

Fiscal Year 2027 Budget Context

All Legislator Briefing
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Joint Fiscal Office
December 3, 2025

**JFO**

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Overview

- What you did
- What has happened
- What happens next

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What you did

2025 Act 27, the FY 2026 Appropriations Act

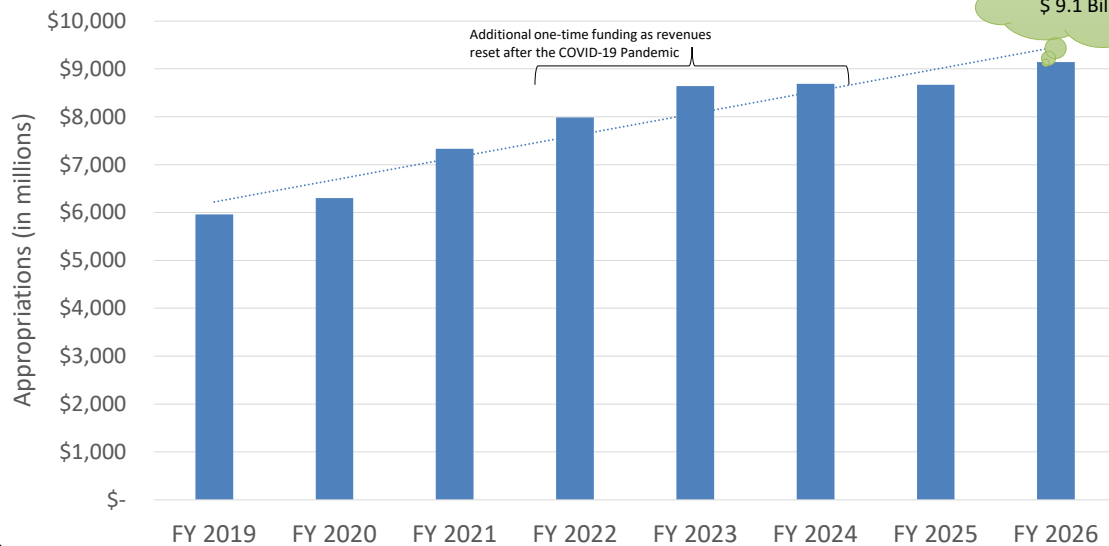


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Unduplicated Appropriations FY 2019 - FY 2026



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Fiscal Year 2026 Appropriations: State vs Federal Funds

Total Appropriations = \$9.1 Billion



0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%



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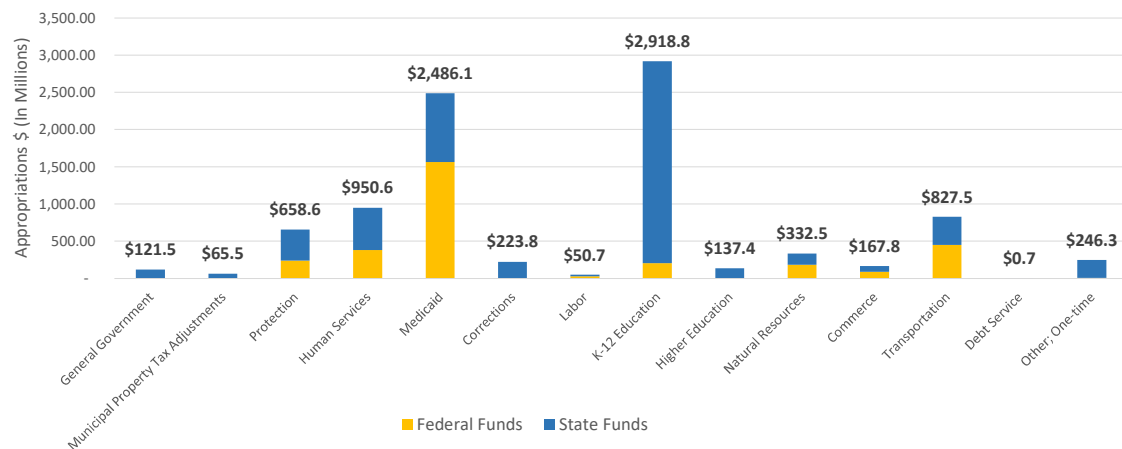
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Fiscal Year 2026 Appropriations: By Area of Government

FY 2026 Appropriations By Area of Government - \$9.1 Billion (unduplicated)

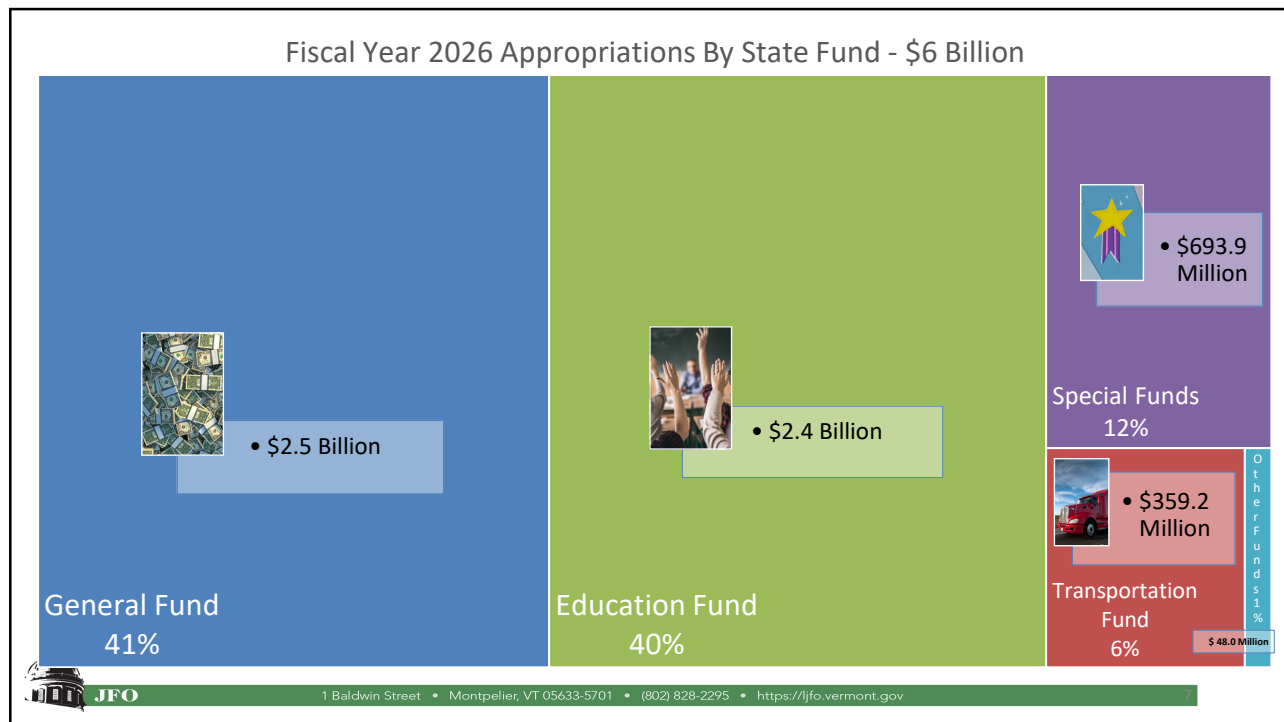


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What has happened since you adjourned....

- Updated revenue forecast was adopted in July
- Uncertainty and changes at the federal level

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The Revenue Forecast

- A new revenue forecast is adopted every January and July by the Emergency Board
 - It is a consensus revenue forecast presented by an Economist hired by the Administration and an Economist hired by the Legislature
- A revenue upgrade or downgrade is in reference to the last time the forecast was adopted
 - For the purposes of this presentation, a change in forecast is a comparison between the January and July adopted forecast



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General Fund Forecast Upgraded: \$77.2 million or 3.2%

General Fund

Tax/Revenue Type	FY 2026 Forecast (In Millions)	Percentage of Total
Personal Income	\$ 1,403.1	57%
Health Care Revenue*	366.1	15%
Corporate Income	240.3	10%
Meals and Rooms (69%)	180.4	7%
Financial Services	97.9	4%
Fees	51.2	2%
Other **	41.1	2%
Interest	41.1	2%
Estate	31.7	1%
Property Transfer	28.1	1%
Total	\$ 2,481.0	



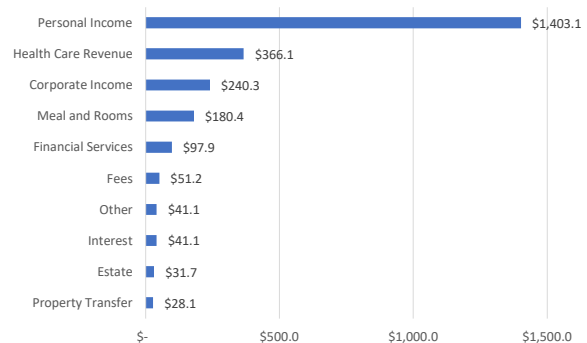
*Health care revenue include provider taxes, tobacco product taxes, and claims assessment

** Other includes Liquor, Beverage, Cannabis, Fines, Telephone Taxes, and other miscellaneous revenue

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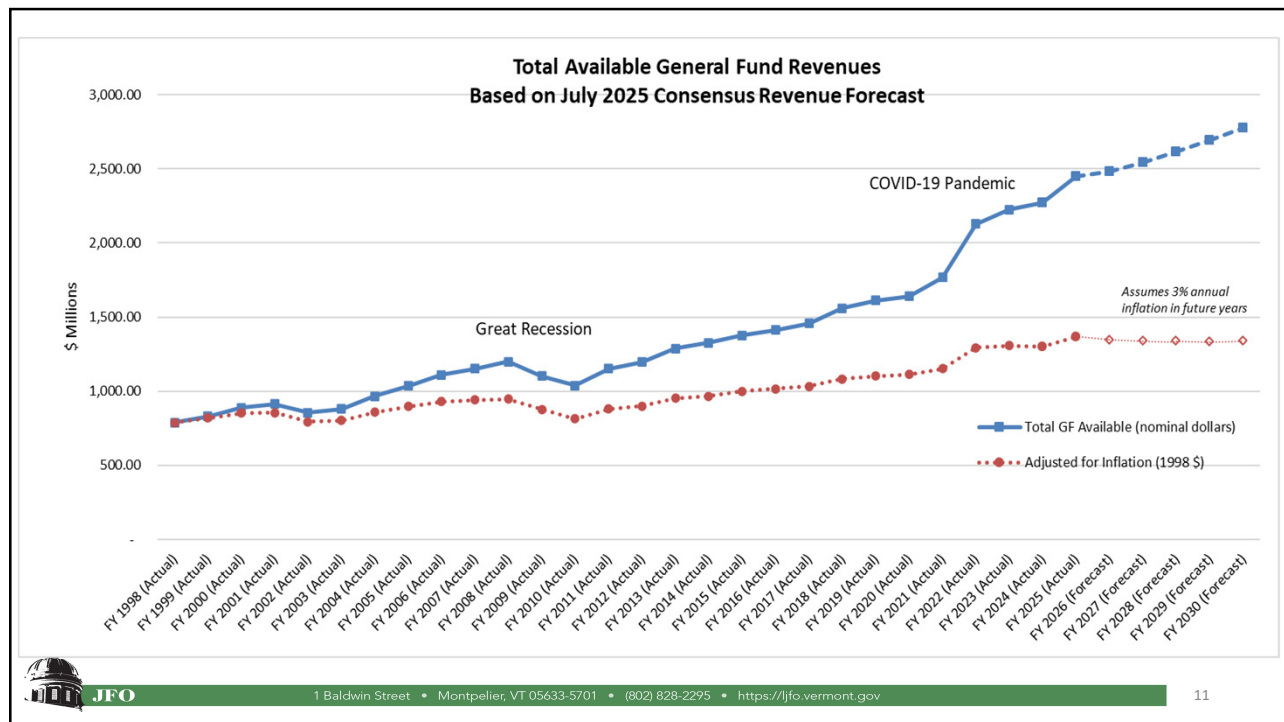
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FY 2026 Forecasted Available General Fund
(\$2,481.0 Million)



Based on the July 2025 Adopted Consensus Revenue Forecast

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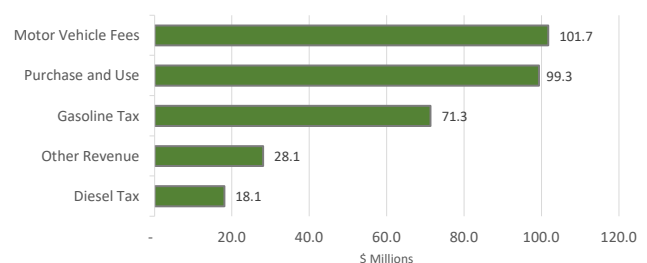
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Transportation Fund Forecast Downgraded: \$7.5 million or 2.3%

Transportation Fund

Tax Type	FY 2026 Forecast (In Millions)	Percentage of Total
DMV Fees	\$ 101.7	32%
Purchase and Use (66.6%)	99.3	31%
Gas	71.3	22%
Other Revenue	28.1	9%
Diesel	18.1	6%
Total	\$ 318.5	

FY 2026 Forecasted Source Transportation Fund -
\$318.5 million



Based on the July 2025 Adopted Consensus Revenue Forecast



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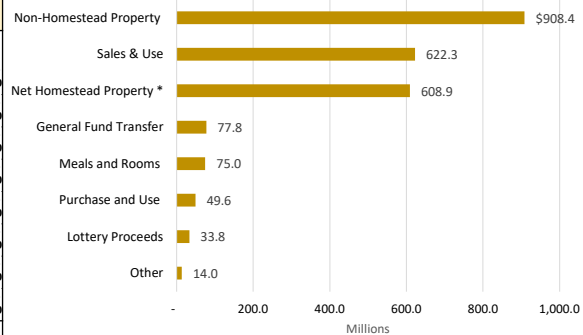
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Education Fund Downgraded: \$3.7 million or 0.5% (non-property tax revenue) Education Fund

Tax Type	FY 2026 Forecast (In Millions)	Percentage of Total
Nonhomestead Property	\$ 908.4	38%
Sales and Use	622.3	26%
Net Homestead Property*	608.9	25%
General Fund Transfer	77.8	3%
Meals and Rooms (25%)	75.0	3%
Purchase and Use (33.3%)	49.6	2%
Lottery Proceeds	33.8	1%
Other	19.0	1%
Total	\$ 2,389.8	

**FY 2026 Education Fund Revenue Sources -
\$2,389.8 million**



*net homestead property tax = gross homestead property tax less property tax credit

Based on the July 2025 Adopted Consensus Revenue Forecast and Adopted Education Property Yields

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Federal Changes

- 2025 Federal Reconciliation Act (OBBBA)
- The Shutdown



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2025 Federal Reconciliation Act (OBBBA)

- Includes changes to the way several federal programs are implemented by states, are structured, and are funded, including:
 - Medicaid
 - Other health care programs
 - Supplemental Nutrition Assistance Program (SNAP)



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Medicaid and Health Care

- Adds work requirements to Medicaid eligibility
- Shifts redeterminations from annual to every 6 months
- Limited retroactive coverage
- Establishment of the Rural Health Transformation Grant
- Changes to the Provider Tax



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SNAP Changes

- State share of SNAP administrative costs is increasing from 50/50 to 75/25
 - Approximately \$8.4 million annually
- Eligibility changes
- States must pay 5% of benefit costs if the payment error rate exceeds 6%
 - The payment error rate includes both underpayments and overpayments of benefits, including client reporting errors
 - In fiscal year 2024, Vermont's error rate was 5.13%



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State Funds Set Aside for Federal Funding Changes

- \$110 million set aside June 30, 2025, to be used as follows:
 - Sec. B.1101(b)(2) of Act 27 appropriated **\$50 million** to the Secretary of Administration to be transferred by the Emergency Board while the General Assembly is not in session in the event of a reduction in federal funds to the State
 - Sec. B. 1101(b)(3) and (4) reserved **\$30 million** for federal funding shortfalls and **\$30 million** for federal funding shortfalls or other uses



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Emergency Board Action Due to Shutdown

- On October 28th, the Emergency Board appropriated \$6.55 million to the Department for Children and Families for SNAP benefits for Vermonters who would not receive payments on November 1
 - \$250,000 was directed to the food bank and community food shelves to provide food in the period between November 1 and when the state could issue a benefit
 - \$6.3 million was appropriated to cover 15 days worth of benefit and associated administrative expenses
- \$45.45 million of the appropriation remains unallocated, or 87% of the original \$50 million



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What happens next
Fiscal Year 2027 Budget



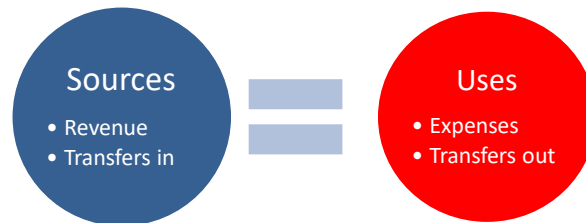
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The Budget Must Be Balanced



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One-time Money in Fiscal Year 2026 Budget

One-time Appropriations = \$105.3 million

- \$33.1 million for housing programs
- \$32.5 million for GA Emergency Housing and shelter capacity expansion
- \$14.9 million health care-related investments
- \$7.3 million for State colleges
- \$4.0 million for education transformation
- \$3.6 million for environmental priorities
- \$1.5 million for extended legislative session
- \$8.7 million for other investments

Transfers to Other Funds = \$89.0 million

- \$77.2 million to the Education Fund
- \$11.8 Million to other funds for:
 - New billing model at the Agency of Digital Services
 - PCB testing and remediation in schools



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Fiscal Year 2027 Budget Instructions

- Finance and Management published Budget Instructions in August to provide guidance to State Government on how to build fiscal year 2027 budgets
- The Instructions directed agencies and departments to increase base spending by no more than 3%
 - 5.4% average Pay Act increase
 - 5.0% average increase in State employee health care costs
 - 3.0% average increase in Internal Service Fund costs

<https://lifo.vermont.gov/assets/Uploads/Budget-Instructions-Overview-8.26.25.pdf>



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Some Budget Considerations

- | | |
|---|--|
| • Federal funding uncertainty and OBBBA implementation | • Education finance and property taxes |
| • Unfunded liabilities <ul style="list-style-type: none"> • Pensions and OPEB for teachers and State employees | • Homelessness |
| • Inflationary pressures | • Opioid epidemic |
| • Transportation funding | • Cost of the State workforce |
| • Caseload and program pressures <ul style="list-style-type: none"> • DVHA – Medicaid • DCF – General Assistance Emergency Housing • DAIL – Choices for Care | • IT projects |
| | • Federal match requirements |
| | • Climate change mitigation and resilience |
| | • Demographic and workforce challenges |



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Statutory Reserves are healthy

- **Not available for discretionary use**
- At the close of fiscal year 2025, major fund reserve amounts were:
 - General Fund – \$329.5 Million
 - Education Fund – \$52.1 Million
 - Transportation Fund – \$23.3 Million
- Types of reserves include:
 - Stabilization funds
 - Rainy Day Fund
 - Human Services Caseload Reserve
 - 27/53 Reserve



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Transportation
Fund



General
Fund



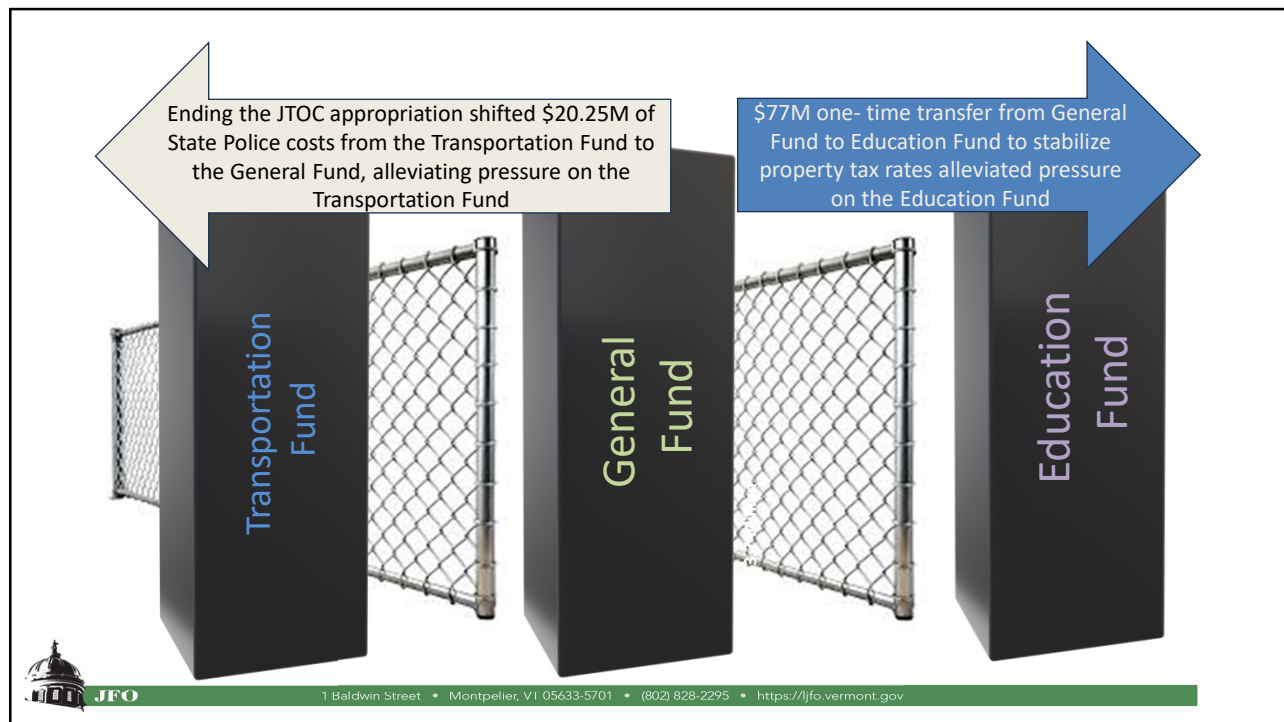
Education
Fund



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Fiscal Year 2027 Transportation Fund Challenges

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Overview

- Transportation FY25 fund year end
- Revenue outlook so far this year
- Big picture transportation fund revenue challenges



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Fiscal Year 2025 Transportation Fund Revenue

- Fiscal Year 2025 ended \$7.4 million below the forecast estimate
- The revenue shortfall was due to underperformance of the Purchase and Use Tax and DMV Fees

Transportation Fund Revenues										
Jun-25	FY 2025 Monthly				Cumulative Year to Date				12 Month Sum	
	Actual	Target	vs Target\$	vs Target %	Actual	Target	vs Target\$	vs Target %	Year-over-Year	
Gasoline Tax and Assessment	5,955,250	5,997,495	-42,245	-0.7%	71,454,509	71,300,000	154,509	0.2%	0.0%	
Diesel Tax	1,676,713	1,666,408	10,305	0.6%	18,208,451	18,000,000	208,451	1.2%	2.1%	
Purchase and Use tax	8,059,541	11,242,953	-3,183,411	-28.3%	96,695,682	101,333,333	-4,637,651	-4.6%	0.1%	
DMV Fees	10,060,991	10,484,550	-423,560	-4.0%	100,348,699	103,600,000	-3,251,301	-3.1%	7.2%	
Other fees and taxes	3,021,470	2,726,392	295,077	10.8%	26,853,065	26,700,000	153,065	0.6%	13.7%	
Total	28,773,964	32,117,798	-3,343,834	-10.4%	313,560,407	320,933,333	-7,372,926	-2.3%	3.5%	



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Transportation Fund Revenue: July Downgrade

- In the July forecast, the Transportation Fund was downgraded in fiscal year 2026 and beyond
- The downgrade is a result of a reduction in projected Purchase and Use Tax and DMV Fee revenue

Vermont Transportation Revenue Forecast (July 2025)									
Revenue Source	FY 2023 Actual	FY 2024 Actual	FY 2025 Actual	FY 2026 Forecast	FY 2027 Forecast	FY 2028 Forecast	FY 2029 Forecast	FY 2030 Forecast	Forecast CAGR FY 2026-2030
Gasoline Tax and Assessment	73.8	71.4	71.5	70.7	70.3	69.7	69.0	68.0	-0.96%
Jan-25				71.3	70.9	70.3	69.6	68.6	
Jul-25				0.6	0.6	0.6	0.6	0.6	
Forecast Change									
Diesel Tax	17.6	17.8	18.2	17.9	17.8	17.6	17.5	17.4	-0.70%
Jan-25				18.1	18.0	17.9	17.8	17.6	
Jul-25				0.2	0.2	0.3	0.3	0.2	
Forecast Change									
Purchase and Use Tax	94.8	96.6	96.7	105.0	108.3	111.7	115.2	118.7	3.81%
Jan-25				99.3	102.3	106.3	110.6	115.3	
Jul-25				-5.7	-6.0	-5.4	-4.6	-3.4	
Forecast Change									
DMV Fees	87.5	93.6	100.3	104.3	105.2	105.9	106.8	107.6	0.80%
Jan-25				101.7	102.6	103.3	104.2	105.0	
Jul-25				-2.6	-2.6	-2.6	-2.6	-2.6	
Forecast Change									
Miscellaneous Revenue	21.4	23.6	26.9	28.1	27.3	27.9	28.6	29.3	1.05%
Jan-25				28.1	27.3	27.9	28.6	29.3	
Jul-25				0.0	0.0	0.0	0.0	0.0	
Forecast Change									
Total Transportation Fund Revenue - Jan 2025	295.1	303.0	313.6	326.0	328.9	332.8	337.1	341.0	1.33%
Total Transportation Fund Revenue - Jul 2025				318.5	321.1	325.7	330.8	335.8	
Forecast Change				-7.5	-7.8	-7.1	-6.3	-5.2	



*Data sourced from the July 2025 Adopted Consensus Revenue Forecast

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Fiscal Year 2026 Agency of Transportation (AOT) Rescission Plan

FY2026 rescission plan:		
2	Program Development	\$ 270,000
3	Transportation Buildings	\$ 2,000,000
4	Transportation Buildings	\$ 85,000
5	Maintenance	\$ 575,000
6	Maintenance	\$ 415,000
7	Maintenance	\$ 300,000
8	Maintenance	\$ 200,000
9	Maintenance	\$ 150,000
10	Policy and Planning	\$ 421,000
11	Rail	\$ 500,000
12	Public Transit	\$ 100,000
13	Travel and conference participation suspension savings	\$ 230,000
13a	Program Development	\$ 85,700
13b	Department of Motor Vehicles	\$ 70,000
13c	Maintenance	\$ 50,000
13d	Finance & Administration	\$ 14,600
13e	Transportation Board	\$ 6,700
13f	Aviation	\$ 1,500
13g	Town Highway Vermont Local Roads	\$ 1,500
14	Position management savings	\$ 2,254,000
TOTAL OF ABOVE ITEMS		\$ 7,500,000

Reduce carryforward approved for FY2026 highways projects above estimates from the VTrans Project Information Navigation System (VPINS)
 Delay Springfield garage project
 Delay Rutland Snow Removal Equipment (SRE) building improvements
 Reduction in demand-driven equipment servicing or purchasing at Central Garage
 Reduction in tree cutting
 Reduction of preventative culvert maintenance projects
 Reduction of contracted mowing services
 Return or repurpose of devices purchased for the Vermont Asset Management Information System (VAMIS)
 Cancellation of the technology project to automate functions prescribed under 19 V.S.A. § 1111
 Delay Rutland platform project
 Reduction in state match funds for 5339 FTA Capital Projects
 Projected savings from travel and conference participation suspension effective 8/1/2025
 Projected position management savings in FY2026 beyond vacancy savings reflected in the FY2026 as passed budget

- The forecast downgrade necessitated a rescission plan
- AOT presented that plan and JFC adopted it on September 18



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Fiscal Year 2026 Transportation Fund Revenues: July through October

Transportation Fund Revenues										
Oct-25	FY 2026 Monthly				Cumulative Year to Date				12 Month Sum	
	Actual	Target	vs Target\$	vs Target %	Actual	Target	vs Target\$	vs Target %	Year-over-Year	
Gasoline Tax and Assessment	5,957,842	6,266,963	-309,121	-4.9%	25,055,485	25,390,560	-335,075	-1.3%	-0.3%	
Diesel Tax	1,626,826	1,516,714	110,112	7.3%	6,354,869	6,276,795	78,073	1.2%	-1.4%	
Purchase and Use Tax	8,376,085	9,443,780	-1,067,694	-11.3%	33,473,583	35,190,801	-1,717,217	-4.9%	-5.5%	
DMV Fees	7,737,606	8,401,681	-664,075	-7.9%	33,492,353	33,667,668	-175,315	-0.5%	-1.9%	
Other fees and taxes	2,166,191	2,262,661	-96,470	-4.3%	8,244,506	8,658,750	-414,244	-4.8%	4.8%	
Total	25,864,551	27,891,799	-2,027,248	-7.3%	106,620,796	109,184,574	-2,563,778	-2.3%	-2.1%	

- Revenues continue to underperform, even against the lowered July forecast estimate
- Purchase and Use Tax revenues remain sluggish, a trend we have seen since February



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Transportation Fund Revenue Challenges

Revenues are stagnant and not keeping up with inflation

- Improved fuel efficiency and increasing electric vehicle adoption have led to gradual declines in gasoline consumption – a trend that is unlikely to reverse
- Demographic constraints limit growth in vehicle purchases and registrations, leading to flat fee revenues
- The July 2025 consensus revenue forecast estimates a 1.33% compound annual growth rate in Transportation Fund revenues between 2026 and 2030 – a growth rate far below recent inflation levels

Cost pressures are increasing faster than the rate of growth in Transportation Fund revenues

- The construction industry has experienced significant inflationary cost increases post-pandemic (~62% increase, nationally, since 2020 per the [National Highway Construction Cost Index](#))
- Salaries and benefits have also increased significantly in recent years and represent a significant cost pressure on the Transportation Fund

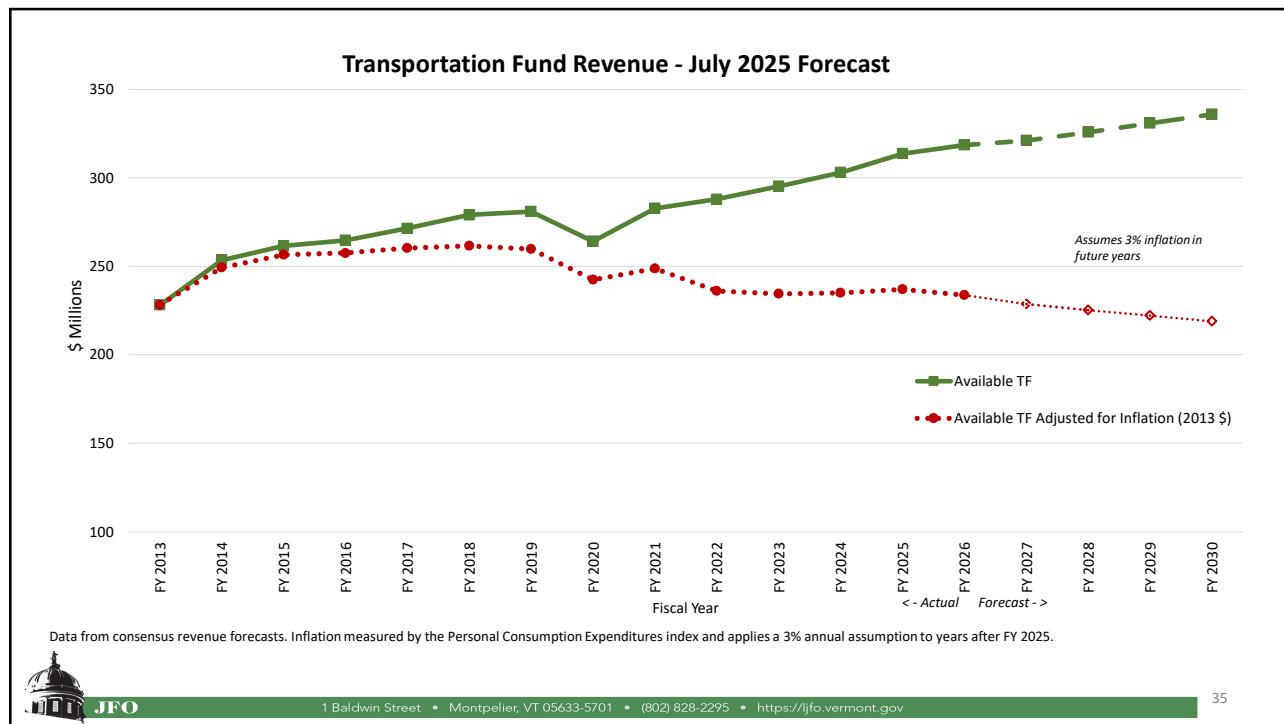


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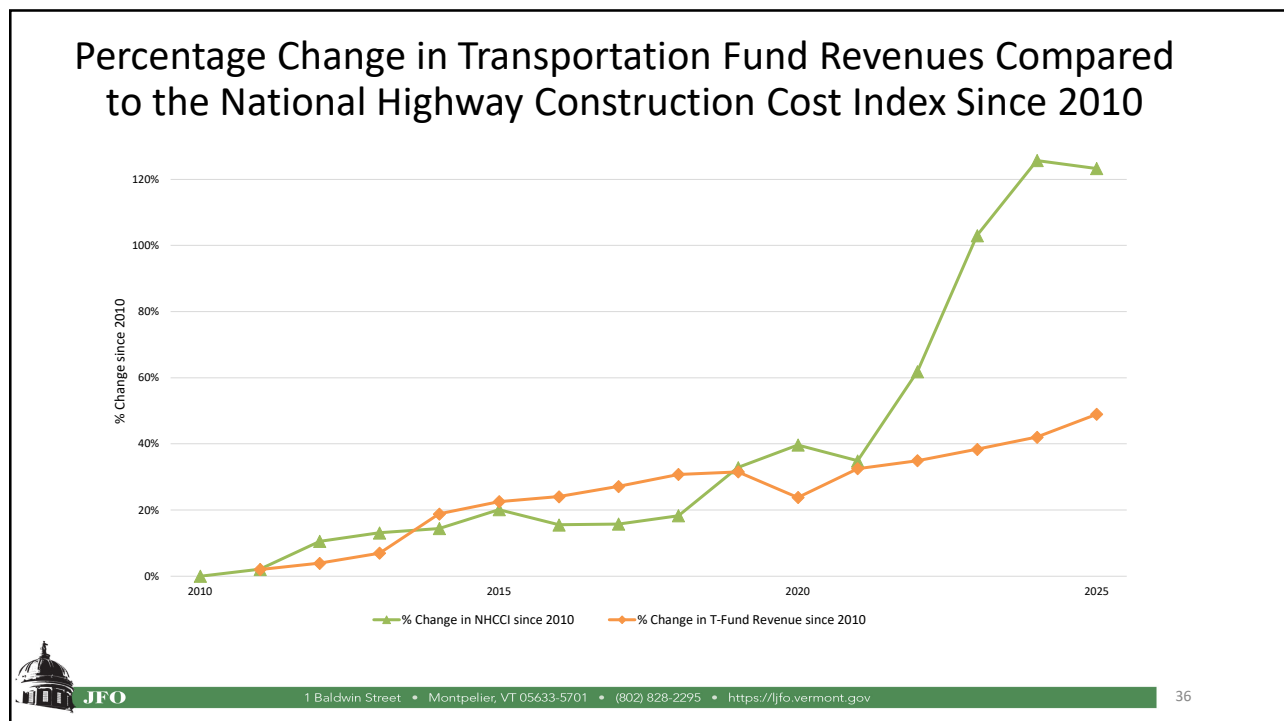
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Transportation Fund Revenue Challenges Continued

Federal Funds made up 51% of transportation funding in FY26. To draw down these funds, Vermont must be able to contribute a “match” – average 83% federal/17% nonfederal

- Beginning in fiscal year 2027, there is projected to be a State match deficit of \$33.4 million, which could threaten the State’s ability to match \$163 million of federal funds
- In fiscal year 2028, the deficit is projected to increase to \$35 million, threatening \$170.8 million
- In addition to federal match requirements, the State has many other funding needs, such as Town Highway Aid, climate resiliency, general maintenance, etc.

If Vermont does not have the revenue to maximize its federal dollars and keep up with maintenance/capital needs, infrastructure will deteriorate and cost more to address in the future

- Backlogs are difficult to dig out of and often require years of sustained additional investment
- Infrastructure is always deteriorating, and costs typically increase over time – not keeping up with needs leads to significant cost pressures in the future



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Agency of Transportation Federal Fund and State Fund Match Outlook (September 2025)

Federal Funds (in Million \$)	Current Law		Projection	
	FY2025	FY2026	FY2027	FY2028
Total IJJA/FHWA Formula Funds	334.9	340.6	298.3	305.8
Additional Non-Competitive Grants Requiring Application	6.7	7.0	6.9	7.1
Total Non Competitive Grant	341.5	347.6	305.2	312.9
Competitive Grants:	-	41.2	73.1	110.8
Total Federal Funding:	341.5	388.9	378.4	423.7
State Match Required	68.6	77.8	75.5	85.8
Original Estimate - State Match Available	52.0	70.3	42.1	50.8
Year-end Reversions/Agency-Directed Savings/Fund Transfers	17.5	7.5	-	-
State Match Surplus/(Deficit)	(4.7)	-	(33.4)	(35.0)
Federal Funding at Risk (at 17% match rate)	-	-	(163.0)	(170.8)

*Data sourced from the [Agency of Transportation](#)



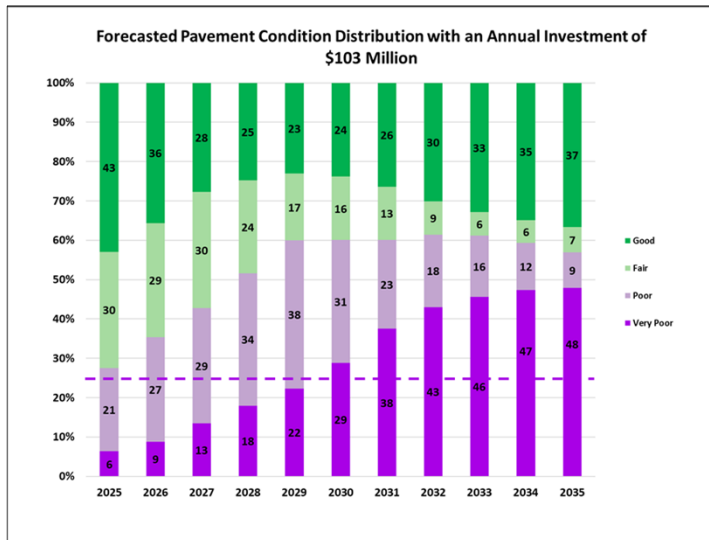
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Forecasted Pavement Conditions



- In fiscal year 2026, Vermont budgeted \$103 million for paving projects throughout the state
- AOT estimates that if we were to continue paving at this level of investment, by 2030 60% of Vermont pavement would be in poor or very poor condition



*Chart sourced from the [Agency of Transportation](https://jfo.vermont.gov)

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Some of What the General Assembly Has Done So Far

- **FY20-26:** Utilized COVID-related funding and IIJA Funding
- **FY22:** Repaid TIB bonds using COVID-related funding, freeing up ~\$2.5M per year
- **FY23:** Used \$43.5 million of General Fund for EV incentives and IT Modernization
- **FY24:** Increased DMV fees, raising over \$20 million annually
- **FY24-26:** Set aside \$45 million, over three years, in one-time funding to be used for federal match requirements
- **FY26:** Eliminated the \$20.25 million annual JTOC appropriation to State Police

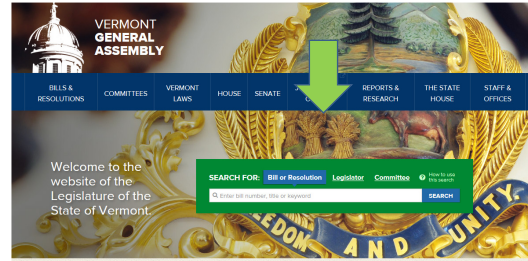
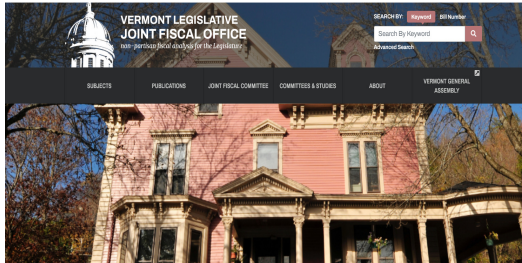


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Questions?



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