# Overview of State Funding for Information Technology (IT)

House Energy and Digital Infrastructure

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April 2, 2025

The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this presentation is meant to provide information for legislative consideration, not to provide policy recommendations

# Overview of Presentation

- Budgeting for IT in the context of the State budget
- How we budget for State IT
- Budgeting for IT – other states

# IT Budgeting in the Context of the State Budget

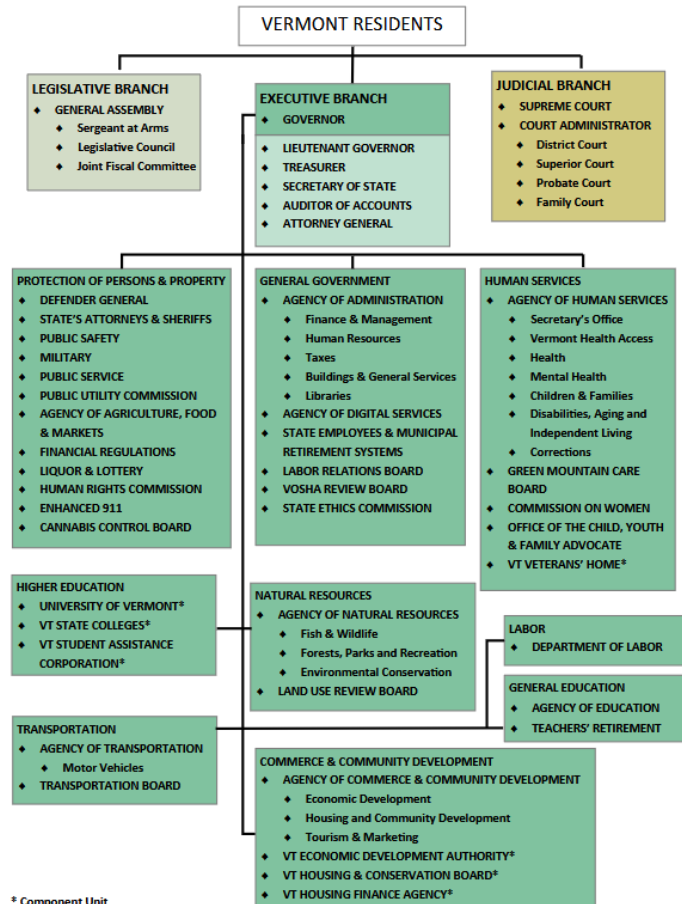Its Complicated

# The State Budget Context
## Funds

- The State Budget is Complicated
  - House Passed fiscal year 2026 budget = $9.06 Billion (unduplicated)
  - $11.62 billion duplicated budget
    - The duplicated part is important for IT
  - There are over 400 funds that support the state budget, and seemingly more every year
    - Many of these funds are dedicated to specific purposes, everything from supporting the department of financial regulation to environmental clean up, organ donation to afterschool, the General Fund to the Education Fund
    - They vary in size, scope, purpose

# The State Budget Context
## Expenditures



Source: 2026 ACFR for SOV

- **The State Budget is Complicated**
  - **Three Branches of Government**
    - Each with its own mission and purpose
  - **In the Executive Branch there are 8 agencies**
    - 24 Departments, some within agencies, some not
    - Board, commissions, offices, etc.

# The State Budget Context
## How things are funded

- The State Budget is Complicated
  - Every Entity has a different funding mix
    - Some are all Special funds
    - Some are all General funds
    - Some are Federal and Special funds
    - Some are Internal Service Funds
      - (pay attention to this one)
    - Some are General Funds and Federal Funds
    - Some are Transportation funds
    - Some are Enterprise Funds
    - Etc.

# The State Budget Context
Why does it matter how things are funded

- The State Budget is Complicated
  - Every Entity has a different funding mix, and the characteristics of the funding mix drive decision making
    - Are the funds dedicated for a specific purpose that can only be utilized for specific things?
      - How are those funds performing? Do you have enough to meet the intended purpose of the funds?
    - Do you have a significant amount of Federal Funds and someone else is driving decision making?
    - Are you primarily a General Funded entity and any growth in the fund and changes in your expenditures prioritized against all other competing interests in the General Fund?
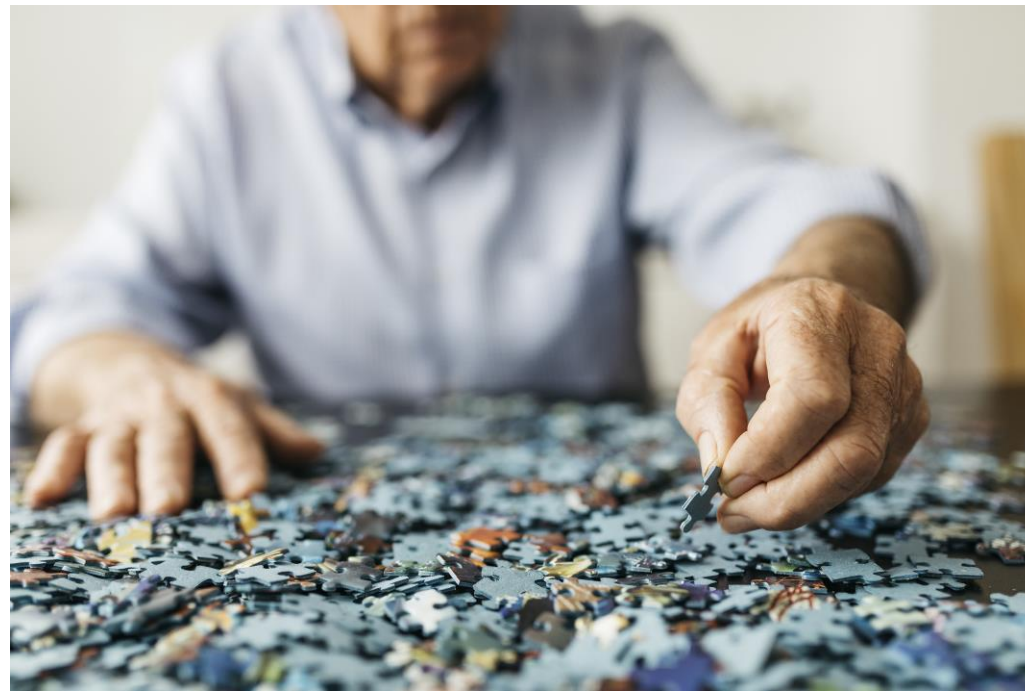
# The State Budget Context
## Priority setting

- The State Budget is a complicated set of priorities adopted by the Legislature with input from the Executive and Judicial Branches

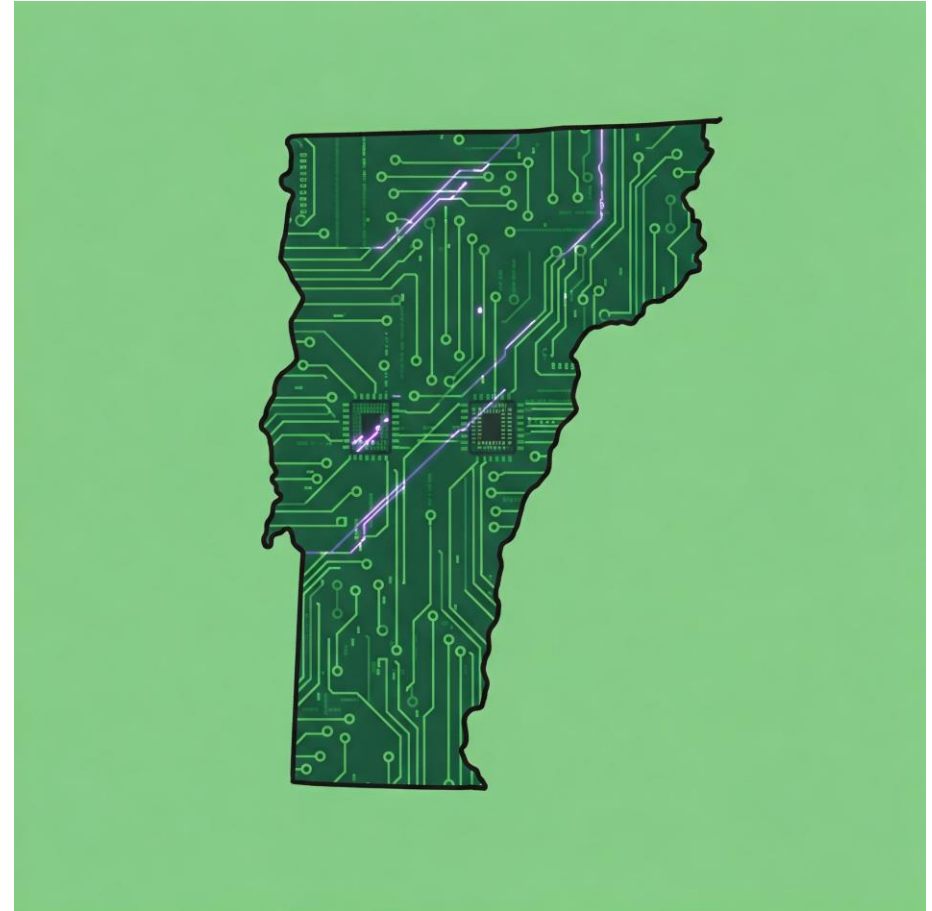# The State Budget Context
## The Budget and IT

- State Government needs to use IT to meet Legislative priorities

- However, this is affected by the :
  - Historical use of technology to meet programmatic needs
  - The funding that the Branch, Department, or Agency has available to meet both it business and programmatic needs
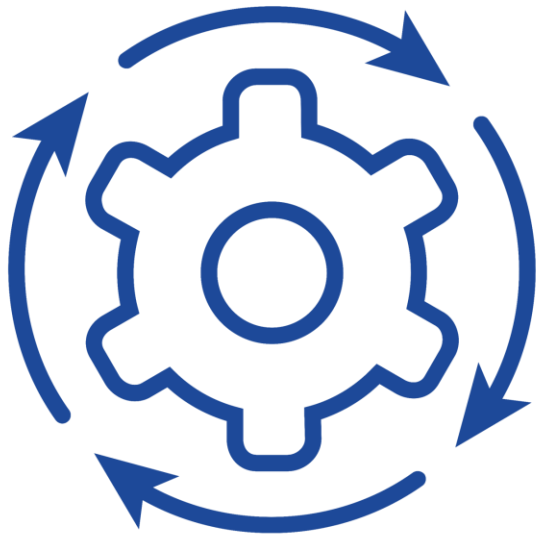  - And the other priorities in state government

# How IT Is Funded Today

(It's Complicated)

# How IT Is Funded Today
Practices differ for…operating costs and one-time projects



**Operating costs**
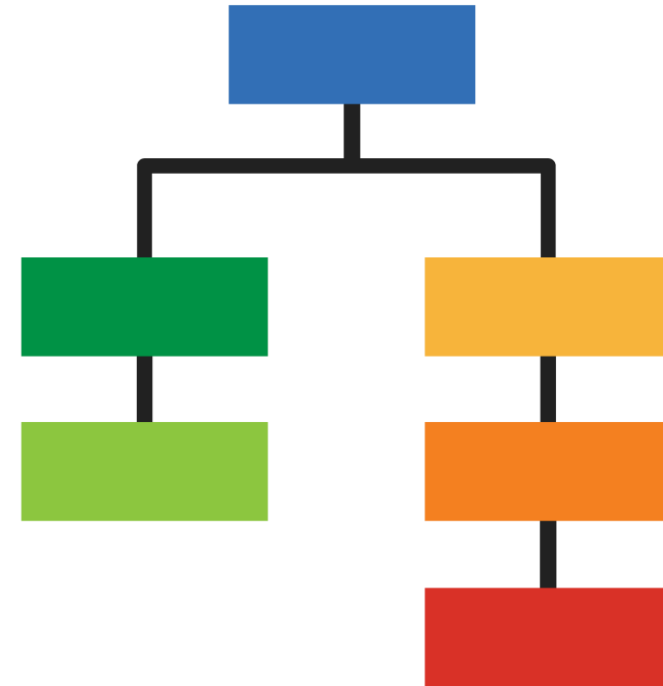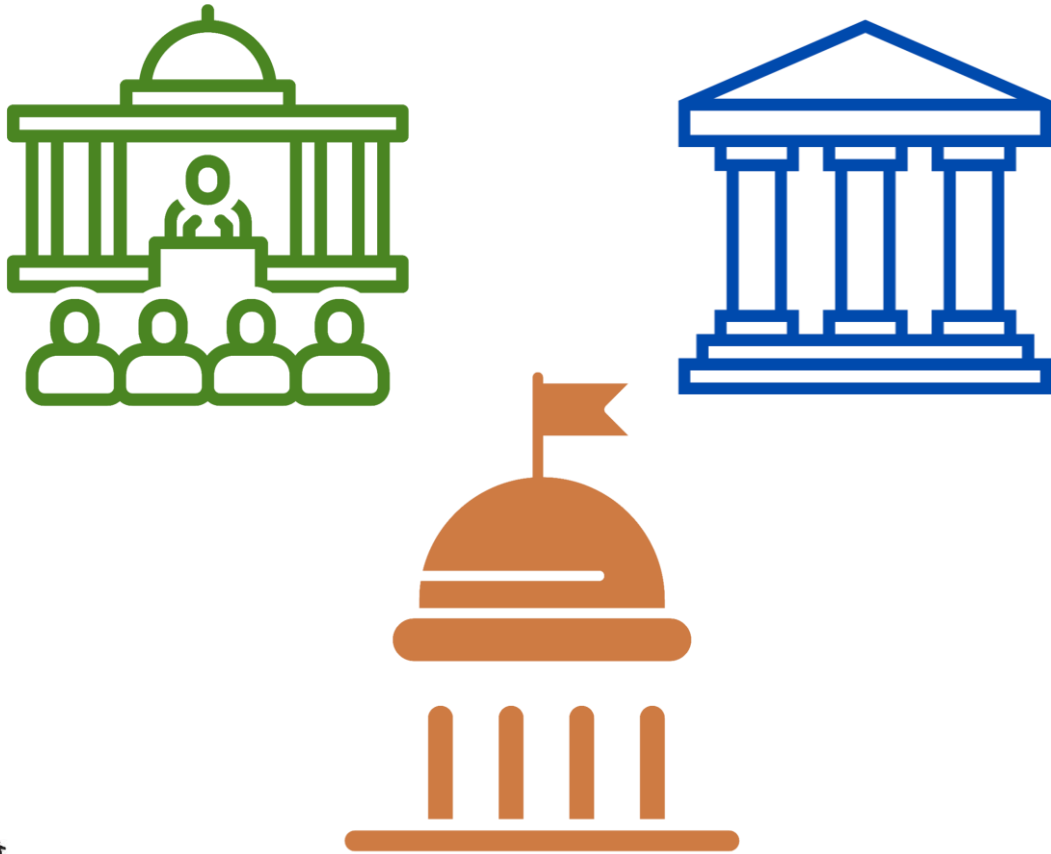Generally covered through annual budgeting processes



**System modernization costs**
Typically funded through one-time appropriations as funds are available

# How IT Is Funded Today
Practices differ for…branches, agencies, and departments

# How IT Is Funded Today
Practices differ for…different projects



Special fund appropriations

Federal funding

Direct agency appropriations

# Some Terms, Defined

- **Legacy:** Refers to outdated IT systems or applications that still perform their original functions but cannot meet changing user needs or State policy goals.
  - Limitations can stem from many factors, such as incompatibility with new cybersecurity standards or inability to interact with other State IT systems.

- **Modernization:** used here as a shorthand to refer to IT projects aimed at replacing these legacy systems

- **Operating costs:** differentiates "routine" IT operating costs, such as internet connection, email, Microsoft Office licenses, basic cybersecurity, etc. from expenses related to large-scale, discrete IT modernization or system replacement projects

# How IT is Funded Today

- We'll start by reviewing how IT **operating costs** are funded across the branches

- Then, we'll review the principal funding sources for **IT modernization**

> **IT operating costs are generally folded into annual budgeting cycles and have established, recurring funding sources.**
>
> **IT modernization costs are generally funded as one-time appropriations through a limited number of vehicles**

# Responsibility for IT Operations and Budgeting Differs By Branch

**Legislative IT Office**

**Agency of Digital Services, Departments & Agencies**

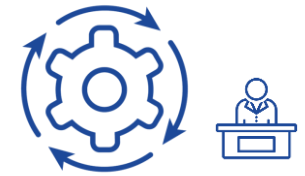**Office of the State Court Administrator**

# IT Operating Costs Across The Branches

- **Legislative Branch:** Leg IT budget approved by Joint Legislative Management Council, paid through General Fund

- **Executive Branch:** Agency of Digital Services (ADS) recovers the cost of IT services by billing other agencies via an internal service fund.* Some costs paid directly by agencies & departments.

- **Judicial Branch:** IT costs largely covered by judiciary-specific special fund and General Fund
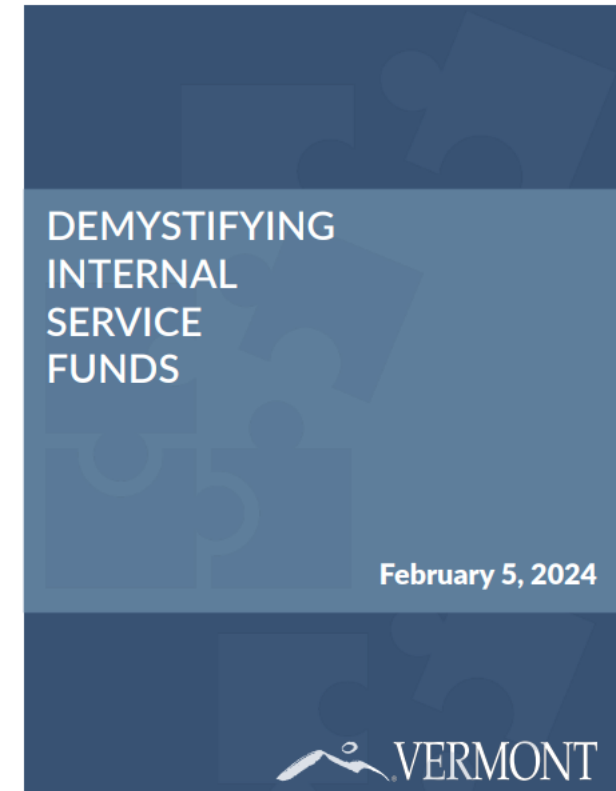
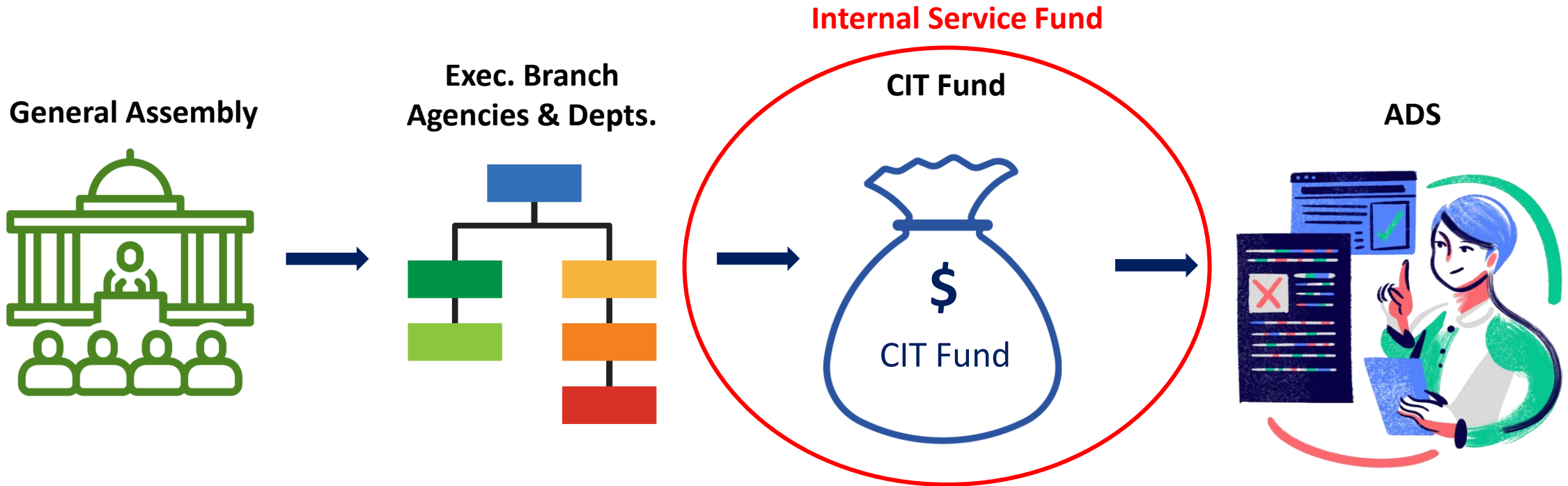# The Communications and Information Technology (CIT) Fund

- Most Executive Branch IT operating costs are paid through the CIT Fund

- Example of an "internal service fund" (ISF)

- ISF's fund administrative expenses that cannot easily be attributed to a specific entity or that exist on behalf of State government as a whole
  - e.g. the cost of having internet connections in all State offices, snow removal services for State properties, property and commercial insurance for State buildings, etc.

**DEMYSTIFYING INTERNAL SERVICE FUNDS**

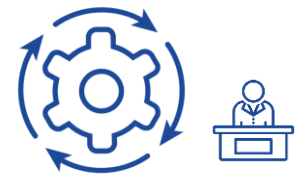**February 5, 2024**

VERMONT

*Demystifying Internal Service Funds (2024)*

# The Communications and Information Technology (CIT) Fund

**Internal Service Fund**

**General Assembly**

**Exec. Branch Agencies & Depts.**

**CIT Fund**

**ADS**

$
CIT Fund

1) The General Fund appropriates monies directly to agencies and departments.
2) Agencies and departments are billed by ADS and transfer monies to the CIT Fund.
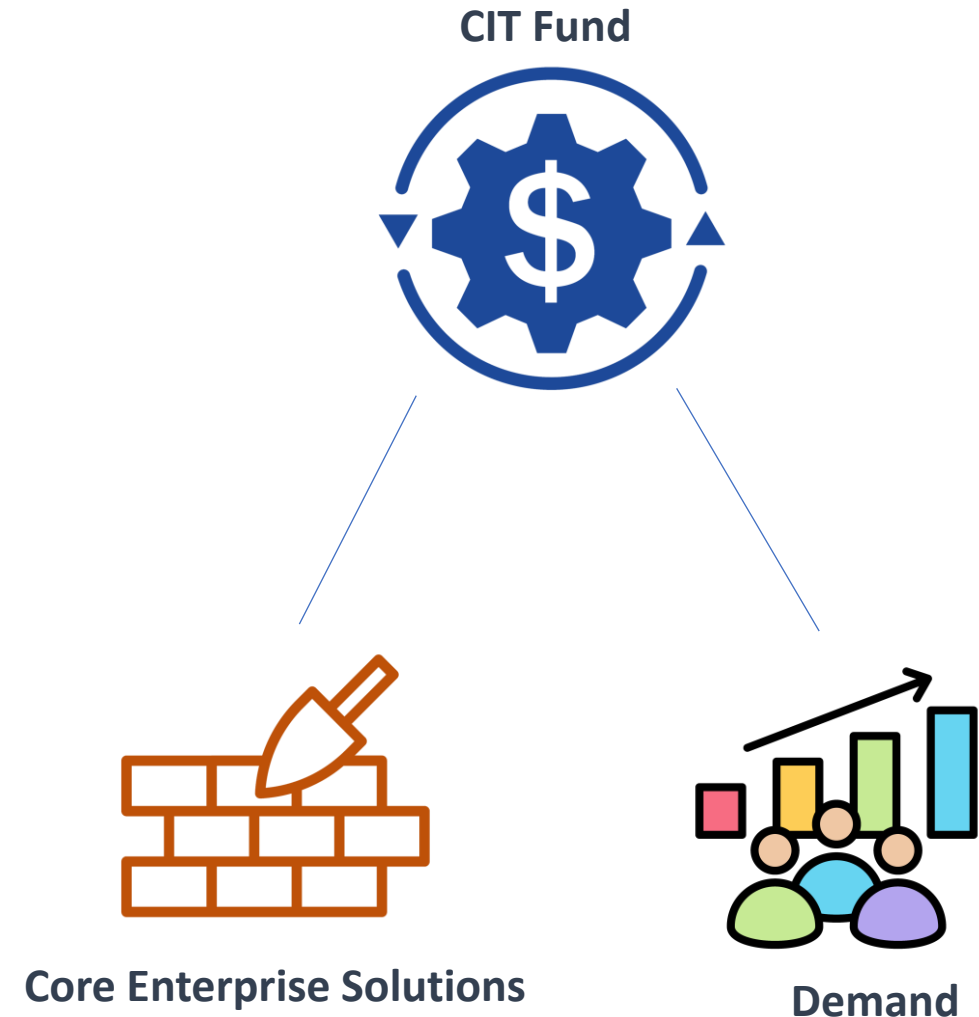3) ADS draws from the CIT Fund to recover its costs.
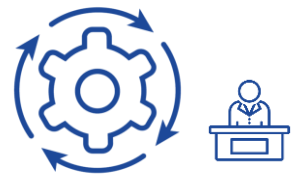
# Multiple "Service Categories" In The CIT Fund

CIT Fund

- The CIT Fund enables ADS to recover costs through two main service categories.

- Each service category allocates costs differently among ADS "clients"

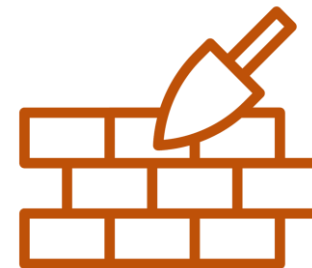Core Enterprise Solutions

Demand

# Multiple "Service Categories"
# In The CIT Fund

**Core Enterprise Solutions**
- Allocates costs of foundational IT services that are shared across the State
  - Internet, Vermont.gov management, basic cybersecurity, etc.
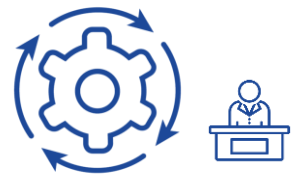- Costs allocated based on headcount

CIT Fund

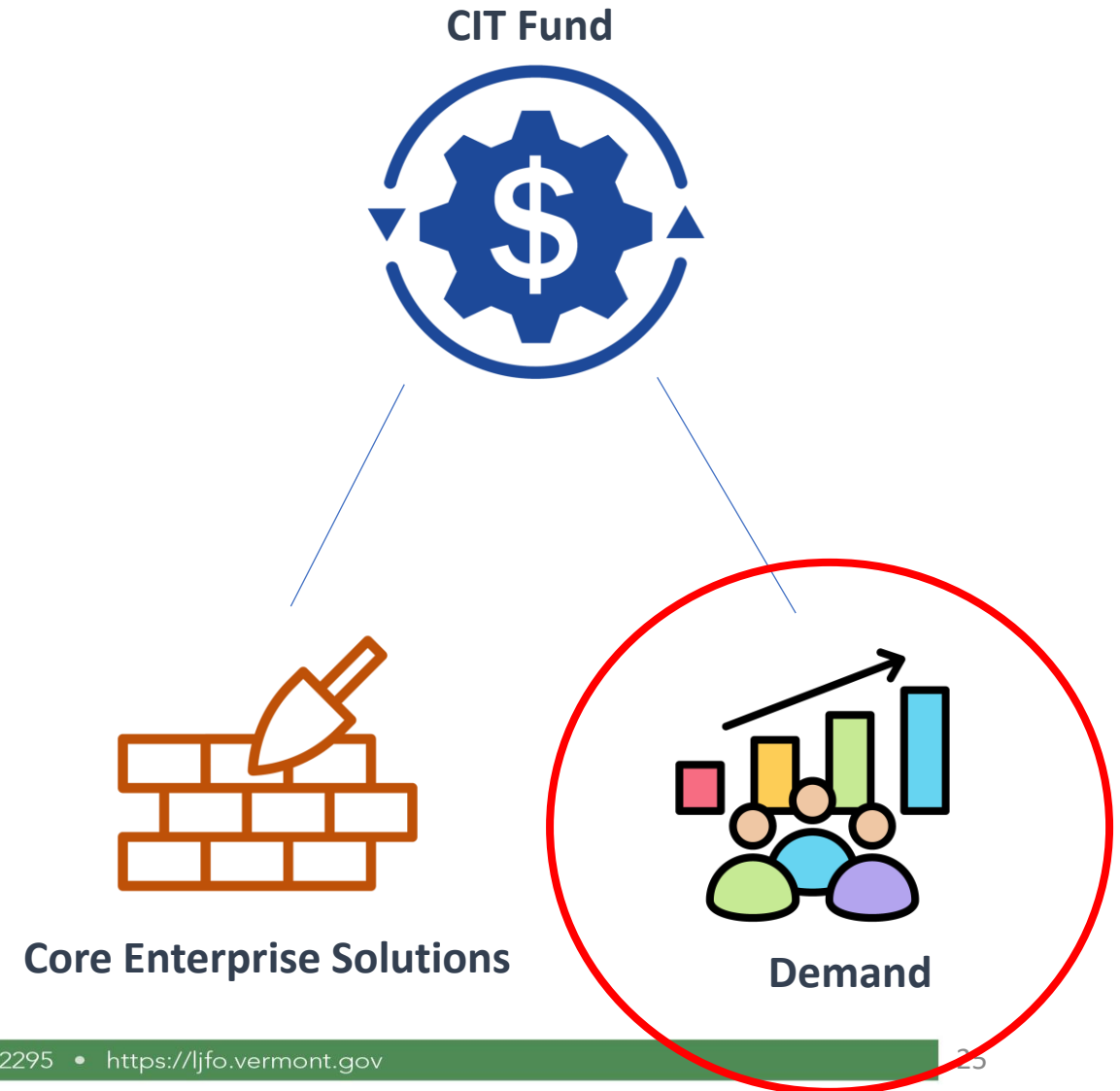Core Enterprise Solutions

Demand

# Multiple "Service Categories" In The CIT Fund

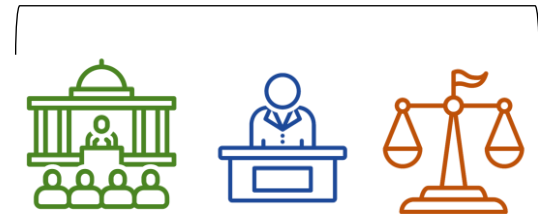**IT Operating Costs**

**Demand**

- Allocates IT costs based on agency or department demand
  - Measured various ways: # of Microsoft licenses, # of phone lines, hours of ADS services,
- Can also be used to support the cost of **IT modernization projects**

**CIT Fund**

**Core Enterprise Solutions**

**Demand**

# IT Modernization Funding

- Similar practices across the State

- Appropriations are typically on a project-by-project basis
  - One-time appropriations as funds are available

- Appropriations may be made through:
  - Interdepartmental transfers to the CIT Fund's "Demand" service category
  - Direct agency appropriations
  - **Special funds**

# Technology Modernization Special Fund

**UPGRADE**

- Created in fiscal year 2022 to finance State investments in IT system upgrades and modernization

- Administered by ADS

- Expenditures can only be made from the Fund through appropriation by the General Assembly
  - Project authorization must also come from the GA

**BUDGET & FINANCE**

## Will a Special Tech Fund Push IT Forward in Vermont?

Thanks in part to the testimony of CIO John Quinn, Vermont appears to be moving toward a long-term fund for IT modernization projects. The fund would address several large needs, including an inflexible UI system.

March 24, 2021 • Jed Pressgrove

# Technology Modernization Special Fund

**IT Modernization Costs**

- Has supported some of Vermont's largest recent IT modernization efforts
  - VDOL Unemployment Insurance Modernization ($30M)
  - DMV Modernization ($20.25M)
  - ERP financial system ($11.8M)

- There is currently no recurring annual appropriation to the Technology Modernization Special Fund

# Other Funding/Appropriation Sources

- CIT Demand

- Other special funds
  - Tax Computer Modernization Special Fund

- Direct appropriations to and expenditures by agencies through base budgets

- Because the size and scope of an IT project can vary greatly, the threshold for legislative engagement can as well
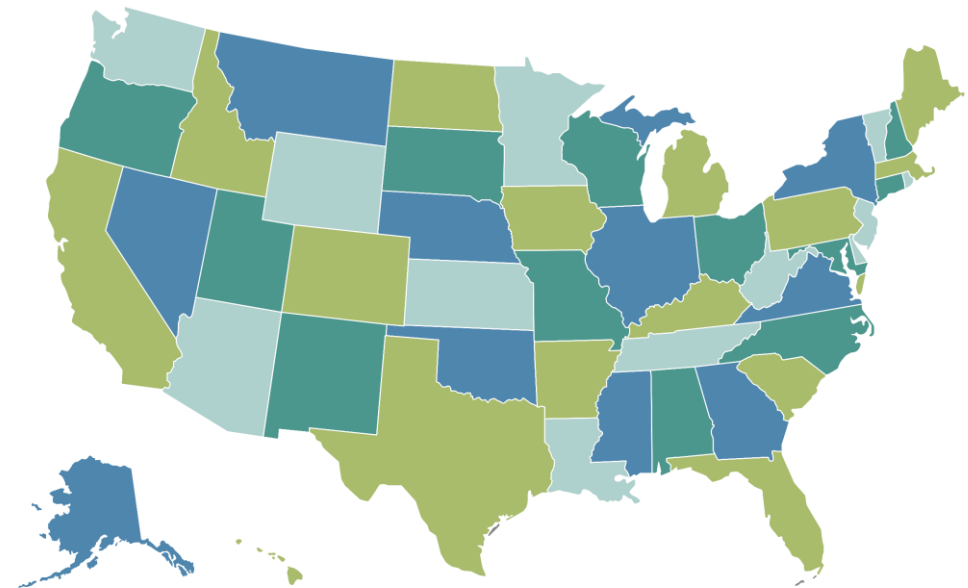
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IT modernization costs are generally funded as one-time appropriations through a limited number of vehicles.
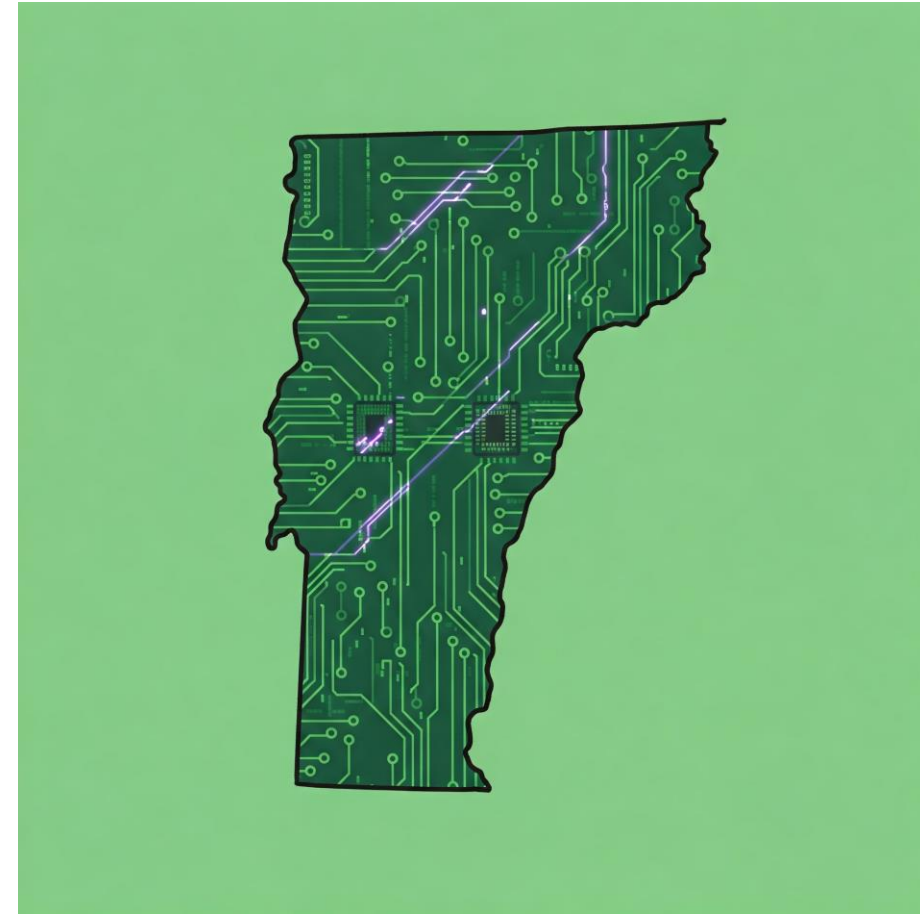
# Practices Vary in Other States

- Centralized vs decentralized IT organizations

- IT organization funding
  - Chargeback (such as internal service funds)
  - General funds
  - Federal sources
  - Hybrid

- IT modernization sources
  - Capital budgets one example (has been tried in VT in the past)

- Governance/policies for IT modernization efforts

# Conclusion & Questions

- **It's complicated!**

- Understanding IT funding Statewide involved grappling with complexity across…
  - Branches
  - Agencies and departments
  - State and federal funds
  - Cost categories
  - Appropriation mechanisms
  - Individual projects
  - Centralized and decentralized IT spending

# Conclusion & Questions

- **It's complicated!**

- IT operating costs are generally folded into annual budgeting cycles and have established, recurring funding sources.

- IT modernization costs are generally funded as one-time appropriations through a limited number of vehicles

- **IT modernization needs aren't going anywhere any time soon**