



VERMONT GENERAL ASSEMBLY

THE FISCAL FOCUS

October 2022

Vol. 29, No.2

An Update from the Joint Fiscal Office

In This Issue:

- [Unusually Strong General Fund Revenues Lead to a Positive First Quarter](#)
- [Federal and State Funding Added to Help Vermont Households with Rising Heating Costs](#)
- [Federal Funding Updates](#)
- [Evaluating Options for Future Education Funding](#)
- [Progress Continues on Major IT Projects](#)
- [Joint Fiscal Committee Update](#)
- [Staff Updates and Notable Dates](#)

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. 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.

Unusually Strong General Fund Revenues Lead to a Positive First Quarter Revenue Picture in Fiscal Year 2023

Data on September 2022 revenues were finalized in early October. Through the first quarter of fiscal year 2023, the General Fund closed in a very strong position, while the Transportation Fund was below target, and the Education Fund was very close to target. The first batch of fiscal year 2023 estimated payments for income taxes arrived in September, so the close of revenues in September gives a better sense of the overall revenue picture than is available in August and July, particularly in the General Fund.

General Fund (GF): In September, the GF closed the month \$29.0 million above target (+14.3%). Revenues are now \$56.2 million above target for the first three months of the fiscal year (+12.1%). The overage in September was primarily due to the personal income tax (PIT), which was \$15.2 million above target (+13.7%). The strength in PIT was in both estimated payments and withholding. Overall, PIT revenues are \$42.1 million above target for the fiscal year.

Elsewhere in the GF, corporate income tax (CIT) had an exceptionally strong month coming in \$16.7 million (+42.8%) ahead of target. For the year CIT is \$17.4 million (+35%) ahead of target. September is typically a big month for CIT. The Joint Fiscal Office will be watching this source as any slowdown in the economy could result in increased refunding if profitably drops later this fiscal year.

Meals and rooms (M&R) taxes were close to target in September (less than -\$0.1 million or -0.05% below target). For the year M&R is close to target, at -\$0.3 million (-0.6%).

Transportation Fund (T-Fund): The T-Fund closed the month -\$4.1 million below target (-14.5%) and is tracking below target for the first three months of the fiscal year (-\$2.9 million or -3.7%). Gas and diesel tax combined ended September -\$2.2 million below target (-23.85%). For the year, gas and diesel taxes are -\$3.3 million (-12.47%) below target. Purchase and Use (P&U) lost ground in September that it gained in July and August, finishing the month -\$1.1 million below target (-11.0%). For the year, receipts are above forecast by \$0.4 million (1.6%). The Joint Fiscal Office will monitor this source as the relationship between growing vehicle production and increased interest rates for auto loans will likely impact this source.

Education Fund (EF): Overall, the Education Fund Revenues for the fiscal year are tracking above projections by \$6.5 million. Performance of the sales and use tax drives this performance with its revenues beating targets by a cumulative \$5.8 million over the past three months. The other non-property revenue sources have remained relatively aligned with forecast, with most tracking slightly above projections.

Federal and State Funding Added to Help Vermont Households with Rising Heating Costs

With more Vermonters expected to request LIHEAP (Low Income Home Energy Assistance Program) assistance this heating season, higher fuel costs predicted, and federal ARPA funds expiring, the Emergency Board approved the addition of \$5.8 million in State funds to support the Program. The additional state funds, when coupled with \$5.7 million anticipated federal funds included in the Consolidated Appropriations Act, will provide a total of \$11.5 million additional funds to support LIHEAP this heating season.

LIHEAP is a federally funded program that provides a benefit to income-eligible clients to assist with their heating costs. Last heating season Vermont received the regularly anticipated \$20.7 million block grant as well as \$26.6 million in ARPA funds. The once-in-a-generation ARPA funding allowed eligible families a more robust benefit than in prior years. The federal government required that these additional ARPA funds be spent by September 30, 2022, which was accomplished by providing an early benefit on September 7, 2022, utilizing unspent LIHEAP ARPA funds, to households at or below 128% of the Federal Poverty Level (FPL) that heat with oil or kerosene, the most expensive type of fuel. This early benefit of \$625 went to approximately 5,900 households' certified dealers enabling them to purchase a minimum 125 gallons of fuel. This early benefit utilized all the remaining \$3.7 million ARPA funds.

This heating season, Vermont anticipates receiving the regular \$20.7 million federal block grant. In

addition, at the October 24, 2022 meeting, the Emergency Board approved that an additional \$5.8 million in State funds be transferred to LIHEAP to provide an enhanced benefit, funds for heating system repairs and replacement, and to add funds to the crisis program administered by the Community Action Agencies for Vermonters experiencing a fuel emergency. These additional funds will address the increased cost of fuel this heating season as well as the increased caseload. In addition to the increase in State funds, \$5.7 million LIHEAP funds for Vermont are included in the federal Consolidated Appropriations Act, bringing the total additional funds for the Program to \$11.5 million.

The Administration has projected that this season's eligible fuel liability caseload will be approximately 20,000 households, which is higher than last season's caseload of 18,728 households. Since some of the lower-income families received the early benefit of \$625 (those that heat with oil or kerosene), these households will receive a higher overall benefit than households that did not receive an early benefit. The Administration estimates that with the additional \$11.5 million the average household will receive a full season benefit of \$1,324 which will pay an estimated 36% of their full season fuel bill. Some of the lower-income households will receive an estimated average seasonal benefit of \$1,949 (addition of \$625 early benefit and \$1,324 seasonal benefit) that will pay an estimated 53% of their average full season fuel bill.

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 Weatherization Assistance program fund to address 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 Weatherization Assistance Program of an estimated \$3.1 million.

The chart below illustrates what the average benefit level will be this heating season for those households up to and including 128% of the FPL that received an early benefit, and for all other households up to and including 185% of the FPL. These figures include the addition of \$11.5 million State and federal funds.

Heating Season		Ave. Oil Benefit	Purchase Power	Federal Funds	State Funds
2022/23	***	\$1,324	36%	\$26.7M	\$8.9M
2022/23	**	\$1,949	53%	\$30.4M	\$3.1M
2021/22		\$1,893	68%	\$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 refer to the Weatherization Assistance Program fund (or "trust fund") instead of the General Fund.

** Indicates that for households at or below 128% of the FPL that heat with oil or kerosene, the average full season benefit, including the early benefit of \$625 paid with ARPA funds, will be \$1,949.

*** Indicates average full season benefit for all households up to and including 185% of FPL.

Who is Eligible for Assistance?

- 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 [Weatherization Assistance Program](#) if they meet income limits, or are an active Seasonal Fuel Assistance household, or if one of the household members is a Supplemental Security Income (SSI) recipient, or an adult within the household received Reach Up benefits in the past 12 months.

Federal Funding Updates

The federal funding landscape continues to evolve as federal legislation passes and guidance is issued detailing State opportunities. The Joint Fiscal Office continues to monitor federal funds. The funds below reflect past, present, and future funding opportunities for Vermont.

- **Coronavirus Relief Fund (CRF) Spending to Date:** Commissioner Greshin presented the final activity report for the CRF. With a planned final reallocation of \$134,288 to CRF-eligible payroll to the Agency of Transportation, the funds were intended to be fully spent by September 30, 2022. Barring possible future refunds of prior year expenses, no funds are anticipated to be returned to the federal government.
- **American Rescue Plan Act (ARPA) State Fiscal Recovery (SFR) Funds:** All but roughly \$1 million of available SFR funds has been appropriated through the 2022 legislative session. To date, \$1,048,210,957 has been appropriated. Per the report from Finance and Management reflecting expenditures through September 14, 2022, \$261 million has been spent on various ARPA SFR programs.

In collaboration with the Agency of Administration (AOA), State Government is working to develop programs and spend the funds in alignment with the authorizing legislation. The AOA has a thorough process to review programs to ensure compliance with U.S. Department of the Treasury's guidance. As a result, there have been some discussions about mitigating risk and adapting programs as appropriate to comport with federal guidance. The Joint Fiscal Office will update the Joint Fiscal Committee and relevant legislators as issues arise related to this process.

- **American Rescue Plan Act (ARPA) Capital Projects Fund:** The full \$113 million available from this source has been fully appropriated for Broadband, Library Capital improvements, and State Parks connectivity. As required per the U.S. Department of the Treasury's guidance, the Administration submitted an application for approval to the federal government.
- **Infrastructure Investment and Jobs Act (IIJA) Funds:** The federal government continues to develop program guidance. Many program areas that will receive funding from IIJA including federal-aid for highways, bridge replacement and repairs, electric vehicle charging, public transit, water infrastructure, and Broadband Equity, Access and Deployment (BEAD), among other programs. Many of these programs will require match but will be administered through existing programs. There are also many competitive grant opportunities associated with IIJA. Except for new competitive grants, it is anticipated that federal funds will flow through the typical agency and department channels.
- **Bipartisan Safer Communities Act:** This bill appropriates funds for a variety of state grant programs including Byrne Justice Assistance Grants (JAG) (estimated \$375K for VT), Mental Health Block Grant (estimated \$112K for VT), and the Student Support Block Grant (estimated \$4.8M for VT).
- **Inflation Reduction Act (IRA):** This act includes a variety of deficit reduction (cost saving) measures and investments in key sectors. These include:
 - ◇ funding to combat climate change, including implementing tax incentives to encourage climate-friendly investments and funding to reduce pollution;
 - ◇ expanding Medicare benefits, including free vaccines, limiting monthly insulin costs, and capping out-of-pocket drug costs;
 - ◇ requiring Medicare to negotiate certain prescription drug prices leading to federal savings;
 - ◇ extending and expanding the Affordable Care Act subsidies through 2025;

- ◇ increasing federal revenues using the following measures:
 - * 15% corporate alternative minimum tax;
 - * 1% excise tax on the repurchase of stock; and
 - * enhanced Internal Revenue Service enforcement; and
- ◇ investing in underserved and disadvantaged communities by cleaning up pollution and taking steps to reduce environmental injustice.

The Joint Fiscal Office continues to assess the impacts of the Bipartisan Safer Communities Act and IRA on Vermont and anticipates providing further details.

Evaluating Options for Future Education Funding

The Income-Based Education Tax Study Committee had its first meeting on September 28 and will meet for a total of six times over the course of the fall. The agenda from the first meeting included review of the enabling legislation and the current education funding formula, a discussion of the definition of income, presentations from both the Department of Taxes and the Tax Structure Commission, considerations from stakeholders, and a Committee discussion. All materials, details, and agendas are available on the [Joint Fiscal Office](#) webpage.

Furthermore, in conjunction with the Department of Taxes and the Agency of Education, the Joint Fiscal Office is working to build the yield model for the upcoming session. The model will be used to construct the consensus yields and tax rates for the upcoming December 1 letter from the Commissioner of Taxes, the starting point for anticipated Education Fund fiscal year 2024 decisions. Throughout the legislative session, this yield model will be used to address Education Fund deliberations.

Progress Continues on Major IT Projects

The narrative below provides an update on some of the major IT projects currently underway in the Executive Branch.

DMV Core System Modernization

This project consists of two phases:

- **Phase 1** will implement Vehicle Services (VS), which includes titling, registration, and other customer-facing eServices.
- **Phase 2** will implement Driver' Services (DS), including drivers' licenses and other identification, customer-facing eServices, and other supporting functions.

Implementation is expected to cost \$57 million, and total management and operations (M&O) costs over five years are anticipated to be \$45 million.

Phase 1 of the project is underway. Currently, the project is on schedule and slated for completion in November 2023. The estimated completion date for Phase 2 is July 2025.

Unemployment Insurance Modernization

The Unemployment Insurance Modernization project consists of two phases.

- **Phase 1** includes outward-facing claimant and employer portals and this is in the planning stage. The cost estimate for Phase 1 is \$3.5 million.
- **Phase 2** is focused on replacing mainframe processes, such as benefits, tax, benefit accuracy management, employer auditing, and federal reporting. The estimated cost of Phase 2 is \$30 million.

In July, a decision was made by the Administration to pull the Phase 1 RFP and instead issue an RFP that covered both phases of the project. The decision to reissue this RFP was made after the Agency of Digital Services (ADS) concluded a combined bid was needed to reduce risk for the implementation and to ensure Phase 1 and Phase 2 projects were properly integrated. A timeline will be available once a vendor is selected.

Enterprise Resource Planning Project

The Enterprise Resource Planning Project includes the implementation of three modules of the WorkDay system.

- The Human Capital Management (replaces current Department of Human Resources system)
- Budget (replaces Department of Finance and Management budget system)
- Financial Management Module (replaces VISION, Department of Labor and Department of Transportation)

In June of 2022, an amendment was issued on the existing master contract with WorkDay. This amendment implemented enterprise pricing that covered ALL modules offered by WorkDay. This results in a lower cost for each WorkDay subscription purchased by the State, but the number of required subscriptions has increased from prior solutions.

There has been a delay in issuing the RFP for implementation services. Information on the new timeline for this RFP is pending from ADS.

The State is required to receive approval from the Joint Information Technology Oversight Committee (JITOC) in order to access funds for implementation of the Financial Management Module. A complete review of this project by the JFO Information Technology Consultant will inform the JITOC decision to release funds.

Other Issues Being Monitored

Due to issues such as the low unemployment rate and shortage of housing, the State of Vermont has had greater difficulty filling open positions. ADS has reported a **vacancy rate of approximately 10%**. We will be monitoring all projects to understand the impact this vacancy rate has on project timelines.

Inflation has impacted many areas of the economy. We are monitoring this issue as it impacts the cost of IT projects that are currently out for bid to see if rising costs exceed the amounts allocated for IT projects.

Joint Fiscal Committee Update

[\[Agenda and Documents\]](#) [\[Meeting Recording\]](#)

The Joint Fiscal Committee met on September 21, 2022 and took the following actions:

Received an overview of the Community Recovery and Revitalization Grant Program from the Agency of Commerce and Community Development.

Reviewed and postponed action, until the Committee's November 9, 2022 meeting, on a proposal from the Vermont Economic Progress Council to increase the enhanced incentive cap for VEGIs Labor Market Area. The Committee supported the VEGI program but needed additional information before acting upon the increase in the cap. An additional action by the Committee authorized VEPC to make additional materials available to the Joint Fiscal Office regarding the details on the specific incentives.

Received updates/presentations from the Agency of Human Services:

- **Department for Children and Families**

- ◇ Emergency Housing Program Update
- ◇ Transitional Housing Program – Draft Emergency Rules
- ◇ Reach Up Program – Status of Underutilized Funds
- ◇ The Committee approved a proposal to spend the remaining \$3.1 million of ARPA funds that must be obligated by September 30, 2022.

- **Department of Vermont Health Access**

- ◇ Private Nonmedical Institutions – Plan to Address Costs

- **Received fiscal updates from the Administration:**

- ◇ General Fund and Transportation Fund Balance Reserves Report
- ◇ 27/53 Reserve Report
- ◇ Fiscal year 2024 Budget Instructions and fiscal year 2023 Supplement to Departments. The Administration acknowledged that the inflation rate target of 3% would be difficult for departments to meet and are willing to work with departments. In addition, departments would be held harmless from Internal Service Fund increases in fiscal year 2024.

- **Received an update from the Joint Fiscal Office:**

- ◇ Chief Fiscal Officer's [Report](#)

- **Received additional updates on the following:**

- ◇ VEDA's Short-Term Forgivable Loan [Program](#)
-

- **Approved 13 grants that are listed individually in the [agenda](#) and in the [motions](#). Grants of note include:**
 - ◇ [JFO #3111](#) – is an updated application and full acceptance request of the action taken at the Committee’s [November 17, 2021](#), meeting that allowed approved participation in applying for grant.
 - ◇ [JFO #3074](#) – \$57,947,977.00 awarded for the State Small Business Credit Initiative (SSBCI) by the Agency of Commerce and Community Development.
 - ◇ [JFO #3102](#) – included thirty-one (31) limited-service positions to the Department of Environmental Conservation within the Agency of Natural Resources, funded through the Investment Infrastructure and Jobs Act (IIJA), for existing programs.
 - ◇ [JFO #3107](#) – included twenty-six (26) limited-service positions to the Vermont Agency of Transportation funded through the Investment Infrastructure and Jobs Act (IIJA). The expectation is to increase the Department’s workload by 30–50% over the next five years.

Staff Updates

Ted Barnett is joining the Joint Fiscal Office as a Fiscal Analyst. He was most recently at the Rutland County Parent Child Center as the Chief Fiscal Officer. Ted will be working with the revenue team on taxes and related issues. We are excited to have him joining our team.

Notable Dates

Joint Fiscal Committee Meeting

- *November 9, 2022*

All Member Briefing

- *December 7, 2022*