



STATE OF VERMONT
JOINT FISCAL OFFICE

MEMORANDUM

To: Members of the Joint Fiscal Committee
From: Catherine Benham
Date: November 8, 2022
Subject: November 2022 - Fiscal Officer's Report

In anticipation of the November 9 meeting, I have prepared an update of recent developments, some of which may also be on the agenda of the Joint Fiscal Committee.

1. FY23 Overall Revenue Performance Year-to-Date (Compared to the E-board revenue forecast adopted July 2022):

The revenues for October have been finalized and all three major funds were slightly above target. In aggregate, state revenues in the three major funds for the month were +\$5.1 million or +2.0% ahead of target, for the year in total the funds are +\$65.0 million or +6.7% above forecast.

Fund Highlights:

- 1. General Fund (GF):** The General Fund had a relatively flat month, finishing ahead of target by +\$3.4 million or +2.1%. For the year, the GF continues to track ahead of forecast by +\$59.6 million or +9.6%.
- 2. Education Fund (EF):** The Education fund was slightly above target in October, coming in just over forecast by +\$1.1 million or +1.7%. The EF remains ahead of forecast by +\$7.7 million or +3.1% for the year.
- 3. Transportation Fund (TF):** The Transportation fund was slightly above target for the month of October, ending above forecast by +\$0.6 million or +2.4%. For the year, the Transportation fund remains under forecast by -\$2.3 million or -2.2% for the year.

Fund Performance Summary for FY 2023 through October (in millions):

	Oct-22 (millions)	Month vs. Target	% over (under) target	YTD (millions)	YTD vs Target (millions)	% over (under) target
General Fund	\$160.8	\$3.4	2.1%	\$683.0	\$59.6	9.6%
Education Fund	\$66.0	\$1.1	1.7%	\$250.7	\$7.7	3.1%
Transportation Fund	\$27.1	\$0.6	2.4%	\$102.1	(\$2.3)	-2.2%

2. State Employees' and Teachers' Retirement Systems

The FY 2022 actuarial valuations for VSERS and VSTRS have been released and are posted on the Treasurer's and JFO websites. The OPEB reports are expected in December.

Both retirement systems improved their funded status and reduced their unfunded liabilities due to the \$200 million one-time appropriation and plan changes in Act 114. However, inflation and investment performance caused actuarial losses for both systems that offset some of the gains from Act 114.

VSERS:

- The State employees' retirement system funded ratio based on the actuarial value of assets improved, from 67.6% at the end of FY 2021 to 69.9% at the end of FY 2022. The unfunded liability decreased by \$26.0 million to \$1.038 billion.
- Investment performance was -8.7%, which led to an actuarial loss for FY 2022 of \$32.3 million.
- Higher than assumed Cost of Living Adjustments due to inflation caused an actuarial loss of \$46.7 million.
- The Actuarially Determined Employer Contribution (ADEC) for FY 2024 is \$121.9 million. This is a \$5.8 million increase above the FY 2023 levels that were revised downward because of Act 114 (\$116.0 million) and a \$4.1 million decrease from the original pre-Act 114 FY 2023 ADEC (\$125.9 million). This contribution is paid as a charge to agencies and funds in proportion to their shares of the active payroll.

VSTRS:

- The teachers' retirement system funded ratio also improved, from 52.9% at the end of FY 2021 to 57.3% at the end of FY 2022. The unfunded liability decreased by \$117.9 million to \$1.832 billion.
- Investment performance was -8.9%, which led to an actuarial loss for FY 2022 of \$29.5 million.
- Higher than assumed Cost of Living Adjustments due to inflation caused an actuarial loss of \$28.7 million.
- The Actuarially Determined Employer Contribution (ADEC) for FY 2024 is \$194.3 million. This is a \$0.7 million decrease from the FY 2023 levels that were revised downward from Act 114 (\$195.0 million) and a \$10.9 million decrease from the original pre-Act 114 FY 2023 ADEC (\$205.2 million). Out of the \$194.3 million total, \$34.8 million represents the employer normal cost (paid primarily from the Education Fund) and the remaining \$159.5 million is the unfunded liability amortization payment (paid primarily from the General Fund). Local education agencies typically contribute \$6 -7 million for federally funded staff, which offsets the State's share of the normal cost and unfunded liability proportionally.

Beginning in FY 2024, Act 114 calls for supplemental appropriations above the ADEC to be made until each pension system reaches 90% funded. These "plus" payments

accelerate the pay-down of the unfunded liability balance and flatten out the growth of future amortization payments while saving interest costs. The FY 2024 “plus” payments are \$9 million per system (maxing out at \$15 million per system by FY 2026) and should be factored into budgetary planning in addition to the ADEC amounts listed above.

Inflation and investment performance are likely to remain key economic concerns for the pension systems. Higher than expected inflation causes actuarial losses when it leads to larger COLAs and salary growth rates. While the pension systems “smooth” their investment gains and losses over a five-year period to reduce volatility, FY 2022’s comparatively weak year offset the actuarial gains from FY 2021’s remarkably strong year. A year ago, both systems exceeded a 25% investment return and ended the year with approximately \$440 million of deferred gains that had not yet been smoothed into the funding calculations. Now, the systems have deferred investment losses totaling - \$247 million to recognize in future years, which may create upward pressure on future ADECs.

3. Federal Funding Updates:

The federal funding landscape continues to evolve as federal legislation passes and guidance is issued detailing state opportunities. The JFO continues to monitor federal funds.

Due to recent updates to Treasury guidance on the American Rescue Plan Act (ARPA) State Fiscal Recovery (SFR) Funds, the Administration reassessed its analysis of Vermont’s ability to qualify for ARPA SFR funds under the lost revenue eligibility category. Though this does not result in additional funds for Vermont under ARPA SFR, it does allow for greater flexibility in spending on government services. This will enable programs to move forward without having to make modifications to adapt to eligibility parameters. Per the Administration’s analysis, there is an estimated \$242.8 million in revenue loss replacement available to shift programs. The administration has made recommendations of programs to shift to this eligibility category.

4. Medicaid

The expectation is that public health emergency will end at the beginning of the new year. If that is the case, the enhanced federal match will continue through the end of March 2023 with the Medicaid redetermination process beginning soon thereafter.

The Medicaid caseload estimates will continue to be refined heading into the January Emergency Board process. Currently this expected timeline results in a higher caseload estimate for the remainder of FY 2023 primarily in the General Adult and New Adult groups and a projected onetime gross budget adjustment need of \$45 million. The state match for this should be covered by the enhanced FMAP in FY 2023. Currently the estimated need in FY 2024 is very modest as redeterminations are anticipated to reduce the caseload and overall program cost.

5. Report on the PCB Reserve in the Education Fund

On October 22, 2022, the Emergency Board convened and voted to transfer \$2.5 million from the additional PCB reserve to the Agency of Education. The release of the funds was for “the purposes of supporting immediate action” and limited the expenditure of the released funds to specific usages.

This leaves the PCB additional reserve at \$29.5 million. Pursuant to Act 178 of 2022, the Agency of Education, Agency of Natural Resources, and the Department of Health are required to submit a written plan for the disbursement of these remaining funds by January 15, 2023.

6. LIHEAP

LIHEAP caseloads have increased moderately from last year. However, the bigger issue is the cost of fuel. To provide a seasonal benefit with purchasing power comparable to the years prior to COVID, the E-Board in October approved the transfer of \$5.8 million in general funds from the Agency of Human Services Global Commitment appropriation.

These state funds, coupled with additional federal LIHEAP funds of \$5.7 million, will provide an average full season fuel benefit of \$1,324 and will pay an estimated 36% of the average family’s fuel bill. Families below 128% of the FPL that heat with fuel oil #2 and kerosene also received an early benefit in September of \$625 that is in addition to the regular benefit of \$1,324. These lower income families will have an estimated 53% of their full season heating bill covered.

7. Legislative Budgets and Other

JFO presented the proposed FY24 legislative branch budgets to the Joint Legislative Management Committee on October 10, 2022. The proposed FY24 budgets for the branch total \$20,145,334. This is a \$586,875 increase from FY23 appropriations, a growth rate of 3.0%, which is in line with budget guidance issued by the executive branch.

Specific to JFO in this budget request is the proposal to move the limited-service position that was authorized by JFC in September 2021 to the Office of Legislative Human Resources. Funding for the position will shift over to the Legislature’s budget resulting in a decrease in the FY 2024 JFO budget from the FY 2023 appropriation.

8. Joint Fiscal Office Updates:

a. Studies, Committees, and other

- i. **Child Care System Funding** –JFO has contracted with the RAND Corporation to evaluate the economic impacts of and potential funding mechanisms to adjusting Vermont’s existing childcare system. RAND has been making steady progress in their data collection and modeling phase. The data use agreements have been completed and RAND is in the process of receiving data from the Department for Children and

Families. In addition, RAND has held several well-attended stakeholder sessions with both community stakeholders and government leaders. The final report is due on January 15, 2023.

- ii. **Global Warming Solutions Act** – In response to the charge from the Global Warming Solutions Act, and in follow-up to JFO’s earlier report, JFO continues to prepare a report on the economic, budgetary, and fiscal implications of potential policies that would enable Vermont to meet its climate goals. The report includes a focus on policies aimed at promoting low- and middle-income household adoption of electric vehicles, heat pumps, and weatherization.

JFO is also currently working to understand the additional climate-change initiatives included in the Federal Inflation Reduction Act, and their implications for Vermont.
- iii. **Income-based Education Tax Study Committee** – The committee has met three times and has received testimony and modeling from JFO, Legislative Council, the Tax Department, and public stakeholders including on subjects such as the education fund pressures, potential structural options for an education income tax, adjustments to the property tax credit, principles of a high-quality tax system. The Committee’s next meeting is November 10, 2022, and its report is due by December 30, 2022.
- iv. **Report on Vermont’s Education Fund** – In fulfillment of the charge set forth in Section 19 of Act 127 (2022), JFO continues to work on a report that examines and provides options for structural changes to the Education Fund, including methods for cost containment, the mechanics of setting the yields to include a “constitutionally adequate spending amount”, and the funding of school districts in an equitable manner. This report is due by January 15, 2023.
- v. **Funding and Governance Structures of Career Technical Education (CTE)** — JFO has entered a contract with Augenblick, Palaich and Associates (APA) to perform work on the Funding and Governance Structures of Career Technical Education in Vermont, pursuant to Sec. 17 of Act 127 of 2022. In addition, the JFO has also contracted with Bill Talbott to provide expertise to both the staff of JFO and to APA as the study progresses. The work has started and the JFO has been having weekly meetings with APA to discuss progress on the study. The report is due on March 1, 2023.
- vi. **English Learners and Categorial Aid Study** - JFO has contracted with Tammy Kolbe to perform work associated with the English

Learners Services and Categorical Aid study as required by section 11 of Act 127 of 2022.

- vii. **Vermont 2023 Biennial Tax Expenditure Report** –JFO is writing the 2023 Biennial Tax Expenditure Report, which will include a full review of the Vermont Earned Income Tax Credit (EITC). In addition, the Tax department is conducting expedited reviews on a few specific areas. The report is due on January 15, 2023.
- viii. **Livable Wage study** – JFO is working on the biennial livable wage and basic needs budget study, which is due on January 15, 2023. No methodology changes are proposed for the 2023 study. However, JFO does request that the General Assembly consider appointing a technical advisory council, or similar body, to perform a holistic review of the statute and methodology prior to the next study. Act 202 of 2008 created a one-time technical advisory council to review the methodology and made changes to the livable wage study statute (2 V.S.A. §526).
- ix. **Joint Information Technology Committee (JITOC)** – the JFO Information Technology (IT) consultant, Lisa Gauvin, testified at JITOC on November 3, 2022 on the status of IT projects appropriated in Act 185 of the 2022 session. On behalf of the Legislature, the JFO IT consultant continues to review and assess IT projects underway in Vermont state government.
- x. **All Member Briefing** – the date has been set for December 7, 2022.

b. Staffing

- i. Ted Barnet starts as a Fiscal Analyst with the JFO on November 14. He will be working on the revenue team focusing on taxes and related issues. Most recently, Ted worked at the Rutland Parent Child Center. We are excited to welcome him to the JFO team!
- ii. JFO is currently recruiting for the following positions (job postings are linked below). The postings closed on November 7 and JFO plans to conduct interviews in the near future.
 1. [Fiscal Editor & Big Bill Coordinator](#)
 2. [Senate Appropriations Session-Only Committee Assistant](#)