



# The Fiscal Focus

An Update for Vermont Legislators from the Joint Fiscal Office

November 2021 Volume 28 – No 2

Dear Vermont Legislator,

*THE FISCAL FOCUS* is a nonpartisan update prepared by the Joint Fiscal Office (JFO) staff to keep legislators current during the off-season. 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.

Sincerely, The Joint Fiscal Office

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## Strong General Fund Revenues Lead to a Positive First Quarter Revenue Picture in Fiscal Year 2022

Data on September 2021 revenues were finalized in early October. Through the first quarter of fiscal year 2022, the General Fund (GF) closed in a strong position, while the Transportation and Education Funds were both very close to target. September is the first month of the fiscal year that estimated payments for income taxes are due, so the close of revenues in September gives a better sense of the overall revenue picture relative to August and July, particularly in the General Fund.

**General Fund (GF):** In September, the GF closed the month \$14.3 million above target or +8%. Revenues are now \$30.4 million above target for the first three months of the fiscal year (+7.4%). The overage in September was primarily due to the personal income tax (PIT), which was \$10 million above target (+10%). The strength in PIT was in both estimated payments (+\$7M) and withholding (+\$11M). Overall PIT revenues are \$15.8 million above target for the fiscal year. JFO will be watching withholding in the coming months as the withdrawal of enhanced unemployment insurance (UI) benefits, phased out in September, could depress receipts, and tax law changes exempting some UI benefits could elevate refunding. Elsewhere in the GF:

- Corporate income tax (CIT) revenues closed the month \$3.2 million above target (+10%) and are now \$5.1 million above target for the fiscal year (+12.7%).
- Meals and rooms (M&R) taxes were again strong in September (+\$2.4 million or 20% above target). September's strong month pushed GF M&R taxes \$5.5 million above target for the quarter (+15%). JFO will be watching this revenue stream as the impact of elevated COVID-19 cases in Vermont could dampen the relative strength Vermont saw in the late summer.

Transportation Fund (T-Fund): The T-Fund closed the month \$200,000 above target (+1%) and is now on target for the first three months of the fiscal year (-\$100,000 or -0.09%). The Purchase and use tax (P&U) bounced back in September - \$600,000 above its September target (+7%) and is now \$800,000 above target for the year. Low inventories of cars are expected to continue to constrain auto and truck sales and P&U tax revenues. Other T-Fund updates:

- Modest weakness in the gasoline tax continued in September, down another \$300,000 compared to its monthly target (-4%). Total gasoline tax revenues this year are \$1 million below their forecast (-4.7%).
- Other revenues, which includes jet fuel tax revenues and motor vehicle fines, are \$300,000 below target for the year (-6.6%), but these revenues tend to be rather unpredictable and don't represent a major source of revenues to the T-Fund.

Education Fund (EF): The Education Fund had its first monthly forecast miss in recent memory in September, closing the month \$4 million below forecast (-7%). Revenues overall for the year are still above forecast by \$1.8 million (+1%). In September, the miss was due to the sales and use tax which missed its forecast by \$3.3 million (-7%). Through the first quarter of fiscal year 2022, sales and use revenues are still very close to target (-\$700,000 or less than 1%). It should be noted that the sales tax forecast for the fiscal year was substantially upgraded relative to pre-pandemic expectations for fiscal year 2022, so even a modest forecast "miss" on the sales tax still represents record revenues. Education Fund meals and rooms taxes, as they have been in the General Fund (GF), have been quite strong, while purchase and use taxes have been hampered by low automobile inventories.

## Health Care, Housing to Drive Fiscal Year 2022 Budget Adjustment

The administration will be presenting their recommendations for mid-year adjustment to the current budget to the House Committee on Appropriations the week of December 13 as is customary during the second year of the biennium. The areas expected to need notable increases in appropriations (i.e., higher spending authority) include:

- **Medicaid:** The trend of claims expenditures in the Department of Vermont Health Access continues to come in higher than initially budgeted. The preliminary consensus reached by the staff working group for fiscal year 2022 is a gross increase of \$80 million in funding needed above what was budgeted in the Big Bill. This reflects the increased caseload the Medicaid program is experiencing since redetermination of eligibility has been suspended since March of 2020 as part of the COVID-19 relief package. That means a portion of this increase is likely to be onetime in nature. Because most of this

increase is in the category of New Adults without Kids which receives an enhanced federal match rate under the Affordable Care Act, less General Fund (GF) is needed for state match than if the increase were in other Medicaid eligibility groups and is expected to be under \$20 million.

- **Health Care Facilities Emergency Support:** Given the Delta variant and workforce challenges plaguing the health care system, the Agency of Human Services (AHS) has had to provide continued emergency COVID-19 relief and staffing support to vulnerable providers including long-term care facilities and other residential facilities. To date, AHS has leveraged Coronavirus Relief Funds (CRF) remaining in its Health Care Provider Stabilization program to provide this support. These funds will not be available after Dec. 31. AHS anticipate needing an ongoing fund source and will submit a proposal through the fiscal year 2022 Budget Adjustment Act (BAA), which is expected to be significant in size.
- **Emergency Housing:** The administration has extended until Dec. 31 (i.e., beyond the allowed 84 days) the program for vulnerable Vermonters who meet the program eligibility requirements for a motel-based emergency housing. This proposal includes several expenditure adjustments for transportation (\$500,000), rapid rehousing vouchers (\$600,000), and grants for rental security needs (\$1.5 million) to motels/landlords for folks leaving the emergency program. There may also need to be adjustment to the federal Emergency Rental Assistance Program funding allocated within the Department for Children and Families (DCF) as this will be the near-term source of funding for both the ongoing emergency housing as well as the longer-term rental program.
- **Statewide:** The health insurance premium costs for state employees is expected to increase on January 1, 2022 by 7%. This cost totals \$8-9 million in all funds for the half year of fiscal year 2022 that remains across all sources of funds.

There are always other adjustments, most of which are usually modest or are net neutral moves allocating funds across various funding sources or departments as program funds sometimes shift across related entities. It is unclear if the Budget Adjustment Act (BAA) proposals will include recommendations related to American Rescue Plan Act (ARPA) funds or onetime GF funds or if the administration will hold their recommendations for the fiscal year 2023 budget proposals in January.

### **Fiscal Year 2023 Budget Pressures Will Be Substantial**

The administration issued budget instructions to all agencies and departments in late August. The instructions inform agencies of the continued intent of the Agency of Administration to view department budget proposals through the lens of the State Strategic Plan and to include the State of Vermont Equity Impact Assessment Tool as part of their budget presentations. Agencies and departments are asked to submit budget proposals that grow no greater than 3% in comparison to the budget passed and enacted for fiscal year 2022. After so many years of constraint/scarcity combined with impacts of the pandemic and workforce needs faced by most employers, it is unlikely that many will be able to meet the 3% target and still absorb Pay Act and internal service fund pressures.

The list of pressures on the fiscal year 2023 budget is not finalized and will continue to be developed as we get closer to January. Early indicators are that the following issues will be addressed as part of the fiscal year 2023 budget:

- Debt service of about \$10 million. In fiscal year 2022 there was a reduction in the amount appropriated due to timing of new debt issuance. This will need to be paid in fiscal year 2023.
- Pension and other post-employment benefits (OPEB) for both State Employees and Teachers of \$23.4 million. This partially represents onetime funds that were used in fiscal year 2022 that will need to be rolled into the base in fiscal year 2021. This amount may change once the actuary's analyses are concluded for fiscal year 2023.
- Salary and Pay Act pressures could amount to \$30 million. This includes the rollout of the fiscal year 2022 pay increases, the still to be negotiated fiscal year 2023 Pay Act, the cost of reclassifications, and non-pay items included in the contract.
- Pressures in the Agency of Human Services may range between \$50 and \$60 million. This includes pressures on Medicaid, Child Care, Reach Up, Corrections, Developmental Services' caseload, and the cost of transitioning the former Woodside facility to a 16-bed mental health facility that will to replace the facility in Middlesex.
- At this time, it is unclear what the fiscal year 2023 need will be for State funds to address emergency housing and housing in general.
- Higher Education will likely be requesting significantly more funds over the fiscal year 2022 base, and we understand this could be in the \$17-\$23 million range.
- Required contributions of \$6 million to the General Fund Stabilization Reserve and \$7.4 million to the 27/53<sup>rd</sup> reserve will also need to be accommodated in the General Fund base.
- In addition, there will likely be pressures on the Judiciary's budget.
- The administration has indicated it intends to fully fund the budget needs for State Employees' health care premiums which will be a 10.7% cost impact over the current budget totaling \$12-\$13 million across all funds. There are anticipated to be cost pressure in most of the internal service funds in fiscal year 2023, such as a fee for space program and the various insurances billed to departments.

This list does not include all items identified in the [report on unfunded budget pressures](#) or other proposals for funding expressed by members and standing committees or requested at public hearings in the past year.

## **Federal LIHEAP Funds Increase for Upcoming Heating Season**

LIHEAP (Low Income Home Energy Assistance Program) is a federally funded program that provides a benefit to income-eligible clients to assist with their heating costs. Federal funding for LIHEAP is made up of the anticipated \$20.7 million block grant as well as \$26.6 million in American Rescue Plan Act (ARPA) funds. The once-in-a-generation ARPA funding will allow

eligible families an even more robust benefit this year, helping to ensure no family goes cold this winter.

With the additional funding, the Department for Children and Families (DCF) will provide a substantial fuel benefit to eligible households; increase weatherization services by \$3.9 million; expand the emergency heating system program which replaces and repairs heating systems and tanks during no heat situations, increase the allowed gallons/cords for crisis fuel; provide electricity checks to eligible households for electricity to run furnaces; provide electricity checks to renting households whose rent includes utilities; and transition the wood benefit from fall to spring. These actions will increase the benefits received and their purchasing power. The federal government is requiring that these funds be spent by September 30, 2022.

The Administration has projected that this season’s eligible fuel liability caseload will be approximately 18,000, which is similar to last year’s caseload. DCF has estimated that the full-season fuel benefit average approximately \$1,522 per household this heating season. This benefit will pay an estimated 89% of the average household’s seasonal fuel oil bill.

The additional \$3.9 million federal LIHEAP funds, when added to the \$4 million ARPA funds appropriated in the fiscal year 2022 budget, will be directed toward the weatherization program, providing a total of approximately \$16 million for weatherization in fiscal year 2022. DCF estimates that 1,380 home will be weatherized in fiscal year 2022. The Home Weatherization Assistance Program provides no-cost home weatherization services to Vermonters with low incomes. Both owner-occupied and rental homes are eligible to be weatherized.

Starting in fiscal year 2016, the Vermont Legislature allowed up to 15% of the federal block grant to be swapped with State funds in the home weatherization fund to address the needs of the eligible population between 151% and 185% of the federal poverty level and some administrative costs. The State funds for this heating season include a fund swap from the Home Weatherization Assistance Program of an estimated \$3.1 million with an additional \$3.9 million in ARPA LIHEAP funds.

Heating Season	Ave. Oil Benefit	Purchase Power	Federal Funds	State Funds
2021/22 *	1522	89%	\$47.3M	3.1M
2020/21 *	912	55%	\$22.4M	3.1M
2019/20 *	846	38%	\$17.3M	3.1M
2018/19 *	715	36%	\$17.3M	3.1M
2017/18 *	849	42%	\$16.1M	2.9M
2016/17 *	831	50%	\$16.2M	3.8M
2015/16 *	699	43%	\$14.6M	2.9M
2014/15	783	36%	\$18.9M	5.0M
2013/14	792	29%	\$19.1M	8.1M
2012/13	898	31%	\$18.4M	9.7M
2011/12	900	33%	\$19.5M	6.1M

\*In these years, State Funds refers to the Home Weatherization Assistance Program Fund (or “trust fund”) instead of General Fund.

**ELIGIBILITY**

- Households may be eligible for Seasonal Fuel Assistance if their gross household incomes are equal to or less than 185% of the federal poverty level — regardless of the resources they own (e.g., savings accounts, retirement accounts, and property).
- Households may be eligible for Crisis Fuel Assistance if their gross household incomes are equal to or less than 200% of the federal poverty level and they are experiencing a crisis.
- Households may be eligible for the [Home Weatherization Assistance Program](#) if they meet income limits or are an active Seasonal Fuel Assistance household or an adult is an Supplemental Security Income (SSI) recipient or received Reach Up benefits in the past 12 months.

To learn more about these benefits, [click here](#) or visit <https://dcf.vermont.gov/benefits/crisis-fuel>.

**Joint Fiscal Committee – September 17, 2021**

The Joint Fiscal Committee met on September 17 and took the following actions:

- Reviewed fiscal year 2021 closeout for the major funds, updates on 27/53 reserves, and Coronavirus Relief Funds, (GF, EF, and TF), a report on fund transfers, reversions and reserves, Coronavirus Relief Funds (CRF), Global Commitment and fiscal year 2023 Budget Instructions and Fiscal Challenges closeout and status report.
- Approved a change to a title for an approved limited-service position for the Department of Economic Development.
- Approved an American Rescue Plan Act (ARPA) funded Child Care Stabilization Program from the Department for Children and Families (DCF) to support childcare workforce support programs in fiscal year 2022.
- Received several updates on housing, including the General Assistance Housing Program and transition vouchers, the Emergency Rental Assistance Program (VERAP), and the Homeowner Assistance Fund Program grant approved in June of 2021.
- Approved a Capital Incentive Grant Program that models the fiscal impacts of COVID-19 projects within the State.
- Approved a modification to the Vermont Employment Growth Incentive Program Cost-Benefit Model.
- Approved a limited-service position (fiscal analyst) within the Joint Fiscal Office.

## JFO Staff Updates

The JFO is pleased to welcome three new analysts and an IT consultant to our team:

**Akol Aguek – Education and Finance Revenue Analyst.** Akol was born in Sudan (now South Sudan) but grew up in Kenya where he attended elementary and secondary school. Akol moved to Burlington, Vermont, from Kenya, in the summer of 2001 as a part of the Lost Boys of Sudan. Akol holds a BA in Economics and Political Science and MBA from the University of Vermont, as well as a Master’s in Public Administration (MPA) from Harvard University’s John F. Kennedy School of Government. Akol is currently working on his Ph.D. at the University of Vermont.

**Julia Hughes – Federal Funds Investments and Education Finance Analyst.** Julia was born and raised in Vermont and graduated from the University of Vermont (B.S) and the University of Cologne (MS in Economics). After several years of living and working abroad, she returned to settle in Vermont.

**Patrick Titterton – Revenue and Federal Funds Investments Analyst.** Patrick grew up in Elmore, Vermont and previously resided in Boston, Massachusetts, before returning to his home state in 2021. He graduated from The College of the Holy Cross (BA in Economics) and Northeastern University (MA in Economics).

**Lisa Gauvin – IT Consultant.** Lisa joins us following Dan Smith’s retirement. She graduated from the University of Massachusetts at Amherst. Lisa is Principal of Agilis Technology has led multi-agency information system implementations for other states and federal home loan banks.

## JFO Studies and Reports

The staff of the Joint Fiscal Office is actively working on several studies and reports. A sampling includes:

- Task Force on Affordable, Accessible Health Care – JFO has hired a consultant, Health Systems Transformation, to assist with the work of the task force.  
<https://legislature.vermont.gov/committee/detail/2022/368>
- Implementation of the Pupil Weighting Factors Report Task Force – This task force continues to meet, with a report due in December.  
<https://jfo.vermont.gov/committees-and-studies/task-force-on-the-implementation-of-the-pupil-weighting-factors>
- Pension Benefits, Design, and Funding Task Force – This task force has been meeting since July. An interim progress report was released in October with a final report due in December.  
<https://legislature.vermont.gov/committee/detail/2022/367>
- Unemployment Insurance Study Committee – This committee has had two of its three meetings. <https://legislature.vermont.gov/committee/detail/2022/370>

## Notable Dates

### **Joint Fiscal Committee**

November 17, 2021

9:30am – 12:00pm

Room 24, State House

[Click here for details](#)

### **All Legislative Briefing**

December 8, 2021

TBA on time and place

### **Fiscal Year 2022 Budget Adjustment Testimony**

House Committee on Appropriations

December 13 – 17, 2021

TBA on time and place



## **JOINT FISCAL OFFICE**

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