



VERMONT LEGISLATIVE Joint Fiscal Office

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Issue Brief

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How Vermont Funds Information Technology

Executive Summary

Vermont's State agencies and departments have a variety of different information technology (IT) needs, from the day-to-day provision and maintenance of equipment, software, and user support to large-scale, long-term projects such as the replacement of legacy IT systems, which often require significant one-time investments.¹ To manage these varied needs, the State funds IT costs in several different ways. This issue brief provides details regarding the funding sources and practices that support State IT expenses.

Since its creation, the Technology Modernization Fund has supported some of the largest recent upgrades to State IT systems. There is currently no recurring annual appropriation to the Technology Modernization Fund; past appropriations have consisted of one-time federal or State funds.

IT Expense Categories

This issue brief considers two main categories of State IT expenses: operating costs and modernization costs. This distinction does not reflect formal State definitions, however given legislative interest in IT modernization funding, this issue brief differentiates “routine” IT operating costs, such as internet connectivity, email, Microsoft Office licenses, basic cybersecurity, and other foundational IT services, from expenses related to large-scale, discrete IT modernization or system replacement projects.

IT Operating Costs: Each branch of State government funds routine IT costs in its own way. State IT operating costs are largely concentrated in the Executive Branch due to the number of agencies and departments it houses and the technical nature of their mandates. Within the Executive Branch:

- The Communications and Information Technology (CIT) Fund is the primary funding mechanism for IT operating costs.
- The Agency of Digital Services (ADS) plays a centralized role in providing IT services and uses the CIT Fund to recover the cost of these services from the departments and agencies it supports.
- The CIT Fund can also serve as a funding mechanism for discrete, high-cost projects such as IT modernization.

¹ As used in this issue brief, “legacy” refers to outdated IT systems or applications that still perform their original functions but cannot meet changing user needs or State policy goals. These limitations can stem from many factors, such as incompatibility with new cybersecurity standards or inability to interact with other State IT systems. Throughout this issue brief, “modernization” is used as a shorthand to refer to IT projects aimed at replacing these legacy systems.

IT Modernization Projects: IT modernization projects are typically funded through one-time appropriations on a case-by-case basis, as funds are available. These occur across all three branches of State government, but also tend to be concentrated in the Executive Branch. The Technology Modernization Special Fund is a major vehicle through which the General Assembly appropriates funds for this purpose. One-time IT modernization appropriations may also be made directly to agencies, to the CIT Fund, or to other IT-related special funds, such as the Tax Computer System Modernization Fund.

Funding Practices for IT Operating Costs Vary Across the State

Funding and responsibility for routine IT services varies across Vermont's three branches of government and their departments and agencies.

- **Executive Branch:** Given the number, diversity, and technical nature of the programs it administers, the Executive Branch has the largest IT footprint of the three branches. ADS provides wide-ranging IT services to agencies and departments, from managing basic network connectivity to supporting procurement and contracting processes. Rather than a direct appropriation from the General Assembly, most ADS costs are paid by “billing-back” the agencies and departments that use its services. Agencies and departments can, through an internal service fund, utilize any funds appropriated to them to pay ADS for its services. If ADS costs were covered by a direct appropriation, the State wouldn't have the same ability to cover IT expenses with monies from dedicated special funds, federal funds, etc.
- **Legislative Branch:** The Legislative Information Technology Office (Leg IT) manages IT service delivery and long-term planning. Some basic services are provided by ADS and paid for through the CIT Fund, but most are performed by Leg IT. Its budget is developed by legislative branch staff and approved by the Joint Legislative Management Committee (JLMC). These services are funded with the General Fund.
- **Judicial Branch:** The Judiciary covers some IT costs through a dedicated Court Technology Special Fund, which is funded by administrative fees. Declining fee revenue has led to a growing share of the Judiciary's IT costs being covered by General Fund appropriations. At the time of writing, the Judiciary does not receive IT services from ADS or pay into the CIT Fund.

Budgeting processes for IT operating costs across the State's branches and their departments are generally well-established and integrated with annual budget cycles. However, challenges do exist – for instance, ADS is undertaking a multi-year initiative to update certain CIT Fund billing practices in an effort to address chronic deficits.²

The CIT Fund Covers Most Routine Executive Branch IT Costs

The CIT Fund allows ADS to bill other agencies and departments for the cost of the services it provides. Most Executive Branch IT spending flows through the CIT Fund, allowing ADS to charge agencies and departments in proportion to their contribution to costs and rationally allocate IT costs among many users.³

The CIT Fund Distributes IT Costs Across State Government

Rather than relying on direct appropriations from the General Fund, ADS uses a bill-back model, charging agencies and departments for its IT services, with payments directed to the CIT Fund. ADS then draws from

² For more information on one element of this initiative, see the Joint Fiscal Office issue brief, “[Overview of \\$15 million Fiscal Year 2026 Recommended General Fund Transfer to the Agency of Digital Services, CIT Fund](#)”

³ While the majority of Executive Branch IT spending goes through ADS and the CIT Fund, some IT costs are paid directly by agencies and departments. The amount of these costs is difficult to estimate, as these expenses are dispersed across base budgets and cost categories that may not be immediately identifiable as IT-related.

the CIT Fund to cover its costs. Most Executive Branch IT spending and a small percentage of Legislative Branch IT spending flows through the CIT Fund in this way.

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).⁴

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 – for example, 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.

The CIT Fund Uses Different “Service Categories” to Recover Its Costs

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, like 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.
 - The Demand service category is the vehicle through which the CIT Fund can be used to support large-scale IT modernization projects.
 - For example, the Vermont Integrated Eligibility and Enrollment (VT-IES) Project, which aims to modernize and streamline the process for determining Vermonters’ eligibility for certain health programs, uses a combination of State and federal funds. State appropriations to the project are a combination of direct appropriations to the Agency of Human Services (AHS) and bill-back to ADS through the CIT Fund’s Demand service category.
 - This is an example of both how the CIT Fund can be used as a funding vehicle for discrete IT modernization projects and how internal service funds allow the State to allocate expenses across multiple funding streams, including federal and special funds, in advantageous ways – in this case, in order to best allocate funds for the use of federal match.

Appropriations from the Technology Modernization Special Fund

In contrast with budgeting for State IT operating costs, budgeting for major IT modernization projects is typically done on a project-by-project basis through one-time appropriations as funds are available. These appropriations can be directed in several ways. In addition to making transfers to the CIT Fund or direct

⁴ More information on internal service funds in Vermont can be found in the Agency of Administration document [“Demystifying Internal Service Funds.”](#)

appropriations to agencies, the General Assembly may also appropriate funds to the Technology Modernization Special Fund. This is the principal special fund for State IT modernization projects.

The Technology Modernization Special Fund (“Technology Modernization Fund”) was established in Act 185 of 2022, Sec. E.105.1 to finance State investments in IT system upgrades and modernization. Per 3 V.S.A. § 3306, the fund is administered by ADS and “shall be used to purchase, implement, and upgrade technology platforms, systems, and cybersecurity services used by State agencies and departments to carry out their statutory functions.”⁵ Expenditures may only be made from the Fund through appropriation by and following project authorization from the General Assembly.

Since its creation, monies from this Fund have supported some of the largest and highest-profile upgrades to State IT systems. There is currently no recurring annual appropriation to the Technology Modernization Fund; past appropriations have consisted of one-time federal or State funds.

Some Agencies and Departments Have Unique IT Funding Streams

Across the State, a number of other special funds and internal service funds besides the Technology Modernization Fund and CIT Fund may cover IT operating and modernization costs. However, these represent a smaller piece of the State-wide IT funding picture.

For example, the Tax Computer System Modernization Fund⁶ is an agency-specific special fund that supports major Department of Taxes IT upgrades, with revenue consisting of both one-time appropriations from the General Assembly and internal Department of Taxes revenue streams. This is a relatively unique funding arrangement, as most State departments and agencies do not have revenue streams that are large enough to fund their own IT modernization projects at a meaningful scale.

Individual departments and agencies may also fund some system replacement using existing appropriations. Because the size and scope of an IT project can vary greatly, the threshold for legislative engagement can as well.

⁵ [3 V.S.A. § 3306](#)

⁶ [32 V.S.A. § 3209](#)