2024.

CONSUMER SPENDING REMAINS WITHIN RECENT RANGES OF GROWTH



Source: U.S. Bureau of Economic Analysis, Real Personal Consumption Expenditures; Federal Reserve Bank of St. Louis.

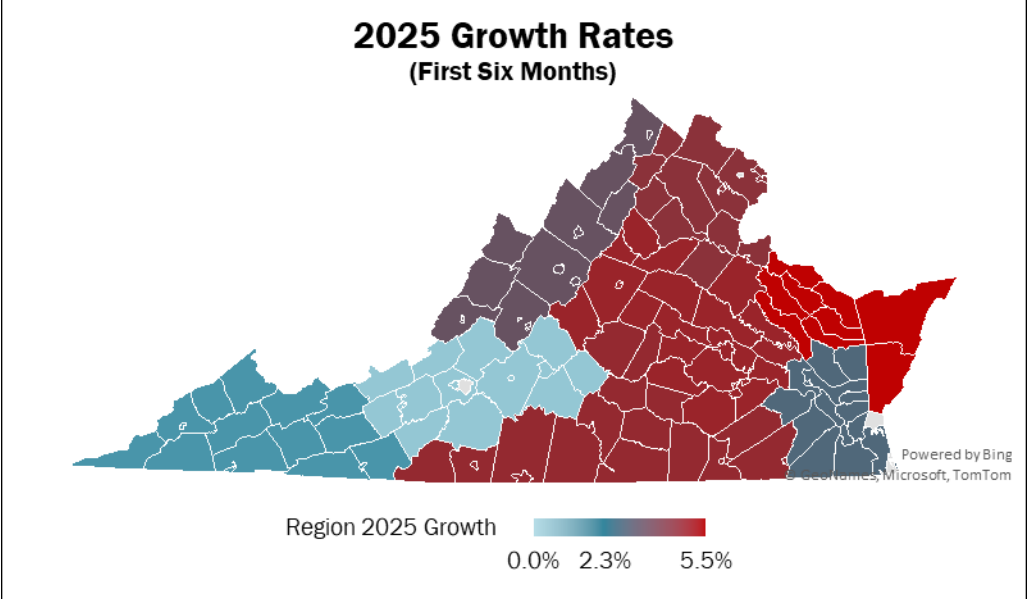
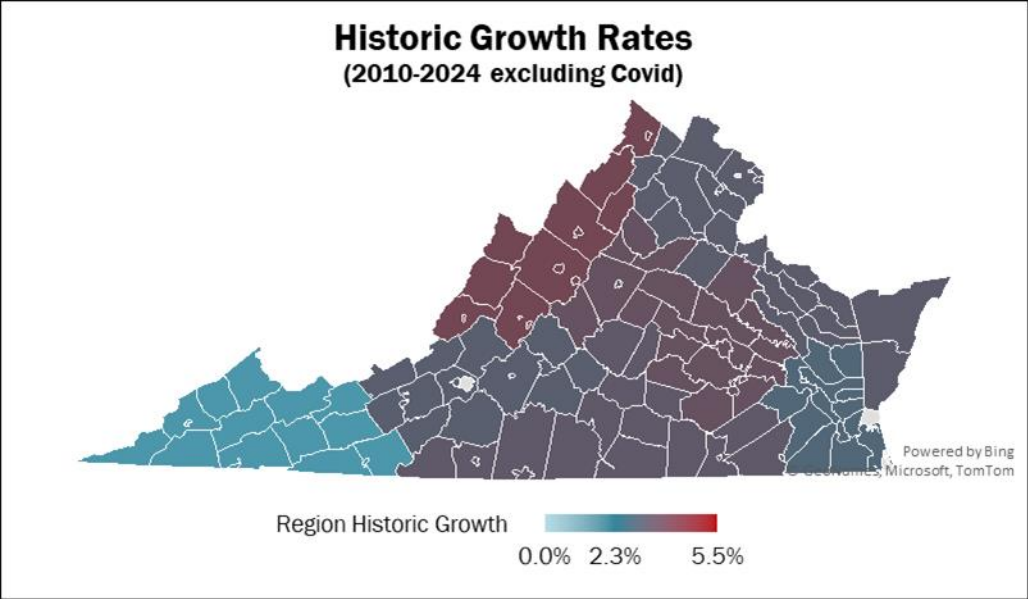
- Spending is expected to continue to grow modestly.
- Unemployment and debt burdens are low in aggregate, and job and wage growth remains adequate support continued growth in consumer spending.



Source: U.S. Census Bureau, Advance Retail Sales: Retail Trade and Food Services; Federal Reserve Bank of St. Louis.

- Retail sales rose 0.6% in June. Retail sales are up 3.9% versus a year ago.
- The largest year-over-year increases were in misc. store retailers, drugstores, restaurants, and nonstore (internet) retailers.

LOCAL SALES TAX COLLECTIONS SHOW CONTINUED GROWTH ACROSS THE COMMONWEALTH



- Since 2010, Virginia has averaged a little more than 3 percent growth as measured by local option sales tax.
- In the first six months of 2025, most regions have seen higher than average growth.

Region	Historic Growth	2025 Growth
Central	3.5%	4.6%
Eastern	3.2%	5.5%
Hampton Roads	3.0%	3.0%
Northern	3.2%	4.3%
Southside	3.3%	4.5%
Southwest	1.8%	1.8%
Valley	3.8%	3.5%
West Central	3.2%	0.6%

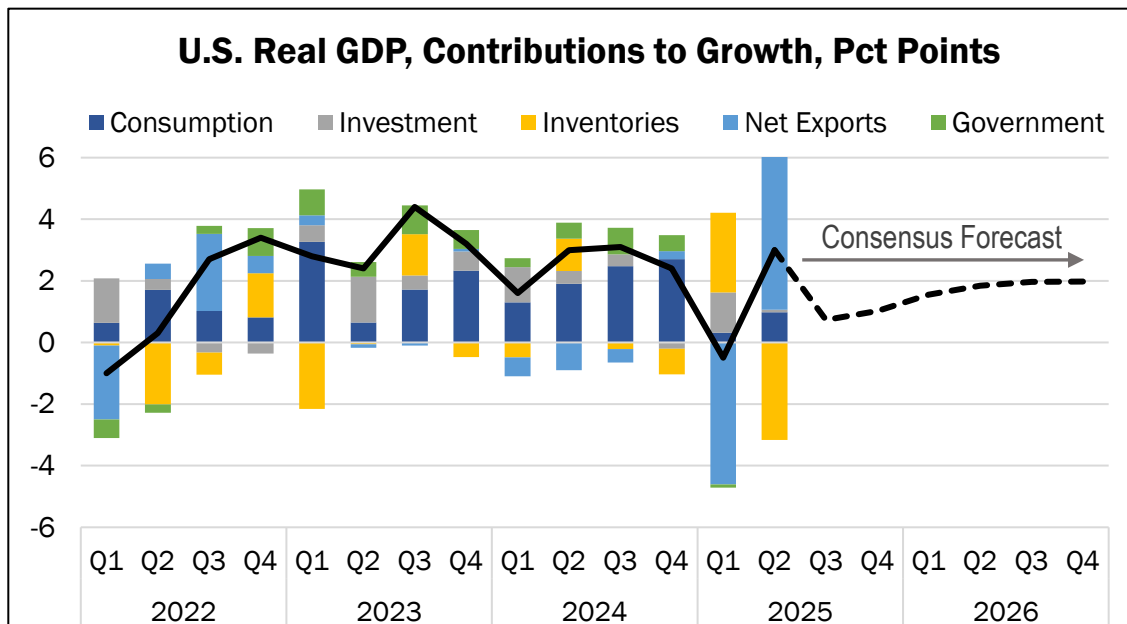
HOUSING MARKET TRENDING CLOSE TO LAST YEAR LEVELS WITH GROWING INVENTORY

Virginia Housing Market Indicators					
Year-Over-Year Percent Change for Jan-Jun 2025					
	NOVA	Richmond	Hampton	All Other	Statewide
Closed Sales	0%	2%	-1%	-2%	0%
Median Sold Price	4%	3%	5%	5%	4%
Average Active Listings	56%	21%	24%	26%	28%
Median Months of Supply	53%	16%	23%	20%	24%

Source: Virginia Realtors; Virginia Tax staff analysis.

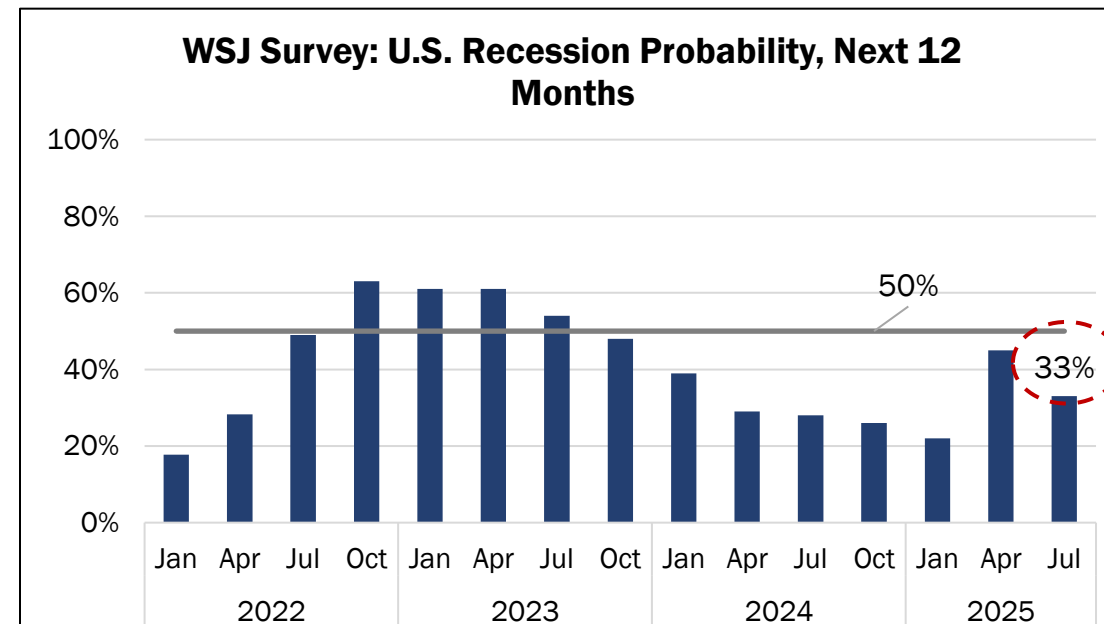
- **Northern Virginia:** Year-to-date closed sales activity is flat from 2024 levels. Home price growth has softened in recent months as inventory levels have expanded.
- **Richmond:** Sales activity is outpacing last year. Inventory levels are increasing. Overall months of supply remains tight.
- **Hampton Roads:** Home prices have been trending up for much of the year. Inventory has expanded, and months of supply has edged above 3 months in several places.
- **Rest of Virginia:** Sales activity is trending below last year overall. Inventory levels are expanding. Home prices are still climbing in all of the smaller metro markets.

OUTLOOK FOR ECONOMIC GROWTH REMAINS POSITIVE; LIKELIHOOD OF RECESSION IS LOW



Source: U.S. Bureau of Economic Analysis (BEA); Moody's Analytics Forecasted, Consensus Scenario (July 2025).

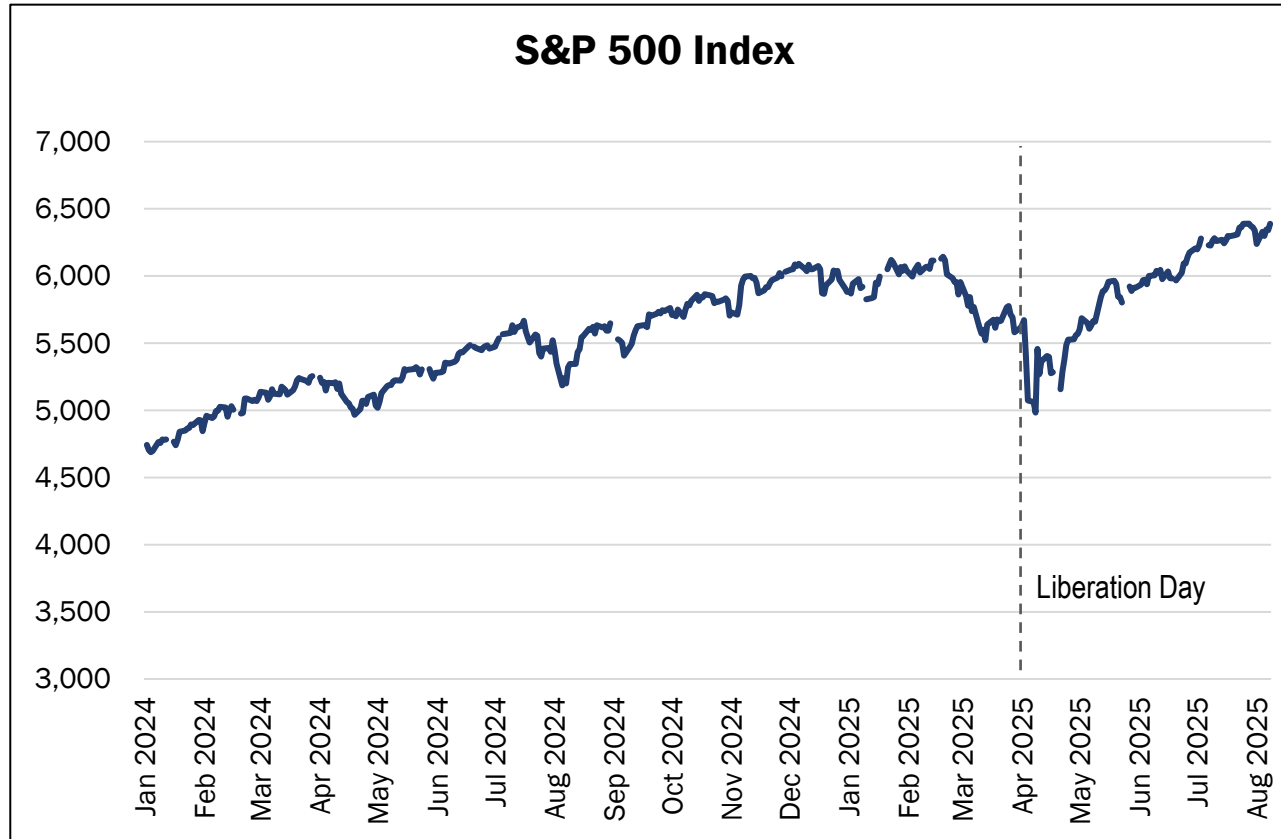
- After growing 2.5% in 2024, the economy marginally shrank in Q1 of 2025 driven by surging imports in advance of rising tariffs. GDP grew an estimated 3.0% in Q2, according to the “advance” estimate released in July.
- Jobs and industrial production grew at healthy rates in the first quarter leading economists to forecast continued economic growth through the remainder of 2025 and 2026.



Source: Wall Street Journal Economic Survey (July 2025).

- Economists polled by the Wall Street Journal in July see a relatively low risk of recession over the next 12 months.
- The recession risk was temporarily elevated in the April poll amid uncertainty around trade policy.

STOCK MARKETS HAVE REBOUNDED



Source: Federal Reserve Bank of St. Louis, S&P 500, Index, Daily, Not Seasonally Adjusted.

* Federal Reserve Bank of St. Louis (as of 8/11/25).

- After declining on tariff worries, stock markets have rebounded, reaching record highs in recent weeks.
- Since the beginning of the year, the S&P 500 is up over 8%.*
- Similarly, the NASDAQ Composite Index is up over 10% year-to-date.*

FISCAL YEAR 2026 REVENUES NEED ONLY GROW 0.4% TO MEET THE CHAPTER 725 FORECAST

SOURCE, \$ Mil	<u>Actuals</u>				<u>Chapter 725 Forecast For FY 26</u>		
	FY2024	FY 2025	Change	% Change	FY 26 Forecast	Forecasted % Growth	Forecasted \$ Growth
Withholding	\$ 16,718.2	\$ 17,561.2	\$ 842.9	5.0%	\$ 17,940.3	2.2%	\$ 379.2
Non-withholding	6,563.7	7,518.7	955.0	14.5%	6,373.4	-15.2%	(1,145.2)
IIT Refunds	(2,971.5)	(3,187.4)	(215.9)	7.3%	(2,599.6)	-18.4%	587.8
Net Individual Income	\$ 20,310.4	\$ 21,892.4	\$ 1,582.0	7.8%	\$ 21,714.2	-0.8%	\$ (178.3)
Sales & Use Tax	4,709.7	4,812.7	103.1	2.2%	4,987.4	3.6%	174.6
Corporate Income Tax	1,907.1	1,878.6	(28.5)	-1.5%	2,025.5	7.8%	147.0
Insurance	468.2	541.5	73.3	15.6%	503.7	-7.0%	(37.8)
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Total GF Revenues	\$ 29,448.2	\$ 31,233.0	\$ 1,784.9	6.1%	\$ 31,360.4	0.4%	\$ 127.3
Transfers	\$ 12.7	\$ 1,501.3	\$ 1,488.6	***	\$ 1,572.0	4.7%	\$ 70.8
Total General Fund	\$ 29,460.8	\$ 32,734.3	\$ 3,273.5	11.1%	\$ 32,932.4	0.6%	\$ 198.1

***Percentage is greater than 1000%.

- Given the outperformance of FY 2025, the resulting forecast assumption for FY 2026 requires current year revenues need only grow by 0.4% to meet budget.

CURRENT MOODY'S BASELINE FORECAST SUPPORTS THE OUTLOOK UNDERPINNING THE FY 2026 REVENUE FORECAST

Key Economic Variables: Existing Forecast and Current Expectations

Virginia data, Y/Y percent change unless otherwise noted

	FY 2025 Actual	Chapter 725 FY 2026 Forecast	Moody's July Baseline FY 2026 Forecast	Difference
Real Gross State Product	2.6*	1.8	0.6	-1.2
Employment Growth	1.4	0.1	0.3	0.2
Total Personal Income	5.1*	3.5	5.1	1.6
Average Wage	3.7*	2.5	4.2	1.7
Taxable Sales	4.3	3.7	3.4	-0.3
Unemployment Rate (%)	3.1	3.4	3.5	0.1
Core PCE Inflation (US)	2.7	1.9	3.3	1.4

Source: Bureau of Labor Statistics; Bureau of Economic Analysis; Moody's Analytics.

*Includes Moody's Analytics forecasted values for most recent quarter.

- Assumptions developed last year are generally consistent with the current Moody's baseline outlook.
- With FY 2025 nonwithholding revenues exceeding forecast, nonwithholding revenues assumed in the current appropriations act (Ch. 725) are assumed to decline 15.2% year-over-year in FY 2026.

IN EXCESS OF \$1.7 BILLION IN INCREMENTAL RESOURCES AVAILABLE FOR FY 2026

In Millions		
Excess Revenues, FY 2025*		\$572.0
Budgeted Spending Cushion		
Governor's Vetoes	\$900.0	
Required Set Aside (incl. sum sufficient)	(67.3)	
Net		\$832.7
Unspent Appropriations		
Total	2,093.8	
Mandatory Balance	(1,618.8)	
Discretionary Balance	Estimated at	\$200.0
Excess Revenue, FY 2026 (July)		\$144.7
Total FY 2026 Starting Cushion		\$1,749.4

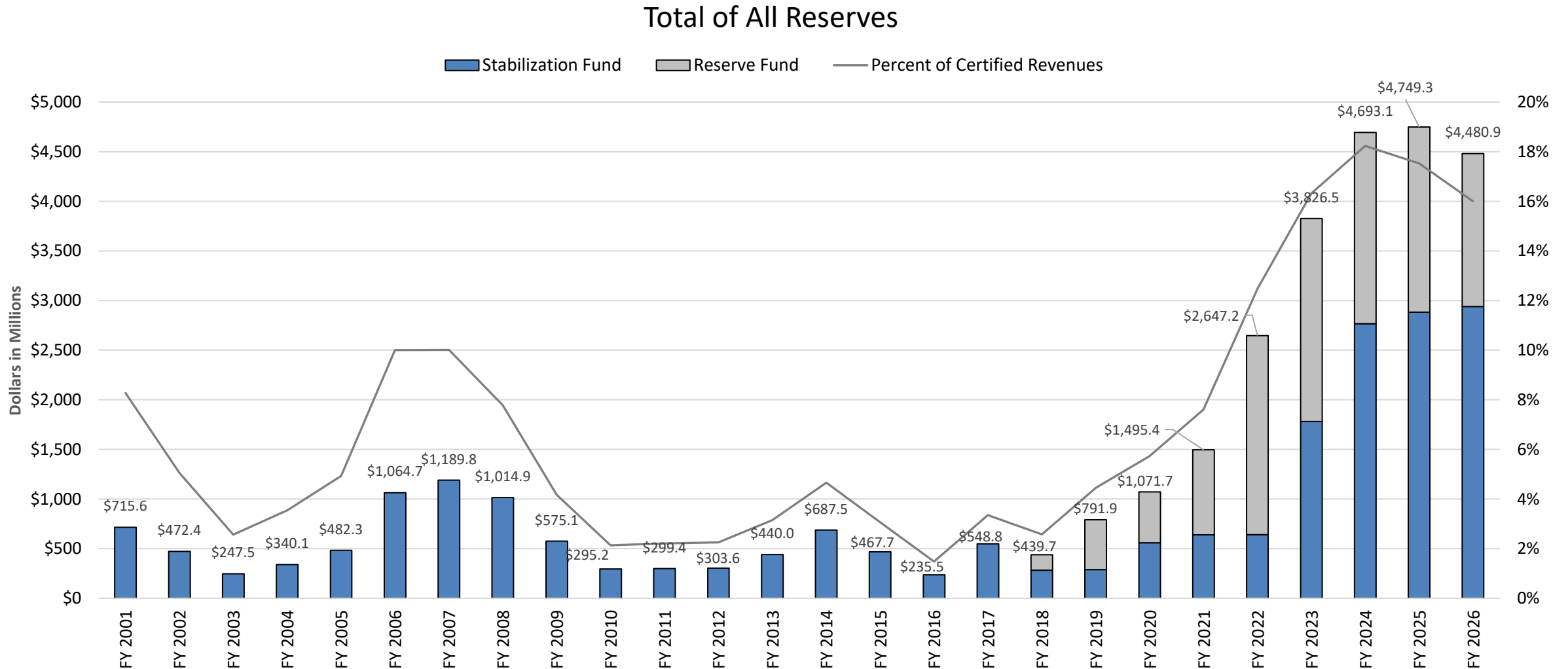
* Reported as Committed Fund Balance on Preliminary Balance Sheet.

JULY REVENUES GREW 7.3% YEAR-OVER-YEAR AND EXCEEDED PROJECTIONS BY \$144.7 MILLION

SOURCE, \$ Mil	July				FY 2025	Y/Y%
	Actuals	Projected	Variance \$	Variance %		
Withholding	\$1,569.0	\$1,468.9	\$100.1	6.8%	\$1,409.8	11.3%
Nonwithholding	137.7	100.0	37.7	37.7%	109.5	25.8%
IIT Refunds	(100.1)	(115.3)	15.1	-13.1%	(95.4)	5.0%
Net Individual Income	\$1,606.5	\$1,453.6	\$152.9	10.5%	\$1,423.9	12.8%
Sales & Use Tax	424.4	427.4	(3.0)	-0.7%	413.1	2.7%
Corporate Income Tax	47.8	54.2	(6.4)	-11.8%	54.0	-11.5%
Insurance	-	-	-	0.0%	-	0.0%
Wills, Suits, Deeds	45.3	48.1	(2.9)	-6.0%	42.9	5.6%
Interest Income	107.7	105.6	2.2	2.1%	114.1	-5.5%
All Other	43.4	41.5	1.9	4.6%	72.8	-40.3%
Total GF Revenues	\$2,275.1	\$2,130.4	\$144.7	6.8%	\$2,120.7	7.3%

- July is not a significant month for revenue collections and consists mainly of payroll withholding and sales and use tax revenues.
- Revenues for the month grew 7.3% year-over-year, driven by strong growth in individual income taxes. Payroll withholding collections increased 11.3% year-over-year and exceeded projections based on the current FY 2026 budget by \$100 million.
- Sales tax collections, reflecting June sales, grew 2.7% and were slightly (\$3.0 million) below projections for the month.

NEARLY \$4.5 BILLION IN PROJECTED RESERVES FOR FY 2026



REVENUE RESERVE FUND WITHDRAWALS

- Chapter 2 originally assumed a withdrawal of \$129.3 million in FY25 and \$675.7 million in FY26 from the Revenue Reserve Fund (RRF), while increasing the combined RRF and Revenue Stabilization Fund (RSF) cap to 20 percent of certified revenues.
- Chapter 725 increased the FY25 withdrawal to \$332.3 million and began a plan to phase the combined cap back to the Code-established 15 percent of certified revenues limit.
- The combined cap was set at 17.53 percent of certified revenues for FY25. Even after the planned \$332.3 million withdrawal, the combined balance of the two funds was in excess of the 17.53 percent limit, resulting in an additional \$100.5 withdrawal from the RRF based on established statutory procedure.
- The preliminary balance sheet indicates an additional FY26 deposit to the RRF, from the overperformance of FY25, of \$312.2 million.

MOODY'S CREDIT OUTLOOK: FEDERAL ACTIONS IMPACT ON VIRGINIA, MARYLAND, AND D.C.

Virginia

Aaa stable

- Affirmed April 7, 2025
- Highest exposure to federal workforce
- But more reliant on defense-related jobs so relatively more insulated from job cuts
- Very strong ability to make spending cuts and very strong reserves

Maryland

Aa1 stable

- Downgraded May 14, 2025
- Driven by economic and financial underperformance compared to Aaa-rated states
- Expected to continue given vulnerability to shifting federal policies and job cuts; high fixed costs
- Stable outlook reflects broader ability to adjust to changing conditions

District of Columbia

Aa1 negative

- Downgraded April 23, 2025
- Significant decline in local federal workforce (21% over four years)
- Erodes stability of institutional presence that federal government has had on DC economy
- Further spending cuts, weak CRE market ongoing uncertainty are credit negative

Source: Moody's Ratings, State Credit Outlook presentation to the National Association of State Budget Officers, July 16, 2025.

SUMMARY OF PRELIMINARY FY 2025 GF BALANCE SHEET

(\$ Thousands)

Assets Less Liabilities **15,436,692**

Restricted Fund Balance:

Revenue Stabilization Fund Ending Balance	\$2,882,213
Lottery Proceeds Fund	\$32,031
Water Supply Assistance Grant Fund	\$21,096
Total Restricted Fund Balance	\$2,935,340

Committed Fund Balance:

Virginia Military Survivors and Dependents Education Program	\$20,000
Reserve for potential federal fund reduction impact	\$184,467
Revenue Reserve Fund Calculation	\$312,330
Virginia Water Quality Improvement Fund - Part A 2025 Calculation	\$55,200
Virginia Water Quality Improvement Fund - Part B 2025 Calculation	\$52,695
Virginia Water Quality Improvement Fund Ending Balance	\$797,028
Revenue Reserve Fund Ending Balance	\$1,867,054
2025 Individual Income Tax Rebate	\$977,843
Reappropriation of Capital Outlay	\$2,938,536
Operating Mandatory Reappropriation	\$1,618,832
Other Commitments	\$2,239,805
Total Committed Fund Balance	\$11,063,790

Assigned Fund Balance:

Balance Required by Chapter 725	\$13,346
Discretionary GF Balances	\$474,257
Additional Assignment for Budgetary Priorities and Contingencies	\$838,705
Other Assignments	\$111,253
Total Assigned Fund Balance	\$1,437,562

\$572 million. Full commitment of excess revenue collections required by Par. N of Item 470, CH 725 plus Revenue Reserve Fund calculation.

\$107.9 million. WQIF deposits, parts A and B, based on FY 2025 revenues and balances.

\$977.8 million. Reserved for Tax Rebate per Item 258, CH 725.

\$838.7 million. Additional assignment for anticipated budgetary needs.

\$8.9 BILLION WILL HAVE BEEN RETURNED TO TAXPAYERS, SAVING THE TYPICAL VIRGINIA FAMILY \$4,600+

Annual Value of Tax Relief Measures

Tax Relief Measures	2022 Relief ¹	2023 Relief ¹	2024 Relief ¹	2025 Relief ¹	2026 Relief ¹	Total Per Family
Increase standard deduction to \$8,000/\$16,000	\$399	\$399	\$400	\$400	\$401	\$1,999
Increase standard deduction to \$8,500/\$17,000	\$0	\$0	\$57	\$57	\$57	\$171
Increase standard deduction to \$8,750/\$17,500				\$28	\$28	\$56
Eliminate State Tax on Groceries	\$209	\$221	\$222	\$227	\$233	\$1,112
Individual Income Tax Rebates	\$500	\$400	\$0	\$400	\$0	\$1,300
Total	\$1,108	\$1,020	\$679	\$1,112	\$719	\$4,638
Military Retirement Income Tax Subtraction ²	\$575	\$1,150	\$1,725	\$2,300	\$2,300	\$8,050
Total, Including Military Subtractions	\$1,683	\$2,170	\$2,404	\$3,412	\$3,019	\$12,688

¹Typical Virginia Family is a family of four earning \$75,000 per year.

² Assumes subtraction of \$10,000 in Taxable Year 2022, \$20,000 in Taxable Year 2023, \$30,000 in Taxable Year 2024 and \$40,000 in Taxable Year 2025.

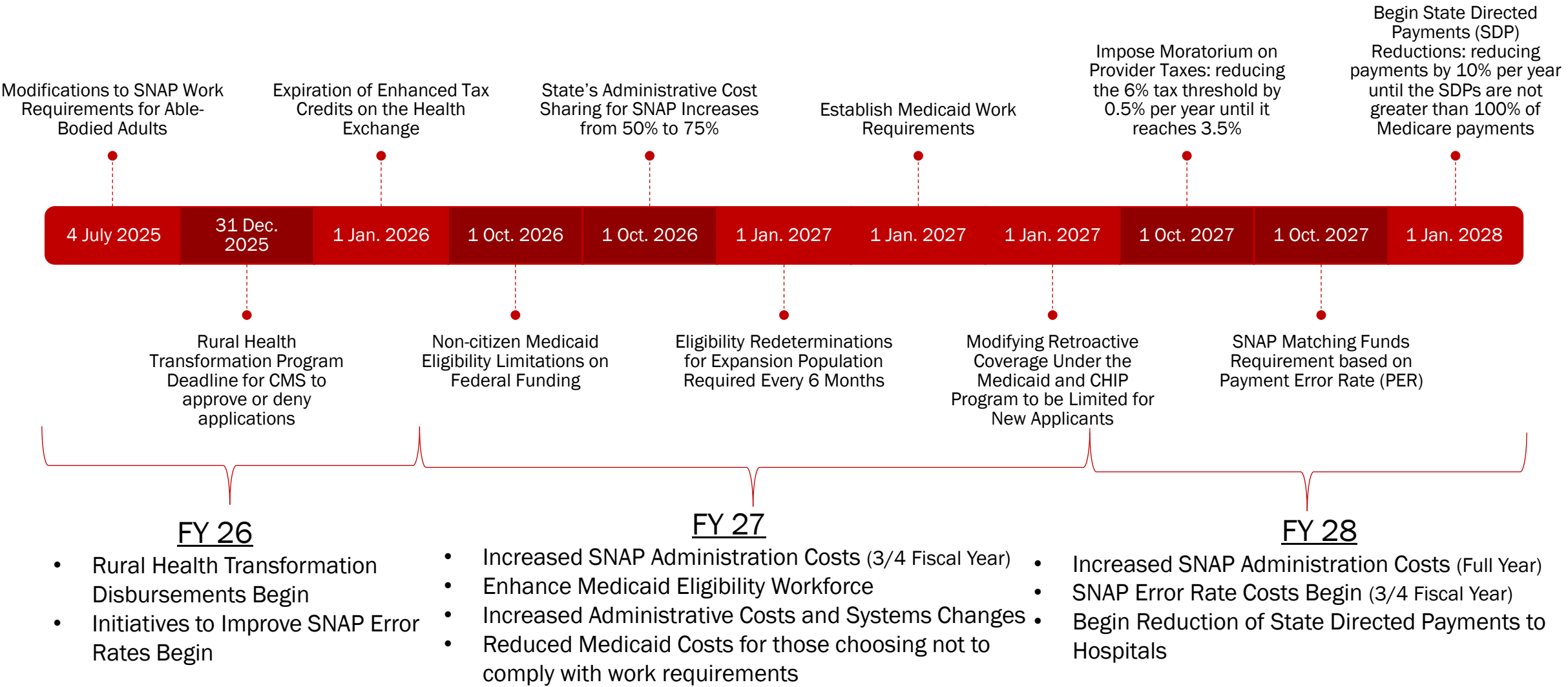
REVENUE IMPACT FROM MAJOR TAX POLICY ACTIONS

Tax Relief Measures (\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026
Individual: Increase Standard Deduction to \$8,000/\$16,000	(\$1,015.8)	(\$707.4)	(\$719.4)	(\$730.8)
Individual: Increase Standard Deduction to \$8,500/\$17,000	-	(48.1)	(101.7)	(102.6)
Individual: Increase Standard Deduction to \$8,750/\$17,500				(70.5)
Sales and Use: Eliminate State Tax on Groceries (1.5%)	(115.0)	(267.2)	(272.5)	(273.6)
Individual: Refundable Earned Income Tax Credit to 15% of Federal	(159.0)	(156.0)	(159.6)	(155.0)
Individual: Refundable Earned Income Tax Credit to 20% of Federal				(35.0)
Individual: Military Retirement Subtraction for Age 55+	(145.0)	(156.0)	(182.0)	(194.4)
Individual: Military Retirement Subtraction, Eliminate Age Limitation	-	(37.8)	(33.4)	(34.7)
Individual/Corp: Increase Business Interest Deduction from 20% to 30% of Federal Amt. Disallowed	(15.3)	(10.9)	(11.3)	(11.8)
Individual/Corp: Increase Business Interest Deduction from 30% to 50%	-	(10.3)	(22.6)	(23.5)
Individual: Reduce Estimated Payment Threshold	-	-	-	(10.4)
Total Permanent Tax Cuts	(\$1,450.1)	(\$1,393.7)	(\$1,502.5)	(\$1,642.3)
Individual: 2022 Tax Rebate (\$250/\$500)	(1,048.6)	-	-	-
Individual: 2023 Tax Rebate (\$200/\$400) (Paid from Special Fund)	-	(906.8)	-	-
Individual: 2025 Tax Rebate (\$200/\$400) (Paid from Special Fund)			(977.8)	
Total Permanent + One-Time Tax Cuts	(\$2,498.7)	(\$2,300.5)	(\$2,480.3)	(\$1,642.3)

RECENT CHANGES TO MEDICAID AND SNAP WILL BE ADDRESSED IN THE GOVERNOR'S INTRODUCED BUDGET

- Healthcare policy changes included in the One Big Beautiful Bill (OB BB) Act keep the Medicaid program in place for the people it was created to serve: persons with disabilities, the elderly who need long term care support, and families with children in poverty.
- Able-bodied adults maintain their current benefits but will have to fulfill basic requirements - work, volunteer, or education.
 - **No one eligible for Medicaid in Virginia will lose coverage because of work requirements unless they choose not to participate in the work requirement.**
 - Requires a minimum of 80 hours per month – or 18.5 hours per week - of work, volunteer service, or education.
 - In 2018, JLARC estimated that 7% of the Medicaid expansion population would be deterred from enrolling or leave the Medicaid program due to work requirements. Applied to today's population, that would equate to about 40,000 Virginians.
- Limitations on Hospital Provider Tax Assessments will result in lower Medicaid reimbursements to hospitals beginning in FY28 gradually bringing Medicaid payments to sustainable levels over time.
- Supplemental Nutrition Assistance Program (SNAP) changes will have a general fund expenditure impact beginning in FY27, but efforts by DSS and local departments of social services can help mitigate ongoing impact.
- Virginia will receive at least \$500 million, and potentially \$1 billion, over the next five years to drive rural health care transformation and expand services in rural areas.
- Executive Directives 12 and 13, signed August 13th, implement processes for applying for federal rural health care transformation funds and reducing SNAP error rates.
- No program or policy changes are required prior to the 2026 General Assembly Session.

TIMELINE OF KEY HEALTH POLICY PROVISIONS



THE COMMONWEALTH'S FINANCIAL POSITION REMAINS STRONG

- \$10 billion in revenue surpluses since 2022.
- Approximately \$1.7 billion cash cushion carried into FY 2026.
- FY 2025 revenues exceeded forecast by \$572 million.
 - Exceeded the “Common Ground” budget forecast (Chapter 2) by \$2.67 billion.
 - Payroll withholding and sales and use tax revenues – the best indicators of underlying economic growth – grew year-over-year by 5.0% and 2.2%, respectively. Combined, these sources were within 0.1% of the official forecast.
- FY 2026 revenues need only grow 0.4%, July revenues grew at 7.3% year-over-year and exceeded projections for the month by \$144.7 million.
- Economic assumptions underpinning the FY 2026 forecast are consistent with Moody’s current baseline outlook.
 - While federal trade and fiscal policy have generated some uncertainty with consumers and resulted in some mixed economic data over the first half of calendar year 2025, underlying economic fundamentals point to continued growth.
- Nearly \$4.5 billion in reserves for FY26.
- Virginia’s Triple-A credit status was affirmed in April, and outlook is stable.
- Positive economic momentum with capital commitments of \$125 billion and an associated 80,000 in new job growth.

FORECASTING PROCESS CONTINUES THROUGH DECEMBER

- **September:**
 - Individual, corporate, and insurance estimated payments are due.
- **October:**
 - Joint Advisory Board of Economists reviews economic assumptions.
- **November:**
 - Individual income tax extension returns due November 1.
 - Governor's Advisory Council on Revenue Estimates reviews revenue forecast for the 2026-28 biennium.
- **December:**
 - General fund revenue forecast is finalized, including post-GACRE adjustments and proposed policy changes.
 - Governor Youngkin's FY 2026 budget amendments and the 2026-28 biennial budget are presented at the December Joint Money Committee meeting.

APPENDIX: GENERAL FUND TRANSFERS

General Fund Transfers

(Dollars in Millions)

	Fiscal Year 2025
ABC Net Profits	\$ 170.9
Revenue Reserve Fund	100.5
Transfers from Reserves	332.3
Virginia Growth & Opportunity Fund	28.0
Unclaimed Property Fund	115.0
DMA Dominion Energy Offshore Wind Easement Fund	30.0
State Racing Operations Fund	29.0
Transfer 3/8 Cents Sales Tax to GF	588.0
All Other	107.6
Total Transfers	\$ 1,501.3
