August 14, 2025

Interim Update of Committee's Work

Emergency Committee on the Impacts of Federal Workforce and Funding Reductions

Overview of Emergency Committee and Its Work

Bipartisan membership consisting of 12 members of the House of Delegates

- Established February 4, 2025 by Speaker Don Scott to monitor the scope and scale of reduced federal spending through funding cuts and workforce reductions and solicit input from stakeholders and the public on how best to address the challenges created by a shifting federal landscape

Delegate David Bulova (Chair) Delegate Rob Bloxom (Vice Chair)	
Delegate Marcus Simon	Delegate Anne Ferrell Tata
Delegate Vivian Watts	Delegate Hillary Pugh Kent
Delegate Michael Feggans	Delegate Tony Wilt
Delegate Bonita Anthony	Delegate Ellen Campbell
Delegate Joshua Cole	
Delegate Josh Thomas	

Virginia is Heavily Reliant on Federal Spending

- About 24% of Virginia's economy relies on federal spending
- The federal government contributes as an **employer** through civilian and military jobs
- The federal government spends money in Virginia as a **consumer** of goods and services through contracts with the private sector
- The federal government spends money as an **investor** in core government services and programs through grants to state and local governments, and other entities and direct payments to individuals (social security)
- What are the consequences of federal spending cuts (grants and contracts) and workforce reductions?
  - Job losses, decreased tax revenues for state and local budgets, economic health, and reduction of core government services that cannot be absorbed by other public sector budgets

Cutting Federal Spending Happens in Many Ways

- Every process and procedure is being utilized by federal leadership to reduce federal spending, making it incredibly difficult to assess the overall impact to states and plan for near- and long-term needs

Executive Orders	Restructuring and Layoffs	Regulations	Guidance
FY 2025 Spending Plans	"Pauses"	Recissions	Cancellations
Eliminations	Reconciliation	Debt Ceiling	FY 2026 Appropriations

Source: Federal Funds Information for States

Emergency Committee Responded to This Complex Landscape by Focusing Its Work On Key Policy Topics

- Much of the Emergency Committee's work has occurred in parallel to federal decision making with data and information sparse for areas like restructuring and layoffs, grant cancellations and recissions
- Given an uncertain and changing landscape, the Committee focused its work on understanding key policy areas that impact Virginians: layoffs, reduced contract spending, and policy changes in core government services and programs

Emergency Committee held 5 meetings from March to August 2025

February	April	May	June	August
Federal Workforce Unemployment Insurance Federal Funding in the State Budget Federal Funding in Local Budgets	Federal Workforce and Economic Impacts Northern Virginia Perspective Federal Budgeting 101 Higher Education Research NOVAnext workforce training program	Medicaid Patient Care in Rural VA Economic Development Tourism & Community Development Ag. Industry Food Security	Federal Budget Process Update Hampton Roads Perspective Coastal Resiliency Emergency Management Housing Programs Tariffs & Port Operations K-12 Funding	Reconciliation Bill Overview Medicaid Update Higher Education

Current State: What We Know So Far and What is Yet to Come

H.R.1 | Reconciliation Bill: What was it used for?

- Increase/reduce mandatory spending
- Modify mandatory programs, including SNAP, Medicaid, ACA
- Rescind unobligated Inflation Reduction Act (IRA) balances
- Repeal IRA tax provisions
- Cancel/eliminate IRA programs
- Extend Tax Cuts and Jobs Act (TCJA)
- Tax breaks for business expensing, overtime, senior bonus, car loan interest, tip income
- Raise the debt limit

H.R. 1: Current Understanding of its Implications

- Signature of H.R. 1 into law gives us the most concrete information to date from the federal government in terms of its spending priorities over the next several years, but even with its passage, we don’t know its full impact yet
- Work is underway by state agencies, stakeholders, and money committee staff to evaluate the repercussions of significant programmatic policy changes included in the federal reconciliation bill, including reduced service levels for Virginians and associated costs for the state, local, college and university, nonprofit, and household budgets
- Federal rulemaking will add another layer as policy-makers at state and local levels begin to understand the impact of the changes included in H.R. 1

H.R. 1 Major Areas of Concern for State Lawmakers

- SNAP
- Medicaid
- Premium Tax Credit
- Higher Education Access and Affordability
- Federal Tax Policy Changes

H.R. 1 and the SNAP Program

Policy Change	Effective Date	Impact	Cost
Establishes a new SNAP state matching requirement based on state's error rate (currently no state match is required)	October 1, 2027	General Fund Resources	$270 million in FY 2028 based on state's current error rate of 11.5%
Increases the state's administrative cost share for the SNAP program by 25%	October 1, 2026	General Fund Resources	$90 million in FY 2027
Expands work requirements for participation in the SNAP program by extending the age range to individuals 18 - 64, lowering dependent exemption to children under 14, and eliminating work requirements for certain populations	Effective immediately	Workload for DSS and local social service offices; program enrollments	Unknown cost for any system updates required to implement changes
Limits program eligibility for lawfully present individuals, such as refugees and those granted asylum	October 1, 2026	Enrollment	
Prohibits USDA from increasing the cost of the Thrifty Food Plan used to determine SNAP benefit levels	Effective immediately	Benefit amount with increasing food costs	

H.R. 1 and the Medicaid Program

Policy Change	Effective Date	Impact	Cost
Eligibility redeterminations every 6 months for Medicaid expansion population	January 1, 2027	Enrollment; workload on DMAS and local DSS Offices	Unknown; expansion hospital assessment and federal matching funds
Requires Medicaid expansion population to participate in work, community service, or education programs at least 80 hours per month	December 31, 2026 (or 2 years later with waiver)	Enrollment; workload on DMAS and local DSS Offices	Unknown; expansion hospital assessment and federal matching funds
Requires copays for Medicaid expansion enrollees with incomes above 100% of federal poverty level	October 1, 2028		Unknown

- Likely, state general fund resources will not be needed to implement these new Medicaid program provisions as the costs will be covered by the hospital assessment and federal funding
- These programmatic changes are expected to reduce Medicaid enrollments for the expansion population

H.R. 1 and Medicaid Hospital Payments

Current State

- 63 private acute care hospitals are taxed at 6% of net patient revenue in Virginia
- Used to fund Virginia's share of Medicaid expansion ($650 million per year or 2% of the tax)
- Provides a higher Medicaid reimbursement rate for hospital services ($1.0 billion per year or 4% of the tax)

Policy Changes

- Effective October 1, 2027 through September 30, 2032, H.R. 1 requires a reduction in this tax by 0.5% per year until it reaches 3.5%
- Effective July 1, 2028, reduces existing Medicaid payments for services by 10% a year until payments are equal to 100% of the Medicare rate

Impact

- Reduction in the provider tax will NOT impact Virginia's ability to fund its share of the Medicaid expansion program
- Reduction in the provider tax will impact hospital revenues, particularly for hospitals that operate at a loss and rely on the redistribution of hospital resources through the provider tax –this may be partially offset by new Rural Health Transformation Program

Absent in H.R. 1: the Premium Tax Credit for Health Insurance

- There are 2 tax credits that work to lower monthly health insurance premiums offered on the state healthcare marketplace: (i) the premium health tax credit for families below 400% of the federal poverty level and (ii) the enhanced premium health tax credits for families regardless of income
- Tax credits based on income go directly to health insurers who then lower monthly premiums charged for plans offered on state health insurance marketplaces
- **Policy Change:** Congress did not extend the enhanced premium tax credits offered to individuals and families used to purchase insurance on the marketplace in H.R. 1
  - Set to expire December 31, 2025 and likely will not be available for the 2026 plan year unless Congress extends them
- Loss of premium health care tax credit will lead to higher monthly premiums for participants in the state's healthcare marketplace, making health care coverage unaffordable for some families
- $250 million would be needed for Virginia to assume responsibility for providing an identical tax credit to families above and below 400% of the federal poverty level

H.R. 1 and Higher Education Access and Affordability

- Student loan changes, PELL eligibility provisions, and new accountability measures may impact higher education access and affordability over the next several years
- Of the policy areas addressed in H.R. 1, the impact across Virginia's system of higher education will be different for each institution due to their student population and program offerings
- Some of the most concerning higher education proposals were not included in the final reconciliation bill, such as changing the definition of a full-time student for the purposes of Pell eligibility, eliminating the subsidized federal loan program for undergraduate students, and recalculating student need based on median national program cost versus institution program cost

H.R. 1 and Higher Education Access and Affordability

Pell Eligibility

- Excludes students with a Student Aid Index greater than or equal to twice the maximum PELL Grant award from program participation (about $14,000)
- This change may decrease access to the program for some current Virginia students, and is likely to impact institutions with a higher share of its student body benefiting from the PELL program

Student Loan Changes

- Establishes several aggregate annual limits on federal student loans including a lifetime cap of $257,500 for students and elimination of the GRAD Plus program, which provides a loan equal to the cost of attending a graduate or professional program
- These changes may limit the ability of institutions to increase tuition in future years, since students will not be able to fund the cost through increased borrowing
- Additionally for institutions that offer graduate and professional programs, elimination of the GRAD Plus program may impact student behavior and lead to lower enrollments, which in turn may require institutions to eliminate programs, raise tuition to cover costs, etc.

Accountability Measures

- Effective in the 2028 – 2029 academic year, institutions will lose eligibility to participate in the federal direct student loan program if they fail for 2 consecutive years to produce an earnings premium for undergraduate and graduate students
- Federal loan programs make up a significant share of institutional revenue and allow current students to pay for college through relatively consistent borrowing, losing access to this program would harm institutions and students

Relationship of Virginia and Federal Tax Laws

- Virginia traditionally has been what is called a “fixed date conformity” state meaning that action by the General Assembly is required to move forward the date by which we conform to most provisions of the federal tax Code
- This changed in 2023 when legislation was adopted implementing “rolling conformity” whereby state law automatically conforms to “above the line” provisions that impact the calculation of FAGI (federally adjusted gross income)
  - Provisions were included in Code limiting rolling conformity to provisions that cost less than $15 million for individual provisions or $75 million annually for combined provisions
- In anticipation of federal action under the new Administration, the 12th enactment of HB 1600, 2025 Session of the General Assembly, paused conformity to tax changes made in calendar years 2025 and 2026 except for federal tax law extenders
  - This was intended to give the General Assembly the opportunity to evaluate the impact of the changes instead of automatically mirroring them

H.R. 1 Tax Policy Changes

- Because of the complexity of tax policy discussions, we will not go into detail on this topic and leave that for future consideration by the House Finance Committee
- The Department of Taxation still is developing estimates of the costs and interactions of the myriad of provisions so firm estimates are not available at this time
- The following slides outline the major categories of changes and describe which ones impact Virginia's revenue streams and will require legislative action either to conform to or deconform from

H.R.1 Tax Policy Changes

- H.R.1 includes individual and business tax policy changes that can be placed in 3 major categories
- The first is extensions to existing tax policy – the largest being the Tax Cuts and Jobs Act (TCJA) which was set to expire at the end of 2025
- The TCJA-related individual provisions comprise most of the value of the tax cuts in the legislation
- H.R. 1 makes the 2017 tax changes permanent, including the larger standard deduction, more generous child tax credit, lower tax rates, and tighter limitations to certain itemized deductions such as the deduction for home mortgage interest
- Virginia will automatically conform to these provisions and they will have no impact on state revenues as the forecast assumed the federal government would extend these provisions

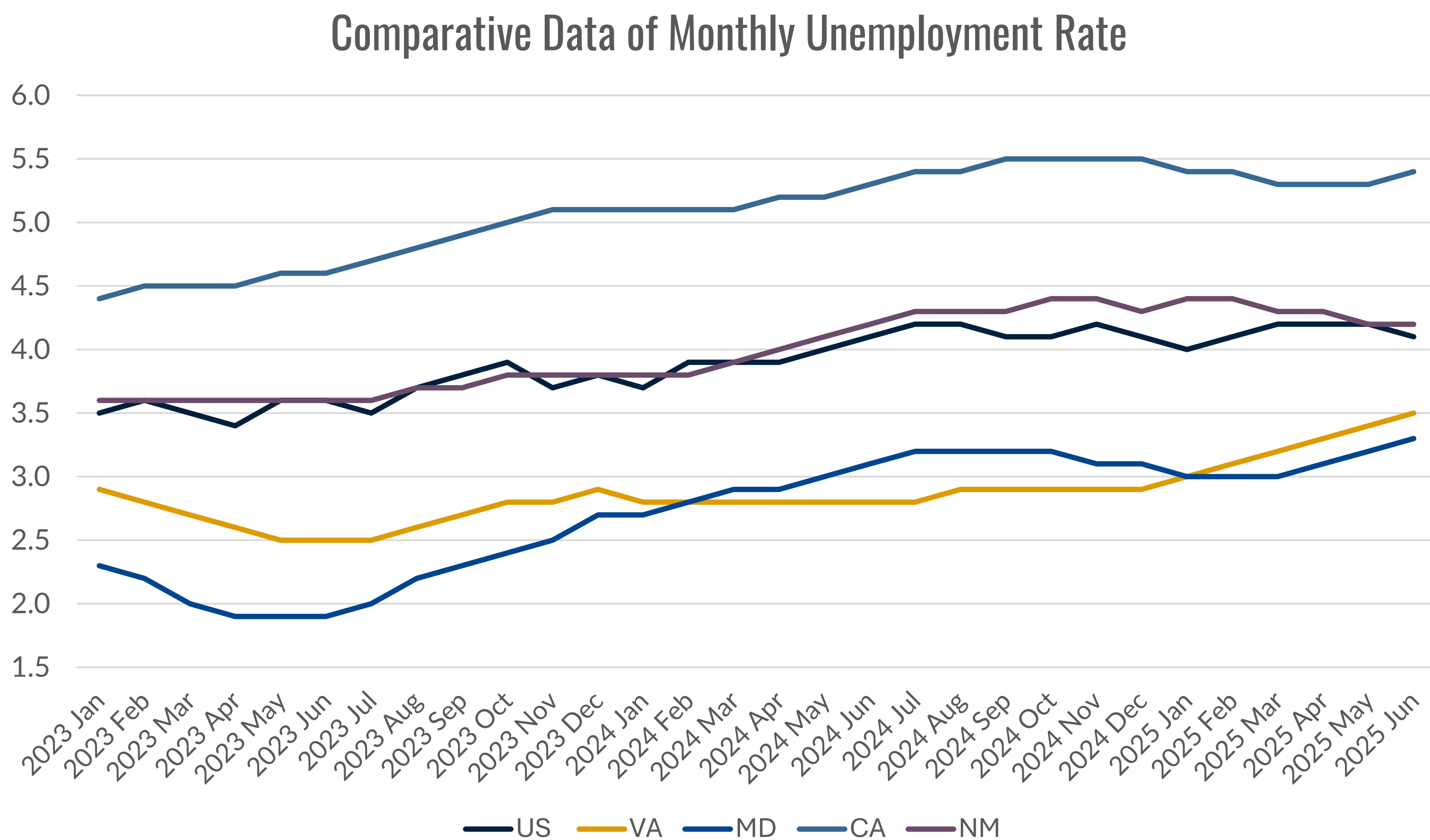
H.R.1 Tax Policy Changes

- The second category contains new adjustments to “above the line” individual and business tax deductions and exclusions
  - These provisions will flow through to Virginia returns only if legislation is adopted to move forward Virginia’s conformity date at which point they would impact Virginia’s revenue collections
  - Choosing not to conform would result in administrative changes because of our reliance on FAGI as a starting point
  - Included in this category are temporary items like the additional senior deduction and changes to the SALT cap, as well as a more generous child tax credit and itemizing charitable deductions on top of taking the standard deduction
- The third and final category includes new “below the line” deductions
  - Within this category are both itemized deductions, which typically flow through at the state level, and,
  - Non-itemized deductions, which would not impact Virginia even if conformity legislation is adopted. To mirror these policies, Virginia would have to adopt stand-alone legislation creating similar programs
  - Items of note within this category are new first-year business expensing provisions, taxes on overtime, senior bonus, deducting car loan interest, and not taxing all tip income
  - Because these are calculated after determining FAGI, not conforming would not increase any administrative burdens at the state level

Restructuring and Layoffs; Fall Likely To Provide a Better Picture of Employment Situation

- On July 8, 2025, the Supreme Court overturned a lower-court's national injunction preventing the implementation of an executive order calling for broad layoffs across federal agencies
- There will be ongoing litigation over the legality of individual agency reduction-in-force plans
- Data on reduction-in-force plans is incomplete in terms of who will be let go in what state, and the total impact on Virginia remains unclear
- Unemployment, unemployment insurance claims and estimates from the Weldon Cooper Center provide some insight on the potential impact to federal workers in the state
- Virginia ranks number 1 among states in total federal contract spending per capita, making Virginia particularly vulnerable to layoffs in private sector companies because of reduced federal spending on goods and services

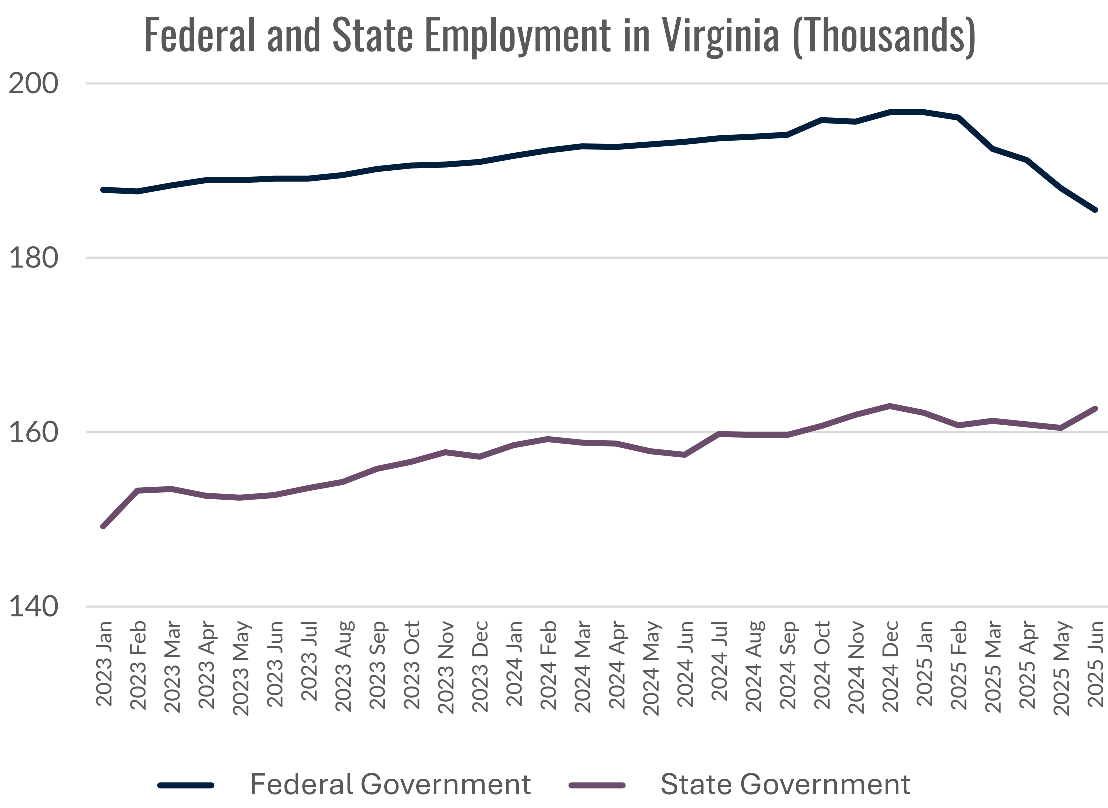
Virginia's Unemployment is Below the National Average; But Worsening



Federal Government Employment in Virginia is Shrinking

Month-to-Month employment data is starting to reveal job losses in the federal sector with impact continuing to emerge in month-to-month job numbers throughout the fall.

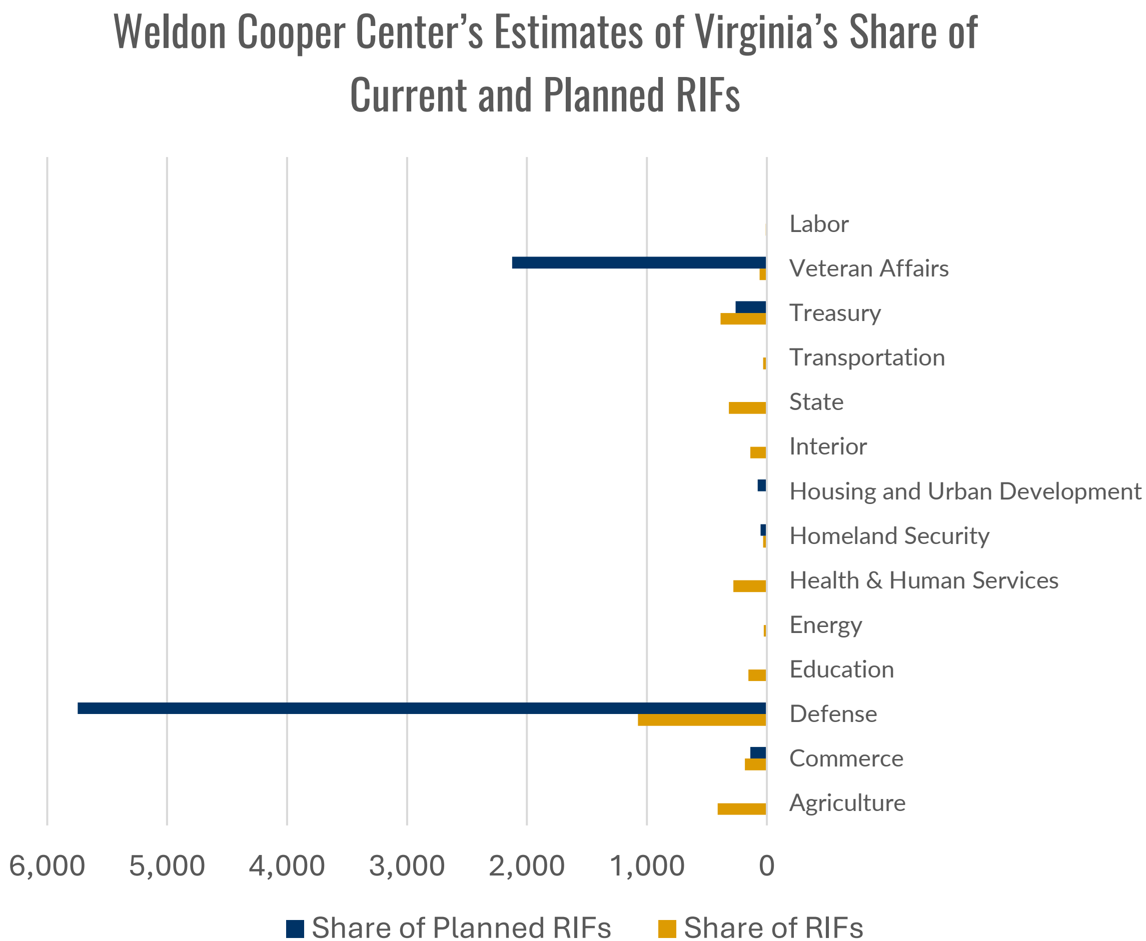
Additionally, as of July 26th 1,410 federal workers have filed for unemployment insurance in the state. UI claims are likely to rise in the fall with deferred resignations set to end September 30, 2025



DOD Workforce Reductions Pose the Greatest Threat to Virginians

At the time of this report, the Weldon Cooper Center estimates 171,600 layoffs by the federal government with an additional 162,300 jobs planned for elimination (based on public reports). This translates to potentially 11,100 federal civilian jobs in Virginia already impacted and additional 10,500 positions potential at risk

The fall will bring greater certainty in terms of the direct employment impact to the Commonwealth



Private Sector in Virginia is Vulnerable to Jobs Losses

- Federal government spending on goods and services through contracting drives overall federal spending in Virginia with about $1 in every $7 of federal contract money spent in Virginia
- In 2023, the federal government spent $109 billion with Virginia employers through primarily DOD and VA contracts
- Several federal contractors have announced layoffs in recent months
- As of July 26th, 2,114 Virginians have filed for unemployment insurance from the top 100 companies doing business with the federal government

Virginia Contactors with WARN Notices

- MITRE Corporation
- Goldschmitt and Associates
- Management Science for Health
- American Institutes for Research
- Kenific Group (Pantheon Data)
- Boeing
- International Foundation for Electoral Systems
- D&A/GetInsured
- Leidos

Grant Cancellations, Recissions and Eliminations

- Very limited information is known about the scope and scale of federal grant cancellations, recissions and eliminations in the Commonwealth
- The Secretary of Finance is tracking this information as it relates to federal money that flows to Virginia agencies. In a presentation to the House Appropriations Committee in June, 24 federal grants to Virginia agencies have been paused equaling roughly $461 million
  - Since March, approximately $1.95 billion in paused federal funding for state agencies has been released
  - Money committee chairs requested the details from the Governor, and this information has yet to be shared
- Grant cancellations, recissions, and eliminations not only impact federal pass-through programs to state agencies, they also are directly affecting federal awards to localities, nonprofits, and other recipients

Grant Cancellations, Recissions and Eliminations – Examples in Virginia

Building Resilient Infrastructure Communities Canceled (BRIC program) – FEMA

- Allocates grants to states and localities for mitigation projects that prevent harm to humans and avoid economic losses from floods, wildfires, and other disasters ($750 million program nationwide)
- 2 Virginia projects lost funding: $24.2 million for the City of Portsmouth for remediation and enhancement projects at Lake Meade Dam and $12 million for the City of Richmond to improve its water treatment plant

Environmental and Climate Justice Community Changes Grant program – EPA

- Part of $2.0 billion of Inflation Reduction Act funding to help communities fund projects that reduce pollution, increase climate resilience, and build capacity to address challenges
- 1 Virginia project lost funding: $20.0 million for the City of Hampton to support investments in the historic Aberdeen Gardens district

Grant Cancellations, Recissions and Eliminations – Examples in Virginia

Virginia Humanities

- On April 3rd, Virginia Humanities received a letter from the Department of Government Efficiency terminating their annual operating grant from the National Endowment of the Humanities
- Annual grant represents 20% of Virginia Humanities budget, and will require elimination of 25% of its staff, reduction of grant spending, and vacating its existing office space

Teacher Pipeline Programs

- Supporting Effective Educator Development (SEED) and Teacher Quality Partnership (TQP) grants are used by a consortia of colleges to build and improve the teacher workforce in high need schools
- In February 2025, the administration cancelled $600 million nationally from these two programs

Current Federal Appropriations Process

- Congress is actively working on the annual appropriations process for Federal Fiscal Year 2026, which begins October 1, 2025
- Congress has adjourned for its August recess
- Congress is on a tight timeline to complete the appropriations process before the end of the fiscal year
  - Failure to pass may result in federal government shutdown if no continuing resolution is adopted
  - Unlike reconciliation bill, appropriations bills are subject to 60 vote threshold in the Senate
- Both Committees have for the most part rejected many of the dramatic proposals proposed by the President to eliminate funding for programs like the Community Development Block Grant, Community Development Services Block Grant Program, Low Income Home Energy Assistance Program, or consolidate programs into block grants for the state to manage like federal rental assistance and federal K12 funding (assessment is subject to change as the appropriations process continues)

FY 2026 Appropriations Progress		
	Approval Status	
Appropriations Subcommittee	**House**	**Senate**
Defense	Floor	Committee
Energy and Water	Committee	
Labor/HHS/Education		Committee
State/Foreign Operations	Committee	
Agriculture	Committee	Committee
Commerce/Justice/Science		Committee
Interior and Environment	Committee	Committee
Military Construction/Veterans	Floor	Committee
Transportation/HUD	Committee	Committee
Legislative Branch	Committee	Committee
Financial Services/General Gov.		
Homeland Security	Committee	

Key State Economic Metrics Are Concerning; Overall Impact Unclear

- Virginia's unemployment rate has steadily been rising since the beginning of this year, and currently stands at 3.5% and is predicted to rise to 3.9% by the Weldon Cooper Center
- Employment growth in Virginia is slowing. Virginia lost 8,400 jobs between May and June of this year, placing it 40th among states in month-to-month job growth.
  - Weldon Cooper Center predicts total job losses in Virginia in 2025 of 32,000 and further losses in the first half of 2026 with recovery happening in the last half of the year.
- The state's labor force participation rate is decreasing from month-to-month, starting at 65.8% in January 2025 and shrinking to 65% in June 2025.
- Unclear what impacts evolving tariff policy changes will have on Virginia's overall economic health and revenue collections
  - Virginia consumers, businesses, and agricultural producers have varying exposures to market changes driven by tariff policy

Key Takeaways

- While there is some certainty around the potential implications of H.R. 1, uncertainty remains related to the overall economic and societal impacts of H.R.1; workforce restructuring efforts and federal layoffs; continued reduced spending through recission, elimination, cancellation, and appropriations processes; and the broader economic implications of reduced spending and employment for Virginia's economy
- Impact of major policy changes included in H.R.1 and other federal actions (reduced spending, layoffs, executive actions) will be experienced over the next several state budget cycles; allowing multiple opportunities for the General Assembly to plan, identify, and prioritize areas for continued support through state resources (Marathon not a sprint)
- While Virginia remains on a healthy trajectory in terms of its month-to-month revenue collections, rising unemployment and slowing employment growth in the state signal the need for caution as General Assembly leaders determine their spending (tax policy + programmatic investments) priorities for the upcoming biennium
- State and local budgets only have but so much elasticity to backfill declining federal revenues, and prioritization will be key for decision makers.
    - This will become extremely difficult if economic conditions worsen. High unemployment typically increases demand for core government services
    - Unlike previous revenue downturns such as the Great Recession and COVID-19 pandemic, it is unclear what, if any, federal support would be provided to assist State and local government responses

Thoughts for Decision Makers Based on Current Landscape

Need Better and More Complete Data for Informed Decision Making

- Direct the Department of Planning and Budget to start collecting and sharing information on the federal grants canceled, eliminated, or rescinded that pass through to state agencies and local governments and the federal grants that support nonprofit programming and organizations
- Continue to monitor the FFY 2026 appropriations process and identify potential challenges for state and local budgets
- Continue to work with Virginia's state agencies, money committee staff, and issue area experts to determine the magnitude and timing of policy changes included in H.R. 1
- Continue to monitor economic conditions in the state to determine the potential impact of rising unemployment and decreased federal spending on state and local revenue collections

Federal Workforce Reductions and Rising Unemployment, Potential Actions

Housing Security

- Add a provision in the Virginia Landlord and Tenant act that would allow laid off workers to end leases early (no State cost)
- Provide additional assistance for the Virginia Eviction Reduction Program ($10 million requested)
- Create a rental assistance and/or mortgage assistance program to help federal workers with housing costs (Over $700 million spent on COVID-19 programs, new programs would need to be supported with GF)

Unemployment Insurance

- Temporarily extend the UI benefit in Virginia to 26 weeks (cost to UI Trust Fund)
- Temporarily increase the maximum weekly UI benefit levels in the state (cost to UI Trust Fund)
- Provide a reemployment bonus to all Virginia residents who receive UI benefits and accept and retain a job in Virginia (GF cost unknown)

Federal Workforce Reductions and Rising Unemployment, Potential Actions

Workforce Training and Assistance

- Expand the NOVA Next program statewide, which provides short-term credentials to laid off federal workers and is an extension of the state's fast forward program (GF cost unknown)
- Explore the creation of an incentive or tax credit for employers to hire former federal employees (GF cost unknown)
- Continue to support displaced workers in getting connected to new jobs in Virginia through the Virginia Has Jobs initiative
- Scale state's current talent retention strategies

Economic Resilience

- Explore incentives to assist localities in retrofitting, refurbishing, and rehabilitating underutilized office space
- Enhance the state's current incentive offerings to attract new business investment
- Safeguard policy investments that provide the foundation for economic growth (K-12 Education, Child Care, Housing, etc.)
- Continue to position the Commonwealth to take advantage of new investments in pharmaceutical manufacturing through business incentives, commercialization activities, and research and development efforts

Backfilling Lost Federal Funding; Prioritization will be Key

- It is too early to predict how much federal support (grants + income from wages) the Commonwealth will lose in the upcoming biennium with the revenue forecasting process occurring primarily in the Fall of this year. Revenue collections remain on track; however, early warning signs indicate decision makers should proceed with caution
- Prioritization will be key for lawmakers moving forward in determining how to use existing state resources to offset lost federal funding and support new programs designed to help mitigate smaller federal footprint
  - SNAP-related spending is not optional given the cost share and new match requirements. Even reducing the SNAP error rate to avoid a 15% match will likely require investing in personnel and systems.
  - Requests to backfill lost grants from localities and nonprofits are likely to come through the member budget request process this year
  - Many of the ideas to help support federal workers will have a general fund cost
  - Many new programs designed to help with economic diversification will have a cost
  - All of this will occur in the context of additional mandatory spending required for K-12 education (re-benchmarking) and Medicaid (reforecasting)
- State Rainy Day Fund, Revenue Reserve, and unappropriated balance can help backfill losses, but are not a solution for ongoing commitments and their use should be limited to one-time spending
- Increasing state revenues to provide ongoing support for federal programs is an option and those policy choices will need to be evaluated by the House Finance Committee

Key Takeaway; Uncertainty Remains

- Continuing to monitor and evaluate the federal landscape
- Consider policy options designed to help unemployed workers, particularly those impacted by reduced federal spending and workforce reductions
- Fall will provide a better picture of the state's overall economic health and revenue position heading into the next biennial budget