**All Legislative Briefing on December 4, 2019 @10 AM in the Well of the House**

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FY 2020 First Quarter Revenue (Through Sept. - Actual to Forecast)

1. General Fund – Overall, the General Fund, including healthcare revenues from the former State Healthcare Resources Fund, is running $8.5 million above forecast for the first quarter of the year (2.3%). This is largely driven by revenues from personal income and corporate income taxes being $7.5 million (3.8%) and $1.2 million (4.7%) above target respectively. Personal income taxes revenues are benefitting from very strong estimated payments in September, as well as healthy withholding growth for all three months of the first quarter.

Other updates:

- Meals & Rooms and Property Transfer tax revenues are slightly below target for the year: -$200,000 and -$300,000 respectively.
- After a slow FY2019, estate tax revenues are coming in closer to their historical average. $6.0 million had been collected in the first quarter, which is $500,000 above forecast. For all of FY2019, the state collected $12.6 million.
- Revenues from the former state healthcare resources fund, which includes tobacco taxes and healthcare provider taxes, are currently running $2.1 million (3.21%) above target, largely driven by the healthcare provider tax (up $1.1 million) and e-cigarette revenues, which have been higher than estimated.
2. **Transportation Fund**: The year-to-date totals in the Transportation Fund are almost right on target, down $40,000 (-0.06%). While most of the larger revenue sources are at or above target, several smaller revenue sources, such as various license and fee revenues, are cumulatively down $1.3 million compared to target.

Other updates:
- Gas Taxes are below the quarterly target by $300,000 (-1.26%)
- Diesel Taxes are above the quarterly target by $200,000 (3.91%).
- Purchase and Use Taxes are above the quarterly target by $300,000 (1.52%).
- DMV fees are above the quarterly target by $1.1 million (5.08%).

3. **Education Fund** - Revenues are tracking above projections in the Education Fund for the quarter by $500,000 (0.32%). Sales taxes, after starting the quarter below target, have been above target over the last two months to end the quarter $200,000 over forecast.

For the quarter:
- Meals and Rooms Taxes were below target by $100,000 (0.41%)
- Purchase and Use Taxes are above the quarterly target by $100,000 (1.52%).
- The Lottery receipts are above the quarterly target by $100,000 (1.6%); however lottery receipts vary from month to month.

**FY 2020 and 2021 General Fund Budget Update**

The House Appropriations committee will meet the week of December 16th to hear from the administration on Fiscal Year 2020 budget adjustment items. An early start is typical during the interim with the Budget Adjustment Act (BAA) being one of the first bills of the session. The BAA includes many funding movements in the neutral/small fiscal range these are usually true-ups or technical corrections as well as significant changes reflecting trends or other fiscal areas which were unknown during the initial budget process.

Tracking so far in the DVHA Medicaid program indicates the program expenses are running below budget. Much like last year, as more Medicaid covered Vermonters who are on a fee for service basis are attributed to the Accountable Care Organization (ACO) which is a flat rate, a one-time financial “tail” is created of charges that come in after the program switch. Last year this tail was able to be absorbed in the Medicaid budget. However, a new geographic attribution methodology is likely to result in a larger number of lives being transferred and a larger tail this year.

Several reclassification requests have been filed from various groups of state employees. While decisions are not final yet, these are likely to require funding adjustments in the affected departments if approved. Child Welfare and Economic Services programs in the Department of Children and Families (DCF) are also potential areas for budget adjustment and it remains to be determined if there will be offsets in other programs.

As we look to Fiscal Year 2021, there is the typical slate of pressures. These include debt service, retirement obligations both pension and healthcare, the cost of a new contract with state
employees i.e. Pay Act, and reclassification cost roll outs. There will be continued pressure as we phase down investments in our Federal Medicaid Global Commitment waiver and as the Children’s Health Insurance Program (CHIP) federal match funding is decreased. Program pressures yet to be fully quantified are likely for the new psychiatric beds at the Brattleboro Retreat and related rates. Other pressures may emerge in the Department of Corrections, DCF programs, and long-term care and disabilities programs.

There may be other issues involving changes in special fund receipts or federal fund changes that will be discussed for the budget adjustment or budget process.

**LIHEAP Benefit Update**

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 anticipated to be similar to the block grant that Vermont received last year, although it is not yet finalized. Vermont is anticipating that the federal LIHEAP block grant will be level funded at $20.5 million for the coming heating season.

Starting in FY16, the Vermont Legislature allowed that up to 15% of the federal block grant could be swapped with State funds in the Home Weatherization 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 Home Weatherization program of a projected $3 million.

The Administration has projected that this season’s eligible fuel liability caseload will be approximately 19,500, which is lower than last year’s caseload of approximately 19,768 households. The Department for Children and Families has estimated that the full-season fuel benefit will be an average of approximately $846 this heating season. This benefit will pay an estimated 38% of the average household’s seasonal fuel oil bill.

<table>
<thead>
<tr>
<th>Heating Season</th>
<th>Ave. Oil Benefit</th>
<th>Purch. Power</th>
<th>Federal Funds</th>
<th>State Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019/20</td>
<td>* 846</td>
<td>38%</td>
<td>$17.3M</td>
<td>3.1M</td>
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<tr>
<td>2018/19</td>
<td>* 735</td>
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<td>$17.3M</td>
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<td>2017/18</td>
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<td>2016/17</td>
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</tbody>
</table>

* State Funds includes 15% "swap" funds from Home Weatherization Fund
Capital Debt Affordability Advisory Committee
The Capital Debt Affordability Advisory Committee (CDAAC) reaffirmed its two-year recommendation of $123.18 million for FY20-FY21 for long-term tax supported debt. For the FY22-FY23 biennium, CDAAC suggests that borrowing capacity may need to be less in order to slow the growth of Vermont’s total outstanding debt. CDAAC recognizes the need to address capital infrastructure needs and has set up a group to develop pay-as-you-go (PAYGO) funding policies and procedures with recommendations anticipated in the first quarter of 2020. The CDAAC report is available here: 2019 Report of the Capital Debt Affordability Advisory Committee.

September 16, 2019 Joint Fiscal Committee Actions
The Joint Fiscal Committee met on September 16, 2019, heard testimony and took the following actions:
- Reviewed the FY 2020 rescission plan of the Agency of Transportation (AOT). In that the percentage reduction is below 1% of appropriations the possible changes will be held for budget adjustment. A copy of the plan can be found at: AOT plan
- Approved a Correctional Facility Assessment previously approved by the Joint Legislative Justice Oversight Committee. The motion is: JLJOC motion
- Approved continued Capital bill financing for the Integrated Eligibility and Enrollment System. Presentations can be found at: AHS presents and JFO Dan Smith Memo
- Approved Technical updates to the Vermont Economic Progress Council Cost Benefit Model. The approval was based on: Tom Kavet memo.
- Approved two grants:
  o JFO #2970–$3,363,695 from the U.S. Dept. of Health and Human Services – Administration for Children and Families to the VT Dept. of Children and Families (DCF); and
  o JFO #2971-$56,500 from the Northern Border Regional Commission in Concord, NH to the VT ACCD Department of Economic Development to help fund the development of a statewide prioritization plan of community and economic development projects.

JFO Studies and Reports
- The FY 2020 property tax rates are available by town. A spread sheet with the rates can be found at: https://ljfo.vermont.gov/ under “featured publications.”
- The Joint Fiscal Office published its first of two briefs on taxpayer migration. It can be found at: Taxpayer Migration by Age and Income: Evidence from the IRS. A second issue brief on the origins and destinations of Vermont’s taxpayer migration will be out in October.
- Vermont’s Population: Single-Year-of-Age-numbers looks at demographic trends over the past 34 years. The full brief can be found at Demographic Trends. Some of the notable trends are:
  o Ages 0-18: An on-going decline in the school-age population
  o Ages 19-24: An increase in the college-age population prior to 2015, followed by a slight decline by 2030
The Fiscal Focus

- Ages 25-44: A drop-off in adults in their early working years prior to 2015, followed by a small comeback by 2030
- Ages 45-64: A sizable increase in adults in their peak earning years prior to 2015 (largely the baby boomers), followed by a hollowing out by 2030
- Ages 65+: Significant increases in seniors in their traditional retirement years throughout the period

Tax Structure Commission Update

The Tax Structure Commission is gathering public input on how Vermont’s revenue system can work better for Vermonters. After hearing that an online option would be more accessible for many Vermonters than in-person testimony, the Commission launched a short survey. Vermont businesses, citizens, and advocates are invited to answer six questions at https://www.surveymonkey.com/r/8Z2SDX6.

The Commission published a backgrounder on nonresident withholding for owners of pass-through businesses in September and will finalize its paper on the impact of demographic change on Vermont’s revenue system in October. The three Commissioners continue to meet regularly to discuss data on key topics and hear from Vermonters. Meetings in August and September included testimony on the State’s education property tax as well as its current use program. After working through education finance, the Commission will turn to evaluating how economic trends are impacting Vermont’s tax structure.

The Commission’s next meeting will be November 6 at 1 pm (location TBD). More information can be found at https://ljfo.vermont.gov/committees-and-studies/tax-structure-commission.