VERMONT GENERAL ASSEMBLY

The Fiscal Focus

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An Update from the Joint Fiscal Office

In This Issue:

The Fiscal Focus newsletter is a nonpartisan update prepared by the Joint Fiscal Office (JFO) to inform legislators on current issues while the General Assembly is not in session. As your staff, we believe it is important for a citizen legislature to be kept informed of local, State, and federal financial developments while the General Assembly is adjourned.

It is important for us to hear what topics interest you for future issues. If you have any comments or suggestions, please let us know.

Fiscal Year 2024 Revenue Collections

General Fund Overperforms While Transportation Fund Lags

The General Fund exceeded its September target and remains above forecast for the year. September revenues for the Education Fund and the Transportation Fund were below target. The Education Fund is still slightly above forecast so far this year. The Transportation Fund, however, is below forecast year to date. The September shortcoming was primarily due to processing delays at the Department of Motor Vehicles (DMV) that led to the underperformance of DMV fees and the Purchase and Use Tax. An emergency 60-day extension on license and registration renewals, issued after the July flood, may have impacted DMV fee revenue as well. It should be noted that, due to the effects of the flood and the deadline extension the Department of Taxes put in place to help flood-impacted individuals and businesses, monthly revenue results may not align with monthly forecasts as well as they typically do. Total revenue results will likely align with the forecast beginning in November.

- The General Fund was +$15.2 million, or +7.6%, above target for the month of September; year to date it is +$25.6 million, or +5.3%, above target.
- The Education Fund was -$2.6 million, or -4.1%, below forecast in September and is +$0.2 million, or +0.1%, above target so far this year.
- The Transportation Fund was -$4.1 million, or -14.7%, below target in September and is currently -$3.6 million, or -4.6%, below forecast this year.

Revenue Collections
(continued)

For the month of September, State revenues in the three major funds were collectively +$8.5 million, or +2.9%, above target. For the year, the three major funds are +$22.3 million, or +3.0%, ahead of forecast. Below is an overview of the three funds' performance in September and year to date.

FY 2024 Fund Performance vs Official Forecast ($ in millions)

	Month of September			Year To Date (YTD)		
	Revenue	Revenue vs Target	% Over Target	Revenue	Revenue vs Target	% Over Target
General Fund	$216.0	+$15.2	+7.6%	$509.1	+$25.6	+5.3%
Education Fund	$61.1	-$2.6	-4.1%	$187.3	+$0.2	+0.1%
Transportation Fund	$23.9	-$4.1	-14.7%	$73.4	-$3.6	-4.6%

September Joint Fiscal Committee Meeting

The Joint Fiscal Committee met on September 27. At the meeting, Commissioner Adam Greshin and Deputy Commissioner Hardy Merrill of the Department of Finance and Management reported on the General Fund and Transportation Fund Balance Reserves, the 27/53 Reserve, and the status of ARPA-Coronavirus State Fiscal Recovery Fund appropriations. As of June 30, the balance reserves for the General Fund and the Transportation Fund stood at roughly $80.4 and $26.0 million, respectively. As of September 21, approximately $637.9 million ARPA-Coronavirus State Fiscal Recovery funds remained unspent. All ARPA-Coronavirus State Fiscal Recovery funds have been appropriated.

Representatives from the Department for Children and Families, the Department of Housing and Community Development, and the Vermont Housing and Conservation Board provided updates on the transition from the pandemic-era General Assistance Emergency Housing Program and efforts to make additional housing units available.

Douglas Farnham, the Chief Recovery Officer for the State, spoke about the status of post-flood recovery efforts and of a FEMA award that will provide $164.0 million in Public Assistance funds to help the State in its recovery efforts. The Committee approved the granting of these funds to the Department of Public Safety.

Administration officials updated the Committee on changes to the Business Emergency Gap Assistance Program (BEGAP; created in response to the flood) and grants to Efficiency Vermont from the Department of Public Service. The Emergency Board had previously approved both the BEGAP changes and a fund transfer to provide funds for the Efficiency Vermont grants.

The Committee approved a proposal from the Department of Mental Health to use $3.0 million General Fund dollars appropriated in Act 78 (2023) as matching funds to help expand the Vermont Care Partners Employee Investment Program to all Designated and Specialized Service Agency staff. Funds will be used for tuition reimbursement, loan repayment, or both. The Department for Children and Families' Child Development Division received $18.3 million in American Rescue Plan Act discretionary funds from the Child Care Development Fund (CCDF). To date, the Division has spent or reimbursed $6.2 million of the funds and expects to liquidate approximately $14.6 million by September 30 of next year. The Committee approved the Division's proposal to use the remaining funds, approximately $3.8 million, for the funding of projects allowed by CCDF that support the successful implementation of Act 76 (2023; an act relating to child care, early education, workers' compensation, and unemployment insurance).

Pension System Studies Completed
Minor Modifications Made

The three State pension systems recently released their respective experience studies, which are available on the Treasurer's website. These studies reviewed the plan experience during the three-year period from fiscal year 2020 through fiscal year 2022 in relation to the long-term actuarial assumptions and inform whether revisions to those assumptions are warranted. Net of all assumption revisions, the experience studies are expected to have relatively small impacts on the accrued liabilities and funding requirements.

• VPIC made no changes to the long-term assumed rate of return (7.0%) or inflation rate (2.3%). The actuary for the three retirement boards independently reviewed these assumptions and believes them to be reasonable.

• Mortality assumptions were revised for all three systems to approximate no lingering pandemic impact.

• Administrative cost assumptions were modified for all three systems to reflect revised staffing levels.

• VSERS: Minor revisions to salary and COLA assumptions. Net of all assumption changes, accrued liabilities would change by $13.0 million.

• VSTRS: Minor revisions to turnover, retirement, salary, and COLA assumptions. Net of all assumption changes, accrued liabilities would change by -$22.6 million.

Summary of Preliminary Impacts of Actuarial Assumption Changes ($ in millions)			
	FY 2024 Baseline (from FY 2022 valuations)	Reflecting Assumption Changes from Experience Studies	Change
VSERS (State)			
Accrued Liability	$3,444.1	$3,457.1	+$13.0 (+0.4%)
Total Normal Cost	$74.1	$75.8	+$1.7 (+2.3%)
ADEC	$121.9	$125.0	+$3.1 (+2.5%)
Funded Ratio	69.9%	69.6%	-0.3%
VSTRS (Teachers)			
Accrued Liability	$4,289.8	$4,267.2	-$22.6 (-0.5%)
Total Normal Cost	$79.7	$80.9	$1.2 (+1.5%)
ADEC	$194.3	$193.8	-$0.5 (-0.3%)
Funded Ratio	57.3%	57.6%	+0.3%
VMERS (Municipal)			
Accrued Liability	$1,159.3	$1,163.0	+$3.7 (+0.3%)
Total Normal Cost	$43.8	$43.7	-$0.1 (-0.2%)
ADEC (not funded by State)	$43.7	$44.0	+$0.3 (+0.7%)
Funded Ratio	77.0%	76.8%	-0.2%

• VMERS: Modified its salary, retirement, and turnover assumptions. Net of all assumption changes, accrued liabilities would change by $3.7 million. Note that VMERS is fully funded by participating municipal employers and employees, not the State.

Using the fiscal year 2022 valuation data as a baseline, the assumption revisions alone are expected to have relatively minor impacts on the pension systems (see table). However, these impacts do not reflect the experience incurred during fiscal year 2023 so they are preliminary in nature. The upcoming fiscal year 2023 actuarial valuations – due later this fall – will reflect these assumption changes and be used to establish the final funding requirements for the fiscal year 2025 base.

Emergency Board Meetings
A VAST Transfer and a BEGAP Bump

The Emergency Board held two meetings in September to transfer appropriations to assist with recovery and relief from the July flood.

The Emergency Board met on September 7 and approved a motion to transfer $750,000 of general funds that were appropriated in Act 185 (2022) from the Agency of Transportation to the Department of Forests, Parks and Recreation. The funds were initially appropriated to the Agency of Transportation for a grant to the Vermont Association of Snow Travelers (VAST) for its Equipment Grant-In-Aid program. Funds from this transfer will still be granted to VAST but will support flood-impacted trail repair measures.

On September 21, the Board met to approve a $1.5 million transfer from the Renter Credit Program to the Department of Housing and Community Development for its Mobile Home Condemnation Project. The maximum FEMA compensation for a condemned manufactured home is $41,000. After the July flood, State officials learned that FEMA would not automatically disperse the maximum compensation amount as it had following Tropical Storm Irene. Funds from this transfer will be used to bridge the gap between FEMA compensation and the $41,000 maximum. Only homeowners whose homes are on rented lots will be eligible for the funds.

The Board also approved a request to revise the guidelines of the Business Emergency Gap Assistance Program (BEGAP) that was created in response to the July flood. Initially, businesses that suffered less than $1.0 million in flood-related damages were eligible for grants of 20% of net damages, up to $20,000. The revised guidelines increase the grant amount to 30% of net damages and eliminate the $20,000 cap. Businesses with damages greater than $1.0 million will be eligible for grants of 20% of net damages, up to $500,000. The program launched with $20.0 million. At the time of the Emergency Board meeting, roughly $6.0 million of those funds had been committed.

The State of State Housing Initiatives
Impacts of Acts 47 and 81

Act 81 (2023; an act relating to adult protective services and emergency housing transition) mandates that the Agency of Human Services assist each household that was in the pandemic-era General Assistance Emergency Housing Program on June 30, 2023, in finding alternative housing by April 1, 2024. This group, the "6/30 cohort," originally included 1,283 households. As of September 26, 409 households have transitioned out of the program and 874 remain in it. Of the 409 households that have transitioned out of the program, 191 left without notifying the State, 126 found permanent housing, and 49 were exited for misconduct. The remaining households exited for various other reasons.

Per Act 81, the Agency of Human services must report to the committees of jurisdiction, including the Joint Fiscal Committee, each month on the progress of the emergency housing transition. The Agency's most recent updates included information on the challenges the transition presents. Due to changes in eligibility requirements, many households are unsure if they qualify for assistance. The length of stay for households outside of the 6/30 cohort, 28 days for some and 84 for others, provides relatively little time to connect the households with other services. While many hotel and motel owners have been willing to negotiate on rates there is little incentive for them to do so, making it difficult to reduce the cost of the program. The Agency of Human Services has experienced an uptick in call volume, which has translated to long wait times. The Agency added a contractor to address this. Other issues, including staffing shortages and a lack of housing, may be addressed in the long-term but are difficult to address in the short-term.

Many efforts are underway to address these long-term problems. Act 81 directs the Vermont Housing and Conservation Board (VHCB) to use $10 million of the funds appropriated to it in fiscal year 2024 for the support and enhancement of manufactured home capacity. Pursuant to this, VHCB established the Manufactured Home Replacement and Infill Program, which provides funds to manufactured home park owners so that they may fill vacant and underutilized lots and house Vermonters exiting homelessness. VHCB is currently reviewing an application from Housing Foundation, Inc., the largest manufactured home park owner in the state. FEMA is also taking inventory of vacant lots in three counties for their potential use as FEMA housing sites.

Between January 2020 and September 2023, VHCB brought 1,178 units online. In fiscal year 2024, VHCB will bring a total of 379 new housing units online. Of those 379 units, 101 will be for households exiting homelessness. By fiscal year 2027, VHCB anticipates that 1,020 new units will be brought online. Unfortunately, the pace of new construction is not fast enough to meet demand. Testimony from the Housing Trust of Rutland County, submitted to the House Committee on Human Services and the Senate Committee on Health and Welfare, notes that the Trust manages 400 affordable housing units but anticipates a need for 2,700 affordable housing units in Rutland County by 2025. It should be noted that the July flood, according to self reports Vermont 211 received, damaged over 4,000 residences and rendered over 700 uninhabitable.

The General Assembly's recent effort to address the housing shortage, Act 47 (S.100; 2023), includes support for the Vermont Housing Improvement Program (VHIP), the construction and rehabilitation of affordable housing units, Act 250 exemptions for affordable housing in State designated centers, and updates to municipal zoning regulations.

The Mobile Home Task Force established by Act 47 has met twice. At its first meeting, the Department of Housing and Community Development provided an overview of the current mobile home landscape in Vermont. At the Task Force's second meeting, it heard from a representative from the Vermont Bankers Association as well as from Efficiency Vermont. The testimonies addressed the classification of mobile homes (as real estate versus personal property) and the energy efficiency and construction of mobile homes and alternative types of manufactured housing. The Task Force must submit a written report to the committees of jurisdiction with any recommendations for legislative action relating to mobile home park infrastructure and the statutory treatment of mobile homes by January 15, 2024.

Joint Fiscal Office Committee Work

The Joint Fiscal Office continues to work on numerous long-term projects and research initiatives. These include modeling of pupil weight changes made by Act 127 (2022), the fiscal year 2024 fee report, a study on potential funding mechanisms for the Universal Service Fund, and the five-year appropriations Web Report. The Joint Fiscal Office has also issued an RFP for a report on public infrastructure financing, per Act 72 (2023).

The Joint Fiscal Office is also actively involved in the work of several committees that have had meetings during the off-session.

The Renewable Energy Standard Reform Working Group has met three times thus far. The Joint Fiscal Office contracted with a facilitator and an economic modeling consultant to assist the Group. At the first meeting, the Group discussed its objectives and received a presentation on the economic modeling. At the second meeting of the Group, members reviewed the statute, discussed the purpose and priorities of a Renewable Energy Standard, and considered the barriers to moving to a 100% Renewable Energy Standard for all electrical utilities by 2030. At its third meeting, the Group conducted an in-meeting poll to explore how a Renewable Energy Standard could decrease greenhouse gas emissions, policy options for supporting a drastic reduction in carbon load, possible updates to Vermont's infrastructure to withstand environmental stressors, and ways that a Renewable Energy Standard could bring new renewables into the Northeast, the state, and local systems. The Group had a detailed discussion regarding some of the questions and responses from the poll. The Group also received polling data from the Department of Public Service that showed that for Vermonters across all groups reliability and affordability of services were of highest priority. The Group meets again on October 25.

The Basic Needs Budget Technical Advisory Committee, established by Act 54 (2023) has met four times. At the first meeting Ellen Kahler, the

Committee Work
(continued)

Executive Director of the Vermont Sustainable Jobs Fund and a member of the Committee, spoke about the history of the Basic Needs Budget. The Office of Legislative Counsel walked the Committee through the enacting legislation and Joint Fiscal Office staff spoke about the purpose of and methodology for the Basic Needs Budget. Tom Kavet and Doug Hoffer, both of whom contributed to the first Basic Needs Budget Report in 1999, also participated in the meeting. At the second meeting, Hoffer offered commentary on the Basic Needs Budget methodology. Joint Fiscal Office staff presented on the demographic assumptions made in the budget and the methodology used for estimating health care costs in it. At the third and fourth meetings, Joint Fiscal Office staff provided background on the methodology used for calculating various components of the basic needs budget, including household size, food costs, telecommunications, housing, transportation, and child care. The Committee discussed the methodology for these components and agreed on the need for methodological changes in some instances. Per Act 54, the Committee must study the methodology used for creating the Basic Needs Budget and submit a report with any recommended changes to the committees of jurisdiction on or before November 1.

The Joint Transportation Oversight Committee met on September 27. Agency of Transportation officials briefed the Committee on the impacts of the July flood and current response activities. Administration officials provided updates on Federal Emergency Management Agency (FEMA) and Federal Highway Administration (FHWA) estimates related to the July flood. The estimate for FEMA Individual Assistance, which provides financial and direct services to eligible households who have uninsured or underinsured expenses and needs, is roughly $22.0 million. Currently, individuals in nine counties are eligible to apply.

FEMA Public Assistance provides states, federally recognized tribal governments, non-profits, and municipalities with funding for projects to permanently restore infrastructure affected by natural disasters. It's estimated that the amount of FEMA Public Assistance funds will be similar to the amount received following Tropical Storm Irene; $217.0 million. Eligible projects include improvements to existing infrastructure or new structures like buildings and wastewater treatment facilities. The Agency predicts that many of the rail projects related to the July flood will be eligible for FEMA funds. These funds come with a 25% match unless the total costs of emergency expenses, debris removal, and infrastructure repair are over $111.0 million. Once this threshold is reached, 90% of eligible costs are reimbursed. The remaining 10% is provided by non-federal funds.

The Agency of Transportation reported an estimated $160.5 million of FEMA-related costs and $130.7 million of FHWA costs. Emergency repair work on Federal-aid Highway Program roads, such as U.S. Route 4 and VT 110, that suffer serious damage as a result of a natural disaster is reimbursed by FHWA at 100% for the first 270 days after the disaster.

In addition to FEMA and FHWA funds, the U.S. Small Business Administration (SBA) provides low-interest loans to businesses and households that are impacted by natural disasters. As of writing, the SBA has awarded $23.9 million in loans to 501 businesses and households.

The Administration also made changes to several vehicle incentive programs to target assistance to income-eligible Vermonters impacted by the floods.

The Committee reviewed and approved the State purchase of land adjacent to the Franklin County Airport for avigation needs and received an update on the potential sale or long-term lease of the Caledonia County Airport. An RFP was issued on August 2 and closed on September 13. The Agency is reviewing the one proposal it received in response to the RFP.

The Joint Pension Oversight Committee will meet on November 7 to review the results of the recent pension experience studies, the fiscal year 2023 actuarial valuations, and the impacts both will have on the State's funding requirements for fiscal year 2025.

Joint Fiscal Office Staff Changes
Hires, Departures, and Open Positions

- Scott Moore joined the Joint Fiscal Office as the Legislative Finance Manager. Scott has extensive experience in accounting and previously worked with the General Assembly as a Committee Assistant for the Senate Committee on Economic Development, Housing and General Affairs and as a member of the Committee Assistant Support Team.

- The Joint Fiscal Office hired Aimée Pope to serve as the Senate Appropriations Senior Fiscal Staff member. Aimée has worked for the State of Vermont for 25 years, including five years as a Senior Budget and Management Analyst with the Department of Finance and Management. Aimée coordinated the Safe Routes to School Program at the Agency of Transportation and most recently served as the Deputy Director of the Department of Human Resources' Classification and Position Management office. Her knowledge of the budgetary process will be incredibly useful for the Joint Fiscal Office's work.

- Sarah Clark will be departing the Joint Fiscal Office later this month to join the Agency of Administration. Over the past two years Sarah has been an invaluable asset to the Joint Fiscal Office. She will be sorely missed but we congratulate her on this exciting opportunity!

- Emily Byrne, currently the head of the Joint Fiscal Office's revenue team and an Associate Fiscal Officer, has accepted the Deputy Fiscal Officer Position. Emily has extensive experience in state government, having served in the Department of Finance and Management as the Budget and Management Director for a number of years and in the Agency of Education as its Chief Financial Officer. She has done wonderful work as the Revenue Team Lead and we're incredibly excited to have her take over the Deputy position.

- The Joint Fiscal Office is recruiting for the seasonal Senate Appropriations Committee Assistant position. Applications for the position must be submitted by November 1.

- The Joint Fiscal Office will begin recruitment for the Revenue Team Lead position soon.

Notable Dates

- The next meeting of the Joint Fiscal Committee will take place on Tuesday, November 7.

- The Joint Fiscal Office will host an all-member briefing on Friday, December 1.