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## Issue Brief

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# Overview of \$15 million Fiscal Year 2026 Recommended General Fund Transfer to the Agency of Digital Services, CIT Fund

## Executive Summary

The Agency of Digital Services (ADS) provides digital and technical support to agencies and departments throughout State government. Unlike many agencies, ADS is not primarily funded through direct appropriations, but through an internal service fund. An internal service fund receives revenue by “billing back” the agencies and departments it supports. For ADS, this is done via the Communications and Information Technology (CIT) Fund.<sup>1</sup>

Deciding how to distribute the cost of ADS’ many services is not always straightforward, and ADS employs several cost recovery methods to achieve rational cost sharing across State government. Each method draws on different metrics, such as agency or department headcount, units of a product consumed, or hours of ADS staff time demanded.

The Governor’s fiscal year 2026 budget recommendation includes a one-time \$15 million transfer from the General Fund to the CIT Fund to allow ADS to transition certain IT expenditures away from a “billing-in-arrears” cost recovery method to one that pre-pays for services for that fiscal year. This is intended to improve ADS’ ability to build accurate budgets, reduce its use of deficit spending, and provide foundational IT services across State government.

## ADS Funding Model and Internal Service Funds

Instead of relying on direct appropriations, ADS covers its costs by “billing back” costs to other State agencies and departments. Revenue is then directed to the CIT Fund, which ADS draws from to support its own costs.

This funding model is not unique to ADS or the CIT Fund, which is just one example of an internal service fund (a fund that’s created within State government to allocate the cost of widely shared services across the State). An internal service fund can provide many different operations benefits. It is often used as a mechanism to fund administrative expenses that cannot easily be attributed to a specific entity or that exist on behalf of State government as a whole rather than a specific agency or department – such as the cost of having internet connections in all State offices or snow removal services for State properties. Additionally, an internal service fund provides a mechanism to cost allocate expenses across all funding streams, including federal and special funds, rather than with a specific General Fund appropriation.

<sup>1</sup> [3 V.S.A. §3304](#)

## ADS Service Categories within the CIT Fund

The CIT Fund enables ADS to recover costs through two main service categories: Core Enterprise Solutions (CES) and Demand.

**Core Enterprise Solutions (CES):** Covers foundational IT services that support many business units across State government – for example, internet and network connectivity in State buildings. CES costs are allocated across State government based on headcount because they cannot be easily attributed to specific entities. Since agency and department headcounts for a given planning period are known in advance, the amounts billed to State government are always equal to the amounts budgeted.

**Demand:** Covers a wide variety of ADS services provided on a demand-driven basis to specific business units. The cost of these services is allocated to business units based on their specific needs and demand levels. The nature, level, and cost of Demand services can vary widely from one agency or department to another. Such services might include specialized hardware or software purchases or project-specific contractual services.

A subset of the Demand service category known as “Service Level Agreement” (SLA) – representing a projected \$30 million in fiscal year 2026 – is billed “in arrears.” This means that services are paid for in the fiscal year *after* they were received or used. For example, ADS’ fiscal year 2025 SLA appropriation paid for expenses like Microsoft Office and Salesforce licenses that were incurred in fiscal year 2024. Ideally, these expenses would be paid for in the year that they were incurred.

## Proposed Transition of Service Level Agreement Items to Core Enterprise Solutions

Billing back in arrears creates fiscal challenges and risks for ADS and the State from unexpected or unbudgeted costs. Agencies typically plan budgets in advance, so if the cost of arrears-billed IT products or services is higher than initially expected, ADS may not have sufficient funds available, requiring unplanned reallocations, deficit spending, and budget adjustment requests.

The proposed \$15 million one-time transfer to the CIT Fund would enable ADS to transition a number of SLA items to the CES method of cost recovery. ADS would use this transfer to pay for arrears-billed costs in fiscal year 2025 while also purchasing same-year services for fiscal year 2026. This would align billing and utilization cycles for these items and eliminate an outstanding liability (costs not recovered in the year they were incurred) going forward. In all subsequent fiscal years, ADS would include these expenses in the CES service category, thus accomplishing a permanent switch to the more predictable, transparent, and lower-risk practice of paying for these services in the year in which they are used.