

FY 2027 Budget Changes: Sources

House Appropriations Committee
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Three Changes to General Fund Sources

1. An act relating to miscellaneous administrative and policy changes to tax laws
 - a. \$10 million transfer to the Education Fund due to changes to Purchase and Use Tax change is no longer needed
 - b. Additional funding from Income Tax Changes
2. Available interest in the Technology Modernization Fund



An act relating to miscellaneous administrative and policy changes to tax laws

General Fund Impacts



Changes to Meals and Rooms, and Purchase and Use Allocations

General Fund, Transportation Fund, and Education Fund Impacts



Transfer from the General Fund to the Education Fund



- Recall the Governor's Proposed fiscal year 2027 budget included \$114.9 million transfer to the Education Fund
 - \$74.9 million from the fiscal year 2026 bottom line
 - \$30.0 million unreserved from Act 27 Sec. B.1101(b)(4)
 - \$10.0 million to replace the reduction in the Purchase and Use Tax redirected from the Education Fund to the Transportation Fund
- The issue with using a transfer to replace the redirect of the Purchase and Use Tax is that it is one-time in nature
 - Meaning that in fiscal year 2028, there would need to be a \$10 million transfer to the Education fund OR other sources would need to cover the Education Fund



Current Law: Purchase and Use Tax Allocation



- Current Law allocates the Purchase and Use Tax accordingly:
 - 66.7% (two-thirds) to the Transportation Fund
 - 33.3% (one-third) to the Education Fund

Current Purchase and Use Tax Distribution (Based on January 2026 Forecast; \$ millions)	FY 2026	FY 2027
Transportation Fund	100.0	103.7
Education Fund	50.0	51.9



Governor's Proposed change to the Purchase and Use Tax Allocation



- The Governor's fiscal year 2027 Budget recommends the following:

Sec. E.516 16 V.S.A. § 4025(a) is amended to read:

§ 4025. Education Fund

(a) The Education Fund is established to comprise the following:

(5) ~~one third of the revenues raised from the purchase and use tax imposed by 32 V.S.A. chapter 219, notwithstanding 19 V.S.A. § 11(1); the amount received from the purchase and use tax imposed by 32 V.S.A. chapter 219 shall be as follows: \$41,900,000 for the fiscal year beginning July 01, 2026; \$31,900,000 for the fiscal year beginning July 01, 2027; \$21,900,000 for the fiscal year beginning July 01, 2028; and, \$11,900,000 for the fiscal year beginning July 01, 2029.~~



Ways and Means Proposed Change in Purchase and Use Allocation



- Purchase and Use Tax allocation
 - Current Law
 - 66.7% to the Transportation Fund
 - 33.3% to the Education Fund
 - Ways and Means Proposed change
 - 73% to the Transportation Fund
 - 27% to the Education Fund

FY 2027 Change in Purchase and Use Tax (\$ millions)	Jan Forecast	Ways and Means	Difference
Transportation Fund	103.7	113.6	9.90
Education Fund	51.9	42.0	(9.90)

Next issue; how do you make the Education fund whole?



Current Law: Meals and Rooms Tax Allocation



- Current Law allocates the Meals and Rooms Tax accordingly:
 - 25% to the Education Fund
 - 69% to the General Fund
 - 6% to the Clean Water Fund

Current Meals and Rooms Tax Distribution (Based on January 2026 Forecast; \$ <i>millions</i>)	FY 2027
Education Fund *	67.2
General Fund	185.5
Clean Water Fund	16.1

* Note does not include the short-term rental surcharge



Way and Means Proposed Change in Meals and Rooms Tax Allocation



- Meals and Rooms Tax Allocation

- Current Law:

- 25% to the Education Fund
 - 69% to the General Fund
 - 6% to the Clean Water Fund

- Proposed change:

- 29% to the Education Fund
 - 65% to the General Fund
 - 6% to the Clean Water Fund

Change in FY 2027 Meals and Rooms Tax (\$ millions)	Jan Forecast	Ways and Means Proposal	Difference
Education Fund*	67.2	78.0	10.8
General Fund	185.5	174.7	(10.8)

* Note does not include the short-term rental surcharge



Net impact Purchase and Use and Meals and Rooms Changes



Net Fiscal Impacts by Fund (<i>\$ millions</i>)	FY 2027
General Fund	(10.8)
Transportation Fund	9.9
Education Fund	0.9

- Gov. Rec. proposes transferring \$10 million from the General Fund to the Education fund to make up for the change in the Purchase and Use Tax
- Ways and Means proposes to change the allocation in the Meals and Rooms Tax to make up for the change in the Purchase and Use Tax

One must happen, but not both



Fiscal Year 2027 Net impact to the Education Fund



FY 2027 Changes to the Education Fund (Assume all else equal; \$ millions)	Gov Rec	Ways and Means Proposal	Difference
Purchase and Use Tax	41.9	42.0	0.1
Onetime Transfer from the General Fund	10.0	-	(10.0)
Meals and Rooms Tax* reallocation (reoccurring)	67.2	78.0	10.8
Total	119.1	120.0	0.9

* Note does not include the short-term rental surcharge



General Fund Impact of Meals and Rooms vs Transfer Change



Difference between Gov Rec and House GF/EF Changes) (\$ millions)	FY 2027
Transfer from GF to EF	(10.0)
Reallocation of Meals and Rooms Tax	(10.8)
Difference	0.80

- If the changes to the Meals and Rooms Tax allocations are adopted, an additional \$800,000 will be needed to balance the General Fund
- The General Fund will not need to transfer the additional \$10 million to the Education Fund (see previous slide)



Other changes to General Fund sources





Annual link up

- Annually, the General Assembly decides how and if to link up to the Federal Income Tax code
- The OBBBA, the federal law that passed last summer, changed the tax code, complicating the decision on how or if to link up



Business and Personal Income Tax Changes



General Funds Revenue Changes			
<i>(\$ millions)</i>	<i>FY 2026</i>	<i>FY 2027</i>	<i>FY 2028</i>
Increase Down Payment Assistance Program Tax Credits	-	(0.35)	(0.70)
Linking and Decoupling to Federal Tax Provisions	(3.96)	15.60	16.89
Increase Research and Development Tax Credit	-	-	(1.74)
Expansion of Downtown and Village Center Tax Credit	-	(1.00)	(1.00)
Subtotal General Fund Revenue Changes	(3.96)	14.25	13.45
General Fund Expenditure Changes			
Vermont 10-Year Tax Study Appropriation	-	0.10	-
Total General Fund Changes	(3.96)	14.15	13.45



Net General Fund Impact



General Fund Position After Ways and Means Bill (\$ millions)	FY 2027
Net additional FY 2027 revenue from Ways and Means	14.15
Less true up of Meals and Rooms allocation change	(0.80)
Less funding needed to cover FY 2026 impact	(3.96)
Total Additional funds	9.39



Technology Modernization Fund Interest



Technology Modernization Fund – History

- Created in 2022 and administered by ADS
- To provide money to purchase implement and upgrade technology platforms, systems, and cyber security services
- The General Assembly transferred GF to the fund in FY 2022 and FY 2023.
 - At the end of FY 2024 the Fund balance was \$82.5 million
 - At the end of FY 2025 the Fund balance was \$64.2 million





Technology Modernization Fund – Interest

<i>Technology Modernization Fund Interest</i> (\$ millions)	
FY 2023	2.30
FY 2024	3.94
FY 2025	3.30
Total	9.53

