

February 20, 2026

To: House Appropriations Committee
From: House Energy and Digital Infrastructure Committee
Re: FY27 Budget (Committee Recommendations)

B.105: Agency of Digital Services

Since its 2017 establishment, ADS has been working to unify and modernize the state's information technology (IT) operations. ADS provides the technology and platforms that support state government and allow Vermonters to access public services online.

In the FY27 budget ([see page 11](#)), the Scott administration recommended three key changes to the way ADS is funded.

- ⇒ **\$9 million increase** in General Fund appropriation to ADS
- ⇒ **\$10.8 million increase** in ADS allocation charges
- ⇒ **\$5.8 million decrease** in ADS Service Level Agreement charges

Our committee heard testimony on these changes from the Agency of Digital Services, the Commissioner of Finance and Management, and the Joint Fiscal Office. We focused our discussion on (1) how ADS is currently funded, (2) why the Department of Finance is recommending changes, and (3) upsides and downsides to the change.

For almost a decade, ADS has operated almost entirely on a “**cost recovery**” model, with only a small annual appropriation in the General Fund. With no direct appropriation, ADS performs services for state departments and agencies and then recovers its costs by billing them. ADS uses an internal service fund called the Communications and Information Technology Fund (CIT Fund) to collect these payments.

The problem: In recent fiscal years, the **CIT has operated in a growing deficit**, plummeting from a \$1 million balance in FY23 to a projected \$28.5 million deficit by the end of FY26. **Why?** While DFM Commissioner Adam Greshin says it's “not entirely clear,” one reason is that ADS is often performing necessary work across state government that **can't be fully recovered from some agencies** (ex: federal guidelines that limit some agency expenditures) or easily allocated across agencies.

REQUEST ONE: STRUCTURAL CHANGE: In FY27, DFM wants to increase the number of ADS-managed internal service funds from one to four. **HEDI SUPPORTS THIS STRUCTURAL CHANGE.**

The CIT Fund will still exist as a mechanism for “Core Enterprise Services.” These are the basic IT services (ex: Microsoft, help desk) used by all state government and paid by agency headcount. Three new ISFs will be used for other existing “bill-back” services that aren’t shared evenly across state government but are based on agency-specific demand.

This will allow us to see how each distinct billback category is contributing to IT-related deficits. This is tough in our current model, as many bill-back categories flow in and out of the same pool. **It is an important first step in identifying and managing the growing deficit.**

REQUEST TWO (ADDITIONAL FUNDING): The FY27 budget adds a new \$9 million base appropriation to the General Fund. It also increases allocation charges by \$10.8 million and decreases Service Level Agreement charges by \$5.8 million, for a net increase in spending authority of \$5 million, spread across many state departments and agencies. **TOTAL INCREASE: \$14 MILLION. HEDI SUPPORTS THIS INCREASE.**

As mentioned above, the new \$9 million direction appropriation will help ADS cover costs not easily collected through billback to individual agencies, including its growing portfolio of work on cybersecurity, data governance, and artificial intelligence.

While this puts a new recurring pressure on the General Fund, this pressure already exists. It’s just not being captured by current billback practices, and therefore contributes to the growing CIT deficit.

ADS is also leading a multi-year process to move some of its chargebacks from the demand-based Service Level Agreement (SLA) category to its preferred **Core Enterprise Services** category, described above. SLA costs are billed in arrears, meaning the current-year appropriation pays for costs incurred in the previous fiscal year. This is not ideal. In the FY27 budget, you’ll see CES charges for foundational IT services increase by \$10.8 million while the SLA decreases by \$5.8 million.

This is not only a funding shift — away from the SLA bucket to the CES bucket — but also a net increase in ADS billback ability of \$5 million, spread across all state agencies.

As the cost of providing base IT services rises, in FY27 the administration suggests covering some with the direct GF appropriation (\$9 million), and some through this increased billback via CES (\$5 million). **Total increase: \$14 million.**

REQUEST THREE (SHIFT IN SPENDING AUTHORITY): Move roughly \$47 million of “Bespoke” spending authority from ADS to bespoke projects’ sponsoring agencies. **HEDI SUPPORTS THIS SHIFT BUT IT RAISES CONCERNS (DISCUSSED BELOW).**

Bespoke projects (now renamed “Customized Services”) are important: Specific to each agency or department, these are typically expensive, multi-year projects to replace or

modernize an agency's IT (ex: VDOL's successful project to replace its outdated unemployment insurance system).

This change would maintain the responsibility for overall procurement, project management, and other professional services for large-scale IT projects within ADS, but move the authority and responsibility to pay vendors to projects' sponsoring agencies.

You can track these custom projects on the ADS [Enterprise Project Management Office dashboard](#). Last year, the legislature worked with ADS to improve this dashboard through [Act 48](#). It's an important tool for fiscal transparency, project tracking, and legislative and public oversight of state IT spending.

CONCERN: This significant change in spending authority means ADS will no longer have direct access to the State's financial expenditure reports. Our committee was concerned this could impact ADS' ability to "see" the projects in real-time and to maintain the EPMO reporting dashboard. We also wondered whether the shift in spending authority — when ADS is managing the project, but the client agency is paying the bills — could result in inappropriate vendor payments.

We asked Lisa Gauvin, IT consultant for JFO, to look into these concerns. In a February 13 [memo to HEDI](#), Gauvin concluded that:

- ⇒ Rigorous project management standards, overseen by the ADS Enterprise Project Management Office for every project, will remain in place despite the change in spending authority and **will not increase the risk** of inappropriate payments.
- ⇒ The change in spending authority **will not affect the dashboard**, because the dashboard tracks Initial Estimated Implementation Cost and Current Estimated Implementation Cost. It does not include expenditures.

With our due diligence concluded, the House Energy and Digital Infrastructure Committee generally supports the funding changes outlined above.

Together, they represent an attempt to move ADS to a more sustainable and realistic funding model, with a greater ability to track and identify the funds flowing through ISFs.

We flag for our colleagues two remaining concerns:

>> TIMELY AND COMPREHENSIVE ACCESS TO DATA

By moving spending authority to various state agencies, will ADS (and the legislature) still have timely access to financial expenditure data?

Questioned about this in committee, Commissioner Greshin pledged to work closely with ADS to ensure a successful transition. Our committee will be writing a follow-up memo to

Commissioner Greshin, requesting that **changes to the chart of accounts for tracking IT project expenditures include business/program costs for projects, not just IT project costs.**

>> WHAT ARE WE SPENDING THIS YEAR?

While the EPMO dashboard tracks both the “initial” and “current” implementation costs for big projects, it is difficult to identify, in any given budget year, how much of the overall allocation has been included in the Governor’s recommended budget.

To give just one example, on the EPMO dashboard, inventory tab, we can readily see that that Agency of Administration’s Enterprise Resource Planning project was originally estimated to cost \$45m to implement over three years and is now estimated to cost \$48m. With 23% of the appropriated funding spent, the project has many identified risks. But how much does the administration propose spending on this important project in FY27?

Right now, this kind of oversight requires tracking down annual spending within each agency’s budget, or in “real time” as phases of the project move forward. As legislators, we should move toward a tracking system that allows us to see the broad scope of IT spending across state government — not only at start and end, but year-by-year.

B.233: Department of Public Service

We heard from Commissioner Kerrick Johnson and Deputy Commissioner Brittney Wilson.

DPS is mostly funded by a gross receipts tax levied on Vermont utilities, operating within the revenues it collects. This year, the department proposes converting a vacant limited-service position to a new and slightly more costly role. **This change is reflected in the FY27 budget language (Sec E.233). HEDI supports this change.**

DPS also proposes changing the cadence of the state’s 10-Year Telecommunications Plan, which by statute must be updated every three years. The next plan is due in FY27 and each update costs roughly \$500,000. By shifting to a five-year cadence, DPS will save \$500,000 in the upcoming fiscal year.

In testimony, DPS stated that the number of applications for brand-new cell towers is in the single digits, that the pace of wireless technology is now “evolutionary rather than revolutionary,” and that five years is a more appropriate timeframe to evaluate changes in the landscape.

The \$500,000 savings are already built into the Governor’s FY27 budget, and the Deputy Commissioner testified that DPS would have to “take a much closer look at its budget” if the Telecom Plan must be completed, as required by statute, in the upcoming fiscal year.

These budget cuts might come at the expense of the significant public outreach and staff time required to update the important Comprehensive Energy Plan, due in 2028.

This cadence change is included in the FY27 budget language (Sec. E.233.1). HEDI supports this change.

B.233.1: Vermont Community Broadband Board

We heard testimony from VCCB director Christine Hallquist and reviewed the annual report. VCCB estimates that, following federal ARPA and BEAD investments ([see 2.10.2026 update](#)), nearly all of Vermont will be served with broadband meeting the federal standard of 100/20 Mbps. **With no special requests or notable changes, HEDI SUPPORTS THE VCCB'S RECOMMENDED FY27 BUDGET.**

B.234: Public Utility Commission

We heard testimony from PUC chair Ed McNamara. The PUC is self-funded by a share of the gross receipts tax on public utility revenues (electric, gas, telecom) and [various fees](#). **With no special requests or notable changes, HEDI SUPPORTS THE PUC'S RECOMMENDED FY27 BUDGET.**

Respectfully submitted by

Rep. Kathleen James (chair)

Rep. Scott Campbell (vice chair)

Rep. Laura Sibilila (ranking member)

On behalf of the House Energy and Digital Infrastructure Committee