

TO: Agency Secretaries, Commissioners, Department Heads, Business Managers
FROM: Adam Greshin Adam Greshin Digitally signed by Adam Greshin
Date: 2023.08.31 17:10:59 -04'00'
RE: FY2025 Budget Development Guidelines and Initial Submissions
DATE: August 31, 2023

Introduction

On the heels of pandemic recovery, the FY25 state budget will continue our work to rebuild and strengthen communities after severe flooding that ravaged many parts of the state. Community revitalization - achieved from growing our labor force, improving the quality and supply of housing, bringing downtowns back to life, and ensuring all people living in Vermont have access to quality, affordable, services like health care, public safety, broadband and cell service, and the best PK-12 education - must be the north star of all proposed investments. These core priorities, and how we measure our progress, are reflected in the Administration's Strategic Plan.

However, while the scope of our challenges grows, federal and state funding streams may be diminishing. Vermont's three major funds ended FY24 with mixed results. The General Fund had a small surplus, that is largely already obligated, while the Transportation Fund and the Education Fund ended with small deficits relative to projected revenues. The FY25 revenue forecast reflects a more nuanced macroeconomic picture. The global economy is no longer firing on all cylinders, although Vermont's economy has remained remarkably resilient considering the decline in federal funding and the sharp hike in borrowing rates. The long-term impact of the July floods on our revenues remains to be seen, but the Administration will make sure that throughout the fall those likely to visit Vermont know we are open for business.

Given our financial outlook, and the historic thirteen percent increase in base spending the Legislature imposed in FY24 coupled with broad based taxes and fees, the Governor is particularly focused on moderating the growth in base spending in FY25. Even without the uncertainty of the state's financial liability for flood recovery, prudence dictates long term growth in spending should not outpace expected growth in revenue. With this in mind, Agencies and Departments are asked to submit budgets that increase base spending no greater than three percent based on FY24 "As Passed" appropriations and adhering to guidelines described below for statewide allocated costs. Anticipating wage and benefit pressures, and growing program costs, Agencies and Departments should prioritize



investments that can be numerically demonstrated to move us towards the priorities outlined in the Strategic Plan in one to two years, while maintaining front line services for Vermonters.

The Administration is aware how difficult budget development will be for many Agencies and Departments, particularly with the expanded scope of our challenges. Nonetheless, our revenue outlook requires a return to more prudent budgeting and in this regard, evaluating the impact of three percent General Fund growth is a valuable and necessary exercise. As always, Finance & Management and the Governor's team are ready to work with Agencies and Departments to help meet their target.

Context

Budget development begins with the July Emergency Board (E-Board) revenue forecast. The updated forecast, while more optimistic than the January forecast, still predicts a 5.5 percent decline in General Fund revenue in FY24 relative to actual results in FY23, and virtually no increase in FY25. The E-Board upgraded the available FY24 revenue by \$78 million, which will be one-time money to invest in BAA, and the FY25 budget will begin with a base that is \$78 million higher than last year. However, given targets outlined below, this will still be a challenging budget build.

• Vermont's Fundamentals

The economic impact of the July flood will not be known for months, however if we use Irene as a guidepost, the *aggregate* financial impact will be minimal. Keeping this in mind and taking a more granular look at what is driving our revenues, personal income taxes, our largest state revenue source and over half the available General Fund revenue, declined 4.6 percent from last year. That hole was filled by booming interest earnings (see below) and by a large increase in corporate income tax collections, which is primarily due to the statutory change to "market-based sourcing" as opposed to vastly improved corporate earnings. Consumption taxes, which help power both the Education Fund and the Transportation Fund, advanced over last year, but signs point to slower progress ahead as the Federal government works to moderate demand and avoid a recession. At best, we can anticipate a return to slow, plodding economic growth as inflation and the job market normalize.

• The Return of Interest Income

We find ourselves in a unique situation this year. For the past two decades or more, interest income was practically non-existent. With little or no inflation to combat, the Federal Reserve kept the Fed Funds rate close to zero. That was great for borrowers, but not so great for interest earning savings accounts. Things began to change in March 2022 when the Fed initiated the first of eleven rate hikes that would bring the Federal Funds rate from .25% to 5.5% in July 2023. The sharp increase in short-term interest rates coincided with an equally sharp increase in the State's average daily cash balance, from \$300-400 million to over \$2 billion. This was driven by the COVID-induced federal stimulus program and the ancillary economic benefits of increased public spending. The State's interest earnings in the General Fund skyrocketed from \$2.3 million in FY22 to \$51.2



million in FY23. The E-Board forecast assumes interest earnings in the General Fund will reach \$60 million in FY24 and then recede to \$45 million in FY25. Without these earnings, the revenue outlook would be far more somber, but this is not a reliable source of revenue. As inflation subsides, so will interest rates, and as the state spends down the federal funds comprising most of this cash balance, earnings will decline commensurately.

• Cost Pressures

Last year we wrote extensively on managing costs in an inflationary environment. While headline inflation has subsided, the tight labor market, rising cost of health care, enhanced retirement contributions, significant increase in property insurance premiums and technology upgrades mean state government faces similar cost pressures this year. In the prior two years, Departments were allotted additional General Fund, above their target increase, to absorb these pressures. This year we are reverting to the historical norm by asking Departments to absorb internal service fund and other pressures within their three percent budget target. This will not be a change for Departments funded partially or fully by special funds. Internal service funded Departments will be held to the same budget target as other departments. As you all know, the State is exposed to many embedded costs like insurance and retirement premiums and health care benefits, which are driven by market dynamics that we have limited ability to control. These costs typically are allocated to Departments based on head count, which underscores the importance of managing positions.

Acknowledging the cost pressures we face and considering the flat revenue stream in the July E-Board forecast, FY25 budget development will be challenging. The long-term payoff for disciplined prioritization today is a more stable work environment and a state government that is best positioned to continue critical services even in challenging economic times.

Budget Development Process and Timeline

Initial FY25 budget proposals, FY24 budget adjustment proposals, and FY24 capital bill adjustment proposals are due electronically to the Department of Finance & Management by Tuesday, October 17th. Budget meetings will begin the following week and continue into mid-November.

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. Despite the tighter revenue environment and notwithstanding the higher fees and new taxes incorporated in last year’s budget, the Governor is not inviting, and does not expect to receive, proposals for higher taxes or fees. Alternatively, tax and fee relief proposals, and other policies that measurably improve economic growth and affordability metrics in the State Strategic Plan are



strongly encouraged. You may have already submitted these initiatives to the Governor's Policy Office and should resubmit them with your budget documents as well.

- **FY24 Base Spending** – Please confirm with your budget analyst your Department's FY24 As-Passed base appropriation. This will be the starting point for measuring changes to spending.
- **Statewide Allocated Costs** - For the purposes of the three percent General Fund increase target for initial budget submissions, assume Internal Service Funds (ISF) are held to the same three percent increase and Health Benefits allocations to be up fifteen percent from FY24 As-Passed levels. Assume employer contribution rates for the Defined Benefit (DB) and Defined Contribution (DC) retirement plans to be flat with the levels currently in effect as of July 1, 2023 (26.7% for DB and 11.75% for DC). Finance & Management will communicate any potential updates as soon as ISF budgets, insurance, and retirement rates are finalized and known. Agencies and departments must be prepared to absorb these updates within their three percent target as part of the FY25 budget exercise.
- **One-Time Expenditures** – One-time expenditures should not be included in base budget proposals. Proposed amendments, if any, to ARPA appropriations will be considered one-time expenditures. These proposals should be raised during budget development sessions but will be evaluated separately.
- **Policy Proposals** – Include a Legislative Initiative and Impact Assessment form for any policy proposal with a budgetary impact (e.g. costs money to implement or will reduce available revenue). These should also be submitted to Director Smith, your budget analyst, and your Governor's Office liaison in accordance with the policy development timeline.
- **Position Requests** – New position requests will be evaluated based on their relationship to strategic priorities and available funds. When making a position request, reclassification of a vacant position should be considered first. New position requests must include position description, cost, and source of funds. Please incorporate the full cost associated with a new position. Please keep in mind the future costs of additional positions on your Agency/Department Internal Service Fund and insurance charges as these costs will need to be absorbed within future budget targets.



- **Boards & Commissions, Per Diems** – Per Act 134 of 2022, agencies or departments that administer funds for a board or commission may submit to the Governor, to be included in his budget, requests to increase per diems for that board or commission. Any request must include a detailed justification that will form the basis for a review by the Governor’s Office. Act 134 also imposes reporting requirements which are described in more detail in the *Instructions Supplement*.
- **Technology Needs & Projects** – Budget requests for new IT projects should include an IT ABC Form and a Legislative Initiative form for review by the Governor’s Office. All technology requests will be provided to ADS for review and feedback prior to presentation to the Governor.
- **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 along with potential federal match requirements. Anticipated reductions in federal funding should be met by corresponding reductions, preferably in associated limited-service positions and administrative expenditures. Do not assume State funding will be available to supplant reduced or eliminated Federal funds.
- **Capital Budgeting** – For specific details on your FY24 capital budget submission, please refer to the capital budget instruction memo sent under separate cover from the Secretary of Administration. Agencies and Departments that submit capital budget requests are strongly encouraged to submit those requests with their operating budget. Any operating cost impacts resulting from your capital budget request should be included and clearly identified in your operating budget submission.

Impact Assessments

The State of Vermont is committed to ensuring state dollars are spent on programs that will achieve the desired outcomes for Vermonters, as well as advancing equity for all those who live, work, play, and learn here. Delivering efficient, effective, and equitable services requires agencies to fully understand the problems they are trying to solve and the potential impacts of their proposals. Equity and inclusion are not “add-ons” to our budget processes—rather, they are necessary to address the demographic, workforce, and social challenges facing our state. The Impact Assessment form must be completed for all new initiatives and any substantive changes in service delivery. The thought process invoked with this form ensures each proposal goes through a robust development process by posing questions in several key areas: connections to strategic priorities, problem definition, identification of stakeholders and potential impacts, resource needs, and measurement and monitoring. By incorporating this multi-faceted tool into our regular practice, we will ensure our programs are built efficiently, effectively, and with an equity lens.



Budget Review Meetings

Budget review meetings will begin on Monday, October 23rd and conclude early to mid-November. Meetings will begin with the ISF departments to finalize ISF budgets as early as possible. Meetings will include your Governor's Office liaison and Policy Director Smith to the extent possible.

Performance Measure Reporting

Programmatic performance measures are reported along with the budget, as required by [32 V.S.A. §307 \(c\)\(2\)](#), to ensure programmatic performance is transparent and can be used within the budget decision-making process.

For FY25, we are following the same process as we did last year which is to **not** require the submittal of a program profile report (Attachment A-1). Instead, we will pull financial information at the appropriation level directly from Vantage once budgets are finalized. These high-level financials will be linked with the program-level performance data captured in Attachment A-2. For ease of reporting, we are pre-populating Attachment A-2's with data from prior submissions. You may download your agency's pre-populated template at <https://vermontgov.sharepoint.com/sites/SOV-ContinuousImprovement/PPMB/>. You will need to confirm the information present on all tabs, adjust information as necessary, and add new data values. If you do not see a template for your agency or department, please reach out to Justin.Kenney@Vermont.gov. As in previous years, the Agency of Human Services may continue to utilize Clear Impact Scorecard for their Performance Measure Reporting.

All programs listed should be associated with an appropriation level department ID and multiple programs can have the same ID if they are considered subprograms within an appropriation. Our expectation is that Agencies and Departments will continue to report on programs from previous cycles and are strongly encouraged to refine their existing measures and add additional programs where relevant. All appropriation level department IDs should have at least one program with associated measures being reported, however, the ideal scenario is that you report on whatever number of programs is necessary to cover most of the work being done under an appropriation. Additional information about filling out Attachment A-2, as well as available resources, can be found in the *Instructions Supplement*.

Attachment A-2 should be submitted with initial budget proposals to allow time for review and refinement in consultation with the Chief Performance Office. Should you need assistance in defining and developing program performance measures, please reach out to Justin Kenney, Chief Performance Officer – Justin.Kenney@Vermont.gov.

Budget Submissions

Please submit initial budget proposals for FY25 to the Governor by Tuesday, October 17th, 2023. Budget submissions to the Governor are made via the Secretary of Administration, by the exempt head of your Agency or Department, using the email folder ADM.budget@vermont.gov.



Thank You

Finance and Management is grateful for your efforts to develop and support the Governor's Recommended Budget and we look forward to working with Agencies and Departments in this process. Please contact your budget analyst with questions or requests.



FY 2025 BUDGET and FY 2024 BUDGET ADJUSTMENT
INSTRUCTIONS SUPPLEMENT
Department of Finance & Management
Budget & Management Division

Issued: August 31, 2023

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A. FY 2025 Budgets

These budget instructions offer guidance in preparing responses to the Governor's budget initiatives for FY 2025. **Departments should provide General Fund budget requests at no more than a 3% increase from your FY 2024 "As Passed" appropriations.**

Summary Responses must be approved and submitted by the Agency Secretary and Commissioner or the exempt head of your Department or Office, **electronically to the Governor, through the Secretary of Administration using the mail folder ADM.budget@vermont.gov by October 17, 2023.** (See the "[Budget Development Timetable](#)" at end of this document for a complete list of due dates.) Responses should be submitted on the "[Budget Development Form](#)" – Attachment B provided to you by the Department of Finance & Management; do not use old, outdated Attachment B forms. **This year, your Budget Analyst will send you Attachment B forms, uniquely created for each departmental appropriation ID,** that will facilitate improved data validation and aggregation by Finance & Management. This form can be supplemented with a narrative response as appropriate, which must include any major policy initiatives that will be submitted to the appropriate Governor's Office Liaisons.

Please keep in mind that Vermont budgets and controls its financial activities on the cash basis of accounting (in contrast to the State's audited financial statements, which are based on accrual accounting and modified accrual accounting). Your budget submission should reflect the actual entries that are expected to post to VISION during fiscal year 2025. Some departments use accrual accounting in their internal reporting processes, which may result in confusion when referring to prior year actual data displayed on Vantage forms and reports.

1. Funding Levels:

If you require assistance confirming the amounts of your FY 2024 "As Passed" base appropriations and/or your FY 2025 General Fund target amount, please consult your budget analyst. These amounts have also been included on the Attachment B forms provided by the Department of Finance and Management.

Special fund spending authority should correspond with available revenues. Please be prepared to submit your analyses should your Budget Analyst determine that amounts submitted do not correspond with trends arising from the VISION data. As always, federal funding should be conservatively estimated, cognizant of current Federal actions and prospects. Please be particularly mindful of any potential reductions to your federal grants. Do not assume federal reductions will be covered with increased General Funds. Please assume these funds will not be replaced until a determination has been made that the project or program supported by the funds meets a critical State policy goal.

If you expect reduced special funds or federal funds, your budget should reflect a corresponding reduction in associated limited-service positions and administrative expenses.

2. Salaries, Benefits, ISFs, ADS:

a. Cost of Salaries and Vacancy Savings in FY 2025

The Vantage budget system reflects the annualized cost of the step increases that are expected to take place during FY 2024 for classified positions. The salary changes that are expected to take place *during* FY 2025 are handled separately (via Pay Act appropriations) and are not to be included in the FY 2025 budget request.

The salary and benefits budget figures provided by the Vantage Salaries and Benefits Forecasting System (SBFS) represent the sum of all salary and benefit costs for all positions defined within an organization. The budgeting of Vacancy Savings should reflect a best possible estimate of savings (salary and benefit costs combined) resulting from positions in SBFS that are not expected to be filled for part (or all) of FY 2025 (please see section “b” below for guidance on benefit rate assumptions).

If Vacancy Savings budget submissions appear to be inconsistent with your department’s historical trend of savings related to position vacancies, please be prepared to justify your assumptions during budget review.

b. Health care and dental premium costs and other benefit rates:

We will centrally install the benefit rates on the Vantage budget system for FY 2025 benefit calculations. FY25 retirement rates have not yet been determined, but we will work with the Treasurer’s office to provide these rates as early as possible during the budget development process. **For FY25, the Health Benefit rate is 15% greater than the Vantage rate used for FY24.**

For the initial budget submissions due October 17, 2023:

- **FY2025 health benefit rates will be 15.0% greater than FY2024 budgeted rates.** Be advised, General Fund allotments will **not** be provided to offset this pressure to General Fund budgets. Health benefit increases **must** be absorbed within the 3% increase General Fund budget targets. Please accordingly for any potential November rate revisions once information is provided from the Department of Human Resources.
- **Assume FY2025 VSERS Defined Benefit employer contributions rates to be flat with the FY2024 Vantage rates of 26.7%. Assume an increase for the Vantage Defined Contribution rate from the 11.75% used for Vantage budgeting in FY 2024 to the 16.34% actually charged in FY 2024. Retirement rate increases, both present and future revised rates, are to be absorbed within the overall 3% increase for General Fund budgets.** Please plan accordingly for any potential November rate revisions once information is provided from the Treasurer’s Office.
- **NEW FOR FY2025 – FAMILY MEDICAL LEAVE INSURANCE (FMLI).** FY 2025 introduces the first year of Family Medical Leave Insurance benefits and associated employer costs. This benefit **applies to all State classified and exempt employees except those exempt employees whose salaries are set annually in session law** (Governor, Secretaries, Commissioners, independently elected State Officers, Judges; etc.). The Vantage SBFS system **will apply the 0.3711% cost factor to each qualifying employee’s annual salary** to determine the Agency/Department’s annual liability. **It is the responsibility of each Agency/Department to ensure this benefit has been applied to each qualifying employee in the Vantage SBFS module.**
- **NEW FOR FY2025 – CHILDCARE TAX WITHHOLDING.** FY 2025 introduces the first year of the General Assembly’s Childcare Tax Withholding imposed on employers in Vermont per 2023 Acts and Resolves No. 76, Sec. 24. This withholding **applies to all State employees.** The Vantage SBFS system **will apply the 0.33% cost factor to each qualifying employee’s annual salary** to determine the Agency/Department’s annual liability. **It is the responsibility of each Agency/Department to ensure this benefit has been applied to each qualifying employee in the Vantage SBFS module.** Please plan accordingly for any potential November rate revisions, to the maximum 0.44%, once information is provided from the Department of Human Resources regarding the resolution of collective bargaining agreements negotiations.

Please clearly identify funding set aside for the benefits and withholdings identified above on the separate line items of the “Budget Development Form” – Attachment B provided to you by the Department of Finance and Management.

c. Internal Service Funds (ISFs):

Departments are responsible for budgeting their ISF charges, as listed below. For the purposes of your initial budget submissions, please **assume the gross allocated charge to your department to be 3% greater than your FY2024 budgeted levels**. The Department of Finance and Management will send ISF allocations to Departments as early as possible in the budget development process. As such, we will schedule budget meetings first with those departments that manage the State’s ISFs. The Single Audit Revolving Fund allocations will be provided by the State Auditor’s Office. The assumed 3% ISF increases **will** need to be absorbed within 3% GF budget increase targets.

Please clearly identify funding set aside for internal service fund increases on the separate line items of the “Budget Development Form” – Attachment B provided to you by the Department of Finance and Management.

ISF:	VISION/Vantage Expense Account Code:	VISION/Vantage Expense Account Name:	ISF department responsible for determining allocation:
Worker’s Compensation Fund	505200	Workers Comp - Ins Premium	AOA-FIN
State Liability Fund	516010	Insurance - General Liability	AOA-FIN
Property and Commercial Insurance Fund	516000	Insurance other than Employee Benefits	AOA-FIN
Facilities Operations Fund (Fee for Space)	515010	Fee for Space Charge	BGS
Communications & Information Technology Fund (CIT)	516685	ADS Allocation Exp	ADS
Human Resources Fund	519006	Human Resources Services	DHR
Financial and Human Resource Information (VISION) Fund	516671	IT Inter Svc Cost-VISION/ISD	DFM
Single Audit Revolving Fund	523620	Single Audit Allocation	SAO

Departments must utilize the correct expense code lines when budgeting their ISF charges which will allow us to verify these costs are fully budgeted state-wide. Please take care to budget the ADS allocation properly relative to the ADS SLA charge (and any new IT initiatives). See further ADS discussion below.

Please clearly identify funding set aside for the internal service fund charges identified above on the separate line items of the “Budget Development Form” – Attachment B provided to you by the Department of Finance and Management.

d. ADS Budgeting Guidance:

Pursuant to Executive Order No 06-17, Finance & Management has worked with the Agency of Digital Services to better manage, quantify, and report IT spending in state government. As part of this effort, in the FY25 budget submission, please be sure to align your budget to the account codes specified in Attachment E for all planned IT costs.

3. Budget Review Process and Supporting Materials:

a. Budget Review:

Beginning on October 23, 2023, Finance & Management will meet with every department for an initial review of its budget submission. Finance & Management will contact you to schedule meetings with Commissioner Greshin and his team. Submissions must be approved by the exempt head of your agency, department, or office.

b. Restructuring and Reductions:

Restructuring and/or reductions to on-going programs may be necessary to achieve the 3% budget increase target. Any combination of proposals may be considered.

Please itemize the restructuring and/or reductions in programs, services, staffing, activities, etc. necessary to meet the FY 2025 targets. A major focus of your additional documentation should be an explanation of the restructuring and/or changes in programs, services, staffing and activities that will be needed to function within assigned FY 2025 funding levels.

Please read the “Instructions” tab on the “Budget Development Form” – Attachment B provided to you by the Department of Finance and Management to assist in this process.

c. Vantage Budget System:

Vantage system instructions are available on the Finance & Management website at: <http://finance.vermont.gov/vantage-budget-system>.

Please complete your base budget form, which ties to your Budget Development Form, and move the form to stage 2 prior to your budget meeting with Finance & Management. Additionally, your “Budget Development Form” - Attachment B must tie to your Vantage base budget form by Dept ID, Fund, and Major Object and is structured to accomplish this objective. The base budget form should list general base operating changes that may include, but not be limited to:

- Changes in non-salary operating costs, such as fuel, supplies, equipment, etc.
- Current programmatic caseload or utilization changes.

Programmatic changes and new initiatives, including the inclusion or elimination of additional positions, must be added via a decision item in Vantage. Decision items allow agencies and departments to approach each programmatic change individually without having to modify the base budget form or personnel data. Please move all decision items to stage 2 before budget meetings with the Finance & Management team. **These changes must be accounted for**

in the “Base Initiatives” tab of the “Budget Development Form” - Attachment B” provided to you by the Department of Finance and Management.

Positions attached to one-time funding sources: The Vantage Salary and Benefits Forecasting System (SBFS) should not contain positions funded via a one-time funding source. The Vantage Admin Team will, to the best of their ability, remove positions attached to a one-time funding source prior to opening Vantage for the start of budget season. If you do find a position attached to a one-time funding source when Vantage opens, please delete that position.

d. Additional Detail:

Along with the “Budget Development Form” - Attachment B”, please provide additional detail and backup to your submission. Include information that will help us understand your budget submission, such as assumptions, trends, analysis, and documents addressing the following issues (if needed):

- Upward and downward pressures relative to your department’s FY 2024 adjusted base appropriation (these should be presented as distinct line-item entries in the Budget Development Form)
- Policy issues with a potential budgetary impact
- Other policy areas that will be part of the Department’s legislative strategy
- Reductions needed to meet funding targets per the “Instructions” tab of the “Budget Development Form” - Attachment B
- Priority of restoration and rationale.
- All session law or codified law language necessary to implement your base budget, proposed initiatives and one-time expenditures **using the templates provided by the Department of Finance and Management.**
- An itemized list of all reports and studies which the Agency/Department believes should be repealed.

Please contact your budget analyst if you need help developing your supplemental material or have questions on what is appropriate to provide.

e. Programmatic Performance Measure Budget:

i. Programmatic Performance Measure Report:

Programmatic Performance Measure Reports are required as part of the budget submission materials, per [32 VSA 307 \(c\)\(1\) & \(2\)](#). Please note that only one report is required for programmatic performance-measure budgeting (PPMB): (1) Attachment A-2 Programmatic Performance Measure Report (for ALL Departments excluding AHS who may continue to utilize Clear Impact Scorecard). See below for more information.

Purpose

Collecting and analyzing data on performance measures is essential for an effective budget process for several reasons:

- Informed decision-making: Incorporating performance measures into the budget process allows for a more informed allocation of resources. With performance data, budget decisions can be made based on objective data rather than subjective opinions.
- Accountability and transparency: Reporting on performance measures also ensures that organizational performance is transparent to leadership, the legislature, and the public.

- **Stakeholder communication:** Performance measures aid in communicating the rationale behind budget decisions to internal and external stakeholders. This transparency fosters trust and understanding among all parties involved.
- **Continuous improvement:** Performance measures enable organizations to assess the efficiency and effectiveness of their operations. This information can guide decisions to reallocate resources from underperforming areas to those that deliver better results. Regularly collecting and analyzing performance data also facilitates a culture of continuous improvement. Organizations can identify areas for enhancement, adjust, and track progress over time.

This requirement is intended to stimulate a discussion of the resources currently directed to each program compared to its results. You should consider the following questions when reviewing your programmatic performance measures and recommending a budget for next year.

- How well did each program perform against its established goals and targets during the current year?
- What is the actual impact and value generated by each program's activities?
- How were resources allocated to each program in the current year, and how does this allocation align with the desired outcomes?
- Are there programs that are underperforming or overperforming based on their resource allocation and outcomes?
- Do the performance measures identify any risks or challenges that could impact program success in the coming year?

Performance measures on programs will be reported to Finance and Management during departmental budget meetings and to the legislative appropriations committees during budget hearings. Performance measure data should be included in your legislative presentation. We expect your department to provide a draft of their Programmatic Performance Measure Report as part of your materials when they meet with the Finance Commissioner and his team. You are welcome to submit any additional performance measure documentation, charts, etc., but you must submit at least the standard A-2 template shared below.

Reporting Expectations

LAST YEAR, MORE THAN 210 PROGRAMS ACROSS STATE GOVERNMENT REPORTED MEASURES, WHICH IS A SIGNIFICANT INCREASE FROM THE 13 PROGRAMS REPORTING MEASURES IN THE REPORT'S FIRST YEAR. Our expectation is that agencies and departments will continue to report on programs from previous cycles and are strongly encouraged to refine their existing measures and add additional programs where relevant. All appropriation level department IDs, aside from select one-time appropriations that may not be programmatic in nature, should have at least one program with associated measures being reported. To see which programs were included in last year's report:

<https://aoa.vermont.gov/sites/aoa/files/documents/FY24%20PPMB%20Report.pdf>

Reporting Template

All units must use the [Attachment A-2 Programmatic Performance Measure Template](#), except for units using an alternative means of reporting (such as Clear Impact Scorecard, or others approved by the CPO). Attachment A-2 is broken out into three main sections: Instructions, Programs and Measures.

- **Instructions:** The Instructions tab provides stepwise instructions for filling out the template. We encourage everyone to read through this tab in detail before starting the process of filling out/updating the data within the template.
- **Programs:** The Programs tab is used to identify and provide information about the programs which are being included in this year's reporting cycle. A program is defined as a set of services or activities aligned and resourced to accomplish a stated outcome or result. Programs exist at many levels within an organizational hierarchy. Each program listed should have a unique name and must include the appropriation level department ID it is linked to, the program purpose and context, a list of the specific services provided by the program and a link to the program's external website (if one exists). When providing this information, please consider that this is intended for an external audience. Don't assume the reader has an in-depth knowledge of your unit and its programs. If you must use acronyms, spell them out the first time they are used.
- **Measures:** The Measures tab is used to link performance measures directly to programs listed on the Programs tab. It is suggested that each program have three to five performance measures that:
 - Are directly related to the goals and strategies for the program, with an emphasis on serving the programs customers;
 - Include historical data (up to five years) to reflect major trends;
 - Include the most current data – preferably from within the last year; and
 - Speak to how much the program did (quantity), how well they did it (quality) and whether anyone or anything is better off (results).

For ease of reporting, we have prepopulated Attachment A-2's with data from prior submissions. Units will need to confirm/adjust/add information accordingly. When changing data, please be mindful of the link between the Program tab and the Measures tab. If a program name is changed on the Programs tab, it also must be changed on the Measure tab to ensure that data can be appropriately linked together during report preparation.

When reviewing, refining, or developing performance measures, units should make sure to include and utilize their appointed Performance Accountability Liaisons. The Office of the Chief Performance Officer is also available to assist with performance measure refinement and development as needed prior to submission. Please contact Justin.Kenney@vermont.gov with questions. You may also reference the [Performance and Productivity Measure Primer](#).

You may access your units pre-populated template, as well as a blank template, at: <https://vermontgov.sharepoint.com/sites/SOV-ContinuousImprovement/PPMB/>.

If you cannot access the SharePoint document library, please reach out to Justin.Kenney@vermont.gov to obtain a copy of your template.

ii. PPMB Due Dates

Attachment A-2 Programmatic Performance Measure submission(s) are due by October 17, 2023 at the same time as budget request submissions, but should be sent as a separate email to both ADM.Budget@vermont.gov and ADM.ContinuousImprovementTeam@vermont.gov. Please include PPMB in the email header.

Following submission, units should expect to receive feedback on their performance measures from the Chief Performance Office which may result in refinements and revisions. Any changes or updates will need to be completed and submitted to ADM.Budget@Vermont.gov and

ADM.ContinuousImprovementTeam@vermont.gov within 5 business days after receipt of the final targets.

f. Policy Impact Assessment

Completion of a Policy Impact Assessment (Attachment C) is required for any new programs or proposals, including any proposals to discontinue or materially change the scope of existing programs. The Policy Impact Assessment document is attached as Attachment C. The Policy Impact Assessment is provided in the form of a fillable PDF document that poses questions regarding the proposal. Some questions are required, and some are optional. Initial review by the Governor's Office requires responding to the questions identified in bold print. Please contact Xusana.Davis@vermont.gov with questions regarding Impact Assessments.

4. Final Budget Submission:

Final decisions for budget targets comprising the FY 2025 Governor's Recommended Budget are scheduled for communication in early January. Upon receipt of the final target, please finalize Vantage entries, and notify your budget analyst when the entries are complete.

Additional materials, including final "Budget Development Form" – Attachment B's, must be submitted electronically to the Governor through the Secretary of Administration using the mail folder ADM.budget@vermont.gov.

5. New positions:

New position requests will be considered as follows:

- New positions may be included as part of a department's policy initiatives. Requests for new permanent positions to be funded by base budgets *should be submitted as a decision items* (see [Sec. A.3.c](#) above) and should be included in your submissions to Governor's Office Liaisons (see [Sec. A.](#) above) and your Budget Analyst. Positions requests also require submission of budget bill language—see [Sec. E](#) for deadline.
- Requests for new limited service positions, the conversion of positions from limited service to permanent, and interagency transfers of positions should be included in your submissions to Governor's Office Liaisons and you budget analyst, and require budget bill language—see [Sec. E](#) for deadline.
- When making a position request, first consider whether reclassification of a vacant position is possible.
- Position requests associated with current service level operations may be submitted to the AoA Position Pool Committee for its consideration, along with your assigned Budget Analyst, and funded at the FY 2024 appropriations level (i.e. level funded for FY 2025).
- Please keep in mind that new positions incur derivative increases in operating expenditures and represent future cost increases for fixed costs such as internal service fund charges and insurance costs. These future costs must be absorbed within the targets issued and there should be no expectation of future supplemental funding for derivative and fixed costs associated with additional positions.

6. Budget Development Form

Use the blank template "Budget Development Form" – Attachment B, **provided to you by the Department of Finance and Management**, to illustrate changes from your FY 2024 appropriation

to your FY 2025 request. **Please do not submit outdated templates used in prior years.** Specific expectations for completing this form include:

- Enter data only into the white cells and lines can be inserted or deleted as needed.
- Provide distinct line-item entries for upward and downward pressures relative to your FY 2024 base appropriation
- Line-items must be grouped within the appropriate Major Object Category provided: Personal Services, Operating Expenses, and Grants
- For Personal Services changes, provide the following line-item detail, as applicable
 - Annualization of the prior fiscal year’s Pay Act detailed as:
 - Portion attributable to capped federal funds
 - Portion unattributable to capped federal funds
 - Change in fringe benefits
 - Effect of RFRs and Class Actions
 - Vacancy savings
- Line-items associated with the annualization of a BAA request should be labeled as such.
- Proposed Base Initiatives and/or One-Time Expenditures should be entered onto their appropriate tabs by Major Object Category.
- All reductions to meet the 3% target increase must be entered into the appropriate section by Major Object Category. Restoration of reductions will be based upon the order they are entered.
- Final Attachment B submissions must match the Governor’s Recommended Target – No Exceptions. Restoration of proposed reductions and/or additional funding will be communicated to you once the Governor has had the opportunity to consider all proposals for limited funds.
- Any Base Initiatives or One-Times proposed will be compiled for review by the Governor’s Office and targets adjusted at their discretion.
- Base initiatives and/or One-Time proposals should be accompanied by any necessary implementing language at the time of submission on the template provided to you from the Department of Finance and Management.
- **Base Initiatives and One-Time expenditures must be entered** onto the appropriate tabs of the **“Budget Development Form” – Attachment B** using the taxonomy required in the **“Instructions” tab** of the excel workbook.

7. Supplemental Vantage Forms

As part of the budget submission, 32 VSA § 307(b) requires detailed information concerning:

- (1) The specific special funds used as receipts in the budget.
- (2) Explanations of interdepartmental transfers, including which department is the source. If your funding is reliant on interdepartmental transfers, be sure to coordinate with the source department. Do not assume both departments have the same expectations. We recommend establishing a written funding agreement such as a Memorandum of Understanding. Remember, receipt of federal funds means receipt of all federal regulatory obligations related to those funds.
- (3) Budgeted positions.
- (4) Changes in program funding levels and associated policy changes in the requested budget.

In addition, the Legislature regularly requests details of departments’ “Grants Out” to Vermont residents and organizations. Vantage is configured to meet these requirements. Departments are responsible for the accuracy of their Vantage entries, and any supplementary, summary, or explanatory information, including the **“Budget Development Form” – Att. B**. Documentation on Interdepartmental Transfers Receipts and Federal Receipts are generated by departments from the

Vantage system. The Supplemental Interdepartmental Transfers Receipts, Federal Receipts, and Grants Out forms must be completed accurately within Vantage and reconcile to departments' final Governor's Recommendations.

8. Grants, gifts, loans, things of value:

As amended by 2019 Acts and Resolves No. 72, [32 VSA § 5](#) requires that all new grants, gifts, loans, sums of money, or things of value with a value greater than \$15,000 received by the State must be accepted in accordance with the statutory procedure requiring submission to the Joint Fiscal Office through the Governor. ([Form AA-1](#) is the administrative vehicle for this submission.) Including these items in the budget is not a substitute for this process. However, once duly accepted, grants (on-going revenues and expenditures) should be budgeted in subsequent years.

Please note that per [32 VSA § 5](#) items ranging in value from \$1,500 to \$15,000 may be accepted with notice to the Secretary of Administration (via communication to your department's budget analyst). The Department of Finance & Management provides the statutorily required reporting of such items in the quarterly Small Grants Report to the Joint Fiscal Committee.

9. Boards & Commissions: per diem reporting required

NEW FOR FY2025: 2022 Acts and Resolves No. 134, Sec. 8(e)(1) requires, effective July 1, 2023, that the annual budget report of the Governor "shall contain a separate schedule, by entity, that provides the per diem compensation rate established for the current fiscal year and the per diem rate proposed for the next fiscal year of any per diem that will be increased from its current fiscal year rate. This schedule shall also provide, by entity, the total per diem amounts paid and total expenses reimbursed for all members of the entity in the most recently ended fiscal year." Use **Attachment F – Per Diem Compensation** to report the required information for any boards and/or commissions that are supported by your agency or department. Any proposed increases to per diem rates will be considered by the Governor for inclusion in his FY2025 budget recommendation.

Agencies and departments should also be aware of 2022 Act 134, Sec. 8(e)(2) which affects annual budget presentations to the Appropriations committees:

"In the annual budget documentation submitted to the House and Senate Committees on Appropriations, any agency or department that administers funds for a board, commission, council, and committee and all other management, policymaking, or advisory bodies, including temporary study commissions, shall provide a list of the entities and the current and projected per diem rate and expense reimbursement for each entity. The agency or department shall include within its annual budget documentation the justification for any current or projected per diem rate that is greater than \$50.00, including the justification for authorizing a per diem rate of greater than \$50.00 for a board, commission, council, or committee created by executive order pursuant to subsection (g) of this section."

B. FY 2024 Budget Adjustment:

The budget adjustment process is used to meet extraordinary needs not anticipated in the current budget, and for internal funding changes that cannot be accommodated by administrative means (i.e., appropriation transfers, excess receipts, etc.). Please restrict Budget Adjustments, monetary and language, to technical changes only. **Please follow the instructions provided to you by the Department of Finance and Management on the required templates.** New one-time expenditures or policy proposals should be presented as part of the FY25 Budget process. The Governor's Office will review these submissions and determine if any items require advancement through the Budget

Adjustment process. Budget adjustment submissions are due October 17, 2023 along with FY2025 budget submissions, and preliminary proposed bill language.

For development of the Governor's recommended FY 2024 Budget Adjustment bill (BAA), we will utilize the July 31, 2023 revenue forecast approved by the Emergency Board. Further adjustments to the FY 2024 Budget Adjustment proposal may be necessary based upon any revisions to the consensus revenue forecast by the Emergency Board at its January 2024 meeting.

The first recourse in solving current-year budget issues is to redirect resources within your agency or department's existing funding. Please bring to our attention any significant issues that will be handled in this way-- identifying the problem and a solution-- and whether Budget Adjustment action (e.g., transfer of funding between appropriations) is required.

Notification of budget adjustment proposals should include a description of the causes of increased or decreased expenditures or receipts, the related actions already taken to contain increased spending, and the proposed remedy. A request should cite all affected sections of the FY 2024 appropriations bill and include draft language, with an explanation narrative, of the changes required.

Requests for inclusion in the Budget Adjustment must be submitted electronically to the Governor, through the Secretary of Administration using the mail folder ADM.budget@vermont.gov. Responses must be approved by the Commissioner or the exempt head of your agency, department, or office. Departments should identify BAA items during their budget meetings.

As noted above, new grant receipts (e.g., federal grants) should be submitted for approval per [32 V.S.A. § 5](#). Do not include them in the Budget Adjustment as proposed changes to appropriations.

C. Executive Fee Bill and Fee Report

2023 Acts and Resolves No. 78, Sec. E.127(c) provides a one-year moratorium on the annual Fee Report and Requests required per 32 V.S.A. § 605. As such, the Governor is not entertaining any fee changes for the upcoming session of the General Assembly. The normal fee cycle will resume in fiscal year 2026.

D. Appropriations Bill Narrative

Please closely review any legislative language associated with your appropriations or programs in the FY2024 appropriations bill (Act 78 of 2023) and identify any necessary changes that must be made to implement your department's budget plan as part of the FY 2024 Budget Adjustment and/or the FY 2025 Governor's Recommended Budget language. The best way to communicate these changes is to return a copy of those portions of bill language on the required templates, marked up for any deletions, additions, or changes with an explanation of what the proposed changes are accomplishing. It is your department/agency's responsibility to be aware of language from other bills in prior years which may need modification.

Marked-up narrative portions must be submitted electronically to the Governor, through the Secretary of Administration using the mail folder ADM.budget@vermont.gov by November 10, 2023 for Budget Adjustment language, and by December 20, 2023 for FY25 Governor's Recommended Budget language.

E. FY 2025 Budget Development Timetable

The following set of dates will help in planning tasks in the development of the FY 2025 Budget and the FY 2024 Budget Adjustment. Dates are for planning purposes only and are subject to change; you will be notified of any changes in due dates.

Policy & Budget Development Timeline

Tuesday, October 17:	Initial FY24 BAA submissions, Initial FY25 budget submissions including required attachments due electronically to DFM.
Monday, October 23:	DFM begins meeting with Agencies and Department on FY24 BAA and FY25 budget submissions.
Thursday, November 30:	Final FY24 BAA language due to DFM.
Monday, December 04:	ISF targets issued to Cabinet by DFM.
(TBD)day, December (TBD):	Actuarially determined Pension contributions due from Treasurer.
Friday, December 15:	FY25 Budget Bill language due to DFM.
Tuesday, January 02:	DFM communicates final Governor's priorities for General Fund to Cabinet and Departments.
January TBD:	Final budget targets issued by DFM / final FY25 budget submissions entered in Vantage.
No later than Jan. 23, 2024:	Governor's Budget Address