DVL SOLUTIONS

OPERATING THROUGH POLICY VOLATILITY

What changes after the midterms, what does not, and what leaders should have in place before Q1 2027

Updated November 23, 2026 | Originally issued November 6 | DVL Solutions

THE 30-SECOND EXECUTIVE READ

The election changed the policy process, not the operating pressures businesses already face. Federal funding, costs, regulatory changes, and workforce constraints remain Q1 planning exposures. Leaders need an operating response, not a political prediction.

1. **Know the exposure.** Separate committed revenue and costs from assumptions dependent on unresolved decisions.
2. **Protect operating capacity.** Stress-test cash, staffing, technology, and critical commitments against delays.
3. **Establish decision accountability.** Assign owners, triggers, and review dates before external deadlines force a reaction.

Leadership question: Can the organization sustain execution if the external environment remains unsettled?

The 2026 midterms changed control of Congress. Democrats will hold both chambers when the new Congress convenes January 3, 2027. The administration retains executive and regulatory tools, while appropriations, congressional oversight, and litigation will move on different timelines.

The important issue for leaders is not who won. It is how those timelines affect contracts, funding, investment, hiring, and execution. This national briefing examines the implications for small and mid-size businesses, aerospace and defense suppliers, health care and senior living operators, and nonprofits.

SCOPE NOTE This briefing addresses federal developments and national cost trends. State and local examples illustrate selected exposure, but do not replace jurisdiction-specific review of wage, leave, and other employment requirements.

SECTOR SIGNALS AT A GLANCE

1. **AI oversight.** Map employment decision tools, applicable rules, and accountable review.
2. **Defense suppliers.** Separate funded backlog from proposed starts; verify ordering and payments.
3. **Health care and senior living.** Model Medicaid transition effects and staffing continuity by state.
4. **Nonprofits.** Prepare for federal grant delays, program deadlines, and changing donor incentives.
5. **All employers.** Budget actual benefit and utility costs; establish Q1 capacity and decision ownership.

Finding 1 - The election changes the policy process, not the direction of costs

The shift in congressional control does not reverse policies already in place. Tariffs illustrate the pattern. In Learning Resources v. Trump (February 20, 2026), the Supreme Court held that IEEPA does not authorize tariffs. The administration subsequently used other trade statutes, including Sections 122, 232, and 301. The temporary Section 122 tariffs expired July 24; duties under Sections 232 and 301 remain relevant to import costs. Changes may be challenged in court or constrained through oversight, but businesses should not plan on a rapid or universal reversal. The status of any potential IEEPA refunds remains fact-specific.

Operating costs are also moving independently of congressional control. Mercer's survey of more than 1,800 employers projects an average 8.2% rise in health benefit cost per employee in 2027 after planned cost-reduction measures, compared with 11% if employers took no action. These are survey averages, not an individual employer's renewal forecast. The U.S. Energy Information Administration projects the national average residential electricity price at 18.2 cents per kWh in 2026 and 18.7 cents in 2027, up from 17.3 cents in 2025. Residential rates signal broader cost pressure but are not a proxy for a business's tariff or contracted commercial rate.

EXHIBIT 1 | WHAT CHANGED, WHAT DID NOT, AND WHAT IS UNRESOLVED

Changed	Did not change	Unresolved
Control of both chambers from January 3, 2027	Employer health benefit cost: Mercer projects 8.2% average growth with planned changes and 11% without; actual plan renewals vary.	FY2027 federal funding after December 11
Committee leadership, and with it the oversight agenda for defense, health care, energy, and technology	Energy costs under upward pressure; commercial exposure depends on contracts, local rates, and consumption.	The proposed rewrite of federal grant rules
The odds of new legislation passing without veto-proof margins	Trade duties under authorities including Sections 232 and 301; the temporary Section 122 tariff expired in July.	A year-end tax or health package, including the Work Opportunity Tax Credit and enhanced ACA subsidies
The likely priority given to AI accountability in Congress	Medicaid requirements begin January 1; state transition measures can change when coverage losses occur.	Whether federal action preempts state AI laws

What leaders should review

- Separate costs that depend on federal decisions from costs changing independently. Model each against actual contracts, renewals, and a higher-cost scenario; do not treat projected increases as fixed obligations.
- Map tariff-sensitive inputs by product and applicable authority, and ask customs or trade counsel whether IEEPA duties paid may qualify for a refund.

Sources: Baker McKenzie - Midterm Results and Trade (Nov 4, 2026) | Mercer - Health Benefit Costs Expected to Jump in 2027 | U.S. Energy Information Administration - Short-Term Energy Outlook (Oct 6, 2026) | CRS - Tariffs in 2026

Finding 2 - Year-end decisions run on a federal calendar

The outgoing majorities control the lame-duck session, which faces government funding, defense authorization, and possible year-end tax or health legislation. The current continuing resolution expires December 11; several health and human services funding provisions face December 31 deadlines. The incoming Congress convenes January 3 with new committee leadership. Organizations should manage these dates as operating decision points rather than assume either a funding agreement or a lapse.

EXHIBIT 2 | DECISION CALENDAR

Date	Event	Most exposed
November - December	Lame-duck session decides funding, the NDAA, and any year-end tax or health package.	Federal contractors and grant recipients
December 11	Continuing resolution expires, along with the temporary block on OMB's proposed grant rule.	Defense suppliers, nonprofits, any organization paid with federal funds
December 31	Community Health Center Fund, TANF funding, the temporary Medicare physician payment increase, and other health programs expire without action.	Health and human services nonprofits, medical practices
January 1	2027 benefit plan years begin; state and local wage and leave changes take effect in many jurisdictions.	Every employer
January 3	New Congress convenes; oversight agenda and early budget conflicts begin.	Defense, health care, energy, technology

EXHIBIT 3 | DECEMBER 11 SCENARIOS

Scenario	What it means	Leadership response
Full-year funding	Some new program starts may become fundable, subject to enacted terms and agency actions. A full-year bill may or may not address the proposed OMB grants rule.	Confirm award and contract authority before releasing held hiring, inventory, or capital commitments.
Another stopgap	Prior-year funding generally continues subject to exceptions; new starts and grant decisions may remain constrained. The proposed grants-rule block depends on the next law.	Base near-term commitments on confirmed funding; reassess hiring, cash, and capital decisions monthly.
Funding lapse	Payments, contract actions, and grant processing at affected agencies can stop or slow until funding is restored.	Activate liquidity plans; communicate early with customers, primes, funders, and lenders.

What leaders should review

- Place December 11, December 31, and January 3 on the leadership calendar, with a named owner for each response.
- Decide in advance what the organization will do under each of the three December 11 outcomes.

Sources: Holland & Knight - Congress Faces Converging Year-End Deadlines (Oct 9, 2026) | Edelman - What the Midterm Results Mean for Business (Nov 4, 2026) | ASME - Congress Prevents Government Shutdown and Delays OMB Rule (Sep 25, 2026)

Finding 3 - Small and mid-size businesses face fixed-cost pressure on several fronts at once

For most small and mid-size businesses, the near-term exposure is less about any single policy than about fixed costs rising together: benefit renewals, energy, and state or local wage floors, with tariff-exposed inputs on top. The next Congress is also expected to pursue AI accountability requirements and heavier oversight of sectors with federal exposure, adding regulatory uncertainty to technology decisions.

What leaders should have in place before December 31

- **2027 benefits locked.** Confirm actual renewal rates, contribution decisions, and plan design. Use your plan's quote as the budget baseline; compare it with the 8.2% and 11% Mercer survey benchmarks for sensitivity testing, not as a substitute for pricing.
- **Account balances handled correctly.** Health FSAs are generally use-it-or-lose-it; confirm any grace period or carryover and remind employees of the deadline. HRA rules depend on the plan document. HSA balances roll over and belong to the employee, so the reminder there concerns contributions, which can be made for 2026 until the tax filing deadline.
- **Reimbursements closed out.** Collect outstanding expense reports and claims so 2026 closes clean and Q1 cash is not funding last year's costs.

- **A 13-week cash forecast with stress lines.** Model actual benefit renewals, wage obligations, commercial utility rates, tariff-exposed inputs, and possible payment delays. Identify decision triggers and owners for each cash-pressure scenario.
- **A documented business case for headcount.** Tie backfills and new roles to funded demand, critical capability, service continuity, or compliance. Test work redesign, cross-training, contracting, and appropriate AI support; weigh the cost of delay against the cost of hiring.
- **AI use documented.** Record where AI supports internal processes and who reviews its output (see Finding 4).

Sources: Mercer - Health Benefit Costs Expected to Jump in 2027 | Edelman - What the Midterm Results Mean for Business (Nov 4, 2026)

Finding 4 - AI oversight is tightening from three directions

Europe has set the pace. The EU AI Act's bans on prohibited practices and its AI literacy obligation have applied since February 2, 2025, and obligations for general-purpose AI models since August 2, 2025. The AI Omnibus, in force since July 27, 2026, moved the deadline for Annex III high-risk systems, including certain recruitment and employment uses, to December 2, 2027. The penalty framework remains significant, reaching EUR 35 million or 7% of global annual turnover for the most serious violations. Applicability depends on the organization's role, the AI system, and covered EU activities or outputs; having an EU customer or partner alone is not a sufficient legal test.

U.S. states are building employment-specific rules. Illinois has required notice for covered AI uses in employment decisions since January 1, 2026, and Texas prohibits certain intentionally discriminatory AI uses. California's employment-discrimination rules on automated decision systems took effect October 1, 2025, with additional privacy-agency obligations taking effect January 1, 2027. Colorado's narrower automated-decision law is scheduled for January 1, 2027, and New York City continues to require bias audits and notices for covered employment tools. Connecticut's 2026 law already limits the use of AI as a defense to employment discrimination; specified notice and disclosure requirements for covered employment-decision technology begin October 1, 2027.

The federal picture is contested, not settled. An executive order signed December 11, 2025 directs efforts to challenge or preempt state AI laws, and the Justice Department formed an AI Litigation Task Force in January 2026. As of September 2026 it had not sued any state over an AI employment law, and a bipartisan discussion draft in Congress would preserve state authority over AI in employment. Public opinion points one way: in a 2025 Gallup survey, 80% of U.S. adults said they prefer maintaining rules for AI safety and data security even if it means developing AI more slowly, including 88% of Democrats and 79% of Republicans and independents. With the new congressional majority expected to pursue accountability requirements, AI oversight is one of the few areas where broad public support could translate into legislative movement.

What leaders should have in place before December 31

- **An inventory of AI in people decisions.** List every tool, including features embedded in applicant tracking, scheduling, and performance software, that screens, ranks, evaluates, or monitors applicants or employees.
- **Vendor accountability in writing.** Ask what each vendor has tested for bias, what evidence it can supply, and what the contract allocates. A vendor assurance does not eliminate an employer's own compliance responsibility.
- **Human accountability that can be shown.** Define who can review, challenge, and override AI-assisted assessments; document material decisions and required notices. Human review is a governance control, not an automatic exemption from applicable law.
- **An applicability check by jurisdiction and use.** Map where covered applicants, employees, systems, decisions, and outputs are located. Confirm which obligations actually apply; where practical, design a common control standard that satisfies the most demanding applicable requirements.

Sources: Gibson Dunn - EU AI Act Omnibus Agreement and Postponed High-Risk Deadlines (2026) | Usercentrics - EU AI Act Digital Omnibus Now in Force (2026) | Epstein Becker Green - Workplace AI Regulation in 2026 (Sep 1, 2026) | Gallup - Americans Prioritize AI Safety and Data Security (Sep 16, 2025) | Edelman - What the Midterm Results Mean for Business (Nov 4, 2026) | European Commission - EU AI Act | CT PA 26-15 - Employment AI

Finding 5 - Defense suppliers: current work continues, new work waits

Under the continuing resolution, funded existing defense programs generally continue at prior-year levels, but new starts and some production increases face restrictions, subject to specific exceptions. The stopgap affects more than 150 proposed new military programs across areas including missile defense, autonomous systems, and ammunition. Existing funded work provides more revenue visibility than anticipated awards, but contracts alone do not guarantee uninterrupted ordering, authorized deliveries, or payment timing. A new Congress and contested FY2027 funding could extend uncertainty into Q1.

Cybersecurity obligations have not paused. The Department of Defense suspended CMMC Phase 2, which would have required third-party assessments beginning November 10, 2026. Phase 1 self-assessments remain in force, as do NIST SP 800-171, DFARS 252.204-7012, and FAR 52.204-21. Inaccurate self-assessment scores carry False Claims Act risk, and primes continue to flow requirements down.

What leaders should have in place before December 31

- **Revenue sorted by funding status.** Separate funded, authorized work from proposed new starts and work dependent on FY2027 appropriations. Build the base Q1 plan on verifiable demand; carry upside separately.
- **Scenario forecasts from primes.** Request delivery schedules under each December 11 outcome and confirm how a slip would change purchase orders and payment timing.
- **Liquidity for a one-quarter delay.** Confirm credit lines, receivables timing, and how long inventory and payroll can be carried if a new start moves past March.
- **A complete compliance file.** Reconcile SPRS scores with actual controls, close open plan-of-action items, and document everything. The Phase 2 suspension is time to finish, not permission to stop.
- **Hiring tied to authorized backlog and capability.** Stage positions against funded orders and delivery needs; preserve targeted cross-training and hard-to-replace capabilities where the cost of losing readiness exceeds the carrying cost.

Sources: Industrial Base Alpha - Military Programs Delayed Under the Continuing Resolution (Oct 2026) | Latham & Watkins - DoD Suspension of CMMC Phase 2 | Edelman - What the Midterm Results Mean for Business (Nov 4, 2026) | DoD - CMMC Phase 2 Suspension

Finding 6 - Health care and senior living: the workforce is part of the payer risk

Federal Medicaid community-engagement requirements are scheduled to begin January 1, 2027, for covered expansion and waiver populations across 44 states and jurisdictions, including D.C. On November 13, CMS offered states an optional hold-harmless period through June 30, 2027, allowing implementation work to proceed without coverage denials or terminations solely for noncompliance during the transition. Connecticut announced November 16 that it will participate. Implementation, documentation burdens, and the timing of coverage losses therefore vary by state. Separately, several health funding provisions face December 31 expiration without congressional action. Providers should plan for payer and administrative exposure but not assume identical first-quarter losses everywhere.

The workforce creates a second operating exposure. KFF estimates that 2.3 million direct-care workers provide long-term care and that 32% are covered by Medicaid, compared with 9% of other adult workers. Roughly three in ten are immigrants, a group that includes naturalized citizens and people with varied legal statuses; country of birth does not establish an individual's work-authorization risk. For senior living and home care operators, changes in coverage administration, staffing availability, and immigration policy can affect schedule reliability, recruitment, and service continuity. Employers should plan at the role and capacity level, not collect or infer unnecessary personal eligibility information.

What leaders should have in place before December 31

- **A payer-mix scenario for 2027.** Model reimbursement and uncompensated-care exposure by state, including whether an optional transition period delays eligibility-related coverage losses.
- **A documentation workflow.** Assign responsibility for provider certifications, exemption-related requests, and patient communications, with a realistic service standard and privacy controls.
- **A dependable hours-verification process.** Make routine payroll or employment verification accessible on request, without asking staff to disclose whether they receive public benefits.
- **A workforce-continuity plan.** Identify critical roles, shift coverage, and hard-to-replace capability; plan lawful support and cross-training for disruption scenarios without profiling staff by nationality or presumed immigration status.

Sources: KFF - Policy Decisions as States Get Ready to Implement Work Requirements (Apr 30, 2026) | KFF - Who Are Direct Care Workers and How Might Federal Policy Changes Impact the Workforce? (Jul 9, 2026) | Holland & Knight - Congress Faces Converging Year-End Deadlines (Oct 9, 2026) | Edelman - What the Midterm Results Mean for Business (Nov 4, 2026) | CMS - Medicaid Transition (Nov 13) | CT - Transition Decision (Nov 16)

Finding 7 - Nonprofits face three pressures before year-end

OMB's proposed Uniform Guidance changes would alter review of discretionary awards and broaden some termination provisions. The current continuing resolution prevents finalizing the proposed rule through December 11; what happens next depends on congressional action and agency rulemaking. Separately, several federal health and human services funding provisions face December 31 deadlines, directly affecting certain grant-supported services (see Finding 6).

This is also the first giving season under new federal rules. Taxpayers who take the standard deduction can now deduct up to $1,000 (single) or $2,000 (married filing jointly) in cash gifts, excluding donor-advised funds and supporting organizations. Itemizers can deduct only giving above 0.5% of adjusted gross income, and the benefit for top-bracket taxpayers is capped at 35 cents per dollar. Small donors gained an incentive; some major donors lost part of theirs.

What leaders should have in place before December 31

- **Revenue mapped by source and risk.** Separate federal, state, and private funding, and mark each federal award that could be delayed, reviewed, or terminated under the proposed rules.
- **A board-approved reserve floor.** Agree on the months of operating expense the reserve must cover and the conditions that trigger drawing on it, before a payment stops.
- **A written grant-pause plan.** If one major federal award or payment paused for 90 days, identify commitments to protect first, discretionary costs to defer, service implications, and the board approval required for each response.
- **Year-end appeals aligned to 2026 rules.** Explain that qualifying cash gifts may be deductible up to $1,000 for eligible single non-itemizers or $2,000 for eligible married joint filers. Encourage larger donors to consult tax advisors rather than promise a particular tax benefit.

Sources: ASME - Congress Prevents Government Shutdown and Delays OMB Rule (Sep 25, 2026) | Holland & Knight - Congress Faces Converging Year-End Deadlines (Oct 9, 2026) | Edelman - What the Midterm Results Mean for Business (Nov 4, 2026) | Mercer Advisors - Charitable Giving Changes in 2026

Finding 8 - Workforce stability is an operating requirement

Financial exposure gets leadership attention because the numbers are immediately visible. Workforce exposure can surface later through missed handoffs, unclear priorities, absence, slowed decisions, and execution errors. Gallup reported U.S. employee engagement at 29% in Q3 2026, its lowest level since 2011, alongside declines in role clarity and perceived support. Holiday scheduling pressure adds a near-term capacity constraint. These are operating signals: leaders should assess the work system before attributing outcomes to employee motivation.

EXHIBIT 4 | WORKFORCE SIGNALS FOR Q1 READINESS

Indicator	Finding
Engagement	29% of U.S. employees were engaged in Q3 2026; 18% were actively disengaged (Gallup, October 2026). This is a national signal, not an organization-specific diagnosis.
Role clarity	Strong agreement that employees know what is expected fell from 49% to 46%; perceived care at work fell from 40% to 37% (Gallup). Managers can act on role clarity and information flow.
Seasonal pressure	41% of U.S. adults anticipated more holiday stress in 2025, compared with 29% in 2023 and 28% in 2024 (American Psychiatric Association). This is general-population context, not a forecast of employee absence.
Support access	In NAMI/Ipsos's 2025 study of full-time workers at organizations with at least 100 employees, only about half knew how to reach mental health care through employer insurance. Employers should verify access using their own benefit communications.

Two management responses matter most. First, restore a clear operating rhythm: state what is fixed for Q1, what remains conditional, who decides, and when teams will receive updates. Second, test capacity and support systems before the holiday calendar creates gaps. Benefit-access reminders are useful, but an employee assistance program is a referral resource, not a substitute for staffing, workload design, or appropriate professional care.

What leaders should have in place before December 31

- **Support access made operational.** Reissue accurate EAP and health-benefit contact instructions, eligibility, confidentiality limitations, and cost information; brief managers on how to refer questions to HR or the plan. Offer 988 as a crisis resource, not as a routine management response.
- **Holiday coverage and leave planned.** Audit staffing for critical shifts and handoffs, protect approved leave, apply bereavement provisions consistently, and define who has decision authority when managers are absent.
- **Managers briefed on work signals, not diagnoses.** Respond to observable changes in attendance, deadlines, quality, or interactions with normal check-ins, work clarification, and HR referrals when appropriate. Do not seek unnecessary medical details or infer a condition.
- **Q1 priorities and decision rights published.** Tell teams what is confirmed, what depends on external decisions, who owns escalation, and when assumptions will be refreshed. Repeat the message consistently across functions.
- **Capacity matched to delivery.** Move noncritical deadlines outside holiday coverage gaps where feasible, set backup ownership for essential work, and test whether existing workloads are achievable.
- **Management recognition kept specific.** Close the year by acknowledging work delivered and decisions made, while identifying constraints to resolve in Q1. Recognition reinforces clarity and accountability; it does not replace a workable operating plan.
- **Neutral norms for political discussion.** Keep political views out of hiring, assignments, performance judgments, and workplace treatment. Apply discussion standards consistently and in a manner that respects employees' lawful rights.

Calm is a leadership output. Customers, primes, funders, lenders, and boards read leadership tone as a signal of operating control. Externally, communicate early, consistently, and with a plan: what the organization is watching, what it has already decided, and when it will update. Internally, be honest about uncertainty and specific about what is being done. A calm posture is credible only when there is a plan behind it.

Sources: Gallup - U.S. Employee Engagement Below 30% (Oct 28, 2026) | APA - Healthy Minds Poll: Holiday Stress (Nov 18, 2025) | NAMI and Ipsos - 2025 Workplace Mental Health Poll

Questions for the leadership team

1. What share of next quarter's revenue depends on a federal decision that has not yet been made?
2. Which 2027 fixed costs, including benefits, wages, and energy, are already locked, and which are still exposed?
3. How many weeks of operating expense can we carry if a major payment slips one quarter?
4. Which open roles are tied to authorized demand, operating capacity, or capabilities we cannot afford to lose?
5. Which AI tools materially shape employment decisions, and who can explain, review, and document those decisions?
6. Which critical staffing functions could be disrupted by changes in health coverage or work authorization, and what lawful contingency measures can we implement?
7. Which services, costs, and commitments would we protect, defer, or redesign if a funding source paused for 90 days?
8. Have we told employees what is fixed, what is under review, and when they will hear more?
9. Do our managers know how to resolve workload and performance problems and refer support needs without seeking medical details?
10. Where would holiday absences, unclear ownership, or slow approvals disrupt Q1 delivery?
11. What are we telling customers, funders, and lenders, and is it the same message?
12. Which of our plans assume that Washington will be predictable?

The larger pattern

Across sectors, the operating posture is consistent. Distinguish funded work and committed revenue from projected awards. Make fixed costs and contingent exposure visible. Require a business case for new commitments while preserving critical capability. Treat workforce stability as a function of operating design, manager judgment, and execution capacity. None of this requires predicting what Washington will do. It requires knowing the organization's exposure before the next deadline reveals it.

About DVL Solutions

DVL Solutions provides senior management, workforce, and operational advisory to organizations navigating complex decisions, employment exposure, and organizational change.

DVL works beyond the policy headline to the systems that carry its effects: operating cash, decision rights, capacity planning, compliance, management accountability, and the cadence leaders use to adjust.

General information only. This briefing is current through November 19, 2026 and is intended as a practical leadership resource, not legal, tax, investment, or medical advice. Requirements and funding conditions may change; confirm applicable rules and dates with qualified advisors before acting. For crisis support in the United States, call or text 988.

Source verification

Source citations are linked at the end of each finding. Updated and controlling public guidance was checked through November 19, 2026, including: CMS Medicaid transition | Connecticut Medicaid decision | CRS tariff report | European Commission AI guidance | DoD CMMC update