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Adam Greshin, Commissioner

TO: Agency Secretaries, Commissioners, Department Heads and Business Managers
FROM: Adam Greshin, Commissioner, Department of Finance & Management
RE: FY2022 Budget Development Guidelines and Initial Submissions
DATE: Monday, October 19, 2020

The Governor’s policy goals for the FY22 budget remain focused on growing the economy, making Vermont more affordable for families and businesses, protecting the vulnerable and modernizing state government. The key performance indicators outlined in the State Strategic Plan will continue to be primary measures of our progress in these areas. All budget submissions will be viewed through this lens and agencies and departments are encouraged to refresh their plans for getting measurable results.

The impact of COVID-19 on the state’s budget has been substantial on both the revenue and the expenditure sides. Initial analysis projects a \$180 million General Fund deficit. This number is typically fluid as we dig deeper into the details of expenditures and we review monthly revenue numbers, but this year marks an unusually high level of fluidity with a federal election in 2 weeks, an uptick in national COVID levels and the uncertainty around whether, and when, our federal leaders will be able to agree on another much-needed stimulus package.

In this environment, agencies and departments are asked to submit level-funded budgets based on FY2021 General Fund “As Passed” appropriations. However, considering the unusual level of uncertainty, and the fact that at least for the first quarter of the fiscal year revenues have run comfortably ahead of projections, we ask departments to submit contingent proposals for 1%, 2% and 3% higher base spending levels. In keeping with the Governor’s directive to continue to orient our work toward the top strategic priorities – and to ensure we’re deploying additional spending to fight back against the recessionary forces and erosion of revenue growth caused by COVID-19 – these contingency plans should clearly prioritize investments that measurably expand private sector economic activity and/or lower costs for families and employers.

Key Background

The context of this year’s budget development, unfolding in the midst of a pandemic, creates a higher level of uncertainty and a far more sobering revenue outlook. Those twin challenges hover over us as we proceed through budget development.



- **Economic Recovery**

It is safe to say the worst fears during the height of the pandemic of a deep and prolonged recession did not come to pass. But that is all it is safe to say. We don't know the shape of the economic recovery, in large part because we don't know the course of the pandemic. We were already in uncharted waters going into the crisis with the longest economic expansion in history. Layer on top of that an exogenous shock of indeterminate length, not to mention a consequential federal election, and forecasting becomes extremely difficult. At their August meeting, the Emergency Board adopted a FY22 revenue forecast reduced by \$104 million from January, which targets FY22 forecasted revenue below FY19 actuals. At the same Emergency Board meeting, members heard an updated Medicaid report which predicted a jump in the use of the state's safety net programs – not a surprising development during an economic slowdown. With reduced revenues and elevated program spending, we face a particularly challenging outlook.

- **Federal Response**

Congress, in four separate COVID-related appropriations packages, made available almost \$3 trillion in federal relief, the largest of which was the \$2 trillion CARES Act. When Federal Reserve actions to maintain market liquidity are added, over \$5 trillion in support is being pumped into the US economy, over \$4 billion of which, in one form or another, has come to Vermont. CARES Act money was and is critical in helping us stand up emergency response programs, smooth out revenue fluctuations, and provide for those in need. Additional support may or may not be forthcoming, but due to the timing of the budget cycle, and the fact that a new Congress will not be seated until January, the base case for the FY22 budget must assume no additional federal assistance.

- **Vermont's Fiscal Fundamentals**

Due to a combination of a record-breaking economic expansion, generous financial support from Washington and exceptional financial management across state government, we approach the FY22 budget cycle in a strong financial position. General Fund and Transportation Fund reserve balances are at their statutory maximums and we ended FY20 in June with a sizable General Fund surplus which was put to good use in the FY21 budget restatement. However, as in past years, anticipated expenditures significantly outpace revenues and we begin another budget cycle facing a budget gap which must be closed. After years of stable and even declining use, safety net programs are expected to grow and pension plans for state employees and teachers continue to require large increases in contributions. Add to that the lingering effects of the opiate crisis and the substantial cost of maintaining and upgrading the state's technology platforms. In a constrained revenue environment, delivering a balanced budget with the same or better level of services will be a challenge.

Budget Development Process and Timeline

The ink is barely dry on Act 154 (the FY21 restated budget) and departments have a month to submit proposed adjustments to Act 154 as well as a full FY22 budget proposal. This is a very compressed timeline.



As we did last year, Finance & Management will try and provide more timely information on areas of concern to department business managers. Please assume no increase in internal service fund (ISF) charges for budget development. We will communicate potential changes as more information on, for example, pension obligations and insurances, becomes available. Our goal will be to finalize ISF budgets early in the process, which will enable ISF departments to provide allocations to field departments at the earliest possible time. Keep in mind, however, benefit and pension information must await actuarial analysis which may take longer. Ideally, General Fund allotments for ISFs will accompany the allocations, but the allotments could be delayed depending on the overall General Fund outlook during the fall.

Guidance

Detailed information about requirements and assumptions is included in the attached *Instructions Supplement*. Here are a few key elements:

- **General Guidance** – Please include proposed expenditures, anticipated special fund revenues, and any proposals for new or increased revenue – taxes, fees, etc. – that are incorporated into your budget.
- **CRF** – *Departments with Coronavirus Relief Fund (CRF) in their FY21 base should assume a base spending level inclusive of CRF.* Level funding should be understood to include state-wide pressures, including annualization of FY21 Pay Act. Departments are asked to absorb expected upward pressures with offsetting reductions to arrive at FY21 “As Passed” appropriations.
- **Policy Proposals** – Include policy proposals, their related expenditures and funding, how the proposal aligns with your strategic plan and key performance indicator, and a completed equity impact assessment (these should also be submitted as policy proposals to the Governor’s Office).
- **Position Requests** – New position requests will be evaluated based on their relationship to strategic priorities and available funds. The priority, when making a position request, must be to reclassify a vacant position. Current fiscal conditions and the level funding target require departments to fund new initiatives with existing resources. New position requests must include description, cost, source of funds to support and justification. Please incorporate the full cost associated with those positions.
- **Technology Needs & Projects** – Requests to fill technology needs through new systems or projects (these should also be submitted as part of your request for capital funds), along with an explanation of how this project has been prioritized and the expected productivity gains and/or return on investment. If no productivity gains or ROI has been calculated, please note that as well.



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- **Federal Funding** – For the purposes of your submission, in the absence of reliable information, use current federal funding levels. If your agency/department has reasonable certainty that changes in federal funding will occur, you may incorporate those changes into your presentation as long as potential federal match requirements are accounted for within the level-funded mandate. Anticipated reductions in federal funding should be met by corresponding reductions, preferably in associated limited service positions and administrative expenditures.

Aligning with Long Term Recovery Task Forces and State Strategic Plan

Budget submissions must align with the state’s 5-year Strategic Plan (see also: <https://strategicplan.vermont.gov/>) and, when applicable, incorporate the policy proposals of the Long Term Recovery Task Forces. Initiatives consistent with the Strategic Plan and/or Long-Term Recovery should be included in your materials and highlighted. More detailed information about requirements and assumptions is included in the attached *Instructions Supplement*.

Budgeting with an Equity Lens

Equity is a foundational element of government work, and the state's commitment to a more just Vermont includes budgeting for equity. This year, we are introducing a tool to assist budget and policy staff in their assessments of new initiatives. This assessment tool poses key questions to help identify any blind spots or disparate outcomes in the delivery of our services. More information will be provided in a separate document. The assessment will focus on key areas including stakeholders and impacted populations, disparate benefits and burdens, data collection and metrics, language accessibility, and multi-sectoral collaboration. This tool is multi-faceted and by incorporating it into our regular practice, we will be ensuring our programs are built with an equity lens at their outset.

Budget Review Meetings

Budget review meetings will begin on November 23rd and conclude mid-December. Meetings will begin with the ISF departments. We will try to finalize ISF budgets early in the process.

Performance Measure Reporting

Two years ago, we began including performance measure reporting with departments’ legislative budget presentations. For a select group of programs with *Performance Reports*, the Legislature had direct access to performance measure results as they made their budget decisions. We continued that initiative last year, refining and expanding the list of selected programs to align with the Governor’s strategic plan (and associated program definitions, as they are finalized). We also revived the *Program Profile* report (“Form 5”), a financial report that asks departments to associate their appropriations to the programs within their department. Departments are expected to include this report with their FY22 budget submission and with their budget presentation to the legislature. As the finalized list of Governor’s strategy-based programs evolves, departments’ Program Profile reports will evolve accordingly.



Budget Submissions

Please submit initial budget requests for FY2022 to the Governor by Friday, November 20, 2020. As always, budget submissions to the Governor must be made through the Secretary of Administration using the e-mail folder ADM.budget@vermont.gov.

Thank You

Finance and Management is grateful for all you do to make this budget process successful. We recognize the compressed time frame for budget development, and we are aware many departments are working overtime to mitigate the effects of the pandemic. We are ready and willing to work with agencies and departments in their budget building exercise. Please contact your budget analyst with questions or requests.

