VERMONT GENERAL ASSEMBLY

The Fiscal Focus

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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 Fund Performance Year to Date

The General Fund closed November below its monthly target while the Education and Transportation funds closed the month above forecast. Combined, the three major funds were below the monthly target by $3.2 million, or -1.5 percent. However, the funds are cumulatively $45.3 million, or 3.5 percent, ahead of forecast for the year. The General Fund was below target by $5.2 million, or -3.8 percent, for the month of November. Year to date, it is cumulatively above forecast by $47.2 million, or 5.7 percent. The Education Fund was above target by $0.5 million, or 0.9 percent, in November but is below forecast by $6.3 million, or -1.9 percent, so far this year. The Transportation Fund was above target by $1.4 million, or 6.1 percent, for the month. Year to date, the fund is above forecast by $4.3 million, or 3.3 percent. Further details on fund performance are on the following page.

FY 2025 Fund Performance vs Official Forecast (in millions)	Month of November			Year to Date (YTD)		
	Revenue	Revenue vs Target	% Over Target	Revenue	Revenue vs Target	% Over Target
General Fund	$131.2	-$5.2	-3.8%	$878.6	$47.2	5.7%
Education Fund	$62.9	$0.5	0.9%	$321.2	-$6.3	-1.9%
Transportation Fund	$24.6	$1.4	6.1%	$135.7	$4.3	3.3%

November Revenues
(continued)

GENERAL FUND

Personal Income Tax (PIT) ended the month below target by $4.6 million, or -6.7 percent. For the year, PIT is above forecast by $6.7 million, or 1.5 percent. Corporate Income Tax (CIT) revenues were above target by $0.7 million, or 44.8 percent, in November. For the year, CIT revenues are above forecast by $25.2 million, or 38.7 percent. CIT revenue is primarily above target for the year due to a one-time event that occurred in September. Meals and Rooms Tax revenues were below target by $1.0 million, or -6.2 percent, in November. For the year, revenues are below forecast by $2.3 million, or -2.8 percent. Property Transfer Tax (PTT) was above target by $0.7 million, or 28.3 percent, and above forecast by $2.2 million, or 21.4 percent, for the year. Estate Tax was below target by $1.2 million, or -65.5 percent, in November. So far this year, it is above forecast by $3.0 million, or 30.5 percent.

EDUCATION FUND

Sales and Use Tax was right on target in November. For the year, it is below forecast by $2.4 million, or -0.9 percent. Meals and Rooms Tax was above target by $1.1 million, or 16.2 percent, in November. For the year, it's below forecast by $1.2 million, or -3.8 percent. The 3.0 percent short term rental surcharge is now in effect. Initial results suggest that revenues from this tax are lower than expected. This may be explained by a lack of compliance with the new tax and the fact that payments for bookings made prior to August 1 were not subject to it. The Joint Fiscal Office is working closely with the Department of Taxes to better understand the collections of the new tax relative to expectations but will continue to use expected revenues for tracking purposes until we have more definitive information. Purchase & Use Tax was right on target in November. For the year, it is above forecast by $1.1 million, or 5.4 percent. Lottery revenue was below target by $0.6 million, or -17.6 percent, in November and is below forecast by $1.9 million, or -14.8 percent, for the year.

TRANSPORTATION FUND

Gas Tax revenue was above target by $0.6 million, or 9.6 percent, in November and is above forecast by $0.4 million, or 1.4 percent, year to date. Diesel Tax was above target by $0.2 million, or 10.6 percent. So far this year, it's above forecast by $0.5 million, or 7.2 percent. Purchase and Use Tax was above target by $0.1 million, or 5.4 percent, in November. For the year, it is above forecast by $2.2 million, or 5.4 percent. DMV Fees were above target by $0.3 million, or 4.6 percent, for the month and are above forecast by $0.5 million, or 1.2 percent, year to date.

LIHEAP Funding Consistent With Last Year

LIHEAP (Low Income Home Energy Assistance Program) is a federally funded program that provides a benefit to income-eligible households to assist with their heating costs. Last heating season, Vermont received the regular LIHEAP block grant of $23.2 million. The State contributed a further $3.1 million in new appropriations and $2.2 million of carryforward funds to support the program. Overall, there was $28.5 million available to help support Vermonters through last year's heating season. The average household's full season benefit was $933, which represented approximately 32 percent of the average household's seasonal fuel oil bill.

This heating season, the State anticipates receiving $23.1 million from the federal block grant, prior to a "swap" with Home Weatherization funds. Starting in fiscal year 2016, the General Assembly allowed for up to 15 percent of the federal block grant to be swapped with State funds in the Home Weatherization Fund. The State funds help provide aid to the eligible population between 151 percent and 185 percent of the federal poverty level (FPL) and cover some administrative costs. The fund swap for this heating season totals an estimated $3.1 million, the same as last heating season. The average household's full season benefit is estimated to be $1,079, which represents approximately 33 percent of the average household's seasonal fuel oil bill.

Last heating season 17,386 households qualified for and received LIHEAP benefits. So far this heating season, an estimated 17,000 households will qualify for benefits. Since households can apply year-round, it can be assumed that more applications wiill come in.

Federal American Rescue Plan Act (ARPA) funds that were used to supplement the program have expired. Federal funding for the LIHEAP program this year will come solely from the regular block grant.

ELIGIBILITY

• Households may be eligible for Seasonal Fuel Assistance if their gross income is equal to or less than 185 percent of FPL – regardless of the resources they own (e.g., savings accounts, retirement accounts, and property).

• Households may be eligible for Crisis Fuel Assistance if their gross income is equal to or less than 200 percent of FPL and they are experiencing a crisis (i.e., they are out of fuel and have no money to buy more).

• Households may be eligible for the Home Weatherization Assistance Program if they meet income limits, are an active Seasonal Fuel Assistance household, are a Supplemental Security Income (SSI) recipient, or received Reach Up benefits in the past 12 months.

To learn more about these benefits, click here or visit https://dcf.vermont.gov/benefits/crisis-fuel

Heating Season		Average Benefit**	Purchase Power	Federal Funds	State Funds
2024/25	*	**1,079**	**33%**	**$23.1M**	**$3.1M**
2023/24	*	933	32%	$23.2M	$3.1M
2022/23	*	$1,494	46%	$34.4M	$7.4M
2021/22	*	$1,893	68%	$47.4M	$3.1M
2020/21	*	$1,096	64%	$15.7M	$3.1M
2019/20	*	$798	40%	$18.3M	$3.1M
2018/19	*	$715	36%	$17.6M	$3.1M
2017/18	*	$849	42%	$16.2M	$2.9M
2016/17	*	$831	50%	$16.2M	$3.8M
2015/16	*	$699	43%	$14.7M	$2.9M
2011/12		$900	33%	$19.5M	$6.1M

*In these years, "State Funds" refers to the Home Weatherization Assistance Program fund (or "trust fund") instead of the General Fund.
**Average full season oil benefit for all households up to and including 185 percent of FPL. Note that the average benefit for the 2024/2025 heating season is an estimate based on the number of applications received thus far.

FMAP Increased for Fiscal Year 2026

Federal Medical Assistance Percentage (FMAP) is the share of state Medicaid benefit costs paid by the federal government. It is calculated by the federal government based on a three-year average of state per capita personal income compared to the national average. Vermont's current base FMAP for most of the Medicaid program for Federal Fiscal Year (FFY) 2025 is 58.19 percent. When converted to the State's Fiscal Year, the FMAP is 57.83 percent.

In October, Federal Funds Information for States (FFIS), released the final FMAP estimates for Federal Fiscal Year (FFY) 2026. According to FFIS, Vermont will see an estimated increase of 0.82 percent in its base FFY 2026 FMAP. This increase translates to approximately $16 million of General Fund savings for the Vermont's Medicaid program.

This would be the third year in a row Vermont has seen an increase in its base FMAP and reflects a total increase of 3.19 percent over 2023. The last time Vermont saw multiple-year base increases was from 2010 to 2016, not including enhancements through the Affordable Care Act (ACA) or the Families First Coronavirus Response Act (FFCRA).

The vast majority of State Medicaid programs that receive federal match receive the regular FMAP. However, it should be noted that the State receives a higher or "enhanced" FMAP for the Children's Health Insurance Program (CHIP) and the New Adult population that was an expansion population under the Affordable Care Act.

Treasurer's Office Releases Fiscal Studies
Including Recommendations on Reserve Practices and Stress Testing

Pursuant to Sec. E.131.2 and E.131.3 of Act 87 (2024; the fiscal year 2024 budget adjustment act) and Sec. B.1102(b)(18) of Act 113 (2024; the fiscal year 2025 budget act), the Office of the State Treasurer worked with staff from the Joint Fiscal Office and the Department of Finance and Management, as well as the Public Resources Advisory Group (PRAG) to analyze the State's current fiscal reserve practices and the fiscal stress testing practices of other states. The full report, published on December 15, is available here.

With regard to Vermont's fiscal reserve practices, the report finds that they align with those of the states with the highest credit ratings. Vermont receives the highest scores from rating agencies on their reserves-related criteria. The stabilization funds of the three major funds (the General, Education, and Transportation funds) are currently at their statutory maximums. The report recommends the State continue this practice and suggests that the General Assembly could consider formalizing the process by which reserves are established, funded, and accessed. It also notes that maintaining cash balances and reserve funds is particularly important as remaining pandemic-related federal funds are drawn down.

On special funds, the report notes that due to both its relative size and its reliance on a dedicated revenue source, the Child Care Contribution Special Fund should have a statutorily-required reserve. The report further recommends retaining $8 million that was transferred into the Fund as a reserve until data on revenues and expenditures from the Fund for which to evaluate an appropriate reserve amount are available.

On stress-testing – simulations meant to show how an organization's finances would perform under various scenarios – the report states that it is neither widely nor frequently used by states, but that rating agencies and outside parties such as Pew believe using it to inform decisions relating to adequate reserve amounts can be helpful. The report notes that, if personnel and financial resources were available, a one-time stress-testing and a multi-year budget projection exercise could be conducted to determine if adopting the practice would be valuable.

Final Joint Fiscal Committee of the Year

The Joint Fiscal Committee had its final meeting of the year on November 6. At it, the Committee received updates on unobligated and unexpended American Rescue Plan Act (ARPA) funds from Douglas Farnham, the State's Chief Recovery Officer. The latest public report on those funds is available here. The Committee then heard from multiple members of the Administration, as well as representatives from the Vermont Housing and Conservation Board (VHCB) and the General Assistance Emergency Housing Task Force on the status of the emergency housing transition and initiatives to expand the supply of permanent housing and emergency shelter. As of October 28, 797 households were in the General Assistance Emergency Housing Program, with 840 households exiting the program due to reaching the 80-day cap instituted by Act 113 (2024; the fiscal year 2025 budget act) between September 19 and October 28.

The Committee also heard from the Administration on the status of flood-response programs funded through transfers the Emergency Board approved following the flooding in July. As of November 4, the Business Emergency Gap Assistance Program had received 183 applications and $1.6 million had been distributed to 53 applicants. As of October 31, Efficiency Vermont had provided payments totaling over $2.2 million to 379 households through the Emergency Financial Assistance Program for Flood-Impacted Vermonters. Members of the Administration testified that the $7 million in funding transferred by the Emergency Board to the Rapid Response Mobile Home Infill Program was split between the Agency of Transportation (AOT) and the Vermont State Housing Authority (VSHA) – $4 million and $3 million, respectively. As of the Administration's testimony, AOT and VSHA had expended approximately $760,000 and $2.1 million of those funds, respectively to help secure and prepare lots and bulk purchase mobile home units to make them available for later purchase.

Joint Fiscal Office Updates

All Member Briefing, Staff Updates, and Ongoing Work

On December 4, the Joint Fiscal Office hosted an All Member Briefing to help get legislators up to speed on various fiscal issues. The briefing had great attendance, but if you were unable to attend video of all the day's presentations is available on our YouTube page here. Corresponding presentation materials are available on our website here.

After welcoming remarks from Speaker Krowinski and President Pro Tempore Baruth, Tom Kavet, the legislative economist, delivered a presentation on current and previous economic conditions. Kavet also spoke to how the policy priorities of the incoming Trump administration might impact the economy and discussed the State revenue forecast.

Following Kavet's presentation, the Joint Fiscal Office's Deputy Fiscal Officer Emily Byrne and Associate Fiscal Officer Chris Rupe gave an overview of the context for the fiscal year 2026 State budget and explained the revenue sources and expenditures of the major State funds.

Marcia Howard, the Executive Director of the Federal Funds Information for States (FFIS), spoke to some of the same economic trends as Kavet, focusing on how federal policy may impact states in the coming years. Howard also presented on the federal funds the State receives. A FFIS analysis of the federal funds Vermont received in federal fiscal year 2023 is available here.

Later in the afternoon, legislators heard about two significant issues Vermont faces: housing and education finance. Representatives from the Agency of Commerce and Community Development (ACCD), the Vermont Housing and Conservation Board (VHCB), and the Vermont Housing Finance Agency (VHFA) provided details on Vermont's housing supply needs and current efforts to address the housing shortfall. The Joint Fiscal Office's Julia Richter, a Senior Fiscal Analyst specializing in education finance, presented on how the statewide Education Fund, as it is currently funded, works.

Last month the Joint Fiscal Office welcomed two new fiscal analysts, James Duffy and Ezra Holben. James joined our revenue team to work on a variety of policy issues including energy. He holds a Master's in Public Affairs from Princeton University and most recently worked as a coastal resilience program manager with the National Wildlife Federation. Ezra is a graduate of the University of Mississippi and most recently worked at the Department for Children and Families' business office. Ezra will be focusing on education finance. We're very glad to have both of them on board.

We have also filled the seasonal Senate Appropriations Committee Assistant position. Elle Oille-Stanforth most recently worked for Vermont Afterschool as the community coordinator for the Vermont Youth Project in Barre. They hold two degrees from Goddard College, including a Master's in Education. We look forward to working with Elle this coming session.

Our office continues to work on a number of long-term projects. In the coming weeks, we will be publishing multiple issue briefs on a variety of issues, including Vermont's taxation of Social Security benefits, taxpayer migration, the Vermont State Teachers' Retirement System, and the Payment in Lieu of Taxes (PILOT) Fund. Statutorily-required reports on Tax Increment Financing (TIF), tax expenditures, and the Basic Needs Budget will be published in January, as well.

We look forward to seeing you in January!