

# FY 2025 Budget Context

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# 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, the 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

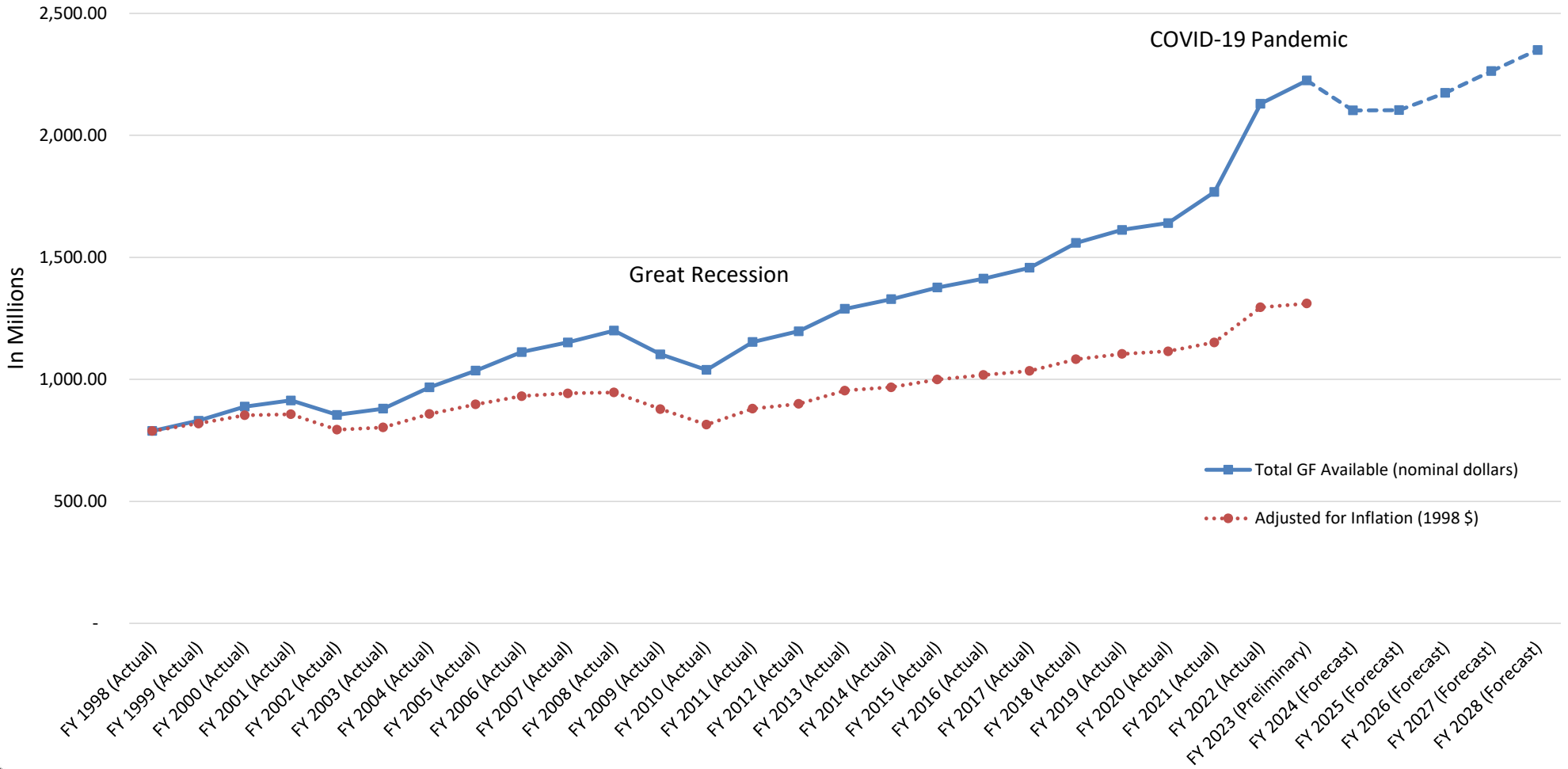


# Recent Challenges Continued

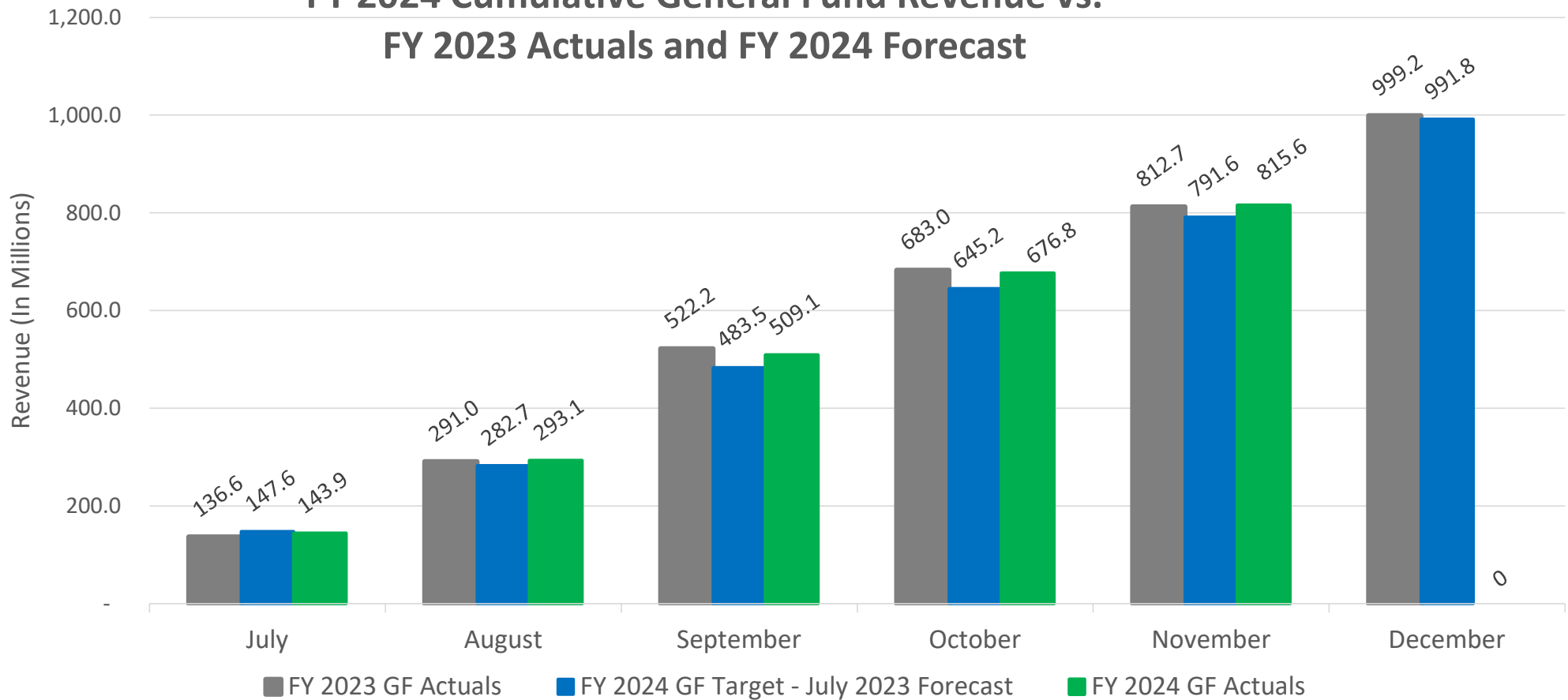
- Inadequate housing inventory, especially for low- and middle-income households
- Challenges associated with housing people in hotels/motels and addressing homelessness
- Economic environment – inflation and increased interest rates coupled with low unemployment
- Turnover in the General Assembly
-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



# Total Available General Fund Revenues



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

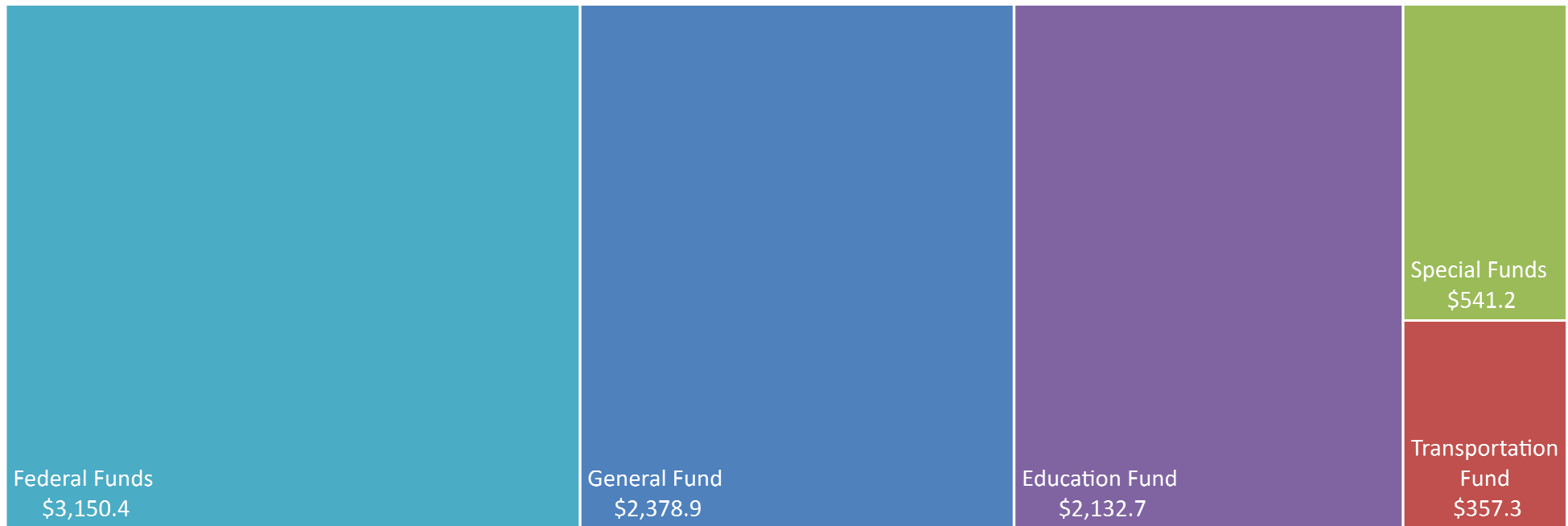


Note: FY 2024 actual revenue collections may be impacted by the filing extension issued by the Department of Taxes after the July flooding event



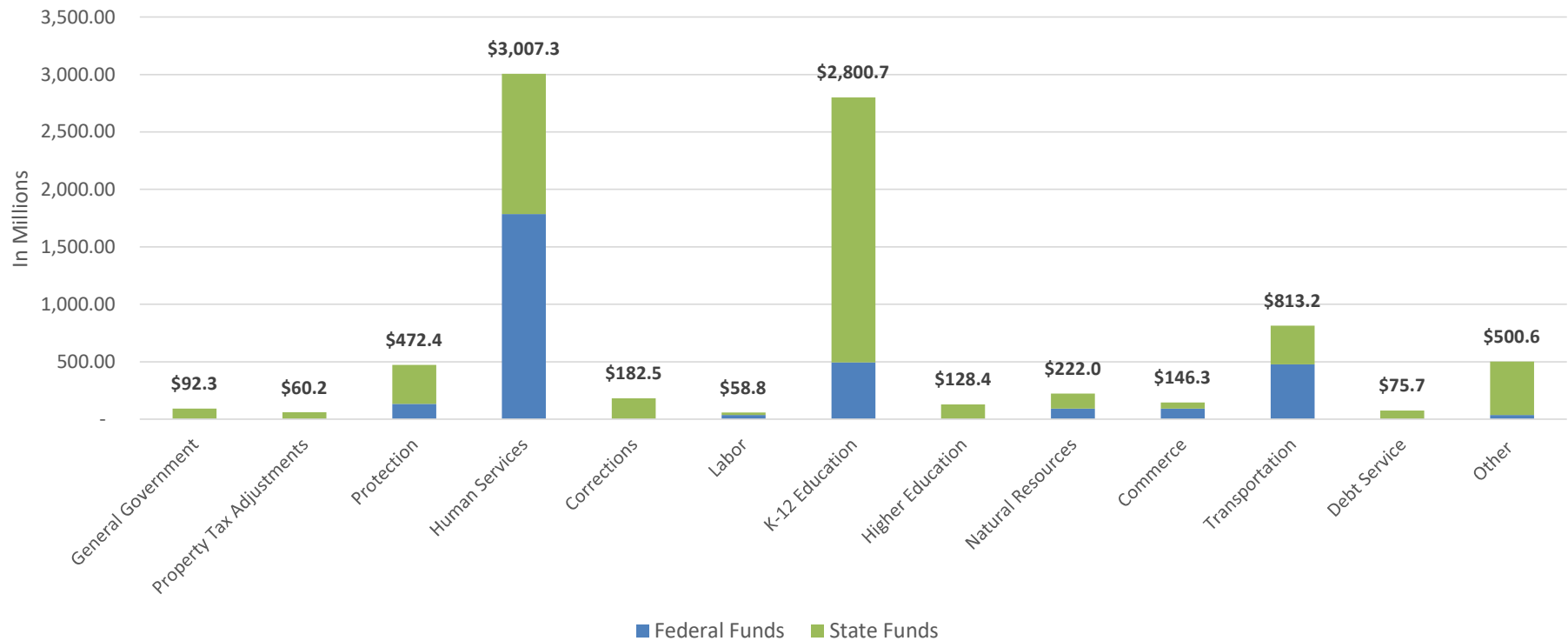
# State Budget Overview

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



# Where Does the Money Go?

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





# 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



# 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



# 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



# 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



# Things to Think About

- **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

