

State of Vermont
Agency of Administration
Department of Finance & Management
Pavilion Office Building
109 State Street, 5th Floor
Montpelier, VT 05609-0201
www.finance.vermont.gov

[phone] 802-828-2376

Adam Greshin, Commissioner

TO: Agency Secretaries, Commissioners, Department Heads and Business Managers
FROM: Adam Greshin
DATE: August 27, 2025
RE: **FY 2027 Budget Instructions Overview**

The Administration's FY27 budget will rise above federal volatility, national partisanship, and economic uncertainty, while we continue to focus on the issues we have been working on for several years:

- reversing Vermont's housing crisis;
- transforming our education system into the best in America;
- making healthcare, energy and state government more affordable; and
- improving public safety.

All budget proposals will be reviewed with these priorities in mind.

The state's three major funds wrapped up FY25 with mixed results. The General Fund ended with a small surplus. This allowed small, unbudgeted contributions to the Balance Reserve and the two public pension plans. The General Fund will begin the current fiscal year with \$77 million of additional one-time revenue courtesy of a FY26 revenue upgrade at the July Emergency Board meeting.

The Transportation Fund ended FY25 in balance but not without a few current year reversions to match a small, unanticipated shortfall in revenue. The T-Fund will also have to contend with a \$7.5 million downgrade to its FY26 revenue forecast which will require further savings measures.

The Education Fund finished FY25 without incident but faces a small downgrade to its FY26 revenue forecast which likely will be covered with prior year carryforward funds.

Revenue Context

The revenue outlook for FY27 is mixed. The General Fund, after a \$77 million upward revision in FY26, maintains a 2.5% growth rate, purely on the strength of a strong forecast for personal and corporate income taxes, which together account for over two thirds of



General Fund sources. While this is welcome news, income tax growth in Vermont is below the long-term trend and decelerating rapidly from the unprecedented pace set during the COVID and post-COVID periods. We may be returning to a revenue environment much more aligned to the economic fundamentals of a rapidly aging and increasingly unaffordable state – where it remains too difficult and too expensive to build homes working families can afford. Our budget will need to reflect this risk, and others.

The Education Fund and the Transportation Fund, both leveraged to consumption taxes, face a constrained revenue environment in FY27 as economic anxiety and prices increase pressure on households. Sales taxes, fully 80% of non-property tax revenue into the Education Fund, are expected to grow 2.5%, which is below trend growth in education spending and, absent substantial reductions in the cost of education, will pressure property taxpayers to make up the difference. The T-Fund, after a \$7.5 million downward revision to FY26 revenue, faces a sub-1% growth forecast in FY27.

Budget Development

Even with additional revenue available to the General Fund, pressing needs across all state funds, and reduced federal support for some safety net programs, signal a challenging budget for the next fiscal year (Medicaid spending will still grow, just more slowly).

As always, the Governor remains focused on our key priorities while keeping base spending growth at a level Vermonters can afford.

In this context, **agencies and departments are asked to submit budgets that increase base spending no greater than 3% based on FY26 “As Passed” appropriations and adhering to guidelines described below for statewide allocated costs.** With wage and benefit pressures, and increases in program costs, departments will once again need to think strategically and creatively to ensure critical, effective services and priority initiatives remain adequately funded – and that non-critical, low impact, or duplicative services and positions are not funded at the expense of other more valuable investments.

Initial FY27 budget proposals, FY26 budget adjustment proposals, and FY26 capital bill adjustment proposals are **due electronically to the Department of Finance & Management and the Secretary of Administration by Tuesday, October 14th.** Budget meetings will begin the following week and continue into mid-November.

Guidance

Detailed information about requirements and assumptions is included in the enclosed *Instructions Supplement*. Here are a few key elements:

- **General Guidance** – As has been the case for many years, the Governor is not interested in raising taxes or fees. Please include proposed expenditures, anticipated special fund revenues, and any initiatives for changes in revenue.



Alternatively, tax and fee relief initiatives, and other policies that measurably improve economic growth and affordability for working families and small businesses, are strongly encouraged. You may have already submitted these initiatives to the Governor's Policy Office and should submit them with your budget documents as well.

- **FY26 Base Spending** – Please confirm with your budget analyst your Department's FY26 As-Passed base appropriation. This will be the starting point for measuring changes to spending.
- **Statewide Allocated Costs** - For the purposes of the (not to exceed) 3% General Fund increase target for initial budget submissions, assume Internal Service Fund (ISF) charges, and employee benefit rates (excluding health but including dental, life, disability, and EAP) increase at the same 3% rate from FY26 As-Passed levels. Assume health benefits increase 5% from FY26 As-Passed levels. Assume employer contribution rates for the Defined Benefit (DB) and Defined Contribution (DC) retirement plans to be equal to the levels currently in effect as of July 1, 2025 (28.8% for DB and 11.75% for DC). Finance & Management will communicate potential updates as soon as ISF budgets, insurance, and retirement rates are finalized and known.
- **ADS Costs** - The Agency of Digital Services (ADS) is implementing a new Core Enterprise Services cost recovery model starting in FY27 to provide greater standardization and consistency of service levels provided across agencies and departments. Across all State entities, this change will result in increased cost recovery via the ADS Allocation, and decreased cost recovery via Timesheet and Service Level Agreement (SLA) billings. Impacts to individual departments will vary based on the nature of the services rendered to that department by ADS. While these changes will ultimately be reflected in the Governor's budget recommendation for FY27, the data to specifically quantify these changes on an agency and department level will not be available prior to the initial budget submission deadline of Tuesday, October 14, 2025. Initial budget submissions should assume a 3% increase to FY26 ADS budgeted costs. Guidance will be provided later in the budget development process to inform any required changes to your ADS Allocation, Timesheet and SLA budget items.
- **Federal Funding** – Known, verified reductions, as detailed on the monthly federal funds report submitted to Finance & Management, should be reflected in your budget submission. In the absence of reliable information, use current federal funding levels. If your Agency/Department has reasonable certainty that changes in federal funding will occur, you may incorporate those changes, along with potential federal match requirements. Anticipated reductions in federal funding should be met by corresponding reductions, preferably in



associated limited-service positions and administrative expenditures. Do *not* assume state funding will be available to stabilize budgets or supplant reduced or eliminated federal funds.

- **One-Time Expenditures** – One-time expenditures should not be included in base budget proposals.
- **Policy Proposals** – Include a Legislative Initiative and Impact Assessment form for any policy proposal with a budgetary impact (e.g. costs money to implement or will reduce available revenue). These should also be submitted to the Director of Policy Development and Legislative Affairs, Jason Maulucci, to your budget analyst, and to your Governor's Office liaison in accordance with the policy development timeline.
- **Payments to the State** – *New this year*, for agencies and departments that accept payment of taxes, fees, fines, penalties or any other form of payment, please come to budget discussions prepared to explain the total payment amount collected, what payment method(s) are used, and provide an estimate of total processing fees, and whether or not these fees are charged back to the customer through a surcharge or absorbed by the agency or department. The Governor has signaled his desire for consistency across the enterprise, so we'll need the information to assess our current state.
- **Position Requests** – New position requests are discouraged. Should we receive such requests, they will be evaluated based on their relationship with the Governor's priorities and available funds. When making a position request, reclassification of an existing, preferably vacant, position must be considered first. New position requests must include position description, cost, and source of funds. Please incorporate the full cost associated with a new position and what specific and measurable outcomes this position is expected to achieve. Please consider the future costs of additional positions on your agency/department ISF and insurance charges as these costs will need to be absorbed within future budget targets. As we did for the FY26 budget, we anticipate managing position requests out of existing resources (position pool).
- **Boards & Commissions, Per Diems** – Per Act 134 of 2022, agencies or departments that administer funds for a board or commission may submit to the Governor, for consideration to be included in his budget, requests to increase per diems for that board or commission. Any request must include a detailed justification that will form the basis for a review by the Governor's Office, and an assessment of how valuable the board or commission is to achieving the Governor's priorities in housing, education, affordability, and public safety. Act 134 also imposes reporting requirements which are described in more detail in the Instructions Supplement.



- **Technology Needs & Projects** – Budget requests for new IT projects should include an IT ABC Form and a Legislative Initiative form for review by the Governor's Office. All technology requests must include feedback from ADS prior to presentation to the Governor.
- **Capital Budgeting** – For specific details on your FY26 capital bill adjustment submission, please refer to the capital budget adjustment instruction memo sent under separate cover from the Secretary of Administration. Any operating cost impact resulting from your capital bill adjustment request should be included and clearly identified in your operating budget submission.

Using Performance Measures to Inform Budget Decisions

Performance measures are a valuable input when evaluating program investments, setting priorities, and allocating limited resources. They can help leaders and budget staff understand how programs are functioning, where progress is being made, and where improvements may be needed. Measures provided as part of the State of Vermont Performance Report can serve as a practical tool during the budget development process. When preparing your budget proposals, consider how the performance data you've collected can help:

- **Identify areas for investment or reinvestment:** Programs demonstrating strong results or clear progress toward their goals may warrant continued or increased support to build on that momentum.
- **Target improvement efforts:** Where performance data shows gaps or declining outcomes, consider whether additional resources, policy adjustments, or process improvements are needed and feasible.
- **Clarify trade-offs:** In times of constrained resources, performance data can help articulate the value and impact of programs and support more transparent, evidence-informed decisions.
- **Support alignment with strategic priorities:** Connecting performance measures to statewide outcomes or agency-specific goals can help ensure that budget requests reflect shared priorities and long-term impact.

Embedding performance measures into budget planning conversations can help strengthen Vermont's ability to make thoughtful, evidence-informed decisions and help build a stronger foundation for continuous improvement across state government.

Impact Assessments

The State of Vermont is committed to spending state dollars on programs that will achieve clearly defined, measurable and equitable outcomes for Vermonters. This will require agencies to define the problems they are trying to solve and the impact of their proposals. Equity and inclusion are not “add-ons” to the budget process—rather, they are integral to



addressing the demographic, workforce, and social challenges facing our state. An Impact Assessment form must be completed for all new initiatives and any substantive changes in service delivery. This ensures each proposal goes through a robust development process by posing questions in several key areas: problem definition, approach, impacted parties, delivery, and performance measurement and improvement.

Budget Review Meetings

Budget review meetings will begin on Monday, October 20 and conclude early to mid-November. Meetings will begin with the ISF departments to finalize ISF budgets as early as possible. Meetings may include your Governor's Office liaison and Policy Director Maulucci.

Budget Submissions

Please submit initial budget proposals for FY27 to the Governor by Tuesday, October 14, 2025. Budget submissions to the Governor are made via the Secretary of Administration, by the exempt head of your Agency or Department, using the email folder ADM.budget@vermont.gov.

Thank You

The Department of Finance & Management is grateful for your efforts to develop and support the Governor's recommended budget and we look forward to working with agencies and departments in this process. Please contact your budget analyst with questions or requests.

