

# The State Budget and Federal Funding

All Legislator Briefing

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**JFO**

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# Overview

- Context for FY 2025 budget development
  - FY 2024 revenues and appropriations
    - Where does the money come from?
    - Where does the money go?
    - What does the money buy?
- Status of federal funds
- FY 2025



# Key takeaways

- **In the last few years Vermont received unprecedented amounts of both federal and State funds**
- **Increased revenues were used to make significant one-time investments**
  - These funds will be spent over a period of several years
- **State revenues are projected to return to more modest rates of growth in fiscal year 2025**
  - Demographic changes may influence this trend in the future
  - Requests for spending will likely outpace available revenues
  - To produce a balanced budget, the General Assembly may need to make difficult choices



# The Joint Fiscal Office



- Established in 1973 to provide non-partisan fiscal information and analysis
  - JFO has been around for 50 years!
- Per statute, JFO supports the “Money,” Transportation, and Institutions committees
  - JFO also provides support to other committees and works on many different policy areas



# Context for FY 2025 Budget Development



# Where have we been?

## *Recent Challenges for the State and the Budget Process*

- **The past several years have been challenging for several reasons**
  - COVID-19 pandemic
  - Demographic changes and labor supply implications
  - The allocation of federal recovery funds including Coronavirus Relief, American Rescue Plan Act, and the Infrastructure Investment and Jobs Act
  - Higher than normal General Fund revenues available for one-time uses
  - Lack of access to and high cost of child care
  - Natural disasters – climate change mitigation and resilience
  - Opioid epidemic



# Recent challenges continued

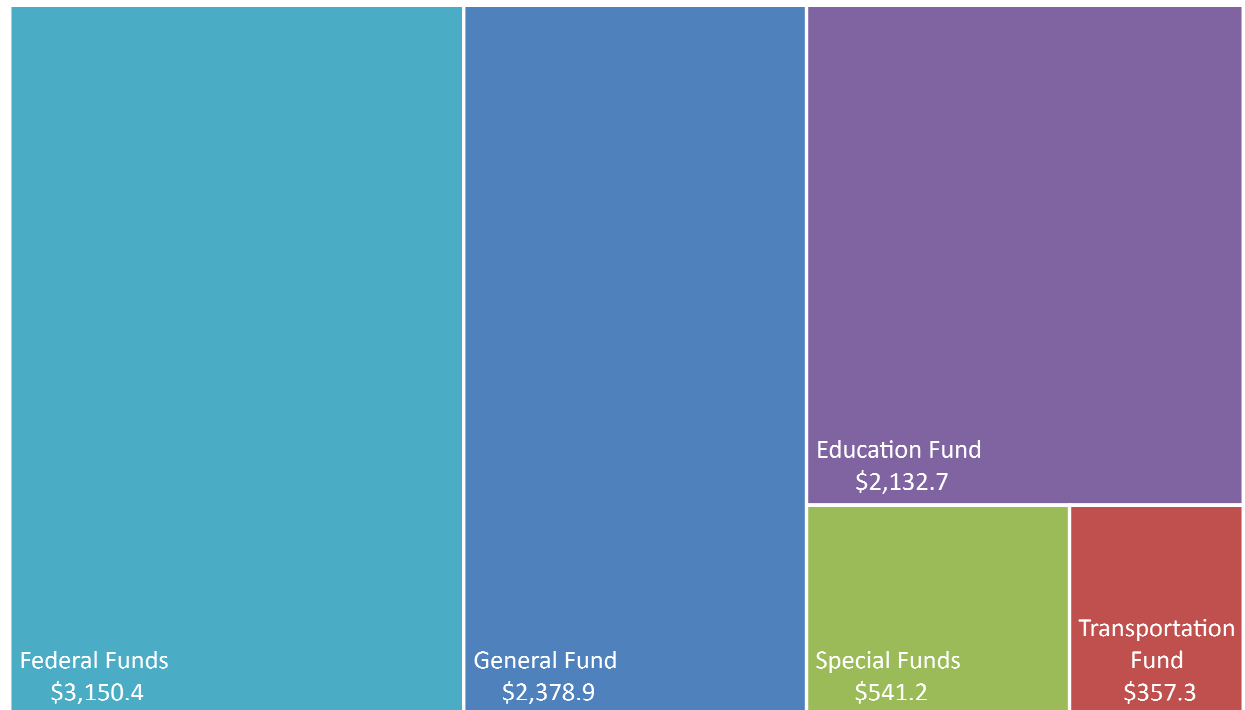
- Inadequate housing inventory, especially for low- and middle-income households
- Challenges associated with housing people in hotels/motels and addressing homelessness
- Economic environment – inflation and increased interest rates coupled with low unemployment
- Turnover in the General Assembly
- Staff turnover, vacancies, recruiting challenges across State government and beyond



# State Budget Overview

- **Where does the money come from?**
- Where does the money go?
- What does the money buy?

**FY 2024 Operating Budget – \$8.56 Billion  
(Appropriations in Millions)**





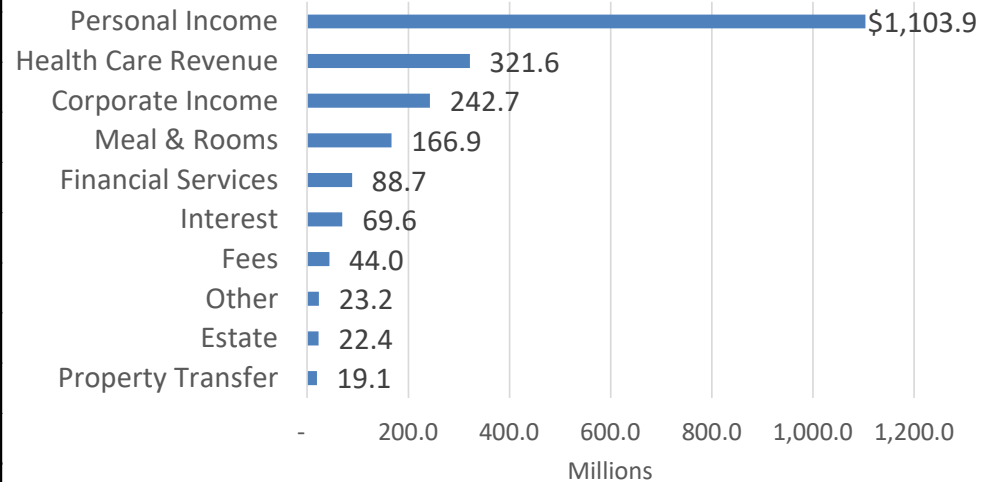
# Where Does the Money Come From?

## General Fund

Tax Type	FY 2024 Forecast (In Millions)	Percentage of Total
Personal Income	\$ 1,103.9	53%
Health Care Revenue*	321.6	15%
Corporate Income	242.7	12%
Meals & Rooms (69%)	166.9	8%
Financial Services	88.7	4%
Interest	69.6	3%
Fees	44.0	2%
Other	23.2	1%
Estate	22.4	1%
Property Transfer	19.1	1%
<b>Total</b>	<b>\$ 2,102.1</b>	

\* Health care revenues include Provider taxes, tobacco product taxes, Claims Assessment

**FY 2024 Forecasted General Fund Sources  
(\$2,102.1 Million Total)**



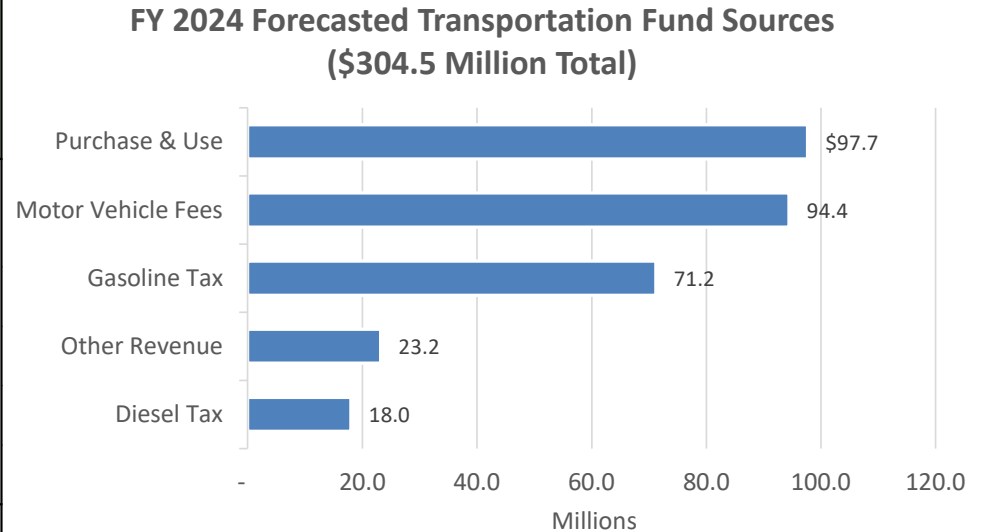
Based on the July 2023 Adopted Consensus Revenue Forecast



# Where Does the Money Come From?

## Transportation Fund

Tax Type	FY 2024 Forecast (In Millions)	Percentage of Total
Purchase & Use (66.6%)	\$ 97.7	32%
DMV Fees	94.4	31%
Gasoline Tax	71.2	23%
Other Revenue	23.2	8%
Diesel Tax	18.0	6%
<b>Total</b>	<b>\$ 304.5</b>	



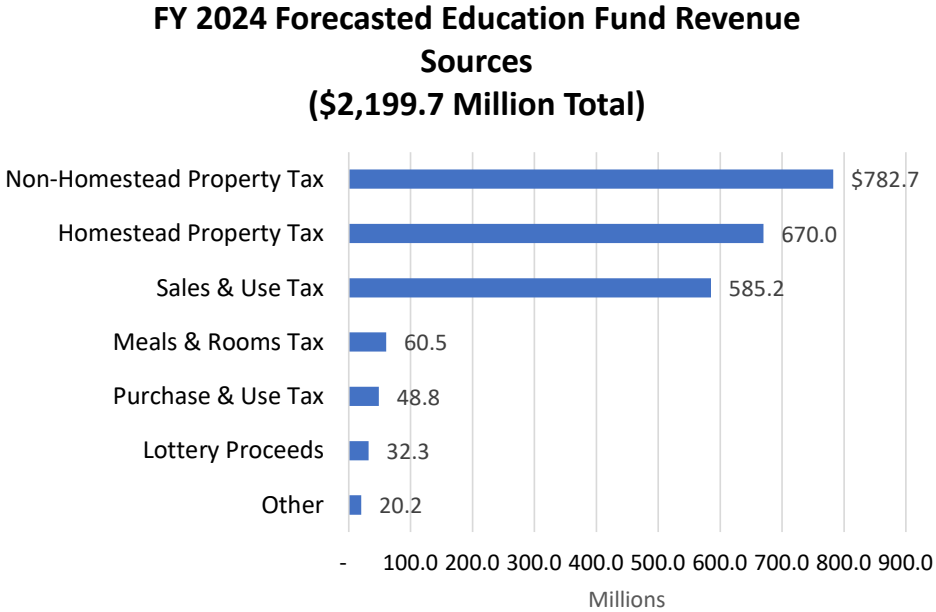
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# Where Does the Money Come From?

## Education Fund

Tax Type	FY 2024 Forecast (In Millions)	Percentage of Total
Nonhomestead Property Tax	\$ 782.7	36%
Homestead Property Tax	670.0	30%
Sales & Use	585.2	27%
Meals & Rooms (25%)	60.5	3%
Purchase & Use (33.3%)	48.8	2%
Lottery Proceeds	32.3	1%
Other	20.2	1%
<b>Total</b>	<b>\$ 2,199.7</b>	



Based on the July 2023 Adopted Consensus Revenue Forecast & Adopted Education Property Yields

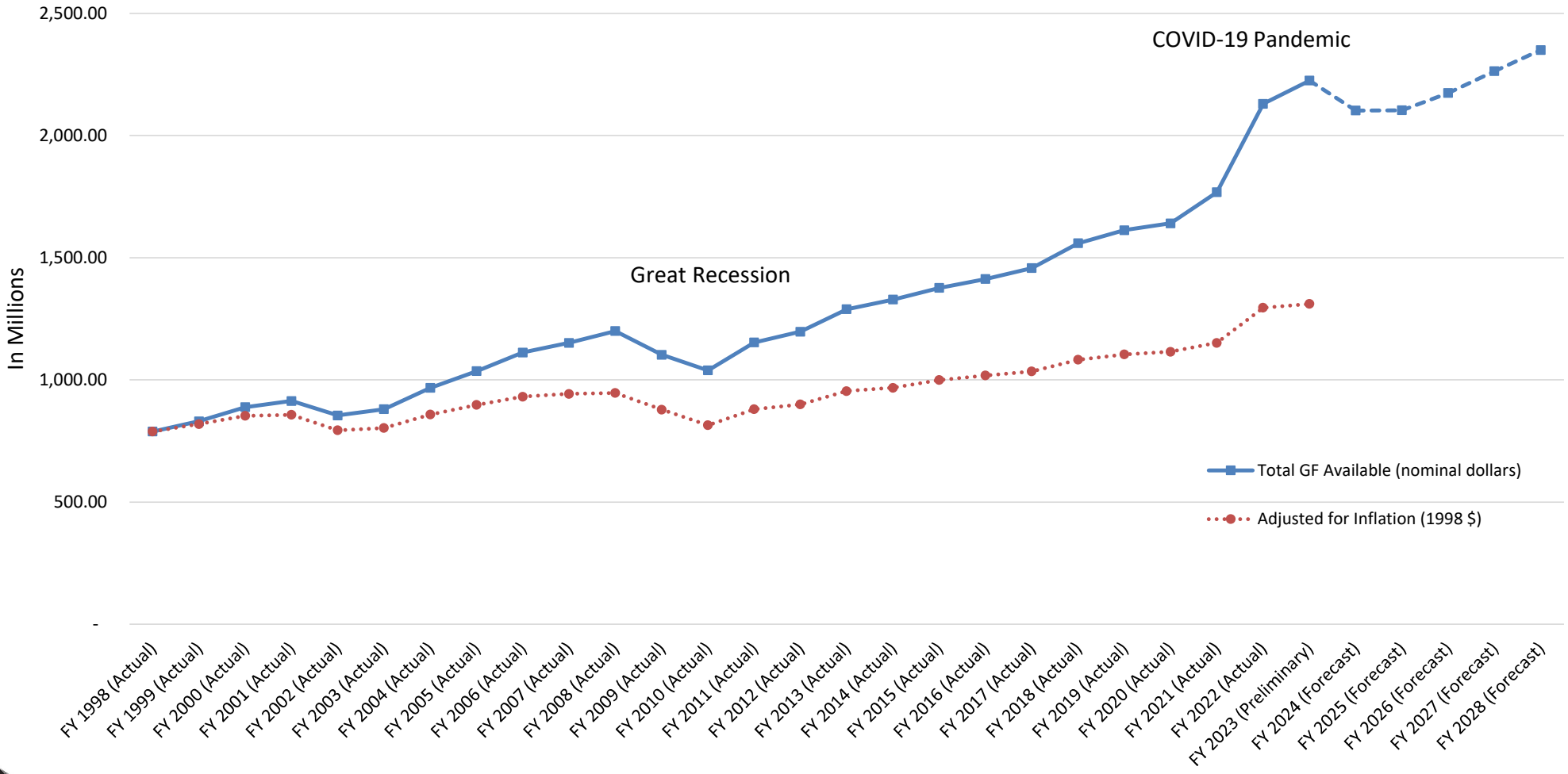


# Where Else Does the Money Come From?

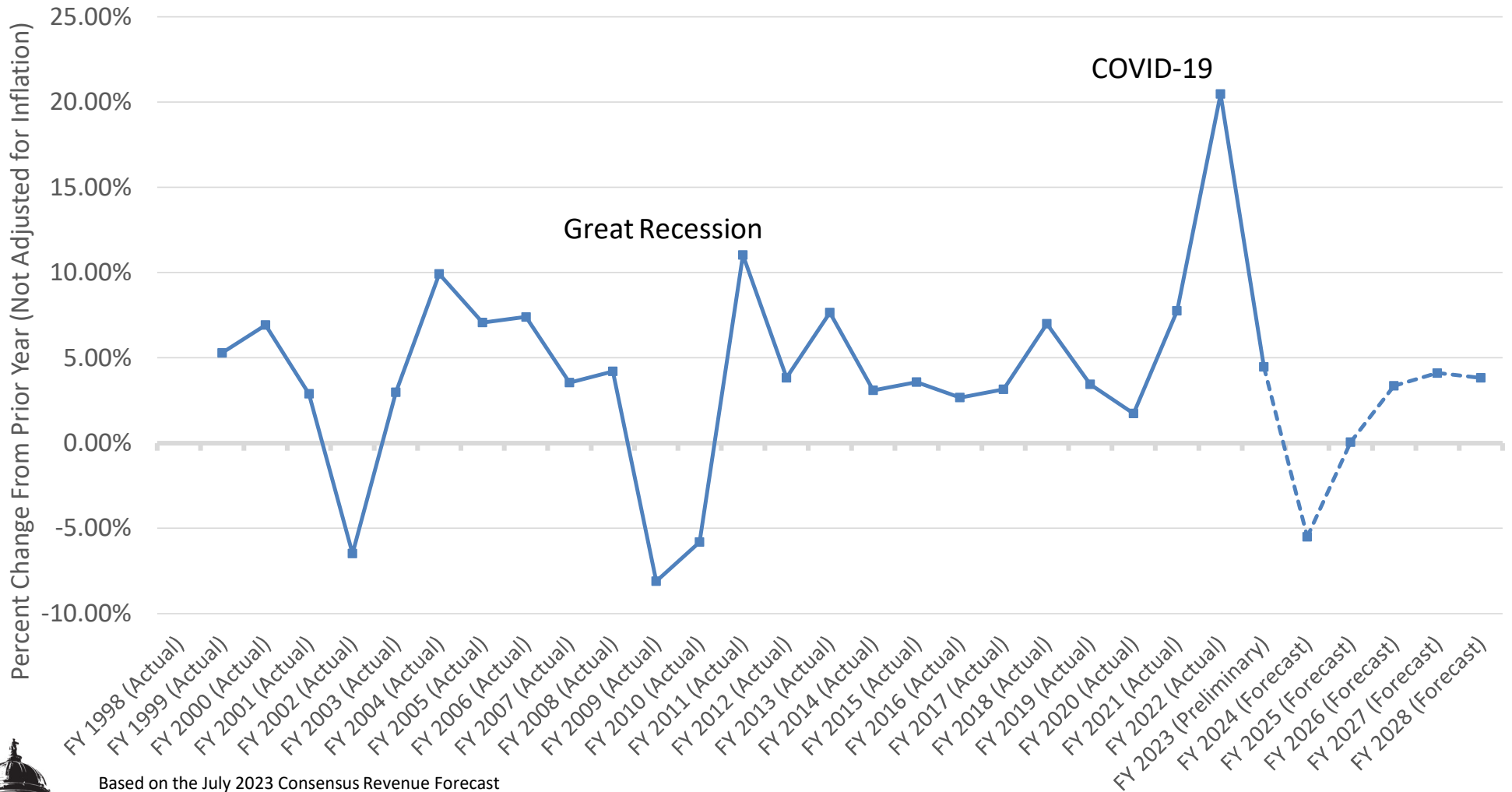
- **Federal Funds**
  - Various federal grants and other funding streams
- **Global Commitment Fund**
  - Fund for Medicaid and other related investments
- **Special Funds**
  - Aggregate of all special funds – over 400 dedicated funding streams
- **Fish and Wildlife Fund**
- **Other Miscellaneous Funds**
  - Funds established for specific purposes, including Enterprise Funds and Capital Funds from the issuance of bonds



## Total Available General Fund Revenues



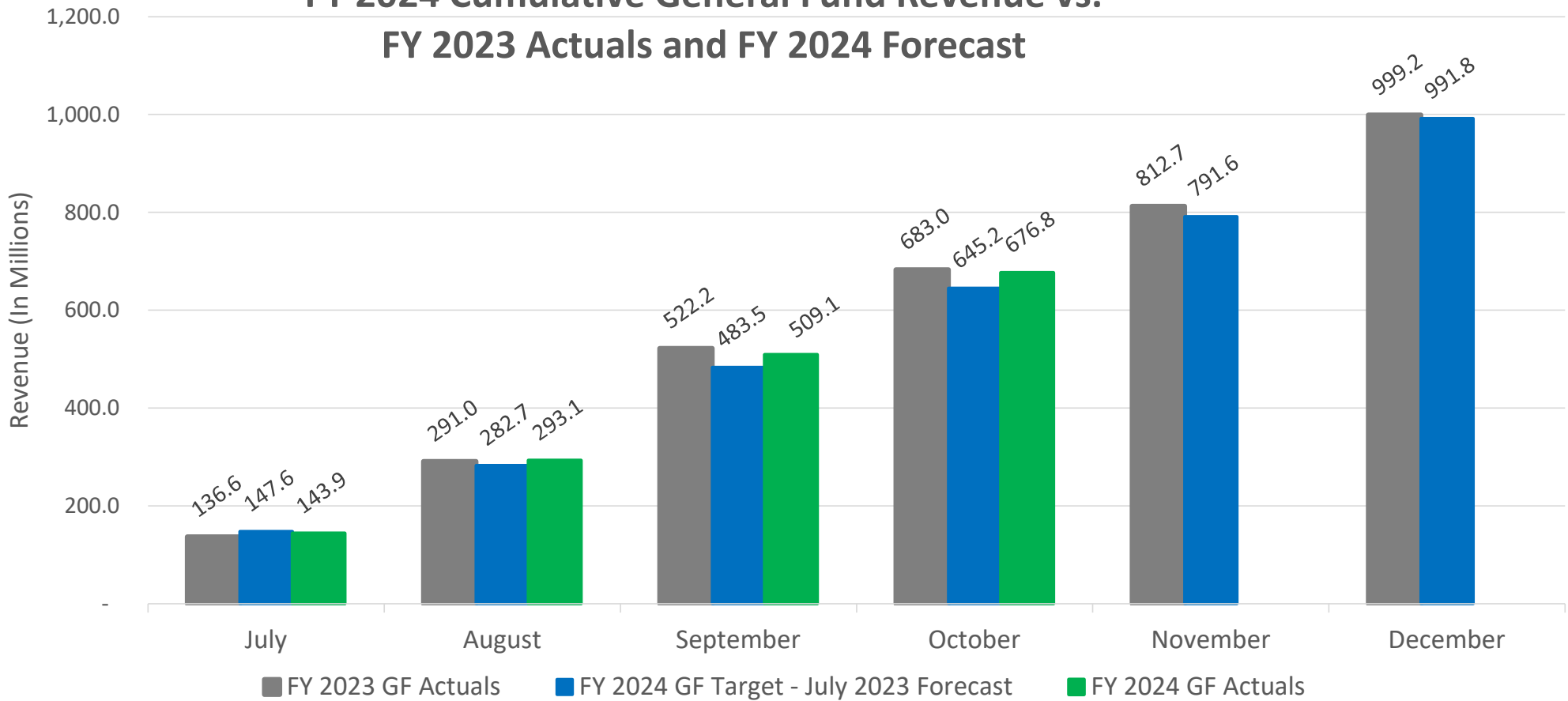
# Percent Change In Available General Funds



Based on the July 2023 Consensus Revenue Forecast



## FY 2024 Cumulative General Fund Revenue vs. FY 2023 Actuals and FY 2024 Forecast



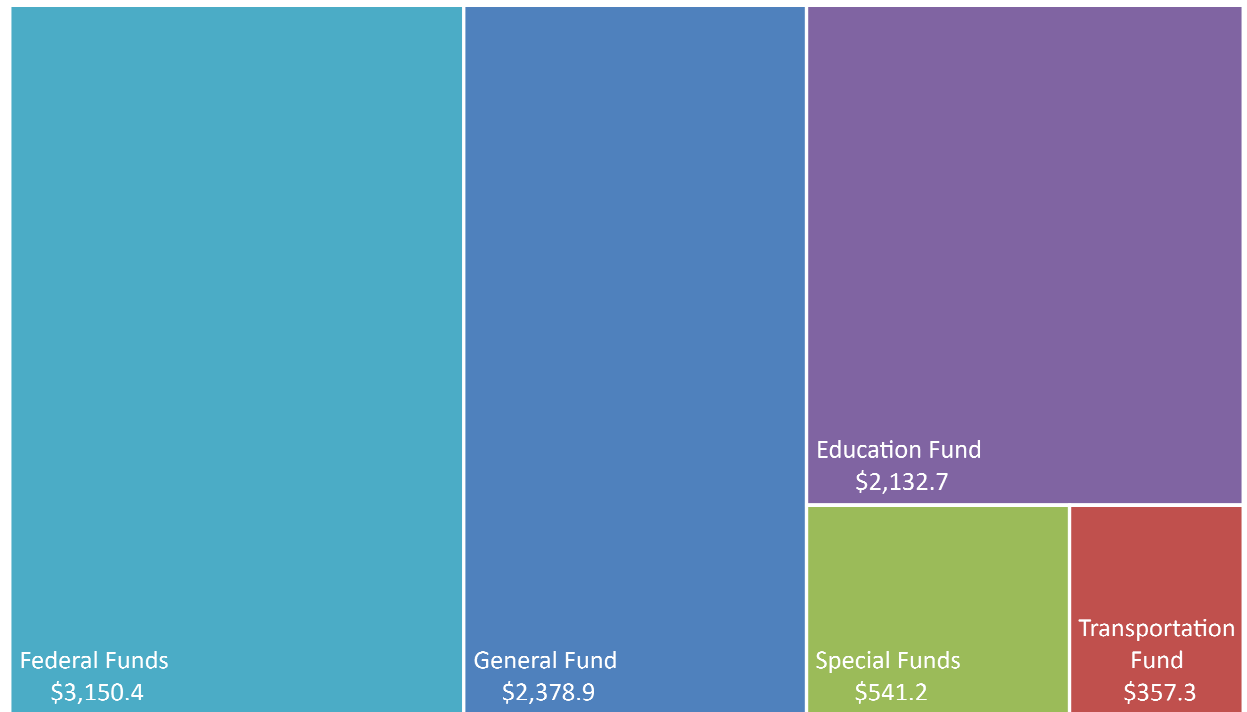
Note: FY 2024 actual revenue collections may be impacted by the filing extension issued by the Department of Taxes after the July flooding event



# State Budget Overview

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- **Where does the money go?**
- What does the money buy?

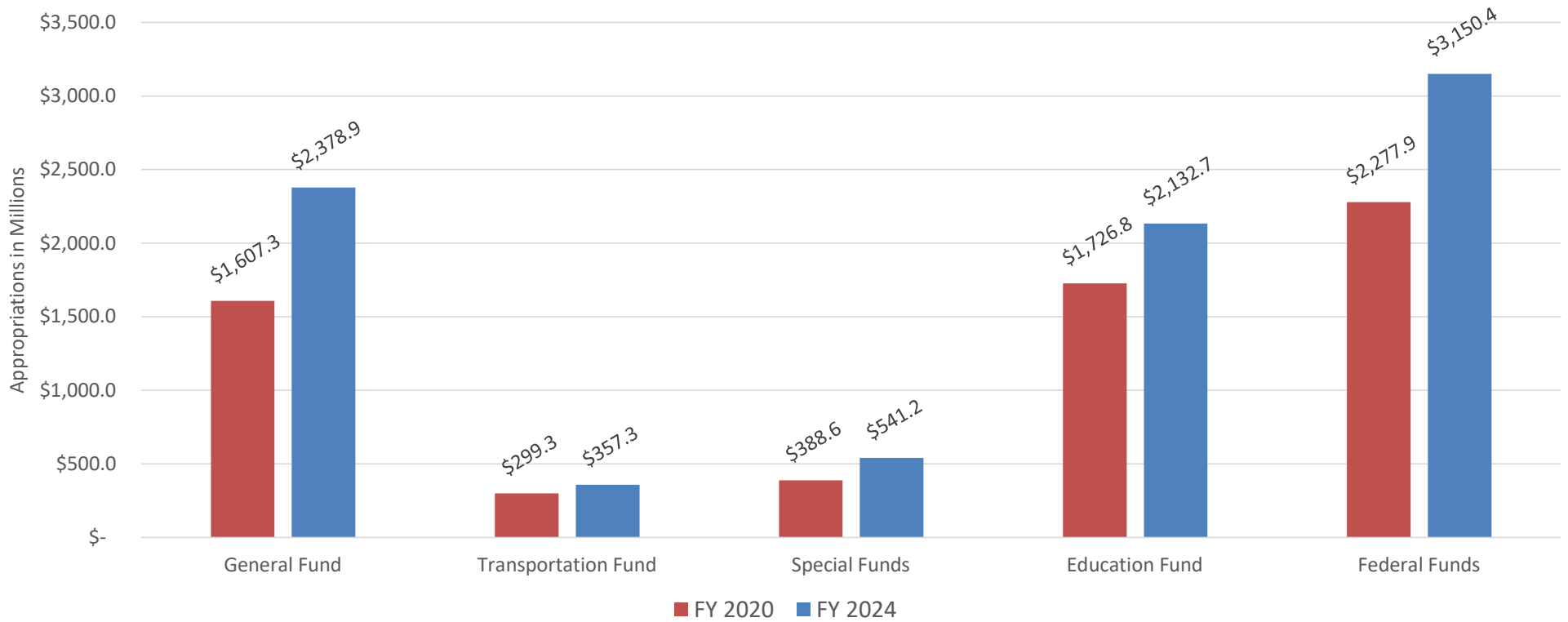
FY 2024 Operating Budget – \$8.56 Billion  
(Appropriations in Millions)





# Available Funds Have Grown Since FY 2020

FY 2020 Appropriations by Fund Compared to FY 2024 Appropriations by Fund

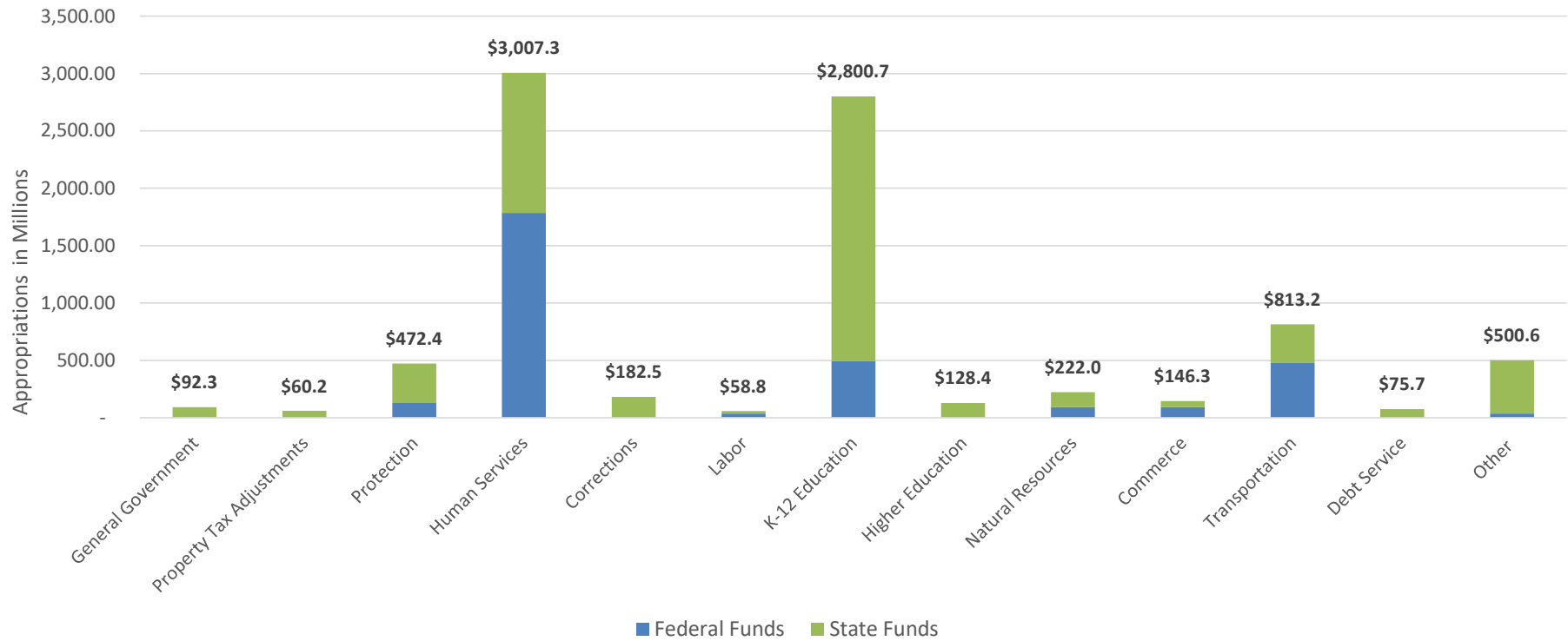


Note: Not Adjusted for Inflation



# Where Does the Money Go?

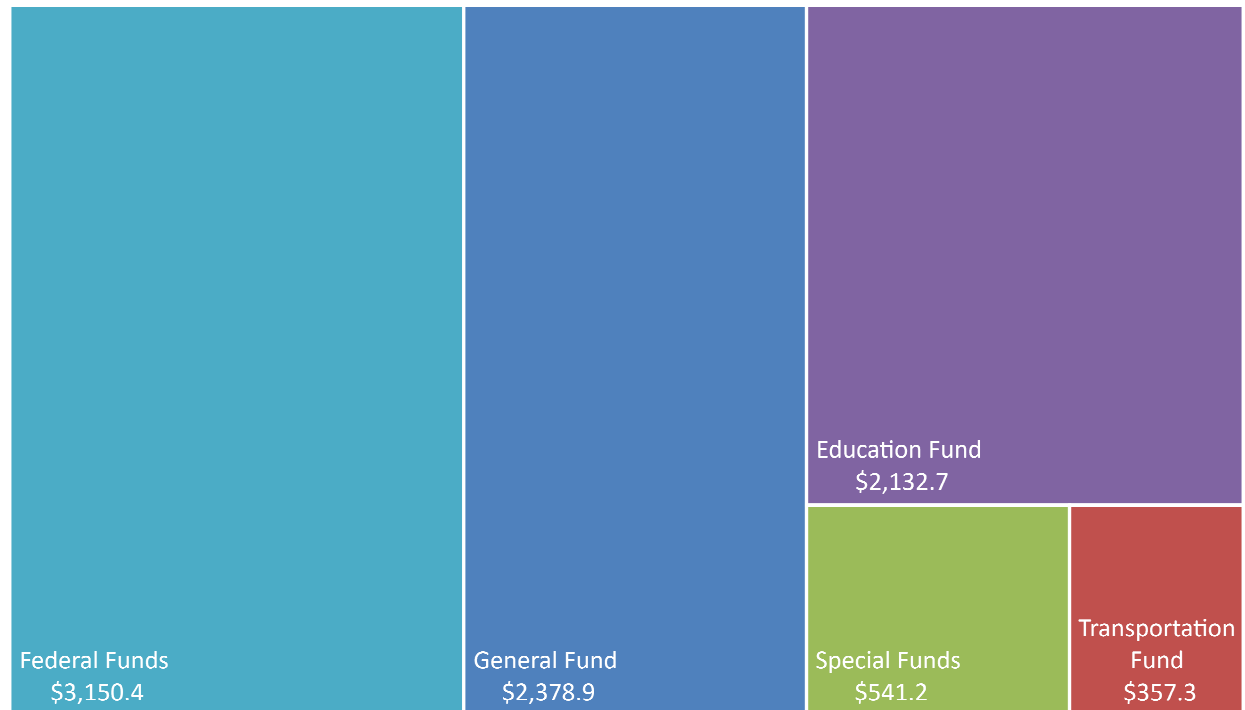
FY 2024 Appropriations by Area of Government – \$8.56 Billion



# State Budget Overview

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- **What does the money buy?**

FY 2024 Operating Budget – \$8.56 Billion  
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# What Does the Money Buy?

- Staff and operating costs – 25%
  - Cost of State employees' salaries and benefits
  - Personal services contracts
  - Space, computers, software, supplies, etc.
- The remaining 75% is paid out to other entities, such as:
  - Payments to providers for Medicaid services
  - Contracts for road and bridge work
  - Grants for clean water projects
  - Unemployment benefits
  - Grants for community and housing development



# The General Fund is Flexible But Mostly Spoken for

<b>Total General Fund Dollars Appropriated (In Millions)</b>	<b>2,378.9</b>
But we take out:	
One-times	330.9
Teacher Retirement/OPEB (Unfunded Liabilities)	190.0
Debt Service	75.4
Medicaid/Global Commitment	648.5
Corrections	180.0
Other Human Services	402.6
<b>Total</b>	<b>1,827.4</b>
<b>Remaining General Fund Dollars Available for Everything Else</b>	<b>551.5</b>

Note: \$551.5 Million is 23% of the General Fund



# With the Remaining \$551.5 Million We Must Pay For

- Elected Offices
  - Governor
  - Legislature
  - Attorney General
  - Auditor
  - Secretary of State
  - Treasurer
- Public Safety
- Housing
- Natural Resources
- Economic Development Programs
- Agriculture
- Labor and Workforce Development
- Judicial System
  - Courts
  - Defender General
  - State's Attorneys
- General Fund Share of State Employees' Salaries and Benefits
- Higher Education
- Matching Federal Funds
- Homeowner & Renter Rebate
- Tax Department
- Climate Change Mitigation and Resilience
- Other core services



# Base vs One-time

## Base

- Base funds are included in the official revenue forecast and are expected to recur in future years
- Ideally, base funds support base expenditures (ongoing programs and operations of State government)

## One-time

- One-time funds are non-recurring revenues or fund balances
  - Includes special fund balances and court settlements
- Generally used to address one-time spending issues or are reserved for future use



# Reserves

- **At the close of FY 2023, major fund reserve amounts were:**
  - General Fund – \$287.8 Million
  - Education Fund – \$41.8 Million
  - Transportation Fund – \$15.4 Million
- **Types of reserves include:**
  - Stabilization funds
  - Rainy Day Fund
  - Human Services Caseload Reserve
  - 27/53 Reserve
  - PCB Reserve





# Status of Federal Funds



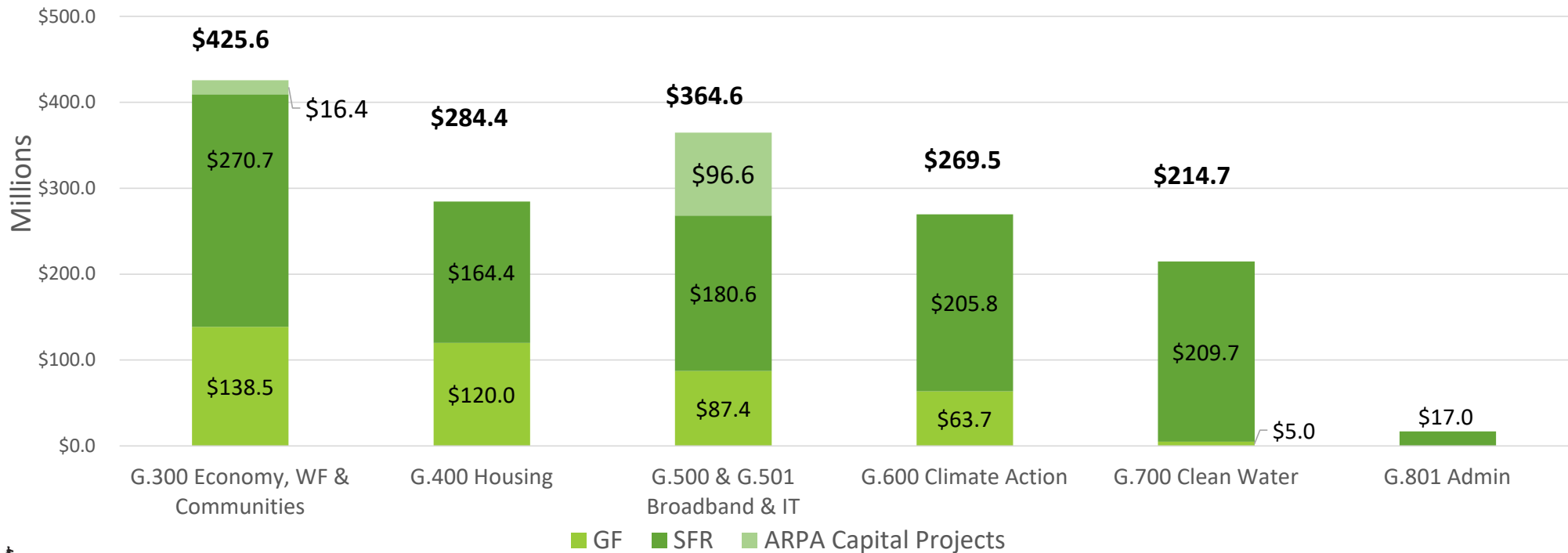
# Federal Funds Picture – Continues to Evolve

- Marcia Howard from FFIS will speak shortly about federal funds
  - Starting to return to “business as usual” federal funding
  - Vermont receives the “small state minimum” on many grants
    - Big winner on a per capita basis
  - Federal grants include specific limitations
    - Most are targeted for specific purposes
    - Many require State matching funds (e.g., Transportation, Medicaid, FEMA)
    - Some require that the State maintain the same level of support to the program (maintenance of effort)
  - Federal funding is always complicated by what happens in Congress (and how federal agencies interpret Congressional action)
    - Uncertainty with shutdowns and continuing resolutions



# Reminder: How One-time Funds Were Appropriated in Act 74 (2021) and Act 185 (2022)

*(\$1 Billion ARPA-SFR, \$113 Million CAP, \$415 Million GF)*



# Federal American Rescue Plan Act Funds (ARPA)

- ARPA funds must be **obligated** by 12/31/2024
  - **Obligated** means that the funds are committed to a grant or contract, a service is purchased, or an order is placed
  - **Obligated** does not mean appropriated
  - The U.S. Treasury published an interim final rule expanding the definition of obligation on November 9, 2023
  - A limited allowance for re-obligation after 12/31/2024 is included in the interim final rule – the contents of that interim final rule are under public review
- ARPA funds must be **expended** by 12/31/2026
  - **Expended** means that an invoice has been paid per the terms of a grant or contract for activities eligible under the U.S. Treasury final rule and performed during the period of performance (3/3/2021 through 12/31/2026)
- Currently all ARPA funds awarded to Vermont, \$1.25 billion, have been **appropriated** by the General Assembly, but they have not all been **obligated** or **expended**
- The U.S. Treasury is required **to recapture** ARPA funds not obligated by 12/31/2024



# FY 2025



# FY 2025 Governor's Budget Instructions

- Each August the Governor sends budget development instructions to Agencies and Departments
- FY 2025 budget instructions ask Agencies and Departments to limit base spending increases to 3% of FY 2024 General Fund appropriations
- This includes managing all cost increases, such as:
  - 15% health benefit cost increase
  - FY 2024 Pay Act increases
    - 2% COLA and an average Step increase of 1.9%
  - Inflation
  - Internal Services Funds
  - Child care payroll tax, Family and Medical Leave Insurance, and increased retirement system costs



# Building the FY 2025 Budget

- After several years with federal stimulus funds and robust general fund revenue growth, Vermont's revenue is projected to return to more modest rates of growth going forward
- Additional federal funds and General Fund revenues available in recent budgets total over \$3 billion
  - COVID Relief Funds (CRF)
  - American Rescue Plan Act (ARPA)
  - Infrastructure Investment and Jobs Act (IIJA)
  - Inflation Reduction Act (IRA)



# Some Spending Pressures Facing Vermont

- Unfunded Liabilities
  - Pensions and OPEB for teachers and State employees
- Flood Recovery
- Housing Initiatives
- Opioid Epidemic
- Caseload and Program Pressures
  - DVHA – Medicaid
  - DCF – Emergency Housing
  - DCF – Reach Up (Act 49 of 2023 Report)
- Education Spending
- Pay and the Cost of State Employees
- IT Projects
- Federal Match Requirements
- Inflation
- Climate Change Mitigation and Resilience
- Demographic and Workforce Challenges





# Upcoming Session – Best Practices

- Fund base expenses with ongoing revenue and strategic investments with one-time funding
- Be diligent about the revenue outlook in future years in relation to inflationary costs and expense pressures
- Understand and maximize federal funds, which often require State match
- Assess and understand the status of program investments
- Continue to pay down and manage the State's long-term liabilities

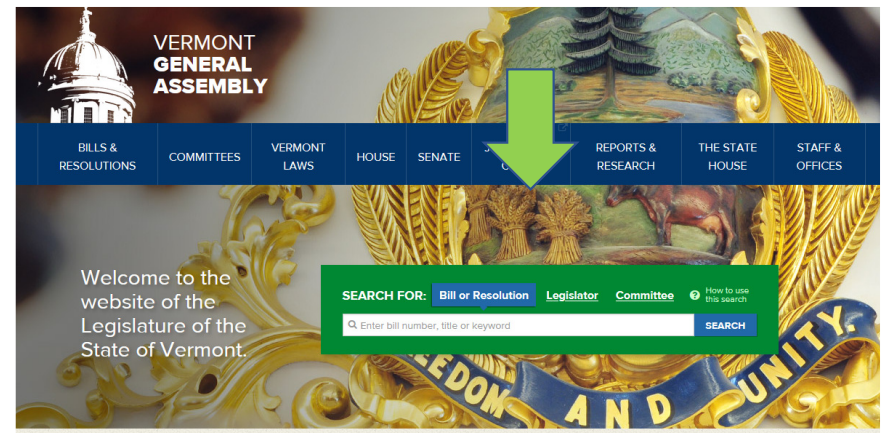
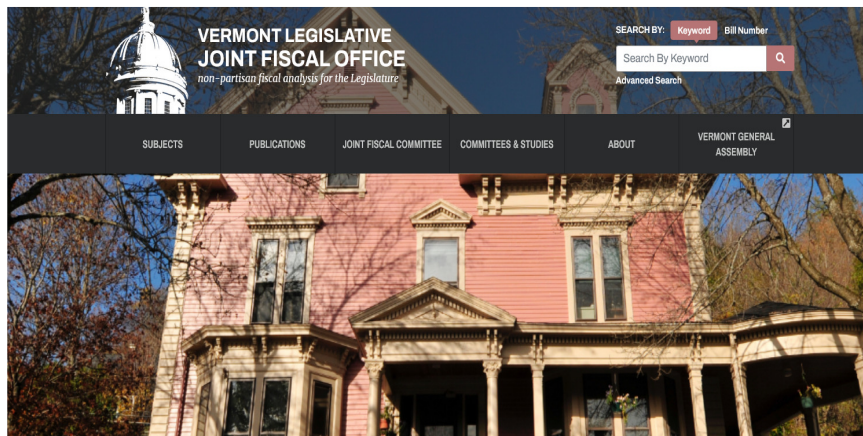


# Key takeaways

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- **Increased revenues were used to make significant one-time investments**
  - These funds will be spent over a period of several years
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# Questions?



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