



STATE OF VERMONT
JOINT FISCAL OFFICE

MEMORANDUM

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

From: Catherine Benham, Chief Fiscal Officer

Date: September 16, 2021

Subject: September 2021 Fiscal Officer's Report

In anticipation of the September 17 meeting, here is an update of recent developments, some of which will be on the agenda of the Joint Fiscal Committee

1. FY 2022 Revenue Collections through August

The final revenue report for August arrived earlier this month. Overall, revenues continue to be quite strong in the General and Education Funds but are weaker in the Transportation Fund. Across all three funds, August 2021 actual receipts were \$13.8 million above target and are now \$21.7 million above forecast for the first two months.

a. General Fund:

The General Fund closed the month \$12 million above target (+11%) and is now \$16.1 million above its July 2021 forecast across the first two months of the fiscal year.

- i. Strength this month was driven by the Personal Income tax, which closed the month \$7.6 million (+14%) above target, putting it almost \$6 million or 4.7% above target for the first two months.
- ii. The other strong revenue performer in August was the Meals and Rooms tax, which finished the month \$2.4 million above target in the General Fund (+20%) and is now 13.5% above target for the year. These data, however, are backward looking by a month, so do not yet reflect the effects of recently rising Delta variant caseloads.
- iii. The Property Transfer tax continued its record-setting pace in August, finishing the month \$600,000 above target (+28%) and is now \$700,000 above target for the year (+25%).

September is an important month as the first personal income tax estimated payments for FY 2022 are due September 15. Also, Meals and Rooms tax receipts should begin to show us the extent to which rising Delta variant caseloads are affecting the hospitality industry and the termination of supplemental unemployment benefits impact withholding tax receipts.

b. Transportation Fund

August receipts in the T-Fund narrowly missed their target by \$700,000 (-3%), offsetting a forecast beat in July. The total fund is now more or less on target for the year (\$-200,000 or -0.5%). Except for the diesel tax, which beat its forecast target by \$100,000, revenues across most sources missed their targets by small amounts:

- Gasoline missed by \$400,000 or -5% and is now short of its two-month target by \$700,000 or -5%.
- Purchase and Use tax receipts were slightly lower than target (-\$300,000 or -4%), due primarily to a lack of new vehicle inventories, and are now roughly on target for the first two months.
- DMV fees were right on target this month.

c. Education Fund

The Education Fund finished the month \$2.4 million (+5%) above target and now sits \$5.8 million above target for the first two months of the fiscal year (+5.2%). The overage this month was due to the aforementioned strong Meals and Rooms tax collection, but also the lottery. A growing Powerball jackpot over the past several months, along with plentiful disposable income and a fixed July revenue transfer, pushed lottery receipts this month up to \$4.5 million, \$2.1 million above its projection (+93%). The Sales tax, for a first time in almost a year and a half, did not beat its monthly target, finishing the month a modest \$400,000 below target (-1%). However, it is still \$2.5 million above forecast for the year (+2.7%) thanks to a solid July.

d. FY 2023 Budget update

The Governor has sent out instructions asking agencies and departments to prepare budgets that grow no more than 3% based on their FY22 General Fund appropriations.

e. Federal Relief Status

CRF spending to date: As of September 13, we have spent \$1.205 billion of the \$1.25 billion in CRF funds (cash basis).

ARPA Coronavirus State and Local Fiscal Recovery Fund spending to date: As of September 14, the following has been spent (cash basis):

State: \$33.7 million

Local: \$89.9 million, which was distributed as grants to municipalities: (\$29 million is county funds and \$60 million is non-metropolitan area funding)

The State received half of the State allocation, \$524 million, in July and will get the other half in 12 months. The State also received half of the county funds (\$29 million) and half of the non-entitlement unit funds, i.e. nonmetropolitan area communities (\$60 million). All county and non-metropolitan area funds received to-date have been distributed to municipalities.

f. Education Fund

The Education Fund is currently projected to close FY 2022 with an unprecedented surplus of more than \$78 million. Under 32 V.S.A. § 5402b, the Commissioner of Taxes must assume that these funds will be used to reduce education property taxes in his December 1 letter recommending tax rates for FY 2023. The Commissioner's recommendation is the starting point for annual deliberations; the Legislature is not bound by this constraint.

2. Legislative Budgets and Other

Dan Dickerson has started preparing the FY23 legislative budgets. Part of this work will involve options on how to use the legislative carryforward.

The Legislature has \$2.5 million of CRF funds that are being used to prepare committee rooms for hybrid work. In addition, some funds are being used to upgrade wiring and other building issues at 2 Aiken so that it can be used for legislative work and staff.

3. Office Updates

- a. **Issue Briefs** – The staff are preparing issue briefs on the key ARPA investment topics including housing, clean water, broadband, climate change, and well-being of Vermonters/workforce development/business supports. These briefs will be coming out later this fall.
- b. **IT Consultant** – Lisa Gauvin of Agilis Technology is our new consultant reviewing state IT projects and operations. Dan Smith is helping her transition into this work.
- c. **Fiscal Analysts** – We have two new permanent fiscal analysts who will start on October 18. They will be part of a team and will be focusing on a variety of issues including revenues and education finance.
- d. **Health Care Task Force** – Several consultants were interviewed for the work supporting the Health Care Task Force. The process is almost complete, and a consultant should be in place in the next week or two.
- e. **TIF** – The Office is speaking to stakeholders in the TIF program and is in the process of updating analyses for the TIF report update due on January 15, 2022. The last TIF report was released January 2018.
- f. **Basic Needs** – The next Basic Needs study is due January 2023. There have been internal discussions about pursuing a major review of the basic needs' statute, calculations and methodology. A technical advisory committee review took place in 2008 and resulted in statutory and methodology changes. JFO may request the appointment of another technical advisory committee, or similar body, during the upcoming session.