



VERMONT LEGISLATURE

# THE FISCAL FOCUS

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An Update from the Joint Fiscal Office

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*The Fiscal Focus is a nonpartisan update prepared by the Joint Fiscal Office 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. We want to hear what topics interest you for future issues. If you have any comments or suggestions, please let us know.*

## Tax Collections Continue Modest Strength in November

This report is based on final tax receipts for the month of November as of the first week of December. Overall, through the first five 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 Funds.

### General Fund

November revenues were very close to expectations, finishing \$2.8 million above target for the month. Year-to-date (YTD), the General Fund is running above forecast by \$27.2 million or about 4%. This past month, Personal Income Tax collections missed their target again slightly by \$0.3 million, a variance of -1%. However, revenues remain above target for the year, up \$11.6 million (+3.1%). Property Transfer Tax collections were also below target this past month by \$0.5 million. YTD, total Property Transfer Tax revenues are below target by \$1.2 million, but it should be noted that is compared to a record high forecast. The slower month for Personal Income and Property Transfer taxes was offset by continued strength in Corporate and Meals & Rooms Tax revenues.

- Meals and Rooms revenues in October were \$2.7 million above forecast (+25%) and have been above expectations every month in the fiscal year thus far, leaving them \$10.7 million above YTD projections (about 18.7%).
- Corporate revenues continue reflect strong earnings and pricing power for businesses: up \$2.3 million for the month and \$5.8 million YTD or +12.7%. Recent Corporate refunding requests may lower revenues in some of the coming months, but FY22 totals will still likely be above July projections.

## Transportation Fund

Revenues in the Transportation Fund beat their target slightly by 1% in November (+\$0.1 million). Overall, the Fund is currently \$0.3 million below target for the year or -0.3%. Like previous months, strength in the Purchase and Use Tax (+\$0.2 million relative to target this month) was offset by continued weakness in the Gasoline Tax (-\$0.2 million this month), as higher gasoline prices weighed on consumption.

## Education Fund

The Education Fund finished the month about \$2.9 million above target – a variance of +6%. It is now \$5.2 million above target for the fiscal year thus far. Strong Meals and Rooms tax (\$1 million or +25%), Purchase and Use Tax (\$0.1M or +3%), and Sales tax (+\$1.1M or +3%) receipts contributed to the solid month overall.

- The Sales tax, the largest nonproperty tax source in the Education Fund, is \$0.1 million below target for the year (-0.1%). The next two 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.

# Retirement Systems End Fiscal Year 2021 in Stronger Position, but Budget Pressures and Challenges Remain

The annual actuarial valuations for the pension systems for retired State employees and teachers provide the current financial picture of Vermont's two major statewide retirement systems. These reports, which are available on the [Treasurer's](#) and [JFO](#) websites, provide the recommended funding needs for the upcoming budget years based on the health of the pension funds. As of June 30, 2021:

- The Vermont State Employees' Retirement System (VSERS) has a funded ratio (on an actuarial basis) of 67.6%, an improvement from 66.4% at end of fiscal year 2020. The actuarially determined funding contribution for fiscal year 2023 is \$125.9 million, up \$6 million (5%) from fiscal year 2022. This contribution is paid as a charge to agencies by the various funds that support the active payroll. The General Fund share is approximately 40%; the remaining amounts will come from federal and special funds.
- The Vermont State Teachers' Retirement System (VSTRS) has a funded ratio (on an actuarial basis) of 52.9%, an improvement from 51.3% at the end of fiscal year 2020. The actuarially determined funding contribution for fiscal year 2021 is \$205.2

million, up \$9 million (4.6%) from fiscal year 2022. The portion of the contribution to amortize the unfunded liability is \$163 million and paid mostly from the General Fund. The portion of the contribution that funds the future retirement benefits of today's active workforce (the normal cost) is \$42.1 million and paid mostly from the Education Fund. A small portion of both costs (approximately \$6–7 million) is paid by local schools for federally funded staff.

Pension costs are expected to increase approximately 3% annually when all assumptions are met. Across the two major pension systems, the actuarially recommended contribution for fiscal year 2023 is approximately \$14.9 million (4.7%) higher than the fiscal year 2022 levels across all funding sources. This represents a \$5.3 million increase above what the previous year's (fiscal year 2020) valuations predicted fiscal year 2023 costs would be.

Both retirement systems experienced historically strong investment performance in fiscal year 2021, with the Vermont Pension Investment Commission reporting a preliminary return of

24.62%. However, market gains and losses are recognized over a period of years due to “smoothing,” and both systems entered fiscal year 2021 with deferred market losses from prior years that totaled \$180 million across both systems. The gains realized in fiscal year 2021 were sufficient to turn the prior deferred losses into deferred gains totaling \$440 million across both systems, which will be recognized in the funding calculations in future years.

Both retirement systems also experienced actuarial losses from higher than anticipated cost of living adjustments (COLA), which are calculated based on the Consumer Price Index. These losses offset some of the gains experienced from the strong investment performance. If inflationary pressures continue, additional COLA-related actuarial losses should be expected in future years.

## Education Fund Outlook for Fiscal Year 2023

On December 1, the Tax Commissioner submitted a letter to the General Assembly that recommended a significant decrease in education tax rates for fiscal year 2023 based on a consensus Education Fund Outlook prepared by the Administration and the Joint Fiscal Office. At these rates, tax bills in fiscal year 2023 would be reduced by 8.9%.

	FY 2022	FY 2023	Change
Homestead Property	\$1.523	\$1.308	-\$0.215
Household Income	2.50%	2.19%	-0.31%
Nonhomestead Property	\$1.612	\$1.385	-\$0.227

The Commissioner’s letter is intended to provide guidance to school boards currently preparing budgets for submission to their voters for approval in March. However, it is important to note that the release of the December 1 letter is the beginning, not the end, of deliberations for the upcoming legislative session.

Even in a typical year, there are a number of important caveats to consider when using these tax rate projections for planning purposes. First, the Commissioner’s task is largely a ministerial one that is highly prescribed under current law. Specifically:

- The base homestead property tax rate is \$1 per \$100 of equalized value.
- The base tax rate on household income is 2%.
- The statutory reserve is maintained at 5% of net appropriations.
- The percent change in the average tax bill is the same for all taxpayers.

Second, better information will be available by the end of January. This information includes board-approved budgets for the 2022 – 2023 school year, the January consensus revenue forecast for nonproperty tax sources, and the Budget Adjustment Act for fiscal year 2022.

Finally, the Education Fund is projected to close fiscal year 2022 with an unprecedented surplus of nearly \$90 million. This surplus is due primarily to unanticipated growth in consumption tax revenues in fiscal year 2021 and fiscal year 2022 and a reduction in the cost of the property tax credit in fiscal year 2022. The pandemic made both revenue and cost projections uncertain over this period.

Any projected surplus funds available in the Education Fund in fiscal year 2022 must be applied to education tax rates for the purpose of the December 1 letter. However, even if none of these funds were used for this purpose, education tax bills will likely fall in fiscal year 2023. How these surplus funds are actually used will be determined during the upcoming session.

## Joint Fiscal Committee – [November 17, 2021](#)

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

Received fiscal updates from the Administration:

- Vermont's Coronavirus Economic Stimulus Equity Program
- [Coronavirus Relief Funds](#)
- [American Rescue Plan Act Funds](#)
- Vermont's Housing Investment Program

Received additional updates on the following:

- [Federal Single Audit Review Report](#)
- Department of Mental Health's plan to reduce wait times in ERs and the movement of patients from nursing and rehabilitation facilities

Approved the following grants [[specific motions](#)]:

- [JFO #3071](#) – Two limited-service positions in the Dept. of Health
- [JFO #3070](#) – \$350,000 to the Agency of Agriculture for Northern Borders Regional Commission.
- [JFO #3073](#) – One limited-service position to the Department of Public Services
- [JFO #3072](#) – One limited-service position to the Agency of Human Services

Approved participation in the following Grant:

- [JFO #3074](#) – \$57,947,977 ARPA funds to the Agency of Commerce and Community Development, Department of Economic Development for a Small Business Credit Initiative.

## Grants and Limited-Service Position Update

Since the adjournment of the 2021 session, the Joint Fiscal Office has received 28 grants from the Administration. JFO #3052 – 3080 are available to review on the [grants spreadsheet](#) on the Joint Fiscal Office website. **A few of the larger grants are highlighted below:**

**JFO #3075** - \$3,170,514 from the U.S. Department of Health and Human Services (ARPA) to the Agency of Human Services, Department of Mental Health to expand the Pediatric Mental Health Care Access Program into Vermont. Includes one (1) limited-service position, Program Manager, at .5 FTE to coordinate the Program. Matching funds are required and are being provided through a grant from VT Community Foundation to the Community Health Center of Burlington.

**JFO #3074** - \$57,947,977 from the American Rescue Plan to the Agency of Commerce and Community Development, Department of Economic Development for a Small Business Credit Initiative to increase and expand programs designed to increase access to capital for small businesses.

**JFO #3066** - \$28,498,810 from the Centers for Disease Control and Prevention to the Agency of Human Services, Department of Health to address health disparities among high-risk, underserved racial and ethnic populations and rural communities, with a focus on inequities exacerbated by the pandemic. This grant includes nineteen (19) limited-service positions funded through May 31, 2023.

**JFO #3053** - \$7,000,000 from the USDA Natural Resources Conservation Service to the Agency of Agriculture, Food and Markets to support the Agency's existing water quality goals by incentivizing farmers to further reduce phosphorous pollution.

**JFO #3052** - \$50,000,000.00 from the U.S. Department of Treasury to the Agency of Commerce and Community Development, Housing and Community Development to implement a program pursuant to the federal Homeowner Assistance Fund established by the American Rescue Plan. The grant allows 15% of the total for administrative costs. ACCD requests (1) one limited-service position, Grants Management Specialist, for a two-year period.

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## 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 – The task force and consultant, Health Systems Transformation, had its last scheduled meeting December 15. A report, with recommendations, is due to committees of jurisdiction on January 15, 2022: <https://legislature.vermont.gov/committee/detail/2022/368>
- Implementation of the Pupil Weighting Factors Report Task Force – This task force completed its work and is working on a final report that will be posted here: <https://lifo.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 the next several weeks: <https://legislature.vermont.gov/committee/detail/2022/367>
- Unemployment Insurance Study Committee – This committee has completed its three meetings and is working on a final report that will be posted here: <https://legislature.vermont.gov/committee/detail/2022/370>

## Staff Updates

The JFO is pleased to welcome **Sarah Clark** as the new Deputy Fiscal Officer. Sarah brings 18 years of experience working in Vermont state government, most recently as the Chief Financial Officer for the Agency of Human Services. She attended American University (BA) and The University of Maryland (MBA).

After serving the JFO with dedication and distinction for 24 years, **Mark Perrault** has retired. Mark worked tirelessly on a variety of fiscal issues, with special emphasis on education financing. We thank Mark for all his hard work and wish him well as he ventures into well-deserved retirement.

## Notable Dates

### Fiscal Year 2022 Budget Adjustment Testimony

[House Committee on Appropriations](#)

December 13–17, 2021

Room 24 (former Legislative Lounge), State House

### Governor's State of the State Address

January 5, 2021, at 2:00 p.m.

Well of the House Chamber, State House

### Governor's Budget Address

January 18, 2021, at 1:00 p.m.

Well of the House Chamber, State House