

Joint Fiscal Office Update

Key Developments – April 14, 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:** Our revenue expectations have remained relatively constant for the past two weeks. As of this report, we are using the forecast available at the following link: [COVID-19 Estimated State Revenue Impacts for FY20 as of April 14, 2020](#). The estimate is likely to change this coming week. For now, if deferred taxes are allocated to the fiscal year they were due, the FY 2020 shortfalls from the January estimates are:
 - i. General Fund down \$61 million
 - ii. Education Fund down \$89 million
 - iii. Transportation Fund down \$40 million

- b. Two factors will impact revenue projections in the upcoming weeks.
 - i. It is increasingly likely that 2nd quarter personal income tax estimates will be deferred from mid-June until July. This will reduce the available cash for FY 2020 and impact cash flows for the last quarter of the fiscal year. If the estimated taxes do get paid in July, the impact on the fiscal year may be limited, as discussed below.
 - ii. The Administration and the Joint Fiscal Office are exploring an approach that would attribute money to FY 2020 that is paid in July due to the delay in filing. While the fiscal year ends on June 30th, traditionally the State's books have been held open for part of the month of July for a process called "closeout" where final payments and expenditures are entered and attributed to the correct fiscal year. Where appropriate, this would be to the year that just closed. In a similar vein, revenues that have been postponed from April through June and collected in July, attributed to FY 2020, would be counted as FY 2020 revenues. This would reduce the amount of reserves needed to close FY 2020 in balance.
 - iii. Again, we expect weekly updates on revenue estimates generally on Monday afternoons to be used in Tuesday updates. That could change if there is a major revenue adjustment.

- c. **FY 2021 Revenues:** The timing on updates on FY 2021 revenues remains unchanged. Tom Kavet and Jeff Carr, the economists for the Legislature and the Administration, respectively, hope to develop an estimate by the last week in April. The FY 2021 revenue estimate will likely be reduced substantially. The lack of data, coupled with the lack of any consistent epidemiological models, makes this estimation process difficult. We hope that by the end of April we will have better information to inform the initial FY 2021 revenue update.

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:** We expect to receive federal guidelines on how this money can be spent in the coming week or two. Until there is guidance on the use of the funds, it will be difficult to develop firm plans for their use.

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. The administration will be setting up a distinct fund to hold the money, as was the case ten years ago when Vermont received federal ARRA monies. Appropriations from this fund will be identified as coming from the CRF Fund, allowing for better accounting and identification of how the funds are expended.
- ii. **Process:** The Joint Fiscal Committee is meeting on Tuesday of this week to discuss the acceptance process and treatment of the federal CARES funds. It is likely that the funds will be subject to the grant acceptance process with the Joint Fiscal Committee or the Legislature. The acceptance could condition the expenditure of the funds and determine the process for expenditure. Most of the funds are likely to be appropriated. Again, how the funds are accepted and spent remains to be determined.
- iii. **Flexibility:** Two areas of flexibility are likely to be important.
 1. Source of funds: The State is receiving funds from a variety of federal sources, each with its own match requirements, levels of restriction, and timing. For example, increased Medicaid reimbursements are extremely flexible dollars that the State can use for any purpose. FEMA money often has a 25% match but is available for a variety of expenditures. Direct funding to the K–12 education system and higher education is outside of State control but will likely be considered as distributions are made. We want to ensure that the State can use the various sources of funds to maximize fiscal advantage to the State, using restricted money where possible and leaving flexible funds for other needs. As the specific restrictions and sources are changing, it is important that spending authority be designed to maximize the ability of the Executive Branch to employ the best use of the various sources of funding.
 2. Flexibility to meet immediate needs: The Administration has been addressing immediate needs as they arise. The flexibility to address immediate needs will likely continue to be needed, although the method and level of this flexibility will need to be determined by the Legislature.

c. **Money Management:** The Treasurer has developed an approach to holding the federal CARES funds. As indicated last week, 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 here [Beth Pearce Interfund borrowing request](#).

3. The Receipt of Direct Funding for Health Care entities, K–12 and Higher Ed Institutions

- a. Health Care Funding:** On Friday, April 10th, there were 1,011 Vermont health care entities that received an initial payment from the \$100 billion in federal health care funds.
 - i. Nationally \$26 billion was distributed on Friday, April 10, in this first allotment with \$4 billion more to come shortly.
 - ii. These funds will be usable once providers “accept them via a provider portal that will open up the week of April 13 and agree to certain conditions.”
 - iii. As a condition to receiving these funds, providers must agree not to seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider.
 - iv. Vermont entities received in total \$54,457,870, which was “proportionate to providers’ share of Medicare fee-for-service reimbursements in 2019.” Vermont’s share was the lowest share of any of the 50 states. This has raised serious questions on the specifics of the distribution methodology. It appears that the distribution methodology used by Health and Human Services does not capture aspects of the All Payer Model (where fee-for-service expenditures are reduced in favor of overall payments). By not adjusting for this waiver, Vermont’s loss of federal funds could be in the range of \$15–30 million. There are discussions between the health care entities and the federal delegation to see if this loss can be addressed. The documents on this distribution can be found at [Update Federal Relief to Providers April 13, 2020](#), [CARES Act Provider Relief Fund Fact Sheet](#), and [State-by-State Summary of Initial Funding for Public Health and Social Services](#)
- b. K–12 Direct Funds**
 - i. The State has not received application materials for the federal funds. The federal government has 30 days from the passage of the federal CARES Act to create the application. Once the applications materials are created and received by the state the states have 30 days to submit applications. There is no clear information as to when the funds would arrive and be available for transmission to school districts.
 - ii. In addition, actual distribution amounts have not been released.
- c. Higher Education Funding**
 - i. Late last week, initial information on distributions was sent to higher education entities.
 - ii. We heard from the Vermont State Colleges that they expect to receive just over \$6 million. Half of that must be used exclusively for grants to students in need and will not be available to cover losses at the

institutional level. Institutional needs are likely to be high. Refunds to students alone will be about \$5 million. Overall, the State College losses due to COVID-19 are estimated to be closer to \$25 million, creating a major fiscal burden for the institution.

- iii. We expect other higher education institutions will be receiving allotment details and specifics in the coming weeks, if not already.

4. Further Stimulus Bills

Recent conversations in Washington indicate that the next stimulus bill will be focused mainly on small business funding, with possibly more legislation after that. As each bill changes the amount of funds available to the states, Vermont's spending plan remains difficult to develop. There is still some hope that Congress will allow the use of the Coronavirus Relief Fund to offset lost state revenues, which would be helpful for FY 2020 and FY 2021.

5. Appropriations Issues

The Administration continues to take actions to meet current needs. This week, the spread of the virus to correctional institutions has led to the repurposing of the St. Johnsbury facility to hold those inmates with COVID-19. It also appears that plans to use Goddard College as a transitional facility have been placed on hold.

6. 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 (a three-month bill – enough to start the FY 2021 year) will be developed in mid to late May or sometime in June.

It is likely that the full FY 2021 budget cannot 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, as well as epidemiological models.