

# Joint Fiscal Office

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## MEMORANDUM

To: Senator Ann Cummings, Chair  
Representative Kitty Toll, Vice Chair  
Members of the Joint Fiscal Committee

From: Stephen Klein, Chief Fiscal Officer

Date: July 28, 2020

Subject: July 2020 – Fiscal Officer’s Report

As we look toward the July 29 meeting, here is an update of recent developments, some of which will be on the agenda of the Joint Fiscal Committee.

### 1. FY 2020 Revenues Preliminary Closeout

The major funds of the State are closed on a cash (mostly) basis for FY20. However, we are still waiting for the Tax Department’s final determination of how much of the July revenues can be attributed to FY20 late filing of net personal income and corporate tax paid returns, refunds, and estimated taxes.

- a. **General Fund:** As of June 30, 2020, General Fund revenues before direct applications and reversion came in below the January estimate by \$135.4 million. As a result of the action in the second budget adjustment, the amount of internal funds borrowed to close the year was \$51.1 million. This internal loan was retired on July 27 with July receipts.
  - With deferred calendar year 2019 personal and corporate income taxes continuing to come in through the end of July, the FY20 General Fund revenue overall, on a preliminary basis, is markedly improved compared to the forecast made on June 8th which projected a revenue downgrade of \$41.2 million below the January forecast. Because tax returns continue to be processed, this information changes daily. There will be an update at the JFC meeting.
  - Once direct applications and reversions are counted, total General Fund resources will be even better relative to what was expected in early June.
  - A large part of the gain had been an increase in paid and estimated taxes above projections reflecting the strength of calendar year 2019 tax revenues. Vermont’s taxes can be impacted substantially by the strength of capital gains, and this can swing with a small number of returns. Several corporate events also helped Vermont revenue maintain its strength.

- In other non-health care revenues:
  - Estate tax receipts trailed forecasts by \$5.7 million, or –28%, although this revenue source tends to be volatile from year to year. Part of this could also reflect policy changes to the estate tax that began in January 2020.
  - Meals and Rooms taxes across both the General and Education Fund came in \$27.2 million below the January forecast, or –15%. This decline in revenues also reduced expected Clean Water Fund revenues by around \$1 million.
  - Property transfer taxes, while slightly below the January 2020 targets, have improved relative to the June 8 projections.
- Health care revenues are showing a positive return year to date, but this is largely a reporting issue. The provider taxes are recorded on an accrual basis, which means cash or payment shortfalls do not get accounted for. Generally, these revenues have low default rates, so the differences are not large. They will need to be adjusted.
- b. Transportation Fund:** The Transportation Fund receipts are down \$21.4 million, which is an improvement from the June 8 projected loss of \$34.2 million. Much of this was due to lower taxes across all major revenue sources, with the largest declines coming from the Gasoline Tax (–\$6.7 million), Purchase and Use Tax (–\$6.5 million) and DMV Fees (–\$3.2 million).
- c. Education Fund:** On net the actual FY20 revenues are down \$21.3 million. Again, this is an improvement from the June 8 projection of being down \$30.6 million. 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. With the improvement in Education Fund receipts and other changes, the overall projected shortfall in the Education fund for FY21 is \$93 million which is an improvement over June 8 estimates of a shortfall of \$106 million.

**FY 2021 implications:** The FY 2020 results, while positive, do not provide clear guidance for FY 2021. Significant government transfers that occurred between March and July 2020 helped keep State revenues afloat, and the extent to which these payments will continue in FY21 is uncertain. Moreover, the epidemiological curve of the virus remains difficult to forecast. We will receive an updated revenue forecast on August 12 at the Joint Fiscal Committee meeting.

## 2. Medicaid Trending

In total, FY 2020 DVHA Medicaid and Medicaid-related program expenditures totaled \$805 million. This is \$3.6 million over the budgeted level but still \$24 million below the FY19 level of expenditure. Enrollment in many groups were ticking upward in the last three months of the fiscal year, Rx rebates came in below expectation, and suspended

claims in the system were at the lowest level ever at the end of the year. The Medicaid year-end report on Aug. 12 will provide more detail on this and the spending in long-term care, and in mental health and developmental disabilities.

### 3. Federal Relief Status

**CRF Spending to Date:** As of this date, we have allocated just over \$1 billion of the \$1.125 billion in CRF monies.

**Further Spending Requests to Come Before JFC:** At the Joint Fiscal Committee meeting, the Administration will be asking for approval to spend another \$23.6 million. Details will be sent separately. The specific requests are:

|   |                        |
|---|------------------------|
| 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        |
| <b>Total</b>  | <b>\$23,629,362.00</b> |

**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.

### 4. State Employees' and Teachers' Retirement Funds

Investment returns on FY20 retirement funds are estimated to have come in below the 7.5% assumed returns. With over \$4 billion invested, the lower return will be reflected in this summer's actuarial work to produce the new actuarial position of the fund.

The State continues to face OPEB obligations. When the actuary submits his end-of-the-year review, we will provide more on this funding situation.

### 5. Other Action Items on the JFC Agenda

The Joint Fiscal Committee will be asked to approve Grant JFO #3011 for \$31,148,360 from the U.S. Department of Education to the Vermont Agency of Education. The Elementary and Secondary School Emergency Relief (ESSER) Fund provides school districts with considerable flexibility in determining how best to use ESSER funds [JFO received 7/16/20]. It is being held for Committee action.

## 6. Update on Unemployment Insurance

- Vermont received 1,752 initial unemployment insurance claims for the week ending July 18. Thus far in July, the average weekly number of initial claims has been 1,939, up slightly from the average number of 1,879 for June. The Vermont Department of Labor paid unemployment benefits to 39,864 Vermonters during the week ending July 18. The weekly average number of unemployment benefits paid in July thus far is 39,860, down from 44,602 in June.
- Since March 1, 2020, the Department of Labor has received 113,909 initial unemployment claims. Under both the traditional UI program and the new PUA program for sole proprietors and others not traditionally eligible, 89,049 claimants have received payments.
- The balance in the traditional UI trust fund is \$299,908,212. As of March 1, 2020, the trust fund balance was \$506,157,247.
- The Federal Pandemic Unemployment Compensation (FPUC) program that adds an additional \$600 to each weekly benefit amount is scheduled to end this month. Claimants will receive the final FPUC payment for the week ending July 25. No supplemental program or extension to the current program has been signed into law. The Pandemic Unemployment Assistance (PUA) program runs until the end of the calendar year.
- An updated chart showing the history of initial unemployment insurance claims is available [here](#).

## 7. Legislative Budgets and Other

Legislative Budgets will end FY 2020 with carryforward, in part due to the use of CRF monies to fund the unique expenses related to the pandemic. We are in the process of calculating transfers to various departments to offset those costs. The surpluses will help to meet the reduction asked for by the administration for FY 2021. The requested reductions are 5% below the Governor's FY 2021 requested amounts submitted in January 2020.

The State House and Joint Fiscal Offices remain closed, and we are planning for a remote session in the August and September period.

We have begun to work on planning for the legislative orientation, which will be in part remote at this point, and the all legislative briefing, which is likely to be fully remote.

A study is underway regarding space needs for the legislature given the pandemic and its implications on the legislature and its operations; see below.

## 8. Studies

- **The Study on the Future of Public Higher Education:** The Select Committee on the Future of Public Higher Education in Vermont 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. Eleven Committee members out of 15 have been named to date. 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.

- **The State House Space Study:** 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 be providing recommendations and cost estimates. The report is due on or before August 19, 2020.

## 9. 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.
- Rebecca 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: [rbuck@leg.state.vt.us](mailto:rbuck@leg.state.vt.us) or Becky Buck, JFO, One Baldwin St, Montpelier, VT 05633.
- Neil Schickner will be back for the summer legislative session and will completely retire on October 1. We are beginning to think through the process of filling that position.
- The Joint Fiscal Office Biannual Performance Survey – Summary Results
  - We had 57 responses. This is below the number we received two years ago, when we received 66 responses; the typical number of responses has

ranged from 62 to 88. For our next survey, we will try to gather more responses.

- Generally, performance was rated highly. There was a slight increase in the overall to 4.75 (out of 5). There was also a slight increase in ratings for the questions of quality, clarity, knowledge, and timeliness. There was a slight decline in the House vs Senate impartiality and in nonpartisanship between parties; both dropped from 5.00 to 4.82.
- A number of comments on individuals were offered, which will be included in staff evaluation discussions.