Joint Fiscal Office Update

Key Developments – March 23, 2020

What follows is an update of revenue and appropriations issues that are arising as we address the coronavirus impacts.

A. Revenue Issues:

Five areas of revenue-related work are underway. While they are inter-related, each has its own implications for the State and the budget. Much of the revenue analysis is being done in a consensus manner with the administration. As you know, information and knowledge of events change daily. We will be updating these changes weekly to avoid creating confusion by updating them more often. We will be focusing on the following:

1. **The federal and state tax filing and collection postponement**: These are now postponed from April 15 to July 15, moving tax revenues from FY 2020 to FY 2021. The estimated value of this shift is approximately $145 million. While FY 2020 will be missing this revenue, most of this revenue will reappear in July, the first month of FY 2021. This amount is subject to change. This revenue includes the impact of the April estimated payments moving to July. If it is extended to include June estimated payments, the amount will grow. To the extent that Vermont chooses to postpone more payments, these amounts could change further. This will have impacts and raises additional questions:
    a. How can we offset this temporary revenue loss? Because returns will not have not been filed, we cannot consider this accrued revenue and book it in FY 2020.
    b. It also means the usual July revenue forecast process may need to move to August.
    c. We have yet to analyze the impact the March 23rd announcement relative to sales and rooms and meals tax postponement.

    To give you a sense of how quickly information is changing, earlier last week the U.S Treasury Department announced that tax payments were postponed but that people would still file in April. On Friday of last week, we learned that all filing requirements would be postponed, thus creating the additional revenue challenge.

2. **The revenue impacts on the three major funds for the remainder of FY 2020**: We are running weekly projections of revenue impacts on the General Fund, the non-property tax components of the Education Fund, and the Transportation Fund. To the extent possible, these are consensus with the Administration. They will change as we see the unfolding of COVID-19 and the actions to curtail its spread. Based on information as of 9 AM on March 23rd, the remainder of this fiscal year is likely to see:
    a. **General Fund**: Aside from the postponement of income discussed above, revenues have been relatively consistent with targets for FY 2020. This is,

in part, due to a one-time receipt of $35 million due to business sale transactions offsetting about $40-$50 million in negative trending. Most of the General Fund impacts will be in FY 2021.

   b. **Transportation Fund**: The Transportation Fund is currently projected to be down $30-$40 million, in part due to weakness in gasoline and purchase and use taxes and in part due to the Administration's actions on motor vehicles fee collections. This is an issue, as we are just entering our road work period. How the COVID-19 virus impacts the transportation plan is an open question. The Transportation Committees will likely look into this.
   c. **Education Fund:** The Education Fund is projected to be down $35-$45 million in this fiscal year. This FY 2020 loss would eliminate current year surplus funds and eat into the statutory reserves. The loss is largely due to the reduced revenues in sales, rooms and meals, and purchase and use taxes. This loss raises issues regarding the yield to be adopted for FY 2021, which will determine income sensitivity and tax rates. The delay of filing income taxes does not work with current law which calls for homestead declarations and property tax credit claims to be filed by April 15. It also means the usual July revenue forecast process may need to move to August. The House Ways & Means Committee and the Senate Finance Committee will need to work on the deadlines and the implications of this over the coming weeks.

3. **The change for FY 2021 forecasted revenues will impact the budget building process:** Over the next few weeks we will be working with Tom Kavet and Jeff Carr, our forecast economists, to get a preliminary sense of FY 2021 revenues. However, that is extremely difficult with the situation constantly evolving. It is likely that the FY 2021 impacts will exceed the FY 2020 impacts by a substantial amount. In addition, the fact that we will not know calendar year 2019 income tax revenues until July 15 makes it even more difficult to make projections. Again, in FY 2021, it is clear that all funds are likely to be down and, potentially, this could be by large amounts.

4. **Impacts of federal legislation and actions:** As the three or more federal response bills are enacted, these additional resources will help Vermont.
   a. The first federal supplemental appropriations bill provided approximately $4.9 million to Vermont for the public health crises and was aimed at assisting with telehealth, testing and state preparedness and response costs.
   b. Last week's bill has a number of direct impacts. The largest impact is about $38 million in Medicaid assistance during FY 2020 and then $19 million per quarter while the federal emergency is in place. It has other resources in food and nutrition and impacts on emergency FMLA, emergency sick leave, and expanded eligibility for unemployment insurance and other components. The Medicaid money is the most flexible.

   c. The third bill ($1.5 - $2 trillion) will likely contain cash payments for individuals and some business relief and additional state aid. We are hopeful to know more about its impacts this week. Other federal actions and decisions will likely have impacts on revenues and the budget as well. Even with bill passage, interpretations and guidance can be critical.

      We are regularly working, as is the Administration, on understanding these Congressional initiatives.

5. **The impact of Vermont Executive and Legislative actions:** These will create additional fiscal pressures. We are working with standing committees on fiscal notes and working to develop an understanding of the administration's tax and fee proposals as they happen. As indicated above, last week it became clear that the Administration's transportation fee actions may result in a loss of $16 million in revenue with postponement of registration collection activity, among other actions.

B. Appropriations Issues

The Appropriations bill for FY 2021 continues to be developed in the House. There are several major discussions underway:

1. **In both branches and the Administration there is exploration of what further FY 2020 budget adjustments will be needed for the COVID-19 issue this year. They are potentially very big:** Among the many questions and needs that are arising and are currently being addressed by policy committees and money committees are the following:
   a. What changes are needed in unemployment insurance? The policy committees are looking at this.
   b. What job protections are appropriate for those who cannot work due to family and medical leave?
   c. What funding is needed for emergency homeless needs, both for those who are homeless due to financial pressures and for those impacted by COVID-19 which makes it difficult to be with families?
   d. Child care and foster care systems are among the many human service systems under fiscal stress.
   e. In addition, some hospitals and other facilities are experiencing immediate fiscal stress. The limit on elective surgery and procedures has several impacts we are just beginning to understand. It creates a financial stress for hospitals but may also reduce pressure on Medicaid as fewer procedures are done.
   f. Funding and authority for emergency communications facilities is a growing issue.
   g. The Department of Labor may need additional staff to process and assist applicants for unemployment insurance.
   h. The Department of Health is working to secure ventilators.

   i. Funding may need to be increased for staff at call centers which are being stretched.
   j. Businesses are calling for financial support.
   k. Nutrition programs are under fiscal pressure as they await the arrival of federal funds.

2. There is also Executive branch interest in increasing flexibility with funding and fund transfers. Currently any transfer over $50,000 is approved by the Emergency Board. The Administration has asked for more discretion in transferring money between programs. Also, there have been discussions on how the Legislature can act quickly in cases where critical needs or pressures arise.

   All of these and many other issues and areas of need require legislative and staff attention.

3. The FY 2021 budget process is also in flex. We need to determine how best to address passing an FY 2021 budget in these difficult times.

These are just some of the issues under consideration and review by committees of jurisdiction, legislative council, and fiscal staff.