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STATE OF VERMONT
JOINT FISCAL OFFICE

MEMORANDUM

To: Representative Mary Hooper, Chair
Senator Jane Kitchel, Vice Chair
Representative Janet Ancel
Senator Ann Cummings
Members of the Joint Fiscal Committee

From: Catherine Benham

Date: November 16, 2021

Subject: November 2021 - Fiscal Officer's Report

In anticipation of the November 17 meeting, here is an update of recent developments, some of which may be on the agenda of the Joint Fiscal Committee.

1. FY 2022 Revenue Collections through October

   Overall, through the first four months of the year, tax receipts have been performing above forecast in the General Fund and have been mostly on target in the Transportation and Education Fund.

   <u>General Fund:</u> For the month of October, revenues in the General Fund were slightly below target (-$0.4 million) for the first time in FY 2022:
   - Personal Income Tax collections missed their target by $3.9 million, a variance of -5%.
   - Meals and Rooms revenues in October were $2.5 million above forecast (+22%)
   - Corporate revenues continue to roll in with minimal refunding (up $2.3 million for the month).

   Despite the slow month for the General Fund as a whole, year-to-date revenues are still above forecast by $29.9 million or 5.4%:
   - Personal Income Tax revenues are up $12 million (+3.8%) relative to target.
   - Meals and Rooms Tax revenues have been above forecast every month this fiscal year, leaving them $7.9 million above projections or 17%. Elevated Covid-19 caseloads present a risk for Meals and Rooms taxes in the coming

months, but there has been substantial travel and tourism activity despite this – especially short-term on-line rentals.
- Corporate Income tax revenues are above target by $7.3 million YTD or +17%.
- Property Transfer Tax revenues are up about $1million (+13%) through the first four months of the year

Transportation Fund: Revenues in the Transportation Fund missed their target by 1% in October (-$0.4 million).
- Purchase and Use Tax revenues were up $0.4 million relative to their October forecast, but were offset by a miss in gasoline tax revenues, which missed their forecast by $0.3 million.

Through the first four months, revenues in the Transportation Fund are just slightly below target, -$0.3 million or 0.4%.
- Purchase and Use tax revenues are running $1.2 million above their forecast and would be even higher but for low vehicle inventories constraining sales. Higher prices have kept revenues at or above target all year.
- Gasoline tax revenues are below forecast by $1.3 million, the result of higher gas prices and reduced mobility due to COVID-19.
- Diesel tax and Department of Motor Vehicle fees are mostly on target.

Education Fund: In October, revenues in the Education Fund beat their monthly forecast by $0.5 million-a variance of less than 1%.
- Strong Meals and Rooms tax ($0.9 million or +22%) and Purchase and Use tax ($0.2 million or +5%) receipts offset a modest forecast miss in the Sales tax (-$0.6 million or -1%).

Year-to-date, the Education Fund is running slightly above target by $2.3 million or about 1%.
- Sales tax revenues are running $1.3 million below target for the year (-0.7%).
- This is offset by revenues from the Purchase and Use Tax and Meals and Rooms tax, which are above forecast by a combined $3.5 million year-to-date.

The next three months of sales tax revenues, corresponding to Black Friday and Christmas shopping, should give us a good picture of the overall state of sales tax receipts. The miss in the sales tax is probably due to both reduced mobility associated with elevated Delta variant caseloads and supply shortages that have reduced product availability. Risks to this and other consumption taxes include the aforementioned trajectory of the pandemic and supply constraints – both shipping and manufacturing.

2. Federal Infrastructure Bill

   The Federal Infrastructure Bill will provide approximately $2.2 billion to Vermont. We are still working through the details. Key components include:

   - $1.4 billion for federal-aid highway programs over five years.
   - $225 million for bridge replacement and repairs over five years.
   - $21 million to expand Vermont's electric vehicle charging network over five years.
   - At least $100 million to deploy advanced broadband throughout the State.
   - $83 million to improve and expand public transportation over five years.
   - $355 million to improve water infrastructure over five years.
   - $150 million for the Northern Border Regional Commission (NBRC).

   Many of these funding streams usually require non-federal matching funds. The match rate varies by program, but a general rule of thumb is a 20% match rate is required for non-interstate transportation work. The funds listed above are the formula funds anticipated for Vermont. Vermont will also be able to apply for additional competitive funding.

3. FY 2022 Medicaid Trend

   Medicaid costs are currently $30 million over budget in claims, which was anticipated. Prescription rebates collections were higher than anticipated by $10 million, so the net impact for Medicaid is $20 million over budget.

   The 6.2% enhanced FMAP rate in the Families First Coronavirus Relief Act is scheduled to end 3/31/2022. The Agency of Human Services is seeking an extension or gradual step down in the enhanced FMAP to follow the Medicaid redetermination process which will likely be a rolling year long process to redetermining Medicaid eligibility everyone.

   The Medicaid program will also see increases in the Medicare Buy-In program. Under the Medicaid Buy-In Program, Medicaid pays the Medicare premium for those individuals who are eligible for both Medicaid and Medicare. The federal government recently announced that Medicare Part B premiums will be increasing 14%. The increased Medicare premium cost will therefore also increase costs for Medicaid.

4. State Employees and Teachers' Retirement Funds

   The FY 2021 actuarial valuation reports for the VSERS and VSTRS retirement systems have been released and are posted on the Treasurer's and JFO websites. The OPEB reports, however, are a few weeks away.

VSERS:

- The State employees' retirement system funded ratio based on the actuarial value of assets improved, from 66.4% at the end of FY 2020 to 67.6% at the end of FY 2021.
- The Actuarially Determined Employer Contribution for FY 2023 is $125,938,400, up from $119,967,769 in FY 2022. This contribution is paid as a charge to agencies and funds in proportion to their shares of the active payroll.

VSTRS:

- The teacher retirement system funded ratio based on the actuarial value of assets improved, from 51.3% at the end of FY 2020 to 52.9% at the end of FY 2021.
- The Actuarially Determined Employer Contribution for FY 2023 is $205,161,651, up from $196,206,504 in FY 2022. Out of the $205.2 million total, approximately $42.1 represents the employer normal cost (the cost of providing a future retirement benefit to today's workforce, which is paid from the Education Fund) and the remaining $163.0 million is to amortize the unfunded liability (the cost of paying for prior actuarial shortfalls, which is paid from the General Fund). Local education agencies typically contribute $6–7 million for federally funded staff, which offsets the State's share of the normal cost and unfunded liability proportionally.

Both retirement systems had a very strong investment year in FY 2021, which offset deferred market losses from prior years. The VSERS system realized a market value return of 25.71% and VSTRS realized a market value return of 26.64%, compared to assumed return rates of 7.0%. However, most of the benefit of that strong investment performance will not be fully recognized in the actuarial funding calculations for several years due to smoothing. Higher than anticipated Cost of Living Adjustments (due to the higher CPI) caused actuarial losses that offset some of the benefit of this strong year of investment performance.

5. Legislative Budgets and Other

   The Joint Legislative Management Committee adopted the FY 2022 budget adjustment (BAA) and the FY 2023 budgets for the Legislative Branch. Specifically, for the Joint Fiscal Office the FY 2022 BAA and FY 2023 budget both include funding for the IT project review consultant and funding for the limited-service position that was authorized at the September 17, 2021, JFC meeting.

6. Joint Fiscal Office Updates
   a. Akol Aguek, Patrick Titterton and Julia Richter have all officially started work in JFO. We are excited to have them on board and welcome their energy and enthusiasm as they get up to speed on their various topics.
   b. Mark Perrault will be retiring in mid-December after many years of being the key staff person on education finance. We wish him the best. We have been recruiting to fill this position.