New America

EDUCATION & WORK

VERMONT

External Threats to the State Budget and Education Spending

Federal spending cuts, whether or not they target education directly, may reduce the resources available for state priorities. Direct impacts on education spending are less of a risk in Vermont than in other states due to the protected structure of its Education Fund. However, economic contraction could lead to reduced revenues for education.

1. How do federal health care spending cuts threaten the state budget?

Direct Threats:

- Between the Medicaid changes in the reconciliation package ("OBBBA") and the expiration of Affordable Care Act subsidies, roughly 18,000 Vermont residents will become uninsured, a decrease of three percentage points.[1] Fewer Medicaid enrollees will mean less federal funding.
- A new cap on state tax rates for health care providers constrains the state's ability to finance its share of Medicaid spending. Any cut to spending would reduce federal matching funds.
- These factors together mean an estimated $2 billion less in federal funds over 10 years, a 10 percent cut,[2] comparable to the annual cost of covering 19,000 Medicaid enrollees.[3]

Indirect Threats:

- Medicaid has a multiplier effect, as increased health sector employment and improved financial well-being for beneficiaries generate state tax revenue.[4] Funding reductions may lead to job losses, decreased state GDP, lower credit ratings, and loss of state tax revenues.[5]
- In 2026, Vermont stands to lose an estimated $26 million in GDP, $2 million in tax revenue, and 200 jobs as downstream impacts of the expiration of the Affordable Care Act Marketplace advanced premium tax credits.[6]
- These economic impacts may lead to increased student need as families experience job loss and other financial pressures. It may also reduce the income of taxpayers who support the state Education Fund with income taxes (or, depending on the implementation of Act 73, may increase the number of low-income homeowners whose homesteads are partially exempt from school taxes). The state education budget could be squeezed between decreased revenues and an increased number of high-need students.

2. How do federal SNAP cuts threaten the state budget?

Direct Threats:

- Starting in 2027, Vermont will be responsible for an increased share of the administrative costs associated with SNAP. In 2028, the state must also cover a portion of benefit costs. Vermont could face an estimated annual increase of roughly $6.3 million in its state cost share, equivalent to a 50 percent increase in SNAP's current share of the state budget.[7] At Vermont's average SNAP benefit level, this increase is equivalent to a full year of food assistance for 2,800 people.[8]

Indirect Threats:

- SNAP cuts may contribute to an economic downturn. The USDA estimates that every $1 billion the government spends on SNAP benefits generates $1.54 billion for the country's Gross Domestic Product (GDP) and leads to 13,560 additional jobs.[9] SNAP cuts will likely mean lost jobs and decreased GDP, reducing state revenues.
- Economic challenges associated with cuts may lead to increased student need as families experience job loss and other financial pressures. The state's funding formula may have to support a greater number of high-need students just as revenues are declining.[10]
- SNAP cuts threaten automatic student eligibility for free meals.[11] To maintain the same level of free meal provision, the state and/or districts may have to increase spending either on administrative costs (for individual school meal applications) or on the meals themselves.

3. How do potential federal education funding cuts threaten state education spending?

Effects on district budgets may put pressure on the state.

- Operating school districts in Vermont received 3.8 percent of their funding (excluding COVID aid) from federal sources in 2023, well below the national average of 8.8 percent.[12] Most federal funding is provided directly to public school districts, largely through child nutrition programs, Title I, and IDEA.[13]
- Since federal funds are substantially directed towards high-need, low-income districts, these districts will be less able to meet existing student needs without additional state support.[14] Vermont's funding structure means that, if districts maintain budget levels, the State Education Fund will be expected to make up the gap created by federal cuts (until and unless the Act 73 Foundation Formula goes into effect).
- Schools will still be legally obligated to provide certain services, such as appropriate language instruction for English learners, even if federal funding is cut. The state may have to increase outlays to help districts maintain required services.

Notes

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