

Joint Fiscal Office Update

Key Developments – April 7, 2020
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What follows is an update of key revenue and expenditure developments during the past week.

1. Revenue Developments

a. **FY 2020 Revenues:** Last week (4/2/20), Tom Kavet updated our revenue expectations for FY 2020. The changes are available at this link: [COVID-19 State Revenue Impact Estimates for FY20, as of April 2, 2020](#). The key FY 2020 developments are as follows:

- i. **The Education Fund has seen a significant revenue downgrade:** Non-property tax revenues are now forecasted to be nearly \$142 million less in FY20 than forecasted in January (as compared to only \$35–\$45 million on March 25), mostly due to a significant downward revision in projected sales tax revenues. \$89 million of this is due to the slowdown in economic activity, which impacts the Sales Tax, Meals & Rooms Tax, and lottery receipts. An additional \$53 million is forecasted to be shifted from FY20 to FY21 as the Administration waived interest and penalties on all payments of Sales and Rooms & Meals taxes due at the end of March and April, and perhaps in future months.
- ii. **The General Fund estimates have improved modestly:** Total COVID-19-related revenue shifts and downgrades in FY20 now total \$204–\$208 million as compared to \$230 million on March 25. The improvement is due to the State paying out fewer personal income tax refunds in April as taxpayers, in response to the change in deadline, wait to file their income tax returns.
- iii. **The Transportation Fund estimates have been revised downward as well:** Total T-Fund and TIB revenues are expected to be \$45 million less than originally forecasted in January for FY20 (as compared to \$36 million on March 25). This additional revenue loss is due entirely to a downward revision to the projections of gasoline tax revenues.

We expect weekly updates on revenue estimates on Monday afternoons to be used in Tuesday updates. That could change if there is a major revenue adjustment.

b. **FY 2021 Revenues:** There have been no updates on FY 2021 revenues. Tom Kavet and Jeff Carr, the economists for the Legislature and the Administration, respectively, hope to do such an estimate by the last week in

April. The FY 2021 revenue estimate is expected to be reduced substantially. The lack of data and the lack of any consistent epidemiological models make this estimation process difficult. We are hopeful that by the end of April we will have better information to inform this initial FY 2021 revenue update.

2. **The Third Stimulus Bill – The CARES Act \$1.25 billion Coronavirus Relief Fund**

As you know, the third federal stimulus bill, known as The CARES Act, passed the House on Friday, March 27 and was signed by the President later that same day.

The major flexible funding (in addition to considerable categorical funding discussed last week) that Vermont is receiving is the Coronavirus Relief Fund payment of \$1.25 billion. What we have heard regarding this funding is as follows:

a. **Guidance on Usage of the \$1.25 Billion**

The Treasury expects to release fund usage guidelines the week of April 12. We expect some restrictions, but many of the controls will be post-audit reviews of expenditures. We are in touch with other states, as is the Administration, to learn how these other states plan to use these funds. With the uncertainty about allowable use, it is helpful to know the extent to which what we are doing is like other states.

b. **Timing and Acceptance of Funds**

- i. **Timing and Accounting:** We have heard that the \$1.25 billion will arrive on or about April 24. We understand that it will come to the Vermont Treasury. We assume that it is accounted for as a distinct fund in our financial system.
- ii. **Process:** It is likely to be subject to the grant acceptance process with the Joint Fiscal Committee or the Legislature able to condition its expenditure and determine the process. Most of the funds are likely to be appropriated. How it is accepted and spent remains to be determined. It is important that the process reflect the need for quick responses to the various emergency needs of this crisis, balanced by the need to ensure that the Legislature plays a role in its allocation.
- iii. **Money management:** The Treasurer and the Administration are working on how we invest it, and how it could be useful to help with year-end cash flows. The treasurer has submitted a request to expand her authority to borrow from various funds to avoid a year-end deficit. A copy of her request is available at [Beth Pearce Interfund borrowing request](#). It is not clear whether the Federal funds can be used for cash flow purposes, but that is a possibility.

3. **The Possible Fourth Stimulus Bill**

There are conversations about an additional, fourth federal relief bill, but the details are very unclear. There is some hope that this bill will allow the use of the

Coronavirus Relief Fund to offset lost state revenues which would be helpful for FY 2021. There is also some possibility that it will help fund more economic stimulus activities such as infrastructure funding.

4. Appropriations Issues

- a. The Administration has taken several actions to allocate money for the immediate spending priorities they have identified. Some of the initiatives are listed below:
 - i. **Medicaid initiatives to expand access to care:** Commissioner Gustafson prepared a list with highlights of some of these efforts. It can be viewed at [Medicaid Initiatives](#).
 - ii. **State employee contract revisions:** A series of steps have been negotiated with the State Employees union to increase pay and benefits during the state of emergency. See [Memo-from-Beth-Fastiggi-to-Sen-Kitchel-State-Employee-COVID-19-Hazard-Pay-Agreement.pdf](#).
 - iii. Funds have also been provided to support health care service providers that are experiencing fiscal stress.
- b. **Updated Education Fund Issue Brief:** Mark Perrault has updated his Education fund issue brief, which can be found at [Education Fund Issue Brief, April 3, 2020](#)

5. Budget Timing

Given the uncertainties of federal funds and available revenues as well as the still developing pandemic, it appears that the FY 2020 budget adjustment bill and the FY 2021 preliminary budget bill (enough to start the FY 2021 year) will be developed in mid to late May.

It is likely the full FY 2021 budget will not be able to be completed until Aug/Sept. By that time, we should have an official FY 2021 revenue update based on the actual payment information from deferred trust taxes and personal income tax filings.