



VERMONT GENERAL ASSEMBLY

# THE FISCAL FOCUS

August 2025 | Vol. 32, No. 1

An Update from the Joint Fiscal Office

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*The Fiscal Focus newsletter is a nonpartisan update prepared by the Joint Fiscal Office (JFO) to inform legislators on current issues while the General Assembly is not in session. As your staff, we believe it is important for a citizen legislature to be kept informed of local, State, and federal financial developments while the General Assembly is adjourned.*

*It is important for us to hear what topics interest you for future issues. If you have any comments or suggestions, please let us know.*

## Fiscal Year 2025 Closeout

### **Three Major Funds Finish Above Forecast, Bouyed By General Fund Performance**

Collectively, the three major funds closed fiscal year 2025 \$80.8 million, or 2.3%, above the consensus revenue forecast adopted by the Emergency Board. This was largely due to the positive performance of the General Fund. While the General Fund closed the year \$88.1 million above forecast, non-property tax Education Fund revenues were right on target (\$0.1 million above forecast) and the Transportation Fund was below forecast by -\$7.4 million for the year.

The Personal Income, Corporate Income, and Estate taxes accounted for the majority of the General Fund's unforecasted additional revenue in fiscal year 2025. Personal Income Tax revenue exceeded forecast by \$66.5 million, or 5.1%. Corporate Income Tax was above target by \$13.3 million, or 5.1%. Finally, the

Estate Tax was above forecast by \$26.0 million, or 89.2%. In total, \$55.2 million in Estate Tax revenue was collected in fiscal year 2025. Per 16 V.S.A. § 2885, in fiscal years where there is a General Fund surplus and the General Fund Stabilization Reserve is funded at the statutorily-required level – as was the case in fiscal year 2025 – Estate Tax collections that exceed 125% of the July forecast are automatically allocated to the Higher Education Endowment Trust Fund. As a result, \$28.9 million was deposited in the General Fund and \$26.4 million was deposited into the Trust Fund.

As noted, non-property tax revenues for the Education Fund were right on target for the year. While the Purchase and Use Tax and Lottery revenue slightly underperformed, below target by \$2.3 million, or

## Major Fund Closeout (continued)

-4.6%, and \$5.0 million, or -14.0%, respectively, the slight overperformance of the Sales and Use Tax (above forecast by \$7.8 million, or 1.3%) offset it.

The Purchase and Use Tax's lower-than-expected revenues also affected the Transportation Fund. For the year, Purchase and Use Tax was below forecast by

\$4.6 million, or -4.8%. Department of Motor Vehicles (DMV) fees were also below target, coming in \$3.3 million, or -3.1%, under forecast for the year.

The table below provides a summary of each major fund's actual performance compared to the forecast.

Fiscal Year 2025	Forecasted Revenue (millions)	Total Actual Revenue (millions)	\$ above or below forecast (millions)	% above or below forecast
General Fund (GF)	\$2,362.4	\$2,450.5	\$88.1	3.7%
Education Fund (EF)	\$762.6	\$762.7	\$0.1	0.0%
Transportation Fund (TF)	\$321.0	\$313.6	(\$7.4)	-2.3%

## Contingent List Fully Funded Reserves Met, Investments Made, Money Set Aside For Future Purposes

In many years, appropriators will build a "contingent list" into the appropriations act or "Big Bill" in case there are excess revenues. The items on the contingent list are only funded if General Fund revenues go beyond what was forecasted. This year's Big Bill, Act 27, was no different. Section B.1101 of the Act had a year-end construct (directions for the Department of Finance and Management on how to close out the State's funds for the fiscal year) that designated the following amounts for the following purposes:

- \$138 million as unallocated carryforward for meeting the requirements of the Big Bill, including those made to adjust the fiscal year 2025 appropriations act (Act 113 of 2024).
- \$8 million as a transfer to the Communications and Information Technology Special Fund to cover the costs of transitioning billable services from a service level agreement model to a core enterprise services model.
- \$50 million as an appropriation to the Agency of Administration to be transferred by the Emergency Board pursuant to 32 V.S.A. §133 – a section of statute amended by the Act to grant the Emergency Board a limited amount of further flexibility – while the General Assembly is not in session in the event of a

reduction in federal funds to the State.

- \$30 million to be reserved in the General Fund for future appropriation or transfer by the General Assembly for addressing federal funding shortfalls.
- \$30 million to be reserved in the General Fund for future appropriation or transfer by the General Assembly for Vermont Medicaid and other human services, property tax relief, permanent housing initiatives, or any other uses determined to be in the best interests of the public.

After fulfilling reserve requirements and fully funding these contingent appropriations and transfers, the General Fund had a remaining balance of \$1.9 million. Pursuant to 32 V.S.A. §308c, these remaining funds were allocated accordingly:

- \$0.95 million was reserved in the General Fund Balance Reserve (Rainy Day Fund).
- \$0.48 million was transferred to the Vermont State Employees' Retirement Fund System.
- \$0.48 million was transferred to the Postretirement Adjustment Allowance Account for the Vermont State Teachers' Retirement System.

## **Vermont's Education Finance System**

### ***Yields and Property Tax Rates Set, Act 73 Work Beginning***

For fiscal year 2026, Act 24 of 2025 set the property yield at \$8,596, the income yield at \$12,172, and the equalized uniform non-homestead property tax rate at \$1.703; these yields and rates are estimated to correspond with an average bill change increase across all three classes by approximately 1.1%. The increase in average tax bills can be attributed to multiple factors including an estimated 5.5% year-over-year growth in education spending, performance of non-property tax revenues, prior year use of one-time money to reduce property taxes, and other costs to the Education Fund.

Approximately \$118 million in one-time money was used to uniformly reduce fiscal year 2026 tax bills. This consisted of an estimated \$41 million Education Fund surplus, and a transfer of \$77 million from the General Fund to the Education Fund in Act 27 in order to alleviate the burden of property tax increases.

Elsewhere in the Education sphere, the School District Redistricting Task Force created by Act 73 of 2025 (H.454; An act relating to transforming Vermont's

education governance, quality, and finance systems) met twice in August to begin its work. The Task Force will continue to meet twice a month throughout the fall. Meeting agendas, materials, and minutes are available on the Agency of Administration's, which is staffing the Task Force, [website](#).

Act 73 also required the Joint Fiscal Office (JFO) to issue a Request for Proposal (RFP) for a contractor or contractors to make recommendations on how to update the foundation funding formula created by the Act. That RFP is available [here](#).

JFO staff is also working on two reports required by the Act, one on the appropriate inflationary measure to use for Vermont's education finance system and one on the current funding systems for PreK, the Child Care Financial Assistance Program (CCFAP), and any other early care/education programs. Both of those reports will be submitted to the "money committees" by December 15.

## **Medicaid Year-end Report**

### ***Expenditures Closely Align With Budgeted Amount***

The annual Medicaid Year-end Report was published and presented to the Joint Fiscal Committee last month. The report is published each year as a review of Medicaid and Medicaid-related expenditures in Vermont.

Fiscal year 2025 Medicaid and Medicaid-related estimated expenditures totaled \$2.45 billion, 0.04% above the budgeted amount in Act 27 and a 5.4% increase in total spending over fiscal year 2024.

Overall Global Commitment Waiver spending came in slightly below what was budgeted (-0.2%). While overall spending was under target, individual spending categories had greater fluctuation. Global Commitment Program spending was above target by \$3.9 million. The Children's Health Insurance Program (CHIP) also ran above expectations, exceeding the target by \$2.9 million.

Vermont Premium Assistance and Choices for Care, on the other hand, came in \$1.36 and \$4.4 million below the target. Overall program administration was 7%, consistent with fiscal years 2022, 2023, and 2024.

Fiscal year 2025 caseload for all Medicaid eligibility groups tracked very close to projections. Overall enrollment decreased in almost every eligibility group, save for CHIP enrollees and Aged Blind Disabled (ABD) adults. CHIP is a small category, but it is notable that enrollment increased by 18%. The increase in ABD adults was more modest (4%). Enrollment in Medicaid as a primary source of coverage decreased by roughly 12,000 beneficiaries (-8%) compared to fiscal year 2024, the majority of which were in the adult categories.

The full report can be found on the Joint Fiscal Office [website](#).

## Pension System Investments Outperform For Third Year In A Row

Vermont's three statewide pension systems experienced strong investment performance in fiscal year 2025, but inflation will add costs due to higher cost-of-living adjustments (COLAs) in calendar year 2026.

In fiscal year 2025, Vermont's combined pension investments for the state employees' (VSERS), teachers' (VSTRS), and municipal (VMERS) retirement systems had a preliminary return of 10.7% (excluding final private investment valuations). This performance significantly exceeded the 7.0% long-term actuarial assumed rate of return. This the third year in a row following the challenging investment environment of 2022 that investment performance exceeded the assumed rate of return.

To minimize the impact of yearly market volatility on funding requirements, the impact of investment gains and losses are smoothed into funding calculations over a five-year period. Therefore, only 20% of last year's market gains will be included in the funding calculations for next year. The State Employees' Retirement System (VSERS) and State Teachers' Retirement System (VSTRS) entered fiscal year 2025 with a total of \$33 million of deferred investment losses remaining to be smoothed into the funding math – primarily from the weaker market environment in fiscal year 2022.

The strong investment performance during fiscal year 2025 relative to the 7.0% assumption will likely offset these remaining deferred losses and lead to deferred investment gains, which will help put some downward pressure on employer funding requirements in the next few years as those gains are smoothed in.

Inflation cooled over the last year, though it remains higher than the long-term actuarial assumptions. The year-over-year change in the Consumer Price Index (CPI) for the Northeast was 3.0% in June 2025, a decrease from 3.8% in June 2024. While lower than the prior year, inflation is still higher than the long-term assumption of 2.3%. Since these metrics are used to calculate pension COLAs for retired members and their beneficiaries for the subsequent calendar year, they will lead to some actuarial losses for the retirement systems.

The collective net impact of these investment gains, inflation-related actuarial losses, and other demographic and economic experience factors will be detailed in the upcoming annual actuarial valuations to be completed in fall 2025. Those actuarial valuations are used to calculate the unfunded liability balances and the funding requirements for the pension systems in fiscal year 2027.

## Emergency Board Adopts Revenue Forecast, Joint Fiscal Committee Gets Updates On Closeout and Fiscal Future

Both the Emergency Board and the Joint Fiscal Committee (JFC) met on July 31. At the Emergency Board meeting, the State economists presented the official July consensus revenue forecast. While there was some discussion of federal funding requests members of the Board had heard of, no formal review was taken.

JFC heard from the Administration on the fiscal year 2025 fund closeout and on the status of American Rescue Plan Act (ARPA) funds. The Committee also received a presentation from the legislative economist, Tom Kavet, on the state of the economy and the July revenue forecast. JFO staff presented on the Medicaid Year-end Report mentioned on page three and the 2025 Federal Reconciliation Act. The latter presentation is available on our [website](#) and reviews rescission – cuts to previously approved spending authority –

language in Act 27. This language outlines when the Administration and JFC may act to respond to federal funding shortfalls. The rest of the presentation provides a high-level overview of how changes to Medicaid, the Supplemental Nutrition Assistance Program (SNAP), tax policy, and other federal programs are likely to impact Vermont.

The Committee also heard from the Administration on the status of federal funds, representatives from the Congressional delegation on the federal process, the Department of Disabilities, Aging and Independent Living and others on Developmental Services Payment Reform, and the Department for Children and Families on the status of the General Assistance Emergency Housing Program transition.

The Committee's next meeting is on September 18.

## Joint Fiscal Office Updates

### *Summer Work, New Hires, and Some Departures*

The Joint Fiscal Office continues to work on a number of projects including research on economic and housing investments, migration and demographics, SNAP, and child care in the state. We're continuing to work with the Office of Legislative Counsel and the Administration to understand short- and long-term impacts of the 2025 Federal Reconciliation Act and other federal policy changes.

Fiscal staff are also conducting follow-up work on the education transformation bill (Act 73), preparing the fiscal year 2027 legislative budget, and updating introductory materials for the all-member briefing later this year. We are also working with other Legislative Branch offices on the reorganization of legislative operations.

Erin Pedley, who joined our office in 2022, recently accepted a position with the Office of the Senate Secretary as the Operations Manager/ Journal Clerk. Erin served as a Senior Staff Associate in our office and as the Committee Assistant for the House Appropriations Committee. As much as we're sad to say goodbye to her, we're glad that she'll be staying close by!

We are very glad to have hired Autumn Crabtree to fill the Senior Staff Associate/House Appropriations Committee Assistant role. Autumn served as the Committee Assistant for the House Government Operations Committee this past session and is looking forward to coming back full-time next month.

Maria Blair, who has worked at the Joint Fiscal Office for forty years, will be retiring this fall. Over the years, Maria has played a crucial role in the budget process as an Associate Fiscal Officer, lending her expertise to the House Appropriations Committee as it worked its way through the budget bills. She, and her wealth of institutional knowledge, will be sorely missed but we're incredibly grateful for her years of service and congratulate her on a much-deserved retirement. If you'd like to pass along a note of congratulations to Maria, please send it to Maria Blair c/o Joint Fiscal Office, 1 Baldwin Street, Montpelier, Vermont 05633.

The House Appropriations Committee Fiscal Analyst job description is available [here](#).

### Notable Dates

- Responses for the Joint Fiscal Office's Request for Proposal for education foundation formula analysis are due by October 3, 2025.
- The Joint Transportation Oversight Committee meets on Wednesday, September 17.
- The Joint Fiscal Committee meets on Thursday, September 18.