Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • https://ljfo.vermont.gov/

MEMORANDUM

To: Representative Mary Hooper, Chair
Senator Jane Kitchel, Vice Chair
Members of the Joint Fiscal Committee

From: Stephen Klein, Chief Fiscal Officer

Date: July 29, 2021

Subject: July 2021 – Fiscal Officer's Report

As we look toward the July 30 meeting, here is an update of recent developments, some of which will be on the agenda of the Joint Fiscal Committee.

1. FY 2021 Revenues Preliminary Closeout

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

a. General Fund: Overall, the General Fund (GF) closed out FY21 $194 million above target (+11%). Nearly all revenue sources beat their January 2021 forecast level. In fact, nearly all revenue sources are above what was originally predicted for FY21 pre-pandemic (January 2020 forecast). Personal income tax revenues led the way, finishing the year $124.4 million (+11.23%) above their forecast. It was also a big year for corporate income tax revenues, which closed the year $51 million (+50%) above target. Revenues in both categories were the highest ever recorded in a single fiscal year. Much of this overage was driven by unprecedented levels of fiscal stimulus coming out of Washington, which affected everything in FY21 from business profits, to wages and capital gains.

Preliminary review of direct applications and reversions indicate this GF surplus will be closer to $205 million for FY21. Under current law, it will result in the following:

1. $100 million will be reserved to replace ARPA funding in accordance with the FY22 budget
2. $52.4 million will be transferred to State Employee OPEB funding.
3. $48.8 million will be transferred to the State's rainy-day fund bringing it to $80.4 million, the 5% maximum at the close of FY21. This will bring State GF reserves up to about 16%.

- In other non-health care revenues:

- Meals and rooms (M&R) tax revenues closed the year $12 million above target (+13.78%). M&R taxes overall for FY21 finished $45 million *below* what was predicted pre-pandemic for FY21. This was the only revenue source in the GF in this position.
- Property transfer tax (PTT) revenues continued their strength in June to close out the year $5 million above target in the GF (+27.72%). Total FY21 PTT revenues ($73.5 million) were almost double what they were just 4 years ago in FY 2017.
- Estate tax collections were $26.9 million in FY21. This was 144% of the August 2020 forecast, meaning approximately $3.5 million will be sent to the Higher Education Trust Fund as revenues exceeded 125% of the year's initial forecast. Estate tax revenues, while they exceeded the August 2020 forecast, were the only revenue source in the GF to miss their January 2021 forecast (–$5.4 million).

- Health care revenues showed a negative return, but this understates the losses in this area. The provider taxes are recorded on an accrual basis, which means cash or payment shortfalls do not get accounted for. We expect an adjustment downward in FY 2022 to reflect uncollectible provider taxes.

b. **Transportation Fund**: Revenues in the Transportation Fund (TF) closed the year $7.7 million above their January 2021 forecast. This was driven by a record year for Purchase and Use (P&U) tax revenues, which were $9.1 million above target for FY21 (+11.35%). Total P&U tax revenues were $134 million, over $20 million more than the next highest fiscal year in history. This is almost entirely caused by fiscal stimulus, as consumers used record levels of disposable income on goods such as cars and trucks. Gasoline and Diesel tax receipts were a combined $400,000 above target this fiscal year. Gasoline taxes, like M&R taxes, however, are well below their prepandemic forecast by about $11 million. DMV fees closed out the year a negligible amount below target ($800,000 or – 1%).

c. **Education Fund**: Since non-property tax revenues in the Education Fund (EF) are almost entirely consumption-based, it is unsurprising that EF closed the year well above their January 2021 forecast. Total revenues were $31.1 million above forecast (+5.28%). Strength was across the board:

- Sales tax revenues were above forecast by $19.2 million this year (+4%)
- M&R taxes in the EF were $4.4 million above target (+13.78%).
- P&U tax revenues in the EF were $4.6 million above forecast
- Lottery revenues were very strong this year, beating their forecast by $3.2 million (+11%).

2. Medicaid Trend

Medicaid and Medicaid-related spending (all funds) totaled $1.8 billion in FY21. Spending was below budgeted amounts, and from a GF perspective, $8 million will be carried forward to FY22. The positive results for the year are largely due to other Global

Commitment programs coming in underbudget, offsetting overspending in DVHA, likely due in part to a higher than expected caseload.

The DVHA caseload increase is due to two key factors. First, the impact of the pandemic on employment resulted in increased pressure on the Medicaid caseload. In addition, redeterminations were suspended pursuant to a federal requirement for states to draw enhanced Medicaid.

The FY22 Budget Adjustment for DVHA, as well as the FY23 budget, are likely to be higher due to these caseload pressures. The Medicaid year-end report, which will be available at the meeting and at the JFO website, provides considerably more detail on revenue and spending in Medicaid for FY 2021.

3. Federal Relief Status

CRF Spending to Date: As of July 20, we have spent on a cash basis $1.19 billion of the $1.125 billion in CRF monies.

ARPA: One-half of the State ARPA funds arrived last week and have yet to be spent.

County Funding: There has been no resolution of the federal funding for counties. We hope for a resolution in the coming days.

4. State Employees' and Teachers' Retirement Funds

Investment returns on FY20 retirement funds are estimated to have come in at about 25%, which is well above the 7.0% assumed return rate. Some of this investment income will offset prior years' shortfalls in returns, and some will be "smoothed" over the next four years, which will provide a strong starting place for future returns.

The possibility of increased inflation may offset some of these market gains. The actuarial analysis will be completed by the fall.

5. Other Action Items on the JFC Agenda

The Joint Fiscal Committee will be asked to approve JFO #3057, eight limited service positions for the Defender General. As was the case with the Judiciary and the Administration positions that were established at the last JFC meeting, these limited-service positions were funded but not established in the FY22 budget.

6. Opioid Funding

Recently the Attorney General announced a settlement with Cardinal Health, McKesson, AmerisourceBergen, and Johnson & Johnson, who are distributors and/or manufacturers of opioids. Vermont will receive about $60 million over a 14-year period with some of these funds frontloaded. Of these funds, an estimated 15%, or $9 million, will be deposited into the GF, 15%, or $9 million, will go to local governments, and the remainder will be subject to advisory committee review and recommended disbursement. The first funds will be distributed in April 2022. Clarity about timing and actual amounts should be available as we get closer to the legislative session.

7. Legislative Budgets and Other

Legislative Budgets will end FY 2021 with substantial carryforward, in part due to the use of CRF monies to fund the unique expenses related to the pandemic and, in part, due to the continuing remote nature of FY21 legislative functions.

The Legislature also has $2.5 million of CRF funds that must be committed by December 2021 for pandemic-related physical, technology, and other needs. Several legislative committees are working on proposals for the use of these funds.

8. JFO Staff Updates

In addition to the Legislative Fiscal Officer position, we are currently recruiting for four consultants/positions.

A. Dan Smith, our IT consultant will be leaving our employ in August. The Office is in the process of recruiting a replacement to continue to work with the Legislature on IT issues.

B. We are seeking a consultant to work with the summer committee on health care and the Health Care Reform Oversight Committee. We have received several expressions of interest and hope to be ready to meet the Committee demands as they begin work in August.

C. There are two fiscal analyst positions under recruitment. One is a data-oriented fiscal analyst to work on revenue issues. Another is the need to replace Breanna Parker, who works on education finance issues. She has decided to stay in Colorado and not return to Vermont. We will have her services until October. We are currently assessing the future role and responsibilities of this position.