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.

Major Fund Revenue Collections Year to Date

While the General Fund and Transportation Fund both fell short of their targets for November, the Education Fund slightly exceeded its monthly forecast. The General Fund was impacted by higher than expected Personal Income Tax refunds in November, likely due to the deadline extension issued by the Department of Taxes in response to the July flood. Processing delays at the Department of Motor Vehicles, following office closures to accommodate the core modernization project, affected the Transportation Fund. Combined, the major funds were below the November target by $6.6 million (-2.9%). Thanks to the General Fund's strong performance in prior months, all funds combined are $18.8 million (+1.5%) ahead of forecast for the year. The table below provides information on the major funds' revenues compared to targets in November and year to date.

	Month of November			Year to Date (YTD)		
	Revenue	Revenue vs Target	% Over Target	Revenue	Revenue vs Target	% Over Target
General Fund	$138.9	($7.5)	-5.1%	$815.6	$24.1	3.0%
Education Fund	$60.9	$3.1	5.3%	$316.8	$1.7	0.5%
Transportation Fund	$20.0	($2.1)	-9.6%	$118.5	($7.0)	-5.6%

Vermont's Unfunded Retirement Liabilities Increased in Raw Dollar Terms In Fiscal Year 2023

Fiscal Health of Systems Still Improved

According to the latest actuarial valuations, Vermont's unfunded retirement liabilities for State employees and teachers increased by approximately $140.7 million during fiscal year 2023. Most of the increase is due to changes to cost trend assumptions for retiree health care (Other Post-Employment Benefits, or OPEB). It should be noted that while unfunded liability balances increased, funded ratios still improved for all four retirement fund obligation categories. This signals that the systems continue to improve their overall fiscal health. More information can be found here.

Table 1: **Vermont's Unfunded Retirement Obligations for State Employees and Teachers**

	FY 2022		FY 2023		Change - FY 2022 to FY 2023	
	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio
State Employees (VSERS)						
Pension	$ 1,038,338,081	69.9%	$ 1,065,721,602	70.3%	$ 27,383,521	0.4%
OPEB	$ 802,517,251	11.6%	$ 891,771,290	13.4%	$ 89,254,039	1.8%
State Employee Total	**$ 1,840,855,332**		**$ 1,957,492,892**		**$ 116,637,560**	
Teachers (VSTRS)						
Pension	$ 1,832,425,033	57.3%	$ 1,794,791,795	59.3%	$ (37,633,238)	2.0%
OPEB	$ 717,851,240	5.3%	$ 779,534,909	8.5%	$ 61,683,669	3.2%
Teachers Total	**$ 2,550,276,273**		**$ 2,574,326,704**		**$ 24,050,431**	
Grand Totals	**$ 4,391,131,605**		**$ 4,531,819,596**		**$ 140,687,991**	

Source: JFO from actuarial valuations. Unfunded liability and funded ratios both measured on an actuarial value basis.

PENSIONS

Net of all factors, the Vermont State Employees' Retirement System (VSERS) unfunded liability increased by $27.4 million. The Vermont State Teachers' Retirement System (VSTRS) unfunded liability decreased by $37.6 million, though, resulting in a net $10.2 million reduction of unfunded pension liability across the two systems. These changes are relatively minor in the overall context of the two pension systems. Both systems saw their funded ratios improve on an actuarial value basis. VSERS is now above 70% funded and VSTRS is on the cusp of hitting 60% funded. While both pension systems exceeded their 7% assumed rate of investment return in fiscal year 2023, underperformance in prior years led to combined deferred market losses of $186.9 million. This will drag on future performance as these losses are "smoothed" into funding calculations in future years.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Prior to fiscal year 2023, the State only funded the annual cost of providing subsidized health care benefits to current retirees (pay-as-you-go). Act 114 (2022) established a policy of prefunding these benefits (i.e., reaching a 100% funded ratio) by fiscal year 2048. As with pensions, prefunding OPEB means that contributions are made over the course of an active member's career and invested in order to fund the cost of their future benefits in retirement. Prefunding allows for investment returns to fund the majority of benefit costs. This reduces the unfunded obligations on the State's balance sheet and saves tax dollars in the long term.

The fiscal year 2023 valuations show net unfunded OPEB liabilities increasing by $150.9 million across both systems. This is primarily due to updated per capita health costs and future health care cost trend rates, along with updates to other actuarial assumptions. As with pensions, future employer OPEB costs are expected to increase with the rate of payroll growth. All else equal, costs will grow at 3.5% for VSERS and 3.0% for VSTRS annually.

ACTUARIALLY DETERMINED EMPLOYER CONTRIBUTIONS (ADEC)

Table 2 reflects the annual employer funding requirements for each system. Since Vermont's "level percent of payroll" actuarial method calls for employer payments to increase over time with expected payroll growth, it is helpful to compare costs as a percentage of the active payroll rather than focus solely on dollar figure year-over-year changes. Actual payroll growth may differ from the actuarially projected estimates outlined below and in the valuations. As part of the State budget process, a payroll assessment is calculated as a percentage that is sufficient to fully fund the VSERS retirement costs, based on estimates for what the actual State payroll is likely to be – that budgetary assessment rate typically varies slightly from the actuarially-estimated rates below.

Table 2: **Employer Funding Requirements for Retirement Systems**

	FY 2024		FY 2025	
VSERS – State Employees				
Costs paid proportionally by the funds supporting the active payroll of participating members.				
	Payment ($ millions)	% of Actuarially Projected Active Payroll	Payment ($ millions)	% of Actuarially Projected Active Payroll
Pension Normal Cost	31.0	5.0	34.3	5.1
Pension Unfunded Liability Payment	90.9	14.5	97.0	14.3
Pension ADEC	**121.9**	**19.5**	**131.3**	**19.4**
Pension Plus Payment (Act 114)	9.0	1.4	12.0	1.8
Total Employer Pension Cost	**130.9**	**20.9**	**143.3**	**21.2**
OPEB Normal Cost	19.7	3.0	23.8	3.4
OPEB Unfunded Liability Payment	47.4	7.3	54.5	7.8
Total OPEB ADEC	**67.1**	**10.4**	**78.3**	**11.3**
Total VSERS Retirement Obligations	**198.0**		**221.6**	
VSTRS – Teachers				
Normal costs funded primarily by the Education Fund, unfunded liability and "plus" paid primarily from General Fund. A small share of costs is offset by payments from Local Education Agencies.				
	FY 2024		**FY 2025**	
	Payment ($ millions)	% of Actuarially Projected Active Payroll	Payment ($ millions)	% of Actuarially Projected Active Payroll
Pension Normal Cost	34.8	4.6	37.8	4.7
Pension Unfunded Liability Payment	159.5	21.0	163.3	20.4
Pension ADEC	**194.3**	**25.6**	**201.2**	**25.1**
Pension Plus Payment (Act 114)	9.0	1.2	12.0	1.5
Total Employer Pension Cost	**203.3**	**26.5**	**213.2**	**26.6**
OPEB Normal Cost	17.6	2.5	21.6	2.9
OPEB Unfunded Liability Payment	43.7	6.3	48.8	6.6
Total OPEB ADEC	**61.3**	**8.8**	**70.5**	**9.5**
Total VSTRS Retirement Obligations	**264.6**		**283.7**	

Note – Items may not sum due to rounding. Size of actuarially projected active payroll varies slightly between pension and OPEB, and will vary from actuals. All data from FY 2022 and 2023 actuarial valuations and GASB 74 reports.

Funding for the LIHEAP Progam Returns to Pre-pandemic Levels

Average Benefit Decreases by Roughly $500

Last heating season, 17,245 households qualified for and received benefits through the Low-Income Home Energy Assistance Program (LIHEAP). So far this heating season, 15,225 households qualified for and received benefits through LIHEAP. Another 1,053 applications are still under review. Applications are rolling; more households are likely to apply. The federal American Rescue Plan Act (ARPA) funds that provided additional funding for LIHEAP have expired and federal funding amounts have returned to pre-ARPA block grant funding levels.

LIHEAP is a federally funded program that provides a benefit to income-eligible households to assist with their heating costs. Last heating season, Vermont received the regular federal LIHEAP block grant of $21 million, and $10.4 million from the federal Consolidated Appropriations Act. The State allocated $8.9 million to LIHEAP; the Emergency Board approved a $5.8 million transfer in addition to a $3.1 million "swap." Since 2016, the General Assembly has allowed for up to 15% of the federal block grant to be swapped with State funds in the Home Weatherization Fund to help address the eligible population between 151% and 185% of the federal poverty level, as well as some administrative costs.

In total, last year there was more than $40 million in State and federal funds available to help Vermonters through the heating season. The prior two heating seasons were anomalous, though. While the purchase power of the benefit – the percent of an average household's seasonal fuel bill that the average benefit will cover – varies each heating season due to changes in fuel prices, historically the program's funding level has been relatively consistent. In federal fiscal year 2014 the average benefit was $792 per household. In that federal fiscal year, the State had a total of $27.2 million for heating benefits ($19.1 million in LIHEAP and $8.1 million in State funds). In federal fiscal year 2012, Vermont had $25.6 million for heating assistance benefits; $19.5 million of these funds came from LIHEAP and $6.1 million came from State funds. In that year the average benefit was $900.

This heating season, the State anticipates a $22 million federal block grant, prior to the "swap" with Home Weatherization funds. The State funds for this heating season include a fund swap from the Home Weatherization Fund of an estimated $3.1 million.

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 Home Weatherization Assistance Program if they meet income limits, or an active Seasonal Fuel Assistance household, or are a Supplemental Security Income (SSI) recipient, or are an adult who 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

Heating Season	Average O/K/P[1] Benefit	Purchase Power	Federal Funds	State Funds
2023/24 *	**$897**	**28%**	**$22.9M**	**$3.1M**
2022/23 ***	**$1,494**	**46%**	**$34.3M**	**$8.9M**
2021/22 *	$1,893	68%	$47.3M	$3.1M
2020/21 **	$1,096	64%	$22.4M	$3.1M
2019/20 *	$798	40%	$18.3M	$3.1M
2018/19 *	$715	36%	$17.3M	$2.9M
2017/18 *	$849	42%	$16.1M	$3.0M
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

[1] O/K/P stands for Oil, Kerosene, Propane

* In these years, State Funds refer to the Home Weatherization Assistance Program Fund (or "trust fund") instead of the General Fund.

** 5 million in CARES Act funds were added to the LIHEAP Block Grant.

*** Indicates average full season benefit for all households up to and including 185% of the federal poverty level.

December 1 Letter Released

Recommendations Are Starting Point for Setting Yields and Property Tax Rates

The Commissioner of the Department of Taxes released the "December 1 letter" on November 30. Per 32 V.S.A. § 5402b, the Commissioner must calculate and forecast a property dollar equivalent yield, an income dollar equivalent yield, and a non-homestead property tax rate for the upcoming fiscal year by December 1. The Department of Taxes, along with the Department of Finance and Management, the Agency of Education, and the Joint Fiscal Office, prepared consensus estimates for the statewide Education Fund. The Education Fund outlook reflecting the consensus December 1 modeling for fiscal year 2025 is available on the Joint Fiscal Office website.

In making the calculations and recommendations, the Commissioner is required by statute to assume a homestead base tax rate of $1 per $100 of equalized education property value, an income percentage rate of 2%, that reserves are maintained at 5%, and that the percentage change in the average education tax bill applied to homestead property, nonhomestead property, and property tax credit claimants is the same. The estimates for fiscal year 2025 assume that close to $24 million in forecasted unallocated and unreserved funds from fiscal year 2024, as well as $13 million reserved by Act 52 (2023), will be used to uniformly offset fiscal year 2025 property tax increases.

If the calculated yields and nonhomestead rate are adopted, homestead, nonhomestead, and income-sensitized education tax liabilities would increase by an average of 18.5%. This is primarily due to an estimated 12% increase in education spending, which is in turn driven by the ending of federal ESSER funds, inflation, debt service for renovations and new capital projects, and a 16% increase in health care benefit costs. The December 1 letter is posted on the Joint Fiscal Office website.

While the Commissioner's recommendation is based on the consensus Education Fund outlook, the December 1 letter and the recommendations within are simply the starting point for setting fiscal year 2025 yields and property tax rates. The recommendations are useful for school board deliberations, who will prepare school district budgets that are locally voted upon. Voters typically approve school district budgets in March, during town meeting week. The legislature sets the state level base education property tax yield, income yield, and nonhomestead property tax rate at the levels necessary to fund all voter-approved school budgets.

It should be noted that Act 127 (2022) made multiple changes to the pupil weights in Vermont's education funding formula that will be implemented in fiscal year 2025 and will also affect local homestead property tax rate calculations. A recently-published Joint Fiscal Office issue brief on pupil weights is available here. See the below table for the Commissioner's recommendations.

	FY 24	FY 25
Homestead Property Yield	$15,443	$9,452
Income Yield	$17,537	$10,300
Nonhomestead Property	$1.391	$1.442

Joint Fiscal Committee Meetings

Flood Recovery, Housing, Basic Needs, and Education Fund Updates

The Joint Fiscal Committee met on November 7 and received updates from the administration on the status of recovery efforts and funds related to the July flood. The State's Chief Recovery Officer, Douglas Farnham, provided updates on fiscal issues related to the natural disaster. The Department of Public Service updated the Committee on the status of a $10 million transfer the Emergency Board approved on July 31 so that the Department could make grants to Efficiency Vermont for flood relief measures. As of November 3, Efficiency Vermont had provided over $300,000 to households for appliances, HVAC equipment, and water heating

Joint Fiscal Committee Meetings *(continued)*

equipment. The Agency of Commerce and Community Development provided an update on the Business Emergency Gap Assistance Program, which was launched in response to the flood. The program's eligibility requirements and award calculations were adjusted at the September Emergency Board meeting. Applications for the program officially closed on October 23. As of November 7, 496 applications were approved and 269 supplemental payments totaling over $18 million had been dispersed; the program balance stood at roughly $2 million.

The Committee then received housing updates from the administration and the Vermont Housing and Conservation Board. Across the state, vacancy rates are very low. No county in the state has an owned vacancy rate of more than 1.66%. The highest rental vacancy rate, 6.83%, in the state is in Windsor South/Windham North. The lowest is in Chittenden, where the rental vacancy rate is 1.56%. The administration also calculated the state's housing deficit. The methodology for this factored in the need for units to house those exiting the pandemic-era Emergency Housing Program.

The Committee was updated on the State's transition from the pandemic-era rules of that program. As of October 23, 815 of the 1,286 households in the "July 1 Cohort" remained in the program and 471 had transitioned out. Of those that transitioned out, 223 left without notifying the State of their plans, 146 found housing, 50 were exited for misconduct, and the remaining households left for miscellaneous other reasons.

In addition to approving several grants, the Committee heard testimony from Senator Alison Clarkson, the chair of the Basic Needs Budget Technical Advisory Committee, and the Joint Fiscal Office on that committee's report. The Basic Needs Budget Technical Advisory Committee was established by Act 54 (2023) to review the methodology used in constructing the basic needs budget. The Joint Fiscal Committee decided to review the report in greater depth before approving the Technical Advisory Committee's recommendations.

At its December 1 meeting, the Committee approved a number of changes to the basic needs budget methodology. Douglas Farnham testified before the Committee again and provided a detailed update on the status of State and Local Fiscal Recovery Funds (SLRF), the Capital Projects Fund, COVID-19 FEMA Public Assistance funds, and Flood Recovery funds. At the same meeting, the Joint Fiscal Office provided context for the administration's "December 1 letter," which forecasts a property dollar equivalent yield, an income dollar equivalent yield, and a non-homestead property tax rate for the upcoming fiscal year.

Interim Committees Complete Work, House Appropriations Begins Its

Several committees met in the past few weeks. At its December 13 meeting the Renewable Energy Standard Working Reform Group finalized its report. The Basic Needs Budget Technical Advisory Committee completed its report and submitted its recommendations to the Joint Fiscal Committee. Some of the Advisory Committee's recommendations require statutory changes that may be addressed by the General Assembly at a future time.

The Joint Fiscal Office hosted an all-member briefing on December 1 to present on fiscal issues relating to the state of Vermont. Joint Fiscal Office members, State economist Tom Kavet, and representatives from Federal Funds Information for States explained the current fiscal outlook for the State and federal economies and detailed the financial and demographic pressures Vermont faces.

The House Appropriations Committee met on December 19 and 20. The Committee heard from the administration on several issues, including funding relating to the July flood and the status of the Emergency Housing transition. Although the Budget Adjustment Act has yet to be delivered the Department of Finance and Management provided the Committee with an up-to-date account of the administration's budget development.

While the Committee acknowledged the December floods, at this point in time it is not yet known if the event will meet the damage threshold for a federal disaster declaration and little information on damages was available. The Agency of Commerce and Community Development has a web page with information on the storm and available resources. Flood-related damages can be reported to Vermont 211 here.

Joint Fiscal Office Publishes Issue Briefs

Child Tax Credit, Medicaid Enrollment, Pupil Weights, and Demographic Changes

The Joint Fiscal Office published multiple issue briefs in November and December.

- A brief on the Vermont Child Tax Credit (CTC) analyzes the impact and take-up of said credit in tax year 2022.
- A brief on the impacts of the temporary Medicaid continuous enrollment, a COVID-19-related change in federal policy, examines how Vermonters were affected by the effective pause in Medicaid eligibility redetermination reviews. In addition, the federal changes temporarily raised the Federal Medical Assistance Percentage (FMAP) rate for state Medicaid programs; this resulted in over $300 million in General Fund savings for Vermont.
- The Joint Fiscal Office also published a brief on pupil weights and Vermont's education funding formula to answer frequently asked questions on those topics.
- An updated version of the state demographics issue brief was published in December. The brief relies on data from the 2020 U.S. Census, surveys from 2021 and 2022, vital statistics on births and deaths, data on international migration, and Medicare enrollment information. Vermont's population rose by 4,100 in 2021 but by just 92 in 2022. Between July 1, 2010, and July 1, 2022, the state's population rose by about 21,000 people. Over that period of time, Vermont's demographics shifted dramatically. For instance, the number of children ages zero to 17 fell by about 14,000 (an 11 percent drop) and the number of people ages 40 to 54 fell by roughly 28,000 (a 20 percent decline). Most significantly, the number of people ages 65 to 79 rose by 44,000, a 67 percent increase. These demographic trends, if continued, will likely place pressure on State revenues and essential State systems such as health care, human services, housing, public safety, and transportation.

All briefs can be read in full on the Joint Fiscal Office's website.

Joint Fiscal Office Updates

Since the adjournment of the 2023 session, the Joint Fiscal Office has received 26 grants and/or limited-service position requests from the Administration. JFO #3150-3175 are available to review on the grants spreadsheet on the JFO website.

In addition to the other work the Joint Fiscal Office has done, it has managed the public infrastructure financing study required by Act 72 (2023). This study will outline current State and federal sources for public infrastructure funding and evaluate infrastructure programs in other states that could be implemented in Vermont. Act 72 authorized the Joint Fiscal Office to hire an outside consultant to produce the report. The Office was unable to find an outside contractor after issuing a Request for Proposals and is therefore producing it internally.

The Office is also working on a report that provides analysis on the long-term funding options for the programs in the Vermont Universal Service Fund, including the E-911 Board. This report is required, by law, to be produced by January 15, 2024.

The Joint Fiscal Office is happy to welcome Logan Mooberry as a Fiscal Analyst. Logan holds a Master's degree from the University of Denver in Global Finance, Trade, and Economic Integration. Logan will manage and track Transportation Fund-related issues.

Hannah Gottschalk has joined the Joint Fiscal Office as its Senate Appropriations Committee Assistant. Hannah had previously interned with the General Assembly and the office of Senator Peter Welch.

We are very glad to welcome both Logan and Hannah!

Notable Dates

- The State of the State address will take place on Thursday, January 4.
- The Emergency Board meets on Wednesday, January 17.
- The Governor's budget address will be on Tuesday, January 23.