VERMONT GENERAL ASSEMBLY

The Fiscal Focus

August 2024 | Vol. 31, No. 1

An Update from the Joint Fiscal Office

In This Issue:

The Fiscal Focus newsletter is a nonpartisan update prepared by the Joint Fiscal Office (JFO) to inform legislators on current issues while the General Assembly is not in session. As your staff, we believe it is important for a citizen legislature to be kept informed of local, State, and federal financial developments while the General Assembly is adjourned.

It is important for us to hear what topics interest you for future issues. If you have any comments or suggestions, please let us know.

Major Funds Close Fiscal Year 2024 Ahead of Forecast

Revenue collections at the end of fiscal year 2024 were $143.7 million, or 4.5%, higher than the forecast adopted by the Emergency Board in January 2024. While all three funds finished the year ahead of target, it should be noted that the Transportation Fund forecast target was $5.2 million, or 1.7%, lower than the forecast that the Emergency Board adopted in July 2023. A summary of all funds performance is below. Details on individual fund performance are on the following page.

FY 2024	Forecasted Revenue (millions)	Total Actual Revenue (millions)	$ above or below forecast (millions)	% above or below forecast (millions)
General Fund (GF)	$2,131.4	$2,270.5	$139.1	6.5%
Transportation Fund (TF)	$299.3	$303.0	$3.7	1.2%
Education Fund (EF)	$745.9	$746.8	$0.9	0.1%

Major Fund Closeout
(continued)

GENERAL FUND

The General Fund was above target by $139.1 million, or 6.5%, for fiscal year 2024. This was largely driven by higher than expected estimated payments for the Personal Income Tax (PIT), which were $102.2 million, or 9%, above forecast for the year. Monthly revenue tracking prior to the close of the fiscal year indicated that the General Fund would have a significant surplus. Anticipating this, legislators included a list of contingent appropriations in the fiscal year 2025 budget act, Act 113 (2024). The full details of those appropriations are explained in the following article.

TRANSPORTATION FUND

The Transportation Fund closed out the fiscal year $3.7 million, or 1.2%, above target. As noted earlier, the fiscal year 2024 Transportation Fund forecast target the Emergency Board approved in January of this calendar year was $5.2 million, or 1.7%, lower than the forecast the Board approved in July 2023. Higher than anticipated Purchase and Use Tax revenue, which was $2.1 million, or 2.2%, above target for the year, helped contribute to the Fund's overall performance. Department of Motor Vehicle fees also exceeded the forecast by $0.8 million, or 0.8%.

EDUCATION FUND

While revenue from the Meals and Rooms Tax, Purchase and Use Tax, and the Lottery all exceeded the forecast for the year by over $1 million respectively, investment income and the Sales and Use Tax fell below forecast. As a result, the Education Fund ended the fiscal year only $0.9 million, or 0.1% above forecast. Further information on the Education Fund's fiscal year 2024 performance and position going into fiscal year 2025 is discussed in a later article.

Contingent List Fully Funded
General Fund Unallocated Balance Directed to Significant Investments

Fiscal Year 2024 closed out with sufficient unallocated funding to support all of the contingent appropriations and transfers in Act 113 (2024) Sec. B.1102(b) totaling over $114 million. The General Fund appropriations were made in the following order, per Act 113:

- $20 million to the Department for Children and Families for the General Assistance Emergency Housing program;
- $3.5 million transfer to the Community Resilience and Disaster Mitigation Fund for an appropriation of an equal amount to the Department of Public Safety for grants to municipalities for subgrants to flood-impacted residential building owners;
- $3 million transfer to the Dam Safety Revolving Loan Fund established by Act 121 (2024);
- $3 million to the Department for Children and Families' Family Services Division for the Comprehensive Child Welfare Information System;
- $12.5 million to the Department of Public Safety for Federal Emergency Management Agency (FEMA) match;
- $12 million to the Agency of Administration to fund additional direct payments to the Vermont State Retirement System;
- $4 million to the Department of Environmental Conservation for the Healthy Homes Initiative;
- $5 million transfer to the Other Infrastructure, Essential Investments, and Reserves subaccount in the Cash Fund for Capital and Essential Investments for State match for water and wastewater-related projects under the federal Infrastructure Investment and Jobs Act;
- $10 million to the Department for Children and Families' Office of Economic Opportunity to expand shelter bed and permanent supportive housing capacity;

- $1.3 million to the Department for Children and Families for a grant to the Vermont Foodbank;
- $500,000 to the Department of Disabilities, Aging, and Independent Living for grants to skilled nursing facilities;
- $500,000 to the Department of Disabilities, Aging, and Independent Living for Medical Director recruitment and retention grants;
- $1.5 million to the Department of Forests, Parks and Recreation for the Vermont Serve, Learn, and Earn Program;
- $6 million to the Department of Housing and Community Development for the Vermont Housing Improvement Program;
- $1 million to the Department of Public Safety's Division of Fire Safety to subsidize the cost of providing cancer screening to all Vermont professional and volunteer firefighters;
- $5 million to the Agency of Commerce and Community Development for a flood recovery center to administer a grant program for flood impacted businesses.
- $12.5 million transfer to the Other Infrastructure, Essential Investments, and Reserves subaccount in the Cash Fund for Capital and Essential Investments for State match for transportation-related projects under the federal Infrastructure Investment and Jobs Act;
- $8 million transfer to the Child Care Contribution Fund to be available for appropriation to the Department for Children and Families for the Child Care Financial Assistance Program;
- $60,000 to the Agency of Agriculture, Food and Markets for a grant to the Northeast Organic Farming Association of Vermont for the Crop Cash, Crop Cash Plus, and Farm Share programs;
- $750,000 transfer to the Court Technology Fund; and
- $3,913,200 to be reserved in the Human Services Caseload Reserve.

After fulfilling the reserve requirements, contingent appropriations and transfers, the General Fund had a remaining balance of $35.5 million. Pursuant to 32 V.S.A. §308c these remaining funds were allocated accordingly:

- $17.7 million was reserved in the General Fund Balance Reserve (Rainy Day Fund);
- $8.9 million was transferred to the Vermont State Retirement Fund established by 3 V.S.A. §473; and
- $8.9 million was transferred to the Postretirement Adjustment Allowance Account established in 16 V.S.A. §1949a.

The State of the State's Education Finance System

Vermont's education finance system is structured as a statewide funding formula based on local and state budget and spending decisions. Like most funding structures, Vermont's education expenditures and funding are interconnected. However, Vermont is unique in that expenditures in the Education Fund directly determine the amount of revenue needed, leading to annual adjustments in property tax rates to fully cover education expenses.

Education expenditures are determined both locally and at the state level. Each year, every Vermont school district creates a budget that requires approval from local voters. These budgets dictate the amount of funding schools receive from the state's Education Fund, with spending decisions influencing local homestead property tax rates. Additionally, the General Assembly appropriates funds from the Education Fund for specific purposes which impact property tax rates uniformly.

Once all education expenditures are determined, the General Assembly must ensure that sufficient revenue is raised to cover all expenses. This requires passing an annual bill that sets property tax rates at levels sufficient to fund all education expenditures after accounting for the non-property revenue sources that flow to the Education Fund.

For fiscal year 2025, Act 183 (2024) established the property yield at $9,893, the income yield at $10,110, and the uniform non-homestead property tax rate at $1.391. These yields and rates are estimated to correspond with an average bill change increase of approx-

The State of the State's Education Finance System

(continued)

imately 13.8% across all three classes. The average tax bill increase can be attributed to multiple factors including 10.7% year-over-year growth in education spending, performance of non-property tax revenues, and other costs to the Education Fund.

Act 183 (2024) expanded revenues to reduce the level of property tax increase needed to fund Vermont's education system. The new revenue streams to the Education Fund included repealing the sales tax exemption for prewritten software accessed remotely and imposing a 3% surcharge on short-term rentals, with all revenues dedicated to the Education Fund. Additionally, approximately $69 million in one-time money, including $25 million transferred from the General Fund to the Education Fund in Act 113 (2024), was used to further buy down property taxes.

The July 2024 consensus revenue forecast expects Education Fund revenues to be slightly lower than previously expected for fiscal year 2025. According to current estimates, $1.2 million would need to be drawn from the Education Fund Budget Stabilization Reserve in fiscal year 2025 in order to avoid a deficit at year-end. As a result, the reserve would have $45.8 million in it in fiscal year 2025, $6.5 million below target. Reversions to the Education Fund will likely be made as part of the fiscal year 2025 budget adjustment process, which may counteract the requirement to draw from the reserve.

Vermont's Health Care System

Highlights of the Medicaid Year-end Report and News on Premium Increases

Fiscal year 2024 Medicaid and Medicaid-related estimated expenditures totaled $2.3 billion, 0.6% above all the funds budgeted amount as passed in Act 87 (2024; the fiscal year 2024 budget adjustment act) and a 5.2% increase in total spending over fiscal year 2023.

Global Commitment Program spending was $6.2 million (0.6%) below projections, while overall Global Commitment Waiver spending came in $25 million (1.2%) above projections. This was largely driven by the Department of Disabilities, Aging and Independent Living's (DAIL) Choices for Care Program (CFC). Program spending was higher due to nursing home bed day utilization rates above recent years' levels and continued need for Extraordinary Financial Relief (EFR), which provides short-term assistance to facilities at imminent risk of closure. Overall program administration was 7%, consistent with fiscal years 2022 and 2023 but 6.3% below what was budgeted in Act 87 (2023).

The Agency of Human Services (AHS) Global Commitment unexpended General Fund balance is $3.7 million. $1.1 million will be used as match for encumbered Global Commitment purchase orders within Agency departments, $0.73 million will be carried forward for CFC ($1.7 million gross Global Commitment), and $1.9 million will be used for anticipated fiscal year 2025 budget adjustment Medicaid Consensus and Global Commitment-funded caseload and utilization needs.

Fiscal year 2024 caseload for all Medicaid eligibility groups tracked very close to projections. Overall enrollment decreased, mainly due to the end of COVID-era Medicaid Continuous Enrollment requirements and the resumption of annual eligibility redeterminations. The General and Childless New Adult Medicaid eligibility categories, which saw the largest enrollment increases under these policies, saw the largest enrollment decreases with the end of them.

In August, the Green Mountain Care Board (GMCB) approved double-digit premium increases for individuals and small organizations that purchase health insurance plans through Vermont Health Connect. BlueCross BlueShield of Vermont will be allowed to increase individual and small group premiums by 19.8% and 22.8%, respectively. MVP Health Care may raise individual and small group premiums by 14.2% and 11.1%, respectively. This marks the third year in a row that GMCB has approved double-digit premium increases and is in response to what BlueCross BlueShield called "extraordinary cost pressures."

Another Summer of Floods

State and Federal Responses Underway

On July 9, 10, and 11, counties across the state experienced significant flooding caused by Tropical Storm Beryl, leading to the Governor extending Executive Order No. 03-23, the State of Emergency issued in response to the flooding event that occurred one year prior.

The State requested a damage assessment from the Federal Emergency Management Agency (FEMA) to see if affected counties qualify for a Public Assistance Disaster Declaration. Addison, Caledonia, Chittenden, Essex, Lamoille, Orange, Orleans, and Washington counties were included in the assessment. The State also requested that FEMA conduct damage assessments in Caledonia and Washington counties to determine if those counties qualify for an Individual Assistance Disaster Declaration. Damage to public infrastructure must exceed $1.113 million for the state to qualify for Public Assistance. To qualify for Individual Assistance, counties must demonstrate damages of $4.60 per capita.

On August 20, President Biden approved the request for a major disaster declaration for the July 9-11 flooding event. The declaration (DR-4810) will provide Individual Assistance to individuals and Public Assistance to municipalities in Addison, Caledonia, Chittenden, Essex, Lamoille, Orleans, and Washington counties. Public Assistance under the declaration will allow eligible cities and towns to receive 75% reimbursement for emergency storm repairs to public infrastructure. The State has requested that the declaration be amended to include Orange County as well.

Governor Scott also requested that the U.S. Department of Agriculture (USDA) issue a federal disaster declaration, which would provide financial assistance, including low-interest loans, to Vermont farmers. The Vermont Congressional Delegation has echoed Governor Scott's request. The Agency of Agriculture, Food and Markets estimates over $2.5 million in total losses for farms in the state.

A second flood struck the Northeast Kingdom on July 30. The State has requested a damage assessment for this event as well, but thus far no emergency or major disaster declaration has been issued.

An emergency declaration was issued on August 8 in anticipation of damages caused by Tropical Depression Debby. The declaration covers an incident period of August 8 through August 10. All counties in the state are eligible for Public Assistance federal aid for emergency protective measures at 75% federal funding. Caledonia, Essex, Orange, and Windsor counties are also eligible reimbursement for mass care, including for emergency shelter and evacuation.

The Emergency Board met on August 8 to discuss and approve initiatives designed to mitigate the damages of the July floods. The first, the Rapid Response Mobile Home Infill Program, is funded through a $7 million transfer to the Agency of Commerce and Community Development's Department of Housing and Community Development. The program aims to add up to 100 mobile home units to the state's housing supply by the end of fiscal year 2025. The second is a transfer to the Agency of Commerce and Community Development's Department of Economic Development to add further funding for the Business Emergency Gap Assistance Program (BEGAP). BEGAP, initially created in response to the flood of July 2023, is designed to help businesses, farms, and nonprofit organizations recover from physical damages caused by fluvial erosion and flooding. New awards will cover up to 30% of net uncovered damages, up to $100,000. $7 million will be transferred to the Department for BEGAP.

The Joint Fiscal Office will continue to monitor and assess the fiscal impacts of these devastating storms on Vermont. Below are links to resources for flood-impacted individuals and businesses.

Those impacted by the first July flooding event can apply for FEMA Individual Assistance here: DisasterAssistance.gov.

Vermonters can report damages from either July flood to Vermont 211 here: Resident Damage Form; Business Damage Form.

Fiscal Year 2024 Pension Investments Outperform Assumptions, But Inflationary Impacts Persist

Vermont's major pension systems experienced strong investment performance in fiscal year 2024, but inflation will add costs due to higher cost-of-living adjustments (COLAs) in calendar year 2025.

In fiscal year 2024, Vermont's combined pension investments had a preliminary return of 10.2% (excluding final private investment valuations), which significantly exceeded the 7.0% long-term actuarial assumed rate of return.

The impact of this strong performance will be smoothed into funding calculations over a five-year period. Therefore, only 20% of last year's gains will be included in the funding calculations for next year. These gains will help to offset the remaining deferred losses from fiscal year 2022, when investment performance was -7.7%. The Vermont State Employees' Retirement System (VSERS) and the Vermont State Teachers' Retirement System (VSTRS) entered fiscal year 2024 with a total of $186.9 million of deferred investment losses remaining to be smoothed into the funding math – primarily from the weaker market environment in fiscal year 2022.

The year-over-year change in the Consumer Price Index (CPI) for the Northeast was 3.8% in June 2024, an increase from 2.2% in June 2023. These metrics are used to calculate pension COLAs for retired members and their beneficiaries for the subsequent calendar year, according to statutory formula.

The 3.8% June 2024 CPI, while higher than the prior year, is significantly lower than the 7.6% experienced in June 2022. However, since the 3.8% exceeds the long-term actuarial inflation assumption of 2.3%, some actuarial losses will be incurred because the pension systems will pay out larger than expected COLAs. The impact of this is reflected in the unfunded liability and compounded over time, since a large COLA in one year increases a retired member's base benefit level upon which future COLAs are calculated.

The collective net impact of these investment gains, inflation-related actuarial losses, and other demographic and economic experience factors will be detailed in the upcoming annual actuarial valuations to be completed in fall 2024. Those actuarial valuations are used to calculated the unfunded liability balances and the funding requirements for the pension systems in fiscal year 2026.

Preliminary Estimates of Net Worth in Vermont, In Spite of a Lack of Wealth of Information

The Joint Fiscal Office (JFO) is working on an issue brief on household wealth in Vermont. While there is not much data on household wealth or net worth – the value of assets owned minus the amount of debt owed – in the state, JFO has used nationwide data from the 2023 Financial Accounts of the United States and the 2022 Survey of Consumer Finances to gather preliminary estimates on the subject.

U.S. survey data for 2022 suggests median family net worth was about $193,000 and average (mean) family net worth was about $1,064,000. This difference suggests that relatively few families have extremely large net worth while a far larger number of families have more moderate holdings. By scaling aggregate U.S. data to Vermont's share of the nation's millionaires – those who have annual income of at least one million dollars – we can estimate that total household net worth in Vermont was approximately $191 billion at the end of 2023, or about $688,000 per household on average.

Net worth largely belonged to families with the highest annual income and most educational attainment, but some families with low or moderate income had large wealth holdings as well. The Survey of Consumer Finances reported that families with large net worth often receive a greater share of their income from interest and dividends, businesses or farms, and capital gains but a smaller share from wages and salaries or retirement income than less wealthy families. Families with higher wealth also tend to be older and have higher levels of educational attainment.

The Joint Fiscal Office will continue to research wealth in Vermont and release its issue brief on the subject later this year.

Emergency Board, Joint Fiscal Committee Meet

The Emergency Board met on July 30. At the meeting, the Board approved a motion to reallocate any unused portion of Vermont's calendar year private activity bond cap. The Board heard from Joint Fiscal Office (JFO) staff on the Medicaid Year-end Report and the Education Fund outlook. The State and Legislative economists testified on the official State Revenue Forecast, estimating an all major funds outlook of $3.39 billion for fiscal year 2025, excluding federal funds. The all major funds forecast for fiscal year 2026 tracks slightly above fiscal year 2025, at $3.47 billion.

The Legislative Economist Tom Kavet provided the Emergency Board with an economic review and revenue forecast update at its July 30 meeting. Kavet's presentation noted that in spite of rising real interest rates, the economy continues to perform well. Unemployment remains close to 4% and real gross domestic product (GDP) both continues to grow and outperform expectations. Although the Federal Reserve has not lowered interest rates, inflation has declined. Due to these economic conditions, the three major funds closed out fiscal year 2024 above forecast and will, according to Kavet, continue to perform strongly in fiscal year 2025 and beyond. The economists presented a revised consensus forecast for fiscal years 2025 and 2026. Compared to the January 2024 forecast, all major funds revenue is estimated to be $198 million greater in fiscal year 2025 and $179 million in fiscal year 2026. It should be noted that the forecast as compared to January 2024 includes the additional revenue raised in the 2024 legislative session.

The Board approved a motion to expend up to $5 million from the Emergency Relief and Assistance Fund to award low or no interest loans to municipalities that sustained damage to public infrastructure as the result of the July 2024 flood disaster that resulted from Tropical Storm Beryl.

The Emergency Board also met on August 8 to discuss and approve initiatives designed to mitigate the damages of the summer floods. Please see the article on flood disasters for more details (page 5).

The Joint Fiscal Committee met on July 30 to discuss year-end updates. It heard from the Agency of Administration on fiscal year 2024 closeout and the unencumbered balance transfer report. JFO staff testified on the Medicaid Year-end Report, and the Committee heard from the Administration on the status of American Rescue Plan Act (ARPA) funds, the July 2023 and July 2024 floods, and the status of housing initiatives in the state. The Committee approved multiple grants, including one of over $62 million to the Department of Public Service from the U.S. Environmental Protection Agency. Funding comes from the Solar For All Zero-Emissions Technology Grant Program and will be used for the construction of community solar, multi-family residential solar, and solar for low-income and disadvantaged Vermonters.

The Joint Fiscal Committee next meets on September 25.

Joint Fiscal Office Updates

The Joint Fiscal Office continues to work on a number of projects including research on workforce investments, housing investments, migration and demographics, personal services, retirement benefit taxation, and cannabis revenue in the state. The Office will release issue briefs on those subjects in the coming months.

Fiscal staff are also constructing the fiscal year 2026 Yield model, preparing the fiscal year 2026 legislative budget, and updating introductory materials for the new member briefing later this year.

The Joint Fiscal Office issued a Request for Proposal for revenue forecasting services. The selected vendor will contract with the Joint Fiscal Office to provide source-specific revenue estimates for the General, Transportation, and Education funds. Services will commence on October 1 and continue for four years. Responses for the Request for Proposal were due on August 16; the Office is in the process of reviewing responses.

Another Request for Proposal, for energy consulting services, was issued on August 19. The Joint Fiscal Office seeks to contract with one or more vendors to provide consulting services relating to the areas of

Joint Fiscal Office Updates
(continued)

energy and climate change. Services would commence as soon as October 1 and continue for two years. Questions for the Request for Proposal are due by September 5; responses are due by September 20. The Request for Proposal is available here: Request for Proposal for Energy Consulting Services.

The Joint Fiscal Office also seeks to hire a fiscal analyst for Education Finance. Vermont's education finance system is complex and there are very few employees with the State that are dedicated to tracking and understanding the issue. The fiscal analyst will allow the Joint Fiscal Office to increase its capacity for analyzing education finance and other education policy changes that impact State and local spending. The position will remain open until filled. Information on the position is available here: Fiscal Analyst for Education Finance.

Hannah Gottschalk, who joined the Joint Fiscal Office as a session-only employee for the 2024 session and worked with the Senate Committee on Appropriations, has accepted a full-time position with Senator Welch. We will recruit for the Senate Appropriations Committee Assistant position later in the fall.

Joyce Manchester, who has been with the Joint Fiscal Office since 2014, will be retiring this fall. She has provided invaluable analyses and testimony for the Vermont General Assembly covering many issues including demographics, labor, energy, climate change, and economics. Joyce has brought a unique set of skills and perspectives influenced by her work experience at the Social Security Administration and the Congressional Budget Office. We look forward to working with Joyce for the next few months and are currently recruiting for a Fiscal Analyst position to fill her role. Information on this position is available here: Fiscal Analyst.

Notable Dates

- Responses for the Joint Fiscal Office's Request for Proposal for Energy Consulting Services are due on Friday, September 20.
- The Joint Fiscal Committee meets on Wednesday, September 25.