

Joint Fiscal Office Update

Key Developments – April 28, 2020
 Joint Fiscal Staff, Stephen Klein, Chief Fiscal Officer

What follows is an update of key revenue and expenditure developments during the past week.

1. Revenue Developments

- a. **FY 2020 Revenues:** Our revenue expectations have not changed since last week and are available at [April 17 Revenue update](#).
 - i. For now, if deferred taxes are allocated to FY 2020 (the year they were due), the FY 2020 shortfalls from the January estimates are:
 - 1. General Fund down \$61 million
 - 2. Education Fund down \$69 million
 - 3. Transportation Fund down \$42 million
 - ii. The next major update will be on Wednesday, April 29 as discussed below.

- b. **FY 2021 revenues and beyond:** The first projection for FY 2021 revenue impacts will be done by the legislative economist Tom Kavet on Wednesday, 4/29/2020. It is expected that revenues in FY 2021 will be below those received in FY 2020, which will raise issues for spending levels in the FY 2021 budget. The forecast will be preliminary and not necessarily consensus as the Administration will not be fully participating until the middle of May. It will change as more information becomes available and we get final April numbers.

The preliminary projection is to enable legislative money committees to begin the FY 2021 budgetary process in a timely way. It is likely that the pandemic will impact revenues through FY 2022, but out-year impacts will not be estimated at this point.

2. The Third Stimulus Bill – The CARES Act - Developments with Receipt of Funding

- a. **The CARES Act contained \$1.25 billion Coronavirus Relief Fund (CRF) monies for Vermont:** Last week, Vermont received its \$1.25 billion in funding from the Coronavirus Relief Fund. The Treasury guidance was also received on 10/22. [Treasury Guidance CRF Funds](#). There is also a frequently asked questions document available at: [Treasury CRF FAQ](#)

- b. The guidance adheres to the general themes of the funding:
 - i. The CARES Act provides that payments from the Fund may only be used to cover costs that:
 - 1. are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19); and

- 2. costs were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and
 - 3. costs were incurred during the period that begins on March 1, 2020 and ends on December 30, 2020.
- ii. The guidance expressly states that: “Funds may not be used to fill shortfalls in government revenue to cover expenditures that would not otherwise qualify under the statute. Although a broad range of uses is allowed, revenue replacement is not a permissible use of Fund payments.”
 - iii. Other language and expressly prohibited uses create concerns about how the funds can be used. There is still the uncertainty as to whether the guidance will be changed by subsequent legislation.
- c. The Administration is likely to submit a grant form to the Joint Fiscal Committee (JFC) for formal acceptance of the funds early next week. Leadership and the Administration are discussing the nature of this acceptance with the expectation that most of the monies will be subject to the normal appropriations process.
 - d. There will be some flexibility to address funds that have already been spent and to ensure that there is a system in place that allows meeting immediate needs that are time sensitive. On April 27, the JFC adopted a plan to divide these funds into three categories. The plan can be found here [Conditions for CRF Funds](#). While this motion was adopted, the Committee also stated that the specific numbers may be adjusted in a future JFC meeting.
 - i. Up to \$60 million allocated for urgent health and safety and emergency needs for immediate use by the Administration. This includes expenditures already made over the past few weeks. They will report their spending to the legislature.
 - ii. \$150 million allocated to go through a JFC approval process with the goal of reviewing the particular allocation within a week or less. The associated documents will be available to all legislators.
 - iii. \$1.04 billion allocated to go through the normal appropriations process.

The Joint Fiscal Office is developing a web document that will track the allocation of these funds as well as the documents for the allocations approved by JFC. The links to these will be shared with all legislators as requests come in.

3. Further Federal Response and Stimulus Bills

- a. There are discussions about the next federal bill, which could include funding for state and local government, infrastructure, and election security. However, there has been some concern about offering more stimulus at all on the part of U.S. Senate leadership. Congress is not set to come back until at least May 4, so it will not be clear if/what additional funding to states or other virus federal response program may be enacted until later in May/June.

- b. A full list of federal resources received to date is available here: [Federal COVID 19 funding as of 4/24/2020](#)

This week we received preliminary numbers for the Paycheck Protection Program (PPP) funding. FFIS reports approvals for Vermont businesses total just over \$1,000,000,000 in the first round of the program, this is substantial for our small state. Our banks, businesses and DFR are to be commended for their ability to respond and act so quickly to assist Vermont small businesses. Round two of the PPP program begins April 27th.

4. General Budget Bills/Appropriations Timeline

An FY20 second budget adjustment bill will be developed, with information from the Administration provided the week of May 4. This “BAA2” will also address year end close out processes and reserve use authorities that are likely to be needed to close the major funds of the state.

An FY21 preliminary budget bill — likely a three-month bill — will also be developed in May. This bill is being referred to as the “skinny start” bill and will contain the authorities and appropriations needed to begin the fiscal year in July and provide limited spending authority until a traditional appropriations Big Bill for FY21 is developed in August/September.

- 5. July Revenue Forecast in August:** The July formal revenue forecast by the Emergency Board is being moved to August. 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, as well as longer-term epidemiological models. The full FY 2021 budget will be completed after that point.

6. Unemployment Insurance

For the week ending April 18, there were 64,313 continuing claims (up from 31,797 the previous week) as well as 6,598 processed initial claims. The total number of benefits paid out was 70,911. About 10,000 initial claims from self-employed or sole proprietors came into the traditional system, with another 20,000 to 30,000 applications expected from that group. They have to apply for and be denied traditional Unemployment Insurance benefits before they can apply to the Pandemic Unemployment Assistance Program. That application system is now functioning as of Wednesday evening, April 22. The new software allows SE/sole proprietors to fill out one long application for both the UI and PUA programs. If those PUA applicants have not yet filed their 2019 tax return, they will get a minimum benefit of \$191 per week plus the extra \$600 per week until they can upload the 2019 return, at which point they will get back benefits as well as the correct amount going forward.

A chart showing historical numbers of initial claims in Vermont from 1987 to the present is available on the JFO website at [VT UI initial claims history](#).

7. State College Finances

The State Treasurer is working with Legislative leadership to review State College finances. She hopes to have a preliminary review done in the next few weeks. Treasurer

Pearce's team is focusing on a preliminary review of the financial situation of the institution to guide further action.

8. Broadband

Bert Johnson, a Middlebury College professor, has prepared an issue brief, at JFO request, that can be found here: [Broadband Access and the COVID-19 Crisis: Key Issues, Funding, and Possible Policy Options.](#)