Joint Fiscal Office Update

Key Developments – April 21, 2020
Joint Fiscal Staff, Stephen Klein, Chief Fiscal Officer

What follows is an update of key revenue and expenditure developments during the past week.

1. Revenue Developments
   a. FY 2020 Revenues: Our revenue expectations have remained relatively constant for the past three weeks with one exception. As of April 17, the Education Fund economic loss for FY 20 dropped from $89 million to $69 million and the FY 20 to FY 21 shift dropped from $51 to $42 million. This change is due primarily to data corrections rather than economic change. The new forecast link is: April 17 Revenue update.
   b. For now, if deferred taxes are allocated to FY 2020 (the year they were due), the FY 2020 shortfalls from the January estimates are:
      i. General Fund down $61 million
      ii. Education Fund down $69 million
      iii. Transportation Fund down $42 million
      iv. Again, we expect weekly updates on revenue estimates generally on Monday afternoons to be used in Tuesday updates. That could change if there is a major revenue adjustment.
   c. FY 2021 Revenues: The timing on updates on FY 2021 revenues remains unchanged. Tom Kavet and Jeff Carr, the economists for the Legislature and the Administration, hope to develop an estimate by the last week in April.

2. The Third Stimulus Bill – The CARES Act - Developments with Receipt of Funding
   a. The CARES Act contained $1.25 billion Coronavirus Relief Fund (CRF) monies for Vermont: While we have yet to receive guidance on spending as of this update, we have received the money. $625 million arrived on Saturday, April 18, with the balance arriving on Monday, April 20, 2020. The money is being held by the State Treasurer. It has been initially deposited in Peoples United Bank but will likely be moved to ensure the highest short-term interest rate.
   b. The Administration is likely to submit a grant form to the Joint Fiscal Committee for formal acceptance of the funds in the next week. Leadership and the Administration are discussing the nature this acceptance will take with the expectation that most of the monies will be subject to the normal appropriations process. There will be some flexibility to address funds that have already been spent and to ensure that there is a system in place that allows meeting immediate needs that are time sensitive.
   c. Money Management: The Treasurer has developed an approach to holding the federal CARES funds. As indicated last week, the Treasurer has submitted a
request to expand her authority to borrow from various funds to avoid a year-end deficit. A copy of her request is here: Beth Pearce Interfund borrowing request. A bill to implement the request has passed out of Senate Finance.

3. Further Stimulus Bills
Recent conversations in Washington indicate that the next stimulus bill will be focused mainly on small business funding and health care funding and is likely to pass this week. It is our understanding that this will be followed by further relief bills. As each bill changes the amount of funds available to the states, and possibly the spending terms, a spending plan is difficult to develop.

A full list of federal resources received to date is available here: April 17 update on federal funds for Vermont

4. Appropriations Issues
The Administration continues to take actions to meet current needs.

AHS issues: As of this week, it is our understanding that $6.5 million has been paid to the Brattleboro retreat to provide short-term financial stability. The Administration has also developed payment structure for Designated Agencies to address cost associated with COVID-19 response, including compensation increase for at-risk workers. Other developments in AHS include:

- Vermont Department of Health (VDH): VDH anticipates it will have spent all of the $4.9 million awarded as part of the first federal COVID-19 bill and anticipates another $5.4 million as part of the third federal COVID-19 bill (CARES Act).
- Department of Vermont Health Access (DVHA): As part of the second COVID-19 bill, the federal government temporarily increased FMAP to states. For the quarter ending March 31, 2020, this equated to an additional $25 million in federal funds drawn to pay Medicaid claims.
- Department of Disabilities, Aging, and Independent Living (DAIL): DAIL is anticipating processing approximately $5 million in grants for issues such as congregate and home delivered meals, family caregivers, and supportive services.
- Other AHS COVID-19 related funding include:
  - LIHEAP: Vermont is anticipating $4.1 million for LIHEAP
  - Community Services Block Grant: Vermont was awarded $5.1 million, of which 90% will go to community action partnership agencies to help provide social services and emergency assistance to Vermonters.
  - Child Care and Development Block Grant: $4.3 million has been awarded to offset the cost of stabilizing the childcare system and providing health care to essential workers.
  - Emergency Solutions Grant: Vermont was awarded $4.6 million that will be used to cover housing costs for those who are homeless or at risk of homelessness. HUD is only releasing half of these funds and has provided no guidance as when the rest will be released.
• AHS is also applying for a $2 million grant from the Substance Abuse and Mental Health Services Administration (SAMHSA) to expand mental health emergency services and another grant from the Department of Justice for helping correctional facilities prepare and respond to the medical needs of inmates.

**General:** An FY 2020 budget adjustment bill will be developed beginning in late April through May and a 2021 preliminary budget bill (a three-month bill – enough to start the FY 2021 year) will also be developed in May.

It is likely that the full FY 2021 budget cannot be completed until August/September. By that time, we should have an official FY 2021 revenue update based on the actual payment information from deferred trust taxes and personal income tax filings, as well as longer-term epidemiological models.

**Initial claims for Unemployment Insurance:** Initial claims for unemployment insurance that were processed by the Department of Labor reached unprecedented levels during the three weeks ending March 28, April 4, and April 11. The average number of initial claims during the comparable weeks in 2019 was 538 per week. But this year, the average number of initial claims that were processed was 13,590. For comparison, the average number of initial claims during the highest three weeks of the Great Depression was 2,148. A chart showing historical numbers of initial claims in Vermont from 1987 to the present is available on the JFO website at [VT UI initial claims history](#).

5. **Moody’s Analytics, April 14th COVID Stress Test:** Vermont ranks in the middle of NE states and relatively well compared to all other 50 states but will still have a shortfall.

   a. Using information on state reserve funds and projections of Medicaid caseloads, Moody’s Analytics analyzed states’ abilities to weather moderate to severe economic downturns related to COVID-19. There were two scenarios: moderate\(^1\) and severe\(^2\) stress. While Vermont will have a shortfall under either scenario, Vermont performed better than the national average overall and was in the middle of the New England states.

   b. Other takeaways: tax structures and the industrial sector mix are key factors in the impact of this crisis. States with more stable tax structures and strength in the education and health care industries do better. Having rainy day funds is also extremely important to weathering this crisis; this was a positive factor for Vermont.

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\(^1\) Defined as a deep recession in the first half of 2020 followed by a modest rebound in the late second quarter of 2020. Unemployment peaks at 13% in the second quarter.

\(^2\) Defined as a situation in which travel and business restrictions remain in place into the third quarter of 2020. Unemployment peaks at 17% in the second quarter.