



The Fiscal Focus

An update for Vermont Legislators from the Joint Fiscal Office

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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 2020 Closeout Summary

The major funds of the State are closed on a cash (mostly) basis for FY20 summarized below.

General Fund Closeout: As of June 30, 2020, General Fund (GF) revenues before direct applications and reversion came in below the January estimate by \$135.4 million. This was primarily due to the federally deferred calendar year 2019 personal and corporate income taxes, which have now come in stronger than expected (see July revenue discussion below). The true loss in FY 2020 GF revenues was in the Meals & Rooms tax, which came in \$27 million or 15% below pre-COVID expectations. Estate Tax missed the mark by 27% or \$5.7 million, possibly reflecting policy changes to the estate tax that began in January 2020. The health care revenues in the General Fund appear over target, but the provider taxes are recorded on an accrual basis, which means known cash payment shortfalls are not reflected in this accounting. Provider tax revenues have low default rates and this issue will continue to be monitored.

The GF was able to close FY 2020 without dipping into reserves but closing the GF did rely on \$51 million of a short-term internal loan from the Coronavirus Relief Fund (CRF). This loan was repaid on July 27 from the strong receipts to date in July. The reason such a relatively small loan amount was needed was due to spending reductions made in the second budget adjustment bill and the strength in transfers from other funds, especially the Department of Financial Regulation and Abandoned Property funds.

General Fund July 2020 Revenues: By the July 29 Fiscal Committee meeting \$166 million in personal and corporate income tax receipts from calendar year 2019 had been received. If these monies had been collected in the regular timeframe the FY 2020 GF closeout would have exceeded January expectations by \$31 million despite the weakness in other GF revenue lines.

Final numbers should be available August 12. The strength in July collections of deferred personal and corporate paid tax returns reflects, in large part, the strength of calendar year 2019 personal and corporate income associated with strong capital gains and one-time large payments due to mergers and acquisitions. Estimated tax payments from April and June also appear stronger than expected, but we could see higher refunding related to these payments with continued pandemic economic impact though tax year 2020.

In all, this strength in the July collections, net of the \$51 million loan repayment, will provide one-time revenue to help address the FY 2021 budget needs during the August - September session. The FY 2021 new revenue forecast will be presented by the economists to the Emergency Board on August 12. At that time, JFO will have a more detailed picture of this one-time deferred FY 2020 revenue and the newly revised FY 2021 GF revenue forecast which we expect to be significantly lower than the FY 2021 estimate from January.

Transportation Fund: Due to its heavy reliance on consumption taxes, the FY 2020 Transportation Fund (TF) receipts missed the January forecast by \$20.4 million. This was across the board in all major TF revenue sources, with the largest declines coming from the Gasoline Tax (\$6.7 million), Purchase & Use Tax (\$6.5 million), and DMV Fees (\$3.2 million). However, this is better than what was expected in early June when projections indicated a loss of \$34.2 million. Close out of the TF was accomplished without dipping into the fund reserve. The TF closure relied on reducing project carryforwards (i.e. cancelling funding authority still available at the end of June for some projects) and using a balance in the Central Garage internal service fund; details of which are yet to be provided.

Education Fund: On net, actual FY 2020 non-property tax Education Fund (EF) revenues finished FY 2020 down \$21.3 million compared to their January forecast. Again, like the TF, this was notably better than their June 8 forecast, which projected FY20 in the EF to be \$30.5 million below their January forecast. This improvement in the forecast was largely driven by Sales tax collections. In June, which reflects May sales, sales tax revenues surprisingly hit the January monthly target, buoyed by Federal government transfer payments, major growth in online sales, and increased sales of large, durable taxable goods. Like the GF, Meals & Rooms tax receipts missed the mark. The EF was able to close the year with a very modest \$3.4 million use of the fund reserve. The FY 2020 fund reserve is at 4.5% or \$33 million.

July Sales tax receipts remained strong, and Tom Kavet will be commenting on them as part of his FY 2021 forecast.

Federal Relief Status

CRF Spending to Date: As of this date, just over \$1.025 billion of the \$1.25 billion in CRF monies has been allocated. Detailed information can be found [here](#).

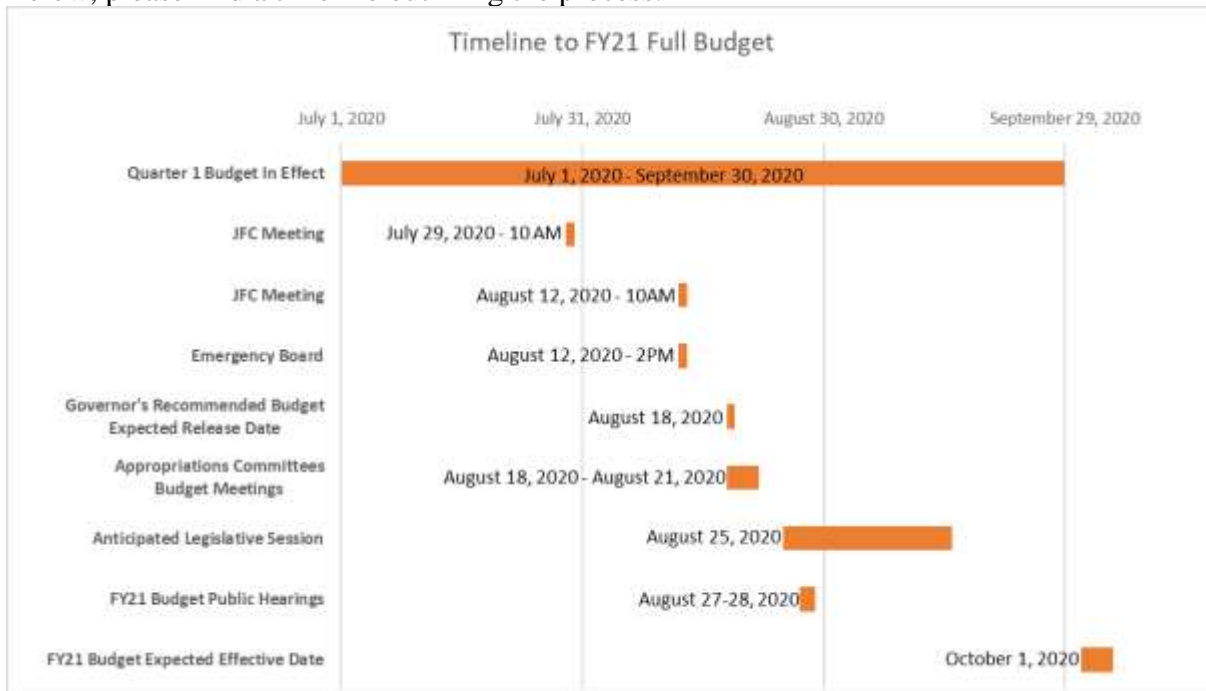
This includes \$23.6 million approved at the July 29 Joint Fiscal Committee meeting, discussed in detail on page 5.

Additional Federal Relief: Congress is negotiating further federal relief, and we hope to have some idea of the makeup of this next round of relief before the legislative session.

FY 2021 Budget Process/Timeline

In accordance with Act 120, Sec. A.9.(a), notwithstanding 32 V.S.A. § 306, the Governor shall submit to the General Assembly, not later than August 18, 2020, a budget that shall embody estimates, requests, and recommendations for appropriations or other authorizations for expenditures from the State Treasury for the remainder of fiscal year 2021.

Below, please find a timeline outlining the process:



Education Update

Following the outbreak of the coronavirus pandemic in March, projected revenues from consumption taxes dedicated to the Education Fund fell dramatically below January consensus projections for both FY 2020 and FY 2021. Initial revenue estimates also fluctuated widely due to uncertainty about the depth and duration of the economic slowdown.

Normally, education property tax rates are set high enough to support voter-approved education spending and to maintain a 5% stabilization reserve in the Education Fund. However, doing so this year would have resulted in an increase in FY 2021 education property taxes that the Legislature deemed unacceptable.

In Act 122 (H.959), the Legislature set FY 2021 education property tax rates based on: (1) voter-approved education spending, (2) the January consensus revenue forecast for FY 2020 and FY 2021, (3) a projected \$12.9 million surplus in FY 2020, and (4) a full stabilization reserve in FY 2021. Under this scenario, average homestead and nonhomestead property tax rates increased by 3.2 and 3.4 cents, respectively:

	<u>FY 2020</u>	<u>FY 2021</u>	<u>Change</u>
Average homestead property tax rate:	\$1.510	\$1.542	\$0.032
Uniform nonhomestead property tax rate:	\$1.594	\$1.628	\$0.034
Average tax rate on household income:	2.47%	2.51%	0.04%

Although total education property tax revenue will increase by about \$60.4 million over FY 2020, this additional revenue falls significantly short of the amount needed to balance the Education Fund in FY 2021. Current estimates, based on a preliminary FY 2020 closeout and the latest revenue projections for FY 2021, indicate that the Education Fund is currently running a deficit of about \$92 million in FY 2021. This will be addressed in the upcoming session.

FY 2021 Property Tax Update

In addition to the COVID-19-related changes to the non-property tax revenues in the Education Fund, JFO has prepared a document that summarizes the effect of the pandemic on the statewide education property tax. Recall, in Vermont education property taxes are collected at the local level. Towns can set their own collection schedule, but the funds are the property of the state. A detailed Legislative Update can be found [here](#).

JFO Studies and Reports

The staff of the Joint Fiscal Office is actively working on several studies and reports. A sampling includes:

- Select Committee on the Future of Public Higher Education in Vermont:** The Committee will address the urgent needs of the Vermont State Colleges (VSC) and develop an integrated vision and plan for a high-quality, affordable, and workforce-connected future for public higher education in the State. JFO, the Agency of Education, the Agency of Commerce and Community Development, the New England Board of Higher Education, and a contractor will help the Committee with its work. Twelve Committee members out of 15 have been named to date. Joyce Judy, President of the Community College of Vermont, will chair the Committee. As directed in Section A.10 of Act 120, JFO released a Request for Proposals on June 30, and we received 16

proposals. The Steering Group, made up of five members of the Select Committee, will select the contractor soon. Information on the Committee can be found [here](#).

- State House COVID-19 Mitigation:** The Sergeant at Arms has contracted with Freeman French Freeman to prepare “an assessment of the space and health and safety needs of the Legislative Branch for COVID-19 mitigation and meeting social distancing requirements” as called for in Act 136. The contractor is looking at both short-term and long-term space needs and will provide recommendations and cost estimates. The report is due on or before August 19, 2020.

Joint Fiscal Committee – July 29, 2020

The Joint Fiscal Committee met on July 29 and took the following actions:

- Postponed approval of the Elementary & Secondary School Emergency Relief Fund (ESSER) grant – the State was allocated \$31.1 million from the Elementary & Secondary School Emergency Relief Fund; of this amount, \$28.8 million in grants will be available to school districts in FY 2021. The grant approval will be discussed on August 12 at the next Committee meeting once committee questions can be addressed.
- Approved \$23,629,362 million in CRF requests, which are presented below as well as in further detail [here](#):

Agency of Commerce and Community Development – call center for Economic Relief Grants	\$250,000.00
Department of Financial Regulation – modeling and consulting work	\$410,000.00
Agency of Digital Services – grant implementation costs	\$1,789,249.00
Agency of Natural Resources – digitize use value records; regulatory modernization	\$1,850,000.00
Natural Resources Board – digitize permit files	\$80,113.00
Department of Mental Health – suicide prevention efforts	\$500,000.00
Department of Labor – begin modernizing UI system; reimbursement for call center	\$18,750,000.00
Total	\$23,629,362.00

- Reviewed FY 2020 preliminary closeout, which is discussed above.

JFO Staff Updates

Chloe Wexler received the 2020 Legislative Staff Achievement Award from the National Association of Legislative Fiscal Offices (NALFO). The award is presented annually to a legislative fiscal employee for outstanding contributions to the work of legislative fiscal offices. She was nominated for the data work she has done in a variety of areas, including education finance, minimum wage, and essential worker bills. Because of her ability to analyze data, the legislature is better informed about possible impacts on individuals, municipalities, and the State. She performs high quality work that is recognized across State government and now nationally.

Becky Buck has officially retired from her work staffing the Senate Appropriations Committee and preparing the budget bills. Chrissy Gilhuly transitioned into this job during the session and will be the key point person in these areas of work. Due to the pandemic, we are unfortunately unable to host a retirement party. Becky is the longest tenured staff at the JFO and was instrumental in guiding the office through periods of change and growth, always focusing on producing the highest quality work products and assisting the entire staff and members of the Legislature whenever called upon. We will miss Becky and wish her well in her retirement. If you would like to join us in celebrating Becky, please send her an e-mail or a card to the following:

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