



The Fiscal Focus

An update for Vermont Legislators from the Joint Fiscal Office

December 2020

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Dear Vermont Legislator,

THE FISCAL FOCUS is a nonpartisan update prepared by the Joint Fiscal Office staff to keep legislators informed of events 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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FY 2021 Revenue Update

Overall, November continued the year-to-date above target performance across all three major funds. However, the alarming resurgence in COVID-19 infections and hospitalizations in the State and region (despite the expected start of vaccinations in Vermont this month) and the absence of further federal COVID-19 relief payments, could challenge economic and revenue performance in the coming months.

General Fund: General Fund revenues were up almost \$17 million above targets for the month of November (+19%) and now stand \$71 million above target for the first five months of the year (+9.8%). This month, estate tax led the way with more than \$4 million in November revenue collections, and year-to-date collections that are nearly 90% of its annual projection, reflecting the highly random nature of estate tax payments. Elsewhere in the fund, personal income taxes were up \$3.2 million for the month (+6%) and are now \$50.1 million above targets for the first five months of the fiscal year (+10%). Corporate income tax revenues this month were above target, making up for last month’s dip due to the reclassification of large corporate payments into the personal income tax. Rooms and meals tax revenues were above target for the second month in a row (+\$500,000 or +6%) and are now right on target (+0.8%) for the year-to-date, albeit from a greatly reduced forecast. The property transfer tax continues to reflect a hot housing market, as

revenues came in \$1.3 million above target for the month of November and are now almost \$4 million above target for the first five months (+60%).

Transportation Fund: Total revenues in the T-Fund came in \$2.3 million above targets for the month of November (+12%). The fund now sits \$7.6 million above target for the first five months of the fiscal year (+7%). Most of this month's overage can be accounted for by the purchase and use tax as well as DMV fees. The purchase and use tax has been a major indirect beneficiary of federal stimulus to households and small businesses, as Vermont consumers continued to buy vehicles in November – revenues were \$1.3 million above target for the month (+28%) and are now up almost \$6 million year-to-date (+21%). DMV fees were \$700,000 above target this month, making total DMV revenues year-to-date just under \$2 million above their August forecast (+6%).

Education Fund: As in the previous three months, the Education Fund continues to benefit from federal stimulus payments in the form of solid consumption tax revenues. Overall, the Education Fund ran above its November forecast by almost \$8 million (+20%) and now sits \$31.6 million above target YTD (+14.4%). Sales and use tax revenues were again above target this month, this time besting the November target by \$6.3 million (+20%). Total sales tax revenues are now \$27.6 million above target for the first five months (+15%). The strength in the sales tax appears to be coming from e-commerce vendors, consumer durable goods, building materials, and home improvement items. Education Fund purchase and use tax revenues were also above target this month by \$700,000 (+28%). Lottery revenues also had a good month (+\$800,000 or +39%) and have quietly been strong through the first five months (+\$1.2 million or +13%).

Federal Budget Update

As many of you are aware, the federal budget situation adds to Vermont's fiscal uncertainty. The Federal Fiscal Year began on October 1 but has been operating on a continuing resolution that expires on December 18, 2020 due to a short-term extension that was just passed. Congress will need to take some action to address this deadline. There is also the potential for some additional federal pandemic relief legislation. This legislation can shape the needs and resources available to meet Vermont's pandemic and budget related needs. We will continue to track both the baseline federal budget and federal pandemic relief activity through the coming weeks, which will provide us with more clarity on the Federal Funds (FF) budget.

The share of various federal relief funds allocated to date for Vermont can be found here: [FFIS Vermont Specific Funding as of November 24, 2020](#). This list does not include the nearly \$600 million from the U.S. Treasury that went directly to individual Vermonters in the spring in \$1,200 checks. An update on the State allocation of the \$1.25 billion in CRF funds can be found in the article below.

Vermont CRF Reallocation Update

Secs. B.1108 – 1110 of [Act 154](#) (The Budget Bill) established the process for reallocation of Coronavirus Relief Funds (CRF) identified as unexpendable within the federal time frame. In accordance with that process, the Administration brought several proposals for reallocation of funds to the Joint Fiscal Committee since the close of the session at the end of September.

Through November 20, the major areas where the JFC approved reallocations are:

- \$75 million in additional funding for increased grants to food and hospitality businesses
- \$16.4 million for various COVID-19 testing resources
- \$8 million for the hazard pay program
- \$6.45 million for supplemental nutrition payments for eligible SNAP households
- \$6.9 million for after school and childcare
- \$4.55 million for school air quality

These reallocations were from funds identified as available for reversion by the administration, with most coming from a handful of items: \$81million came from the health care stabilization allocation, \$13million from the original JFC emergency allocation of \$225 million, \$17.6 million from allocations to VSAC and Vermont State Colleges, and \$5.6 million from revised Covid19 cost estimates across a range of departments. More detailed CRF reports in various forms are available [here](#) on the JFO webpage.

December 9 JFC action: The Administration submitted an [additional CRF reallocation proposal on December 7](#) totaling \$24 million across six line items. On December 9, the Committee approved two of the items proposed: \$2.1 million to fully cover all eligible applicants for the hazard pay program and \$975,000 for National Guard surge response expenses through the end of December. The remaining four items were not approved at this time. After Committee discussion, the JFC approved the Administration's resubmitted amended request for contingent reallocation authority for CRF funds to be applied to allowable State COVID-19 expenses such as payroll in specific areas but also claims that may not be approved by FEMA. This could generate fiscal capacity for the future and be consistent with the intent of Act 154, which requires that, where permitted, the full legislature should determine the appropriation of funds through the budget adjustment process. Further allocations are likely in the weeks ahead.

Projected Education Tax Rates for FY 2022

On December 1, the Tax Commissioner submitted a [letter](#) to the Legislature that calculates FY 2022 education property tax rates based on the status of the Education Fund and projected school budgets for the upcoming year. The calculation is prescribed in statute.

The homestead and non-homestead property tax rates are projected to increase by 9.5 and 10 cents respectively. The income tax rate increases equivalently, so that all three types of taxpayers (homestead, non-homestead and income) experience an average increase in education property tax liability of 9%.

The increase in estimated property tax rates are largely attributable to three factors:

- (1) The effect of the pandemic on the economy: the economic slowdown has decreased forecasted non-property tax Education Fund revenues, such as the Sales & Use and Meals & Rooms tax, by \$38.8 million.
- (2) Teachers' Retirement: a change in the calculation and funding requirement for the normal cost of teachers' retirement has increased the States' obligation by \$30.3 million.
- (3) Annual Growth in Education Spending: education spending is estimated to increase by 3.8%, which is inclusive of a significant increase in the cost of teachers' health insurance.

This estimate will be revised when information on school budget requests becomes available for Town Meetings.

In addition to the fiscal pressures for FY 2022, the Education Fund is currently carrying a projected \$58 million shortfall in FY 2021. This projected deficit is not accounted for in the Commissioner's tax rate letter due to a one-year statutory change. In Act 122 of 2020, the Legislature indicated intent to resolve the projected FY 2021 shortfall without increasing property taxes. There is currently a \$38.2 million reserve in the Education Fund. If the stabilization reserve was used to offset the projected FY 2021 obligation, a \$19.8 million shortfall would remain.

The projected tax rates will be subject to change with updated information on forecasted FY 2021 and FY 2022 non-property tax revenues, data on school budget requests, and legislative action in the upcoming session. A general rule of thumb is that 1 cent on both the average homestead rate and the non-homestead rate raises \$9 million.

Retirement Systems: Pensions and OPEB

Retiree Pensions: The annual actuarial valuation reports for the pensions systems for retired State employees and for retired teachers provide the current financial picture of our two major retirement systems as well as the foundation for the funding need for the next budget year. Across the two pension systems, the funding contribution determined by the actuary is up about \$100 million from all funding sources, of which about \$48 million of this increase is the General Fund (GF) share. The Treasurer is working to develop proposals to reduce the size of the increases.

In both systems, the funded ratio should improve over time as the Legislature continues to fund the actuarial recommend which, by design in statute, is intended to pay off the systems' unfunded liability by 2038. As recent market losses are partly deferred and recognized over time, these deferred losses will likely place a short-term pressure on the funded percentages in the next few years.

The Vermont State Employees' Retirement System (VSERS) report finds the June 30, 2020 funded level of this system, on an actuarial basis, to be 65.6% down from 70.7% at the prior year's close. The actuarially determined funding contribution is \$120 million. This contribution is paid as a charge to agencies and represents the obligation shared by a variety of funds. This is a total funding increase of \$36.1 million. The General Fund share is in the range of 40%, roughly \$14.5 million; the remaining amounts will come from special funds, including the TF, and federal funding sources where applicable.

The Vermont State Teachers' Retirement System (VSTRS) report finds that the June 30, 2020 funded ratio of total pension liability based on the actuarial value of assets fell to 51.3% from 55.7% at the end of FY 2019,

The VSTRS funding request for FY 2022 is \$196.2 million. This is up from \$132.1 million in FY 2021 for an increase of \$64 million.

Last year's estimate of the actuarially determined contribution for fiscal 2022 is \$60.1 million less than this year's actual amount. This is due to several changes compared to previous years: a larger

amortization of unfunded actuarial liability than expected driven by demographic losses; investment losses on an actuarial basis, and a change in actuarial assumptions, including the assumed rate of investment return changing from 7.5% to 7.0%. The Treasurer is working to develop proposals to reduce the size of the increases.

The GF portion of FY 2022 will be approximately \$152 million – up about \$32.6 million over the GF amount budgeted in FY 2021. The normal cost, which is billed to the Education Fund, is \$37.8 million, up \$30.8 million (this is the cost for currently working teachers, not the cost related to the accrued liability of the system). About \$6 million will come from an assessment on federal grants used in local school districts for those employees funded by the grants.

Retiree Health Care (Other Post-Employment Benefits aka OPEB): The State provides a health care benefit to both retired State employees and retired teachers.

Retired State Employees' Health Care – An actuarial report is not yet available for the State Employees' OPEB. This has been funded on a 'paygo' basis from funds budgeted within departments based on the anticipated retiree health care expenditures.

Retired Teachers' Health Care – The report from the actuary to determine the FY 2022 funding contribution has not yet been received. This remains to be finalized in the budget development process. Prior to FY 2015, this retiree health care cost was covered out of the contribution to the teachers' retirement fund. In FY 2015, this cost was separated from pension funding, and for several years this obligation was covered by a combination of an internal loan and annual appropriations. In FY 2018, this system became positive on an operating basis (annual funding was adequate to cover annual cost). The internal loan was retired with onetime funds dedicated in FY 2019.

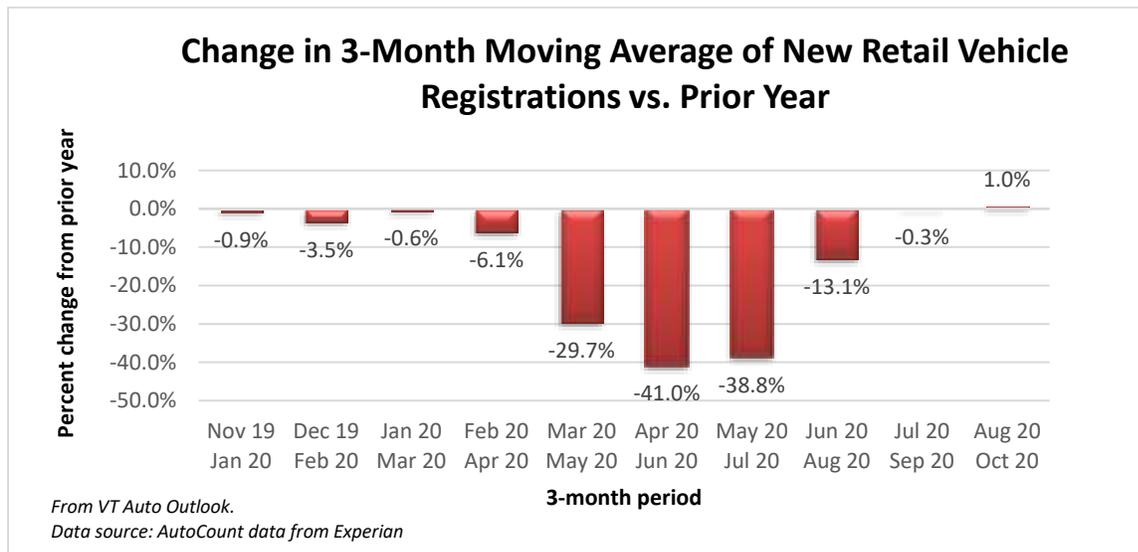
Capital Debt Affordability Advisory Committee

The Capital Debt Affordability Advisory Committee (CDAAC) issued their recommendation in October for the recommended annual net tax-supported debt authorization. The two-year recommendation is \$123.18 million, which is the same as the previous biennium. While there was recognition that Vermont's position relative to its peer group of Triple-A rated state has weakened over the past several years, CDAAC also recognized the unprecedented economic repercussions from the COVID-19 pandemic. Therefore, the Committee recommended maintaining the current level of debt authorization. The CDAAC report is available here: [2020 CDAAC Report](#).

Vermont Auto Market Showing Signs of Recovery, But Fuel Demand Remains Weak

In spring 2020, as the pandemic prompted significant economic restrictions and spikes in unemployment, vehicle sales nationwide screeched to a halt. Vermont was not spared from this trend. According to data released by the Vermont Vehicle and Automotive Distributors Association from Auto Outlook by Experian, Vermont's new retail light vehicle registrations are cumulatively down by 12.9% through October compared to last year, slightly better than the estimated 14.1% decline nationwide.

After a significant contraction in the spring, Vermont's new vehicle registrations have rebounded in recent months. The three-month rolling average of new retail light vehicle registrations plummeted during the spring and summer compared to last year. By early fall, however, new vehicle registrations were approaching prior year levels and the rolling average of new registrations was 1.0% above last year's levels for the August – October period.



This rebound in vehicle registrations has strengthened Purchase and Use (P&U) Tax collections. From July through November 2020, P&U Tax collections into the Transportation Fund are \$5.9 million (20.7%) above target, following a significant slump when new registration activity plummeted from prior year levels.

If registration activity remains strong, Purchase and Use collections will likely remain robust; however, continued low gas prices coupled with less frequent travel and lower retail fuel demand may continue to threaten overall Transportation Fund collections.

JFO Studies and Reports

The staff of the Joint Fiscal Office is actively working on several studies and reports including:

- Unemployment in Vermont and the COVID-19 Pandemic: Conflicting Statistics Result in Loss of Federal Benefits – This issue brief explains the loss of federal benefits and is posted here: [Issue Brief on Loss of Fed Benefits](#)
- Select Committee on the Future of Public Higher Public Education in Vermont – This committee is meeting regularly. The initial report was released December 4.
 - The initial report from December 4 is posted here: [Initial Report](#).
 - Agendas and meeting schedules are available here: [Higher Ed web page](#).
 - YouTube link for watching (also on each agenda): [Video Links to meetings](#).
- Minimum Wage Report – This report, examining the impact of altering or eliminating the basic wage rate for tipped employees in Vermont and of eliminating the subminimum wage for

secondary school students during the school year, is due in January 2021. The Office of Legislative Counsel and the Joint Fiscal Office are working on this together.

- Basic Needs Budget and Livable Wage Report – This biennial report is underway and will be delivered in January 2021.
- Tax Expenditure Report – This biennial report is due in January 2021 and will include full reviews and evaluations of two tax expenditures:
 - Downtown and Village Center Tax Credits
 - Sales Tax Exemption for clothing and footwear

Joint Fiscal Committee – December 9, 2020

NOTE: there were four additional Committee meetings in November. The actions of the Committee can be found within the minutes of each meeting. [[November 5, 2020](#); [November 9, 2020](#); [November 14, 2020](#); [November 20, 2020](#).]

The Joint Fiscal Committee met on December 9 and took the following actions:

- Received information on Status of Wastewater and Water Supply arrearages. The program has spent \$282,000 with a total of \$487,000 committed including expenses to the Department of Public Service.
- Received a [status report](#) on the Coronavirus Relief Fund (CRF) expenditures to date, and availability for reallocation to other uses. Total available reallocations totaled \$21,991,053.
- Approved a [reallocation request of \\$2,100,000](#) to the Department of Financial Regulation for eligible employees to receive a Hazard Pay Grant. Currently, the funds required to cover all likely eligible grants totals \$2,047,019. The requested additional CRF funds would cover both the remaining eligible grants, any variability in carryover funds from the first round, and any additional unforeseen expenses.
- Approved a [reallocation request of \\$975,000](#) to the Military Department for the required state match for the FEMA funded activities. The Federal cost share for National Guard activities is 75 percent, effective August 22, 2020. The estimated State match for FEMA of Vermont National Guard incurred expenses from August 22 to December 30, 2020 is \$940,000.
- Approved a [revised CRF request](#) for contingent authority for an amount to be determined to the Agency of Administration for unobligated or unexpended throughout the CRF reconciliation process in the following categories: 1) costs associated with FEMA claims; and 2) eligible payroll expenses incurred during the covered period (March 1, 2020 to December 30, 2020). Any additional funds would be made available to the Department of Labor for reimbursement of claims expenditures per Act 154 Sec. B.1108(d).
- Approved [JFO Grant #3028](#) for \$90,455 to the Vermont Department of Motor Vehicles from the Federal Highway Association to increase the amount of tax revenue available for highway programs by increasing highway use tax compliance efforts with emphasis on motor fuel

taxes. This request does not stem from the state or federal response to the COVID-19 pandemic.

The next meeting of the Committee is scheduled for December 21, 2020 at 9:30 a.m. via videoconference.

Grants and Limited Service Position Update

The following grants and/or limited-service positions have been received and approved by the Joint Fiscal Committee since the start of the fiscal year to date.

JFO #3008 – \$910,888.00 to the Vermont Veterans’ Home from the U.S. Dept. of Health and Human Services to offset eligible expenses and lost revenues as allowed per the provider relief funding provisions of the federal CARES Act; and

JFO #3009 – \$3,167,132.00 to the Vermont Department of Public Safety from the Federal Emergency Management Agency Funds to provide public assistance to the eight counties impacted by a flooding event on October 31 to November 1, 2019; and

JFO #3010 – \$20,000.00 to the Vermont Department of Fish and Wildlife from the Association of Fish and Wildlife Agencies for a marketing campaign with goals to build awareness, strengthen credibility and engage advocates in the work Vermont Fish and Wildlife does to protect and conserve wildlife. Grant funds will be used primarily to purchase social media and digital ads on multiple platforms; and

JFO #3011 – \$31,148,360.00 to the Vermont Agency of Education from the U.S. Department of Education. The Elementary and Secondary School Emergency Relief (ESSER) Fund was granted in the CARES Act and provides flexible funds to state education agencies and local education agencies (LEAs) for any activity authorized by ESEA, response to COVID-19, and other activities that are necessary to maintain the operation of and continuity of services in LEAs; and

JFO #3012 – \$500,000.00 to the Vermont Department of Fish and Wildlife from the Great Lakes Fisheries Commission for conservation, restoration and riparian habitat protection for fish and wildlife in the Lake Memphremagog Basin; and

JFO #3013 – \$2,082,871.00 to the Vermont Department of Public Safety from the U.S. Department of Justice for the 109th Academy class additional costs as a result of COVID-19. The additional costs include hotel confinement of the new recruits at the police academy, the PPE costs for all officers, and the overtime required of the recruits and trainers to expedite the academy class; and

JFO #3014 – Two (2) limited-service position within the Vermont Agency of Human Services, Disability Determination Services authorized by the Social Security Administration. One (1) Disability Determination Adjudicator and one (1) Financial Administrator; and

JFO #3015 – \$33,598,000.00 to the Vermont Department of Public Safety from the Federal Emergency Management Agency Public assistance grant to reimburse eligible costs borne by state, local and non-profit entities in the COVID-19 emergency response; and

JFO #3016 – Fourteen (14) limited-service positions to the Vermont Agency of Human Services/Dept of Health by the Center for Disease Control and Prevention to carry out the activities required for an effective public health response to SARS-CoV-2; and

JFO #3017 – One (1) limited-service position to the Vermont Department of Children and Families by the Social Security Administration, titled Disability Determination Specialist I, to assist with increased workloads; and

JFO #3018 – \$35,845,657.00 to the Vermont Department of Labor from the Federal Emergency Management Agency to provide supplemental unemployment benefits of \$300 per week; and

JFO #3019 – Two (2) limited-service positions for the Vermont Department of Health from the Center for Disease Control and Prevention to implement evidence-based interventions to increase rates of colorectal screenings in primary care clinics that serve low-income, rural Vermonters; and

JFO #3020 – \$27,171.00 to the Vermont Department of Health from the University of Vermont to study the perceptions and behaviors of youth and young adults around vaping. The award partially funds two existing Public Health Analysts; and

JFO #3021 – \$140,645.00 to the Vermont Department of Public Safety from the Federal Emergency Management Agency Funds for the Crisis Counseling Assistance and Training Program to help at-risk populations access recovery assistance for the mental-health impacts of COVID-19; and

JFO #3022 – \$4,488,802.00 to the Vermont Governor's Office from the U.S. Dept. of Education. Funds from the Governor's Emergency Education Relief Fund, granted through the CARES Act, will be allocated to secondary Continuing Technical Education (CTE) programs for assistance with in-person/hybrid/remote learning opportunities. The Governor will delegate authority to the VT Secretary of Education to allocate the funds; and

JFO #3023 – \$630,787.00 to the Vermont Department of Mental Health from the Substance Abuse and Mental Health Services Administration to continue adult crisis counseling and training related to the COVID-19 pandemic. The initial program was set up in April 2020 using FEMA funds and this grant will allow the work to continue through July 2021; and

JFO #3024 – \$65,785.00 to the Vermont Center for Crime Services from the Dept. for Health and Human Services - Administration for Children and Families to support additional expenses in domestic victim shelters due to COVID-19 and for human services and supports for victims of domestic violence and their dependents; and

JFO #3025 – \$405,000.00 to the Vermont Secretary of State from the Center for Election Innovation and Research to increase the effectiveness and efficiency of election administration to help educate voters during the 2020 election and the voting challenges presented by the ongoing COVID-19 pandemic; and

JFO #3026 – \$106,527.77 to the Vermont Department of Mental Health from the Federal Health Resources and Service Administration as part of the CARES legislation, the Vermont Psychiatric Care Hospital (VPCH) has received Provider Relief Fund monies due to decreased census of Medicare fee-for-service (FFS) reimbursement. So far, VPCH has received one (1) payment totaling \$106,527.77. These monies can be used to offset extraordinary expenses and lost revenues due to the coronavirus pandemic; and

JFO #3027 – \$1,959,765.32 to the Vermont Department of Mental Health from the Federal Health Resources and Service Administration. In May, the Department of Health and Human Services (HHS) announced \$10 billion in funding to almost 4,000 rural health care providers including hospitals, health clinics, and health centers impacted by the pandemic. As part of this CARES legislation, the Vermont Psychiatric Care Hospital (VPCH) has received Funds as a rural health care provider in the amount of \$1,959,765.32. These monies were granted to VPCH to maintain operations through the Coronavirus pandemic; and

JFO #3028 – \$90,455.00 to the Vermont Department of Motor Vehicles from the Federal Highway Administration to increase the amount of tax revenue available for highway programs by increasing highway use tax compliance efforts with an emphasis on motor fuel taxes.

There are currently no grants awaiting review by the Joint Fiscal Committee.

JFO Staff Update

Chris Rupe has joined our JFO staff as the Transportation Fiscal Analyst. He recently moved to Vermont and was previously in the Managing Director’s Office with the City of Philadelphia. He is meeting with legislators, Agency of Transportation staff and others to better understand transportation issues. We are excited to have Chris on board; please join us in welcoming him!



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