

Year-end Closeout Language

House Appropriations Committee
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January 23, 2026



JFO

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Outline

- Proposed BAA language regarding closeout of the General Fund and the Child Care Contribution Special Fund
 - Current state and why this is necessary
 - What the new language does



Background and Current Closeout Process



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Background

- Act 76 (2023) made significant investments in Vermont's child care system and established the Child Care Contribution Special Fund to pay for them
 - The Fund receives money from a Payroll Tax also established by Act 76
- To simplify administration, the Department of Taxes collects the Payroll Tax when it collects Personal Income Tax withholding from employers
 - This means that both taxes are initially deposited into the General Fund
- The Department of Taxes must then, at the end of each quarter, reconcile Personal Income Tax receipts with the Payroll Tax to make sure the correct amount is transferred from the General Fund to the Child Care Contribution Special Fund
- This process works for the first three quarters of the fiscal year but becomes an issue for the fourth quarter and fiscal year-end closeout



Background (continued)

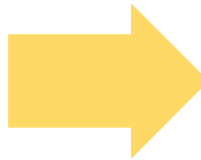
- Currently, the reconciliation process for the fourth quarter can't be done until November
- Because of this, the Department of Finance and Management can't close the General Fund until November either
 - The reconciliation process has to be completed before General Fund closeout, otherwise any Payroll Tax revenue in the Fund would be subject to statutory and session law closeout provisions
 - Would mean the last quarter of Payroll Tax revenue wouldn't go to the Child Care Contribution Special Fund



Current Statutory Fiscal Year Closeout Steps

Step 1: 32 V.S.A § 308

- General Fund Stabilization Reserve – up to 5% of prior year appropriations



Step 2: 32 V.S.A. § 308c

- Anything remaining on the bottom line:
 - 50% to the General Fund Balance Reserve (Rainy Day Fund)
 - 25% to the Vermont State Retirement Fund
 - 25% to the Postretirement Adjustment Allowance Account



Fiscal Year 2025 Closeout



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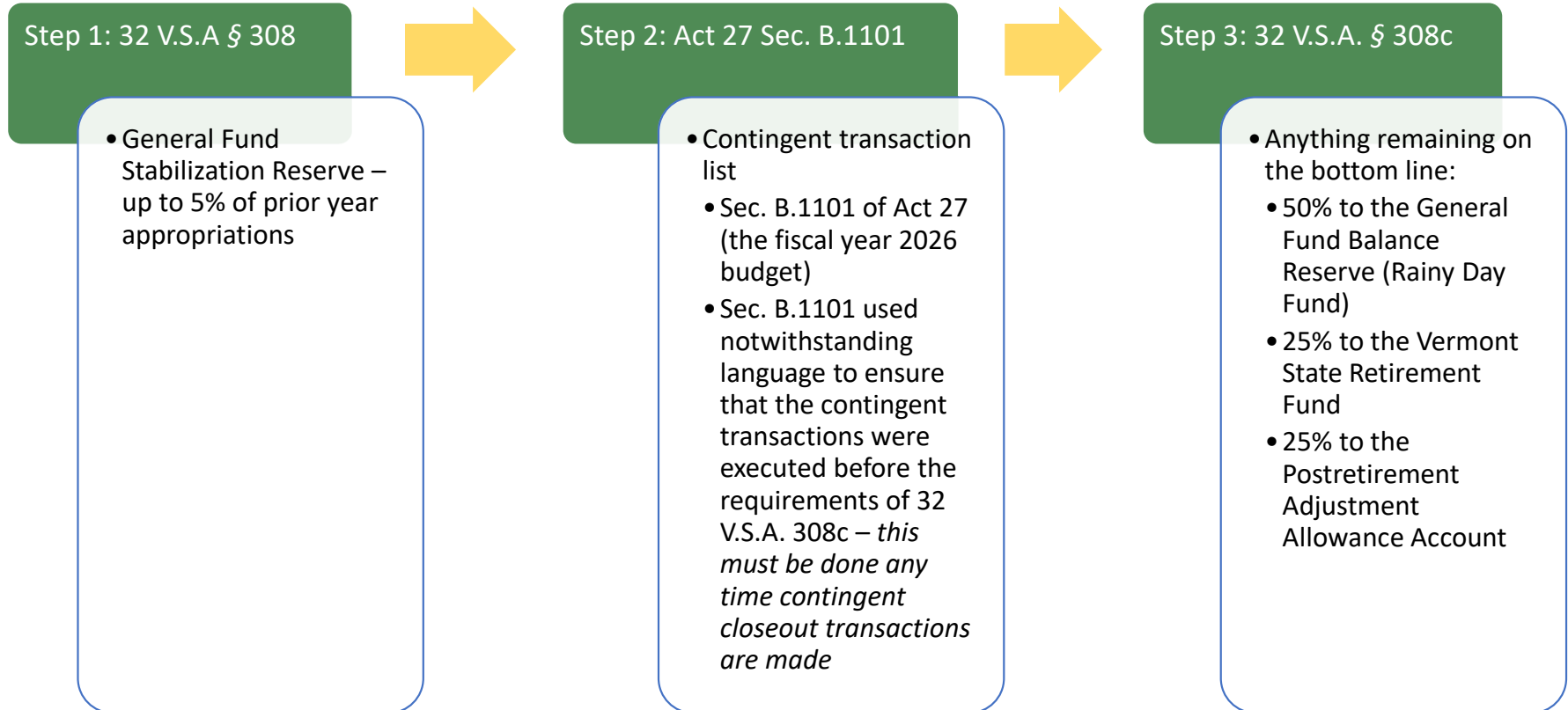
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Fiscal Year 2025 Closeout

- The Department of Finance and Management, JFO, and the Department of Taxes worked together to estimate the amount of the Payroll Tax that was collected in the fourth quarter of fiscal year 2025
- These funds were then reserved in the General Fund for transfer to the Child Care Contribution Special Fund at the close of fiscal year 2025
- Once the funds were reserved, the Department of Finance and Management could close the General Fund
- Once the General Fund was closed, the funds were unreserved and then transferred to the Child Care Contribution Special Fund



Fiscal Year 2025 Closeout Steps



Proposed BAA Language



Proposed BAA Language

- Codifies the process that was done for the fiscal year 2025 closeout in statute
- Ensures that timely close of the General Fund
- Ensures that the Child Care Contribution Special Fund receives the full amount of money it is due



(a) Annually, not later than the close of the first week of the new fiscal year, the Department of Taxes and the Joint Fiscal Office shall provide the Department of Finance and Management a consensus estimate of the anticipated fourth quarter receipts from the Child Care Contribution, pursuant to 32 V.S.A chapter 246, for the fiscal year being closed.



(b) As part of the annual fiscal year closeout process, the Commissioner of Finance and Management shall reserve an amount of General Funds equal to the consensus estimate provided in subsection (a) of this section prior to executing the requirements of 32 V.S.A. § 308c.



(c) Upon completion of the annual fiscal year end General Fund closeout process, the Commissioner of Finance and Management shall immediately unreserve the amount reserved pursuant to subsection (b) of this section.



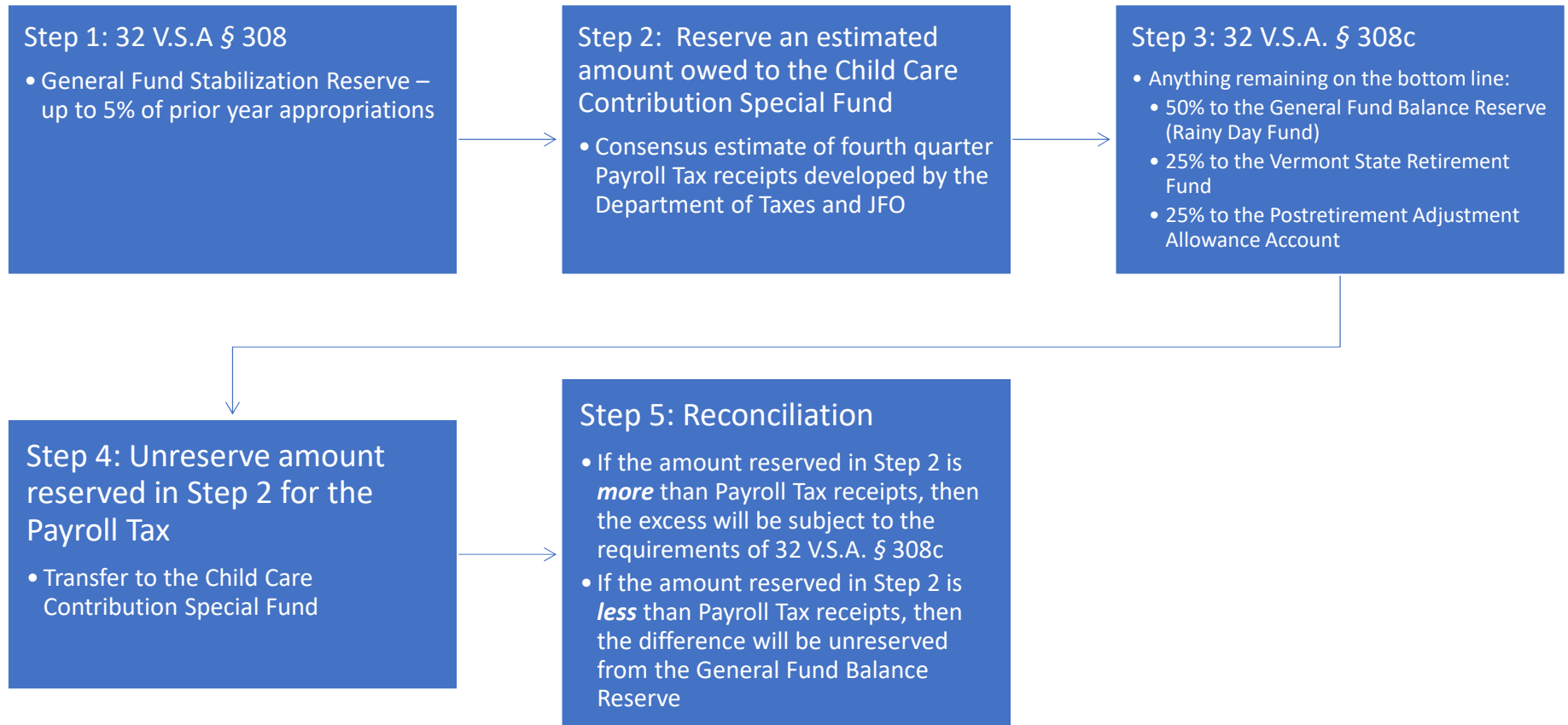
(d) If the amount unreserved pursuant to subsection (c) of this section is determined to be greater than the actual receipts due to the Child Care Contribution Special Fund, then the excess shall immediately be reserved in accordance with 32 V.S.A. §308c.



(e) If the amount unreserved pursuant to subsection (c) of this section is determined to be less than the actual receipts due the Child Care Contribution Special Fund, then the amount of the deficiency shall immediately be unreserved from the General Fund Balance Reserve established pursuant to 32 V.S.A. §308c.



Statutory Fiscal Year Closeout Steps – BAA Proposal



Fiscal Year 2026 Closeout Steps – BAA Proposal

Step 1: 32 V.S.A § 308

- General Fund Stabilization Reserve – up to 5% of prior year appropriations

Step 2: Reserve the first \$74.9 million of year-end General Fund balance to buy down property tax rate increases in fiscal year 2027

Step 3: Reserve estimated amount owed to the Child Care Contribution Special Fund

- Consensus estimate of fourth quarter Payroll Tax receipts developed by the Department of Taxes and JFO

Step 4: 32 V.S.A. § 308c

- Anything remaining on the bottom line:
 - 50% to the General Fund Balance Reserve (Rainy Day Fund)
 - 25% to the Vermont State Retirement Fund
 - 25% to the Postretirement Adjustment Allowance Account

Step 5: Unreserve amount reserved in Step 2 for the Payroll Tax

- Transfer to the Child Care Contribution Special Fund

Step 6: Reconciliation

- If the amount reserved in Step 2 is **more** than Payroll Tax receipts, then the excess will be subject to the requirements of 32 V.S.A. § 308c
- If the amount reserved in Step 2 is **less** than Payroll Tax receipts, then the difference will be unreserved from the General Fund Balance Reserve

