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: October 20, 2020

Subject: October 2020 – Fiscal Officer's Report

As we look toward the October 22 meeting, this is an update of recent developments, some of which will be on the agenda of the Joint Fiscal Committee.

1. FY 2021 Revenues

September revenues continued to be strong. We are now through the first quarter of the year, and the strength overall reflects the impact of unprecedented federal fiscal stimulus working its way through the economy. There is uncertainty regarding the durability of this strength and whether the above-forecast personal income and corporate income tax revenues will lead to large refunds in the Spring 2021 filing season.

General Fund: Overall, the General Fund (GF) finished the month \$31.6 million above its September target (+24%) and sits nearly \$50 million above target for the first three months of the fiscal year (+9.4%). Much of this is due to very strong personal and corporate income tax receipts in September:

- Personal income tax receipts were \$22.9 million above target for the month (+29%) and are now \$29.5 million above target year-to-date (+7.65%). The strong month was due to greater-than-expected estimated payments but also continued resilience in withholding payments.
- Corporate income tax revenues were \$8.9 million above target for the month (+59%) and are \$9.8 million above target year-to-date (+85%). Quarterly corporate estimated payments, like personal income taxes, were very strong this month.

For both revenue sources, most taxpayers are paying estimated payments for this tax year based upon last year's income. Considering the uncertainty due to COVID, this presents a risk that some of this revenue could be refunded in the Spring filing season. January revenues (when the next estimated personal income tax payments are due) should give an indication as to whether the strength is real or the result of taxpayers overpaying early in the year.

General Fund property transfer tax revenues are confirming widespread anecdotal realtor reports of a hot housing market. September revenues were \$800,000 above target for the month (+66%), and total revenues are now up $1.4 million (+39%) for the year. Initial property transfer tax data show the volume of sales to be close to normal, but the properties sold to be higher priced. The only large GF revenue laggard was the meals and rooms tax, which finished the month $400,000 below target (-4%) and is down $1 million (-3.7%) for the year despite a forecast that was already more than 30% below last year.

Transportation Fund: The Transportation Fund finished September $3.6 million above target (+15%) and is now $2 million (+3%) above target year-to-date. Most of this strength is from August revenues spilling into September due to processing issues.

- Gasoline taxes were +$800,000 for the month (+12%), erasing a slow month in August and putting overall revenues up $400,000 year-to-date (+2%)
- Purchase and use tax revenues were +$2.7 million for the month (+42%) and are now $1.9 million above target year-to-date (+10.8%), echoing other consumption tax strength.
- DMV fees were +$500,000 for September (+7%); just above target year-to-date.

Education Fund: The Education Fund had another strong month, finishing $6 million above target (+14%) and is now $13.3 million above target for the year (+10%). Almost all of this is due to continued strength in consumption taxes. After another strong month in September (+$4.5 million above target or +14%), the sales tax is now $12.5 million (+11.2%) above target for the first three months of the fiscal year. Meals and rooms, as noted above, is lagging modestly below target but is 33% lower than the first quarter of last fiscal year. Purchase and Use Tax revenues also had a strong month.

2. Medicaid Trending

Through October 9, Medicaid trending against targets is running to the good with an $11,096,976 all funds DVHA Surplus. This is $3.40 million under-spent in healthcare claims, $7.78 million over-collected in drug rebates, and $83k over-spent in Medicare Buy-in and Clawback payments.

It is far too early to know the full-year direction of Medicaid, but this is a positive for the first quarter.

We have also seen improvements in expected federal Medicaid match rates. In part, this is due to reduced relative annual income of Vermonters compared to other states over a three-year period. This could provide roughly $20 million in federal receipts. We also are hearing that the Medicaid bump that has been in place for COVID relief may continue for several additional quarters.

3. The FY 2022 Budget Picture – initial context

The Administration just sent out budget instructions estimating a $180 million projected GF gap for FY 2022. For this reason, they have asked departments for a level funded budget and ones with 1, 2, and 3 percent growth to provide options in the event of federal relief. The Administration's $180 million gap, which will vary as decisions are made and new information comes in, is due to several key factors:

a. An estimated $40 million lower revenue in FY 2022 than we had in FY 2021 due to fewer one-time resources;
b. $36 million (or more) of new pension and OPEB obligations for State employees and teachers;
c. $20 million in projected FY 2021 Pay Act annualization and new FY 2022 Pay Act obligations;
d. $67 million in Global Commitment phasedowns and loss of federal FMAP bump in FY 2022; and
e. $16 million in stabilization reserve transfers and debt service funding needs.

Several other budget pressures in human services and throughout government and offsets will be presented by the Administration.

The $180 million may be addressed in several ways including possible federal relief, the strength of revenues which are exceeding forecasts, the use of reserves and more creative use of remaining CRF funds.

The budget instructions are posted on the Joint Fiscal Website HERE.

4. Federal Relief Status

CRF Spending to Date: While virtually all the CRF funds have been allocated, $550 million had left the State treasury as of October 19. This should increase in the weeks ahead as funds are spent.

Further Spending Requests to Come Before JFC: At the Joint Fiscal Committee meeting, the Administration is asking for approval to spend another $680,000 from provider funds to help administer the next phase of that distribution. We have received and are circulating information on this.

5. Implementation of Sec. B.1102.2 SOURCE FOR PORTION OF BUSINESS GRANTS CRF APPROPRIATION

In the FY 2021 restatement full year budget, the legislature required that:

"(a) $15,000,000 of the funds appropriated in 2020 Acts and Resolves, No. 137, Sec. 6 as amended by Sec. B.1102 of this act, is pursuant to funds from the $75,000,000 and $150,000,000 CRF allocations approved by the Joint Fiscal Committee on May 5, 2020, identified by the Administration and reverted to the Coronavirus Relief Fund due to reassignment to other funding sources, including FEMA, Federal Pandemic Unemployment Assistance, or other federal funds, or determined to have been expended on CRF-eligible expenses at less than the full approved amount."

On or before November 5, 2020, The Commissioner of Finance and Management is to report to the Joint Fiscal Committee on the status of specific allocations. As part of the meeting materials, the Administration reported that $10,005,809 has been identified as of October 16. Another $1,000,000 is likely from the allocation to Brattleboro retreat. We expect a final report on or before November 5.

6. Federal Unemployment Benefits and the Official Measure of Unemployment

At the Joint Fiscal Committee meeting, the Commissioner of the Department of Labor will discuss the unemployment benefit pay outs. Vermonters will receive less in federal unemployment benefits going forward in part because official unemployment statistics no longer accurately reflect the share of the workforce that is unemployed. The reason is that the official unemployment count requires that unemployed workers must actively look for work; if no job-seeking activity occurs, the person is counted as not in the labor force. Yet, the federal CARES Act established unemployment benefits for people who were no longer working and not actively looking for a job because of COVID-19. As a result, many Vermont recipients of unemployment benefits are no longer counted as unemployed but rather as not in the labor force.

For example, official statistics for August 2020 reported 4.8 percent unemployment and about 15,400 unemployed in Vermont. Yet, on average during that month, about 32,000 Vermonters filed claims for traditional unemployment benefits each week. Another 10,000 or so received unemployment benefits under the temporary PUA program for sole proprietors and the self-employed. The contrast between the official 15,400 and the 42,000 recipients is stark.

Vermont is likely to lose its High Extended Benefits program partly as a result of the disconnect between the official statistics and the actual number of unemployed in our State. The High Extended Benefits program provided an additional 20 weeks of benefits to eligible Unemployment Insurance (UI) claimants after they had exhausted regular UI and temporary PEUC benefits. As of the week ending October 17, however, Vermont no longer qualifies for High Extended Benefits in part because of its relatively low unemployment rate. Instead, eligible Vermonters will receive an additional 13 weeks of benefits under the Extended Benefits program. As of the week ending October 10, more than 800 Vermonters were receiving benefits through the High Extended Benefits program.

7. Other

a. The Legislative Orientation for new members is scheduled for November 17–19. We are planning for a hybrid session and are prepared to go remote if needed.

b. The Legislative Briefing will be held on December 3 remotely. Along with the traditional fiscal updates, there will be a discussion of the upcoming session and the contemplated approach. Other topics are being developed.

8. Joint Fiscal Office Staff Updates

a. Neil Schickner retired, and we are seeking a replacement for that position. We wish him well in the years ahead!

b. As is the case with other staff offices, we are assessing the office for an approach to pandemic safety in the upcoming session.