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July 2000 Economic Review and Revenue Forecast Update

Prepared for the
State of Vermont
Emergency Board and
Legislative Joint Fiscal Committee

July 14, 2000

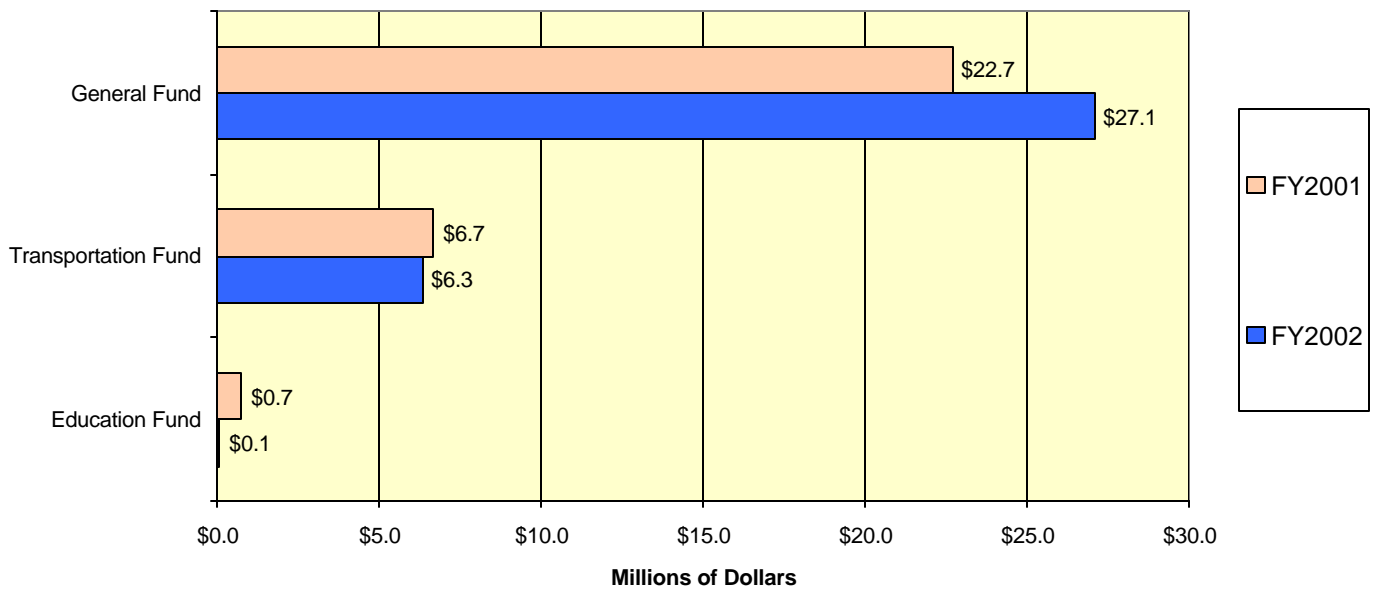
Economic Review and Revenue Forecast Update July 2000

Overview

Stronger than anticipated economic growth has swollen Federal and state coffers and led to record surpluses in many public treasuries. The longest uninterrupted economic expansion in U.S. history continues to benefit Vermont and will support upward revenue adjustments in FY01 and FY02 to all major State funds, relative to January 2000 revenue projections.

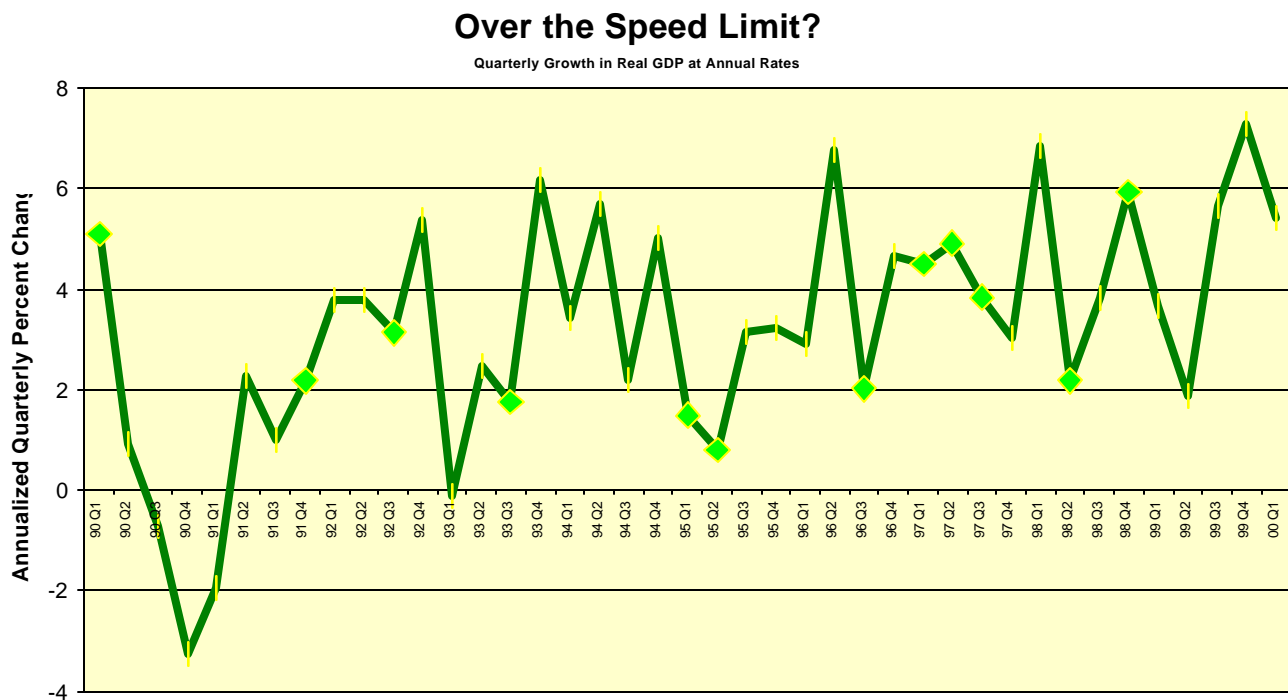
Buoyed by soaring personal income tax revenues, the General Fund will see the largest absolute increases (+\$22.7 million and +\$27.1 million, respectively). The Transportation Fund will experience the largest percentage increases, due primarily to statutory changes in Diesel and Motor Vehicle Purchase and Use taxes enacted during the last legislative session. Due to weakness in key components of the Education Fund (notably Lottery and Corporate revenues), only negligible additional revenues are anticipated in the Education Fund.

Recommended Net Revenue Changes from January 2000 Forecast



The U.S. Economy

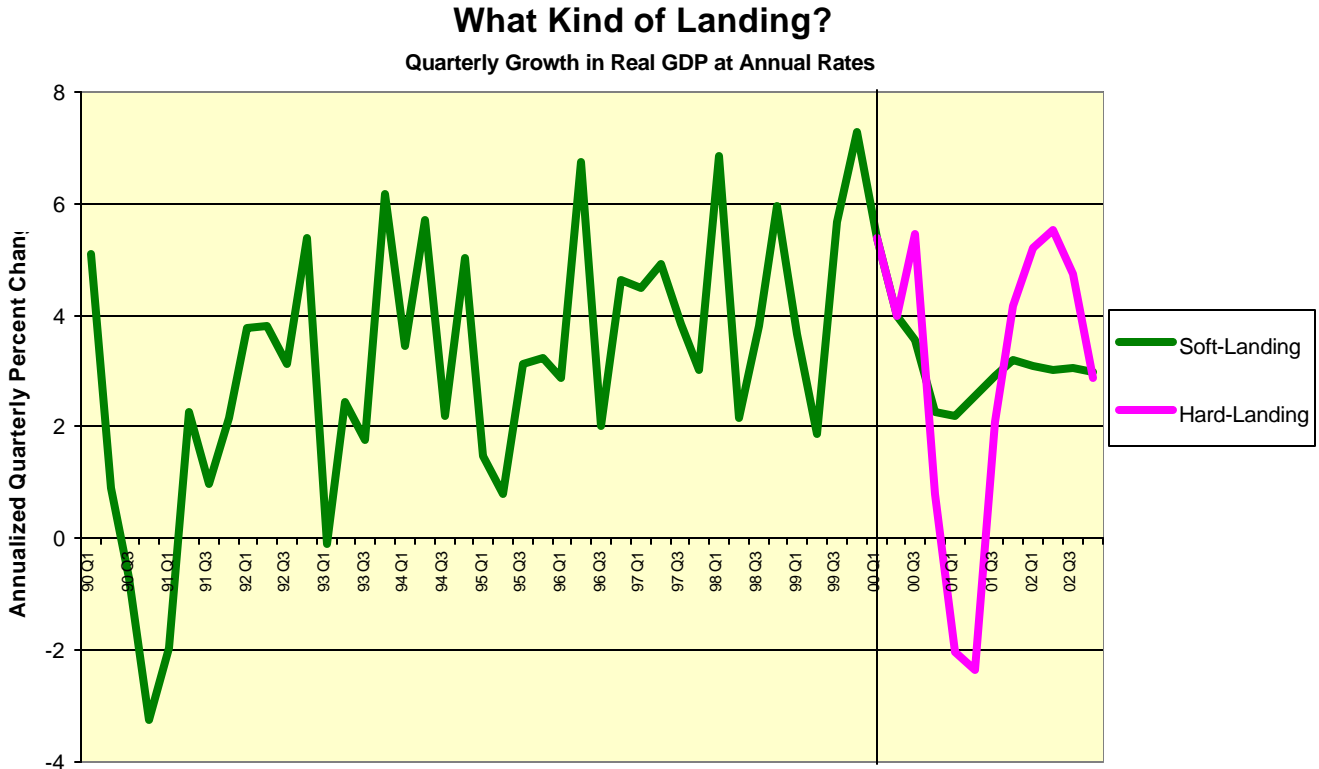
- The U.S. economy has rarely looked better: Unemployment is at a 30 year low, the stock market, after surviving a couple of recent scares, has recovered to near record highs, inflation is still subdued despite a severe oil price shock, workforce productivity continues to post impressive gains, and overall economic growth has been extraordinary. After nine consecutive years of economic expansion, real GDP has accelerated to an annual growth rate of more than 5% in each of the last three quarters (see below chart). To the authorities at the Fed, however, this acceleration in GDP growth has pushed the economy beyond what is considered to be an acceptable upper “speed limit.”



Source: Bureau of Economic Analysis, U.S. Department of Commerce

- The Fed considers sustainable real GDP growth to be closer to 3%, about half its recent 5%-7% performance, and has been steadily applying monetary brakes in an effort to achieve this, raising the federal funds rate target 1.75 basis points over the past year. This effort, which is designed to slow the economy (without killing it), is commonly referred to as a “soft-landing.”
- There is no question that the Fed’s moves are having an impact on the economy. Particularly credit sensitive sectors, such as housing and other new construction, have slowed appreciably (see chart in following Vermont economy section). Existing home sales have also dropped, consumer confidence has eased from its record highs, retail sales are off, new vehicle sales are down and jobless claims are edging upward. But it remains to be seen whether or not the economy will slow sufficiently to avoid another interest rate hike in August.

- The current official State economic forecast assumes the Federal Reserve Board will be successful in engineering a “soft-landing” for the economy, with no recession forecast during the next four years. It assumes a relatively stable stock market with no major correction, rising interest rates based on expected Federal Reserve policy to slow the economy to more sustainable long term growth rates, a slowdown in consumer spending in response to these rate hikes, and a gradual improvement in international markets and U.S. manufacturing.
- Among the most prominent risks to this forecast is the possibility that the Federal Reserve Board’s intended “soft-landing” will turn into a “hard-landing.” The monetary tools available to the Fed to slow the economy do not act with pinpoint precision or timing. Over the past 50 years, there have been numerous instances when seemingly “prudent” monetary policy has been excessive and/or interacted with unforeseen events to provoke full-fledged recessions.
- In order to examine these risks more closely, the Joint Fiscal Office commissioned an economic simulation from Regional Financial Associates (RFA), who prepares the official State economic forecast with the New England Economic Project (NEEP), to measure the potential impacts of a “hard-landing” on the Vermont economy and State revenues. The below chart illustrates a potential “hard-landing” path that could lead to recession.



Sources: History - Bureau of Economic Analysis, USDC, Forecast - RFA

- Recessions usually require both major imbalances in the economy and exogenous shocks or fiscal or monetary policy errors. Current economic imbalances include an overvalued stock market, a huge and growing current account deficit, and record domestic debt burdens. Exogenous shocks are, by definition, unforeseen, such as those in the below table.

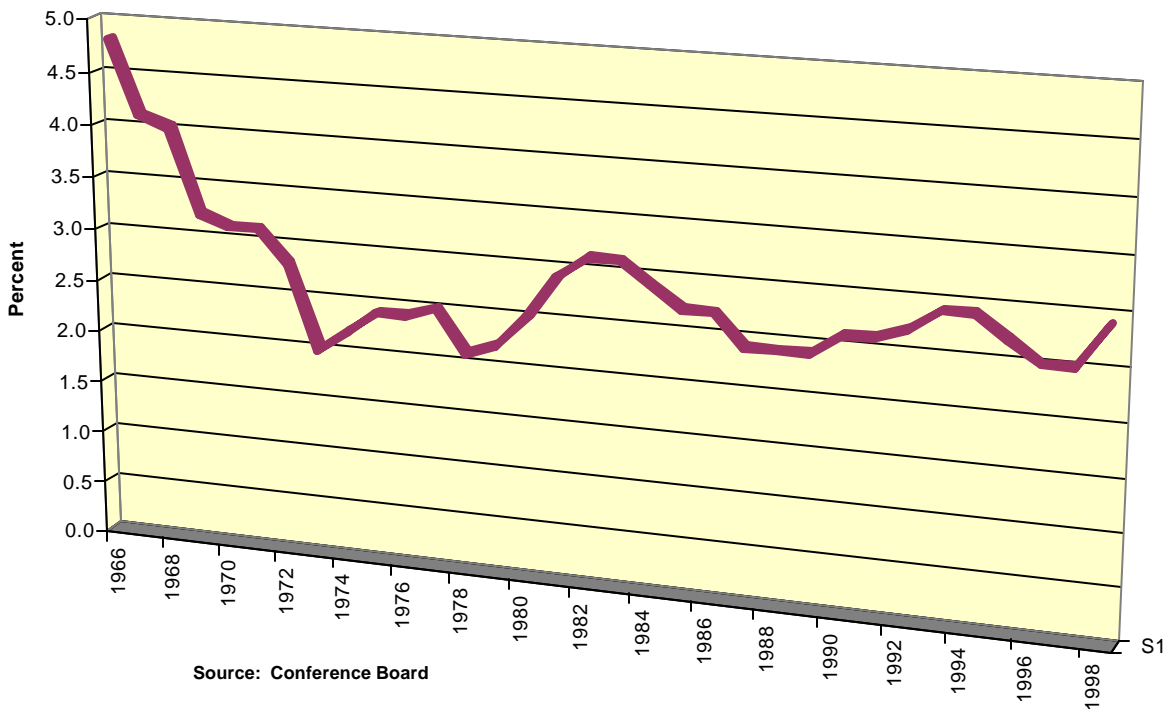
What Causes Recessions?	
Recession	Causes (exogenous factors)
1990-1991	Persian Gulf War
1981-1982	Monetary Restraint
1980	Monetary Restraint; OPEC Oil Shock; Credit Controls
1973-1975	Monetary Restraint; OPEC Oil Shock
1969-1970	Monetary and Fiscal Restraint
1960-1961	Fiscal Restraint
1957-1958	Monetary Restraint
1953-1954	Post-Korean War Fiscal Contraction
1948-1949	Post-World War II Fiscal Contraction

Source: RFA

- The stock market remains the most serious potential imbalance in the current economy. Credible estimates of the market's excess valuation range from 20% to well over 50%. RFA estimates the S&P 500 Index is overvalued by about 25% - in the same range that preceded the 1987 market collapse. Given the integral role of the stock market in today's economy, any sustained market correction could precipitate a hard-landing for the U.S. economy.
- Another widely overlooked source of vulnerability in today's economy is the U.S. trade deficit. The deficit has ballooned to more than 4% of GDP, an all-time record, as foreigners continue to be willing to trade real goods for green paper. The stock market has played an integral role in this cycle as well, with foreigners eagerly investing earnings from trade in U.S. assets, thereby supporting U.S. stock prices and stimulating additional U.S. consumption. As foreign markets recover and U.S. deficits mount, however, these capital flows could change rapidly. The value of the dollar could plummet along with U.S. financial markets, re-igniting inflation, driving up interest rates and leading to a hard-landing.
- High and rising household debt burdens, particularly among low-income households, also pose a significant downside risk in a slowing economy. Last year, for the first time ever, total household debt exceeded disposable income. The debt service burden, which is the share of after-tax income that households must use to meet their principal and interest payments on outstanding debt, has been steadily climbing and is now at its highest level since 1989. According to the Federal Reserve Board's recent Survey of Consumer Finance, the share of households earning less than \$50,000 with high debt service burdens (in excess of 40%)

jumped to nearly 20% in 1998, more than 25% above its average rate during the past 10 years. Vermont, of note, has the highest debt service burden of any state in the Northeast. Slower than average income growth among low income families during this economic expansion has also exacerbated low-income household balance sheets. A recent study by the Conference Board, a well-known membership and research organization for business executives, revealed that despite nine years of sustained economic growth, poverty among full-time, year round workers has not declined, and in 1998 climbed to a rate exceeded in only two (both during a recession) of the last 27 years.

Poverty Rate for Full-Time Year-Round U.S. Workers



With interest rates and unemployment likely to rise in tandem, there is a possibility that both lenders and borrowers could panic, cutting off credit and curtailing spending, which, in turn, could induce an economic hard-landing.

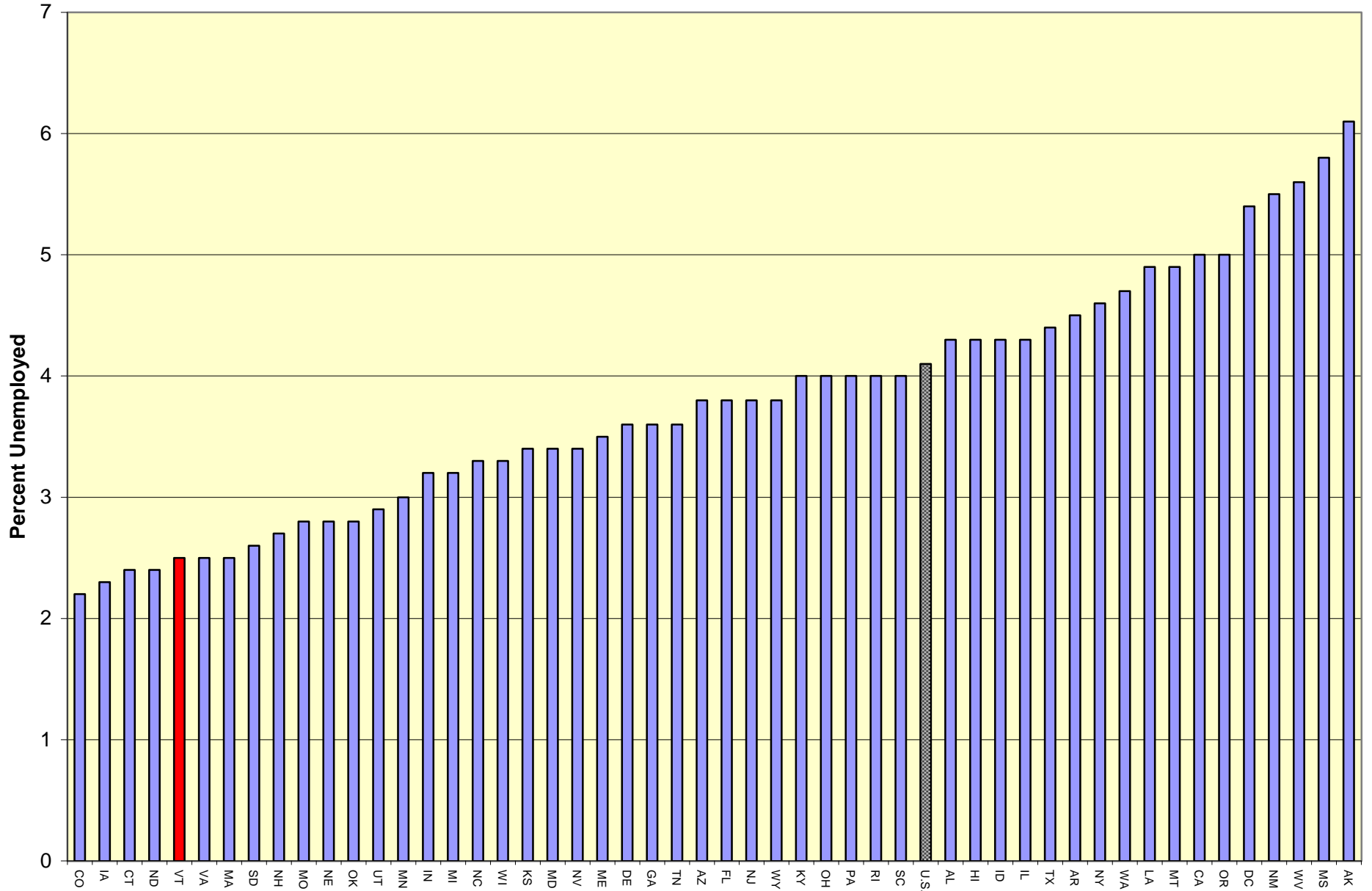
- The following Table A summarizes key macro-economic forecast variables in the latest (May 2000) and preceding U.S. macro-economic control forecasts prepared by RFA and NEEP, which underlie the official Vermont State forecast. The May 2000 forecast revised most calendar 2000 and 2002 estimates upward, relative to the previous forecast prepared in October of 1999, and revised most calendar 2001 estimates slightly downward. It should be noted that economic news subsequent to the May NEEP forecast, would support even further upward revisions to the near term economic outlook.

TABLE A
Comparison of Recent NEEP/RFA U.S. Macroeconomic Forecasts
May 1997 through May 1999, Selected Variables, Calendar Year Basis

	1997	1998	1999	2000	2001	2002	2003	2004
Real GDP Growth								
Oct-98	3.9	3.3	1.9	2.8	2.7	2.5		
May-99	3.9	3.9	2.9	2.0	3.1	2.6	2.4	
Oct-99	3.9	3.9	3.9	2.4	2.9	2.8	2.7	
May-00	4.5	4.3	4.1	4.3	2.7	3.1	3.0	2.9
S&P 500 Growth								
Oct-98	29.5	25.0	3.9	-1.9	3.6	7.7		
May-99	29.5	24.2	15.5	0.1	-2.0	2.1	2.1	
Oct-99	29.5	24.2	20.1	-0.4	-5.2	5.6	7.2	
May-00	30.1	24.2	22.0	0.0	-3.6	2.1	6.5	7.8
Employment Growth (Non-Ag)								
Oct-98	2.6	2.4	1.1	1.3	1.6	1.4		
May-99	2.6	2.6	1.5	1.0	1.6	1.4	1.4	
Oct-99	2.6	2.6	2.0	1.1	1.4	1.3	1.2	
May-00	2.6	2.6	2.2	1.8	1.1	1.4	1.2	1.2
Unemployment Rate								
Oct-98	5.0	4.5	4.8	4.9	5.0	5.2		
May-99	4.9	4.5	4.5	4.9	5.0	5.2	5.3	
Oct-99	4.9	4.5	4.3	4.6	4.9	5.1	5.2	
May-00	4.9	4.5	4.2	4.1	4.6	4.9	5.1	5.3
Real Disposable Income Growth								
Oct-98	2.8	3.2	3.0	3.1	3.2	2.9		
May-99	2.8	3.2	3.4	3.3	3.4	2.9	2.6	
Oct-99	2.8	3.2	3.3	3.1	3.2	2.6	2.4	
May-00	3.6	4.1	4.0	4.1	3.8	3.4	3.1	2.6
Prime Rate								
Oct-98	8.44	8.50	8.50	8.81	9.00	8.55		
May-99	8.44	8.35	7.75	7.97	8.74	8.55	8.06	
Oct-99	8.44	8.35	7.93	8.25	8.45	8.50	8.06	
May-00	8.44	8.35	7.99	9.21	9.14	9.00	8.63	8.00
Implicit Price Deflator Growth								
Oct-98	1.9	1.2	2.1	2.5	2.8	3.0		
May-99	1.9	1.0	1.0	1.5	2.2	2.9	2.7	
Oct-99	1.9	1.0	1.3	1.7	2.2	2.9	2.6	
May-00	1.7	1.2	1.4	1.9	2.2	2.3	2.5	2.4
Average Home Sales Price Growth								
Oct-98	4.6	5.0	3.1	3.5	3.8	4.1		
May-99	4.4	5.2	4.3	3.1	3.7	4.0	4.0	
Oct-99	4.1	5.7	4.3	3.2	3.7	4.0	4.0	
May-00	4.0	5.7	5.7	4.1	3.2	3.8	4.0	4.2

Unemployment Rate by State - May 2000

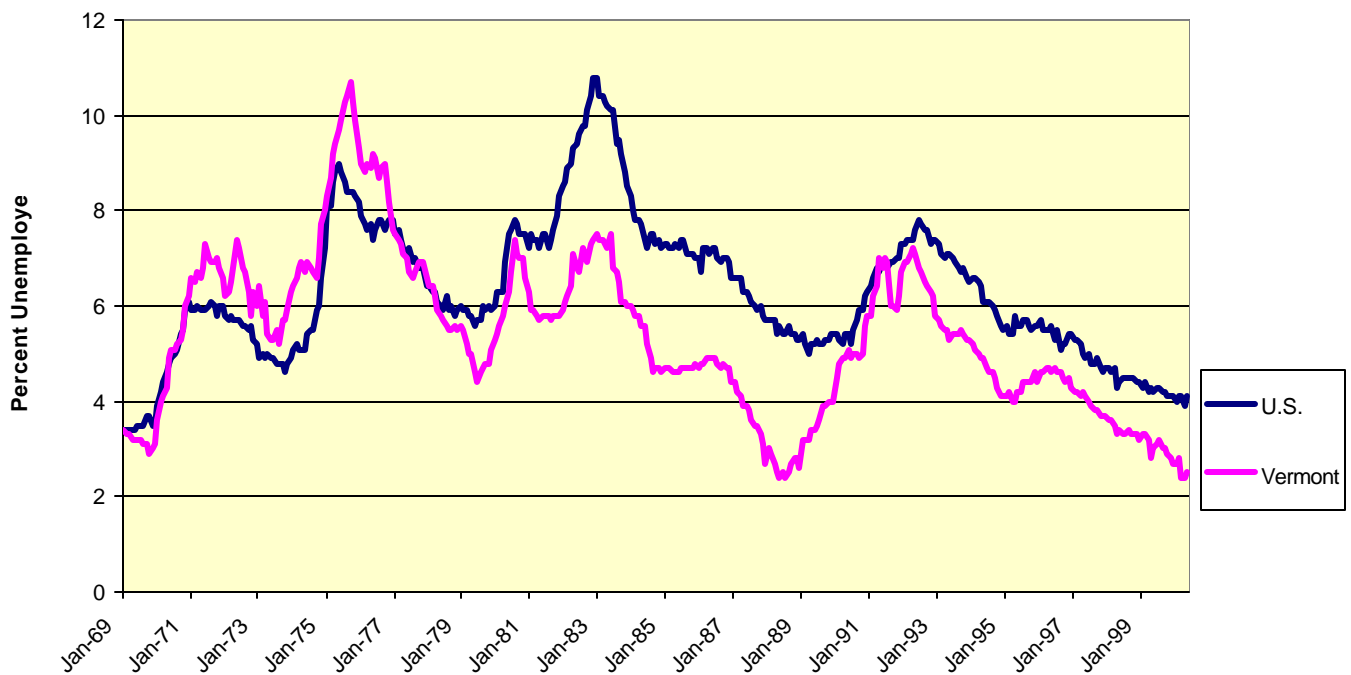
(Seasonally Adjusted Data from the Bureau of Labor Statistics, U.S. Department of Labor)



The Vermont Economy

- The Vermont economy has continued to grow in virtual lockstep with the long U.S. economic expansion and, like the U.S. economy, has exceeded all prior expectations over the past year. Unemployment in Vermont (see below chart) dipped to 2.4% in March/April, matching its lowest rate on record. As illustrated in the preceding chart, only four U.S. states currently boast unemployment rates lower than Vermont, only one of which is in New England (no, it's not NH!).

U.S. and Vermont Unemployment Rates
(seasonally adjusted)

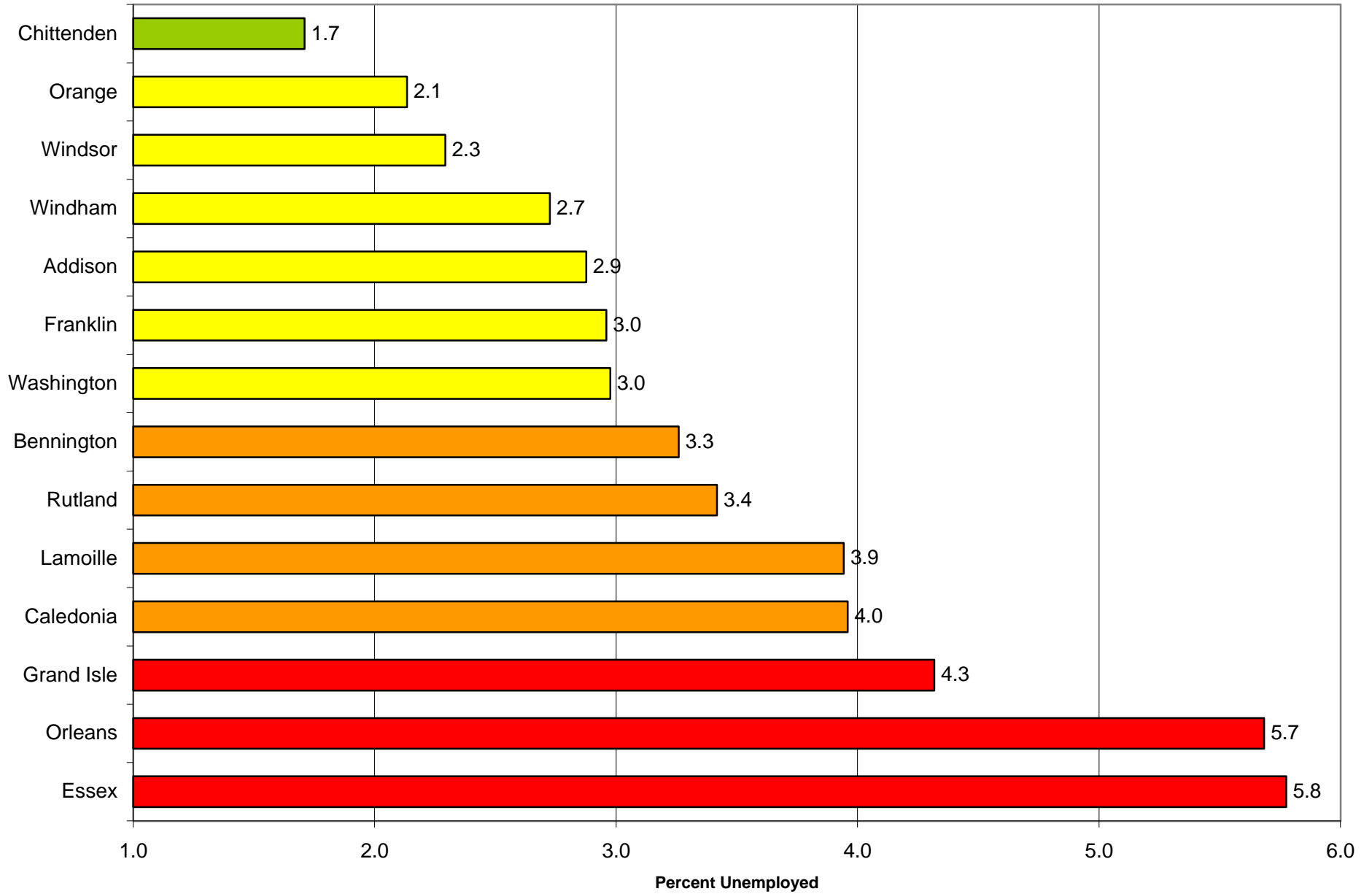


Source: Bureau of Labor Statistics, U.S. Department of Labor

- As depicted in the charts on the following two pages, the economic health of Vermont's 14 counties, while all showing improvement over the last year, continued to exhibit wide variation. Chittenden County, as has been the case for more than a decade, registered the lowest average unemployment rate over the past 12 months, at 1.7%, with Essex and Orleans still posting the highest rates, at 5.8% and 5.7%, respectively. The Burlington metropolitan area had a lower unemployment rate in May than almost 95% of the 324 U.S. metropolitan areas for which such statistics are compiled.
- When current unemployment rates are viewed as a percentage of the highest unemployment rate in each county over the past 10 years (second chart), the same counties with the lowest current unemployment rates (Chittenden, Orange and Windsor) have also experienced the greatest economic progress. By contrast, counties in the Northeast Kingdom (Orleans, Essex

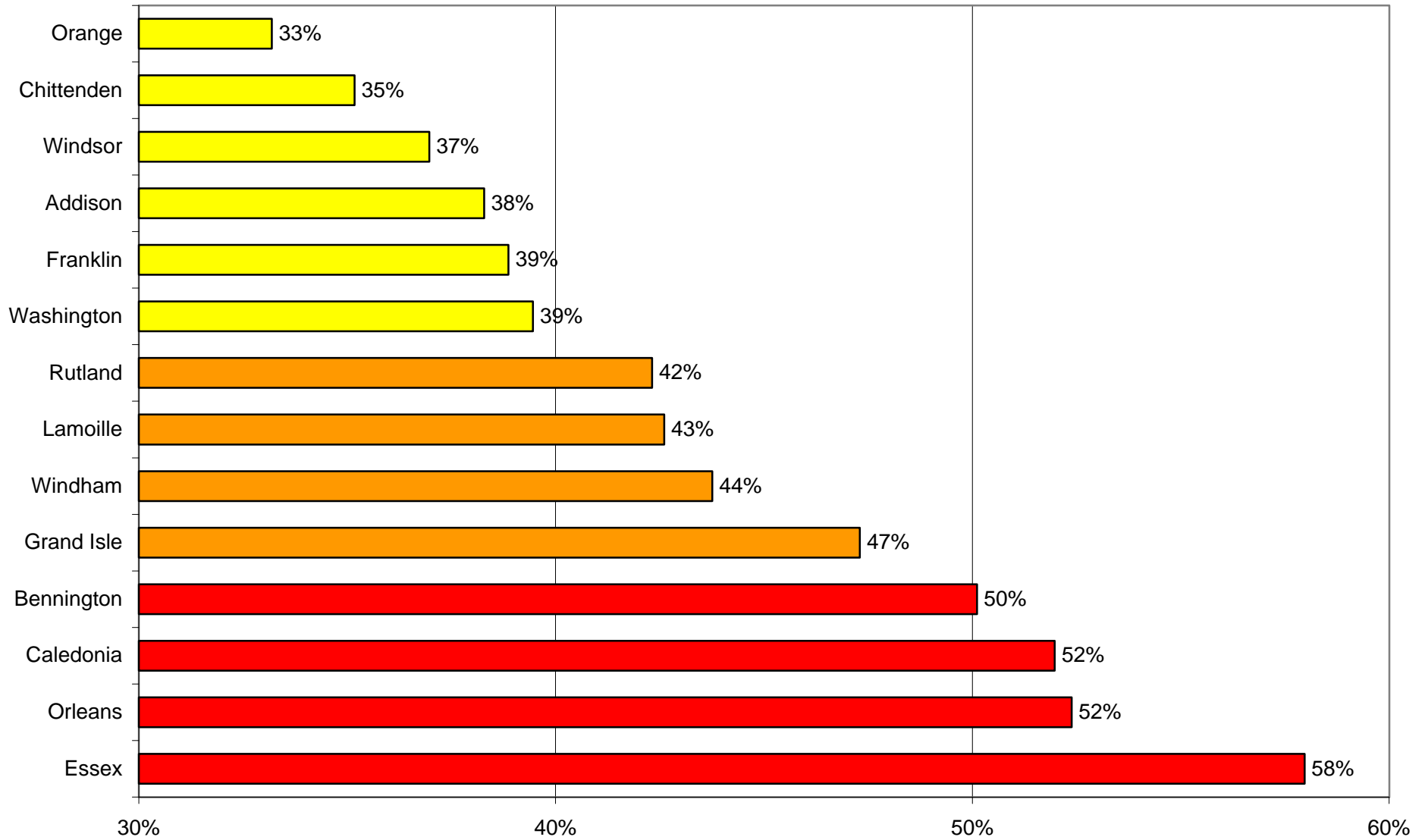
Current Unemployment Rate by Vermont County

(Source: VT Department of Employment & Training, 12 month average, June 1999 to May 2000)



Current Unemployment Rate as a Percentage of Highest Recent 10 Year Unemployment Rate by Vermont County

(Source: VT Department of Employment & Training, based on 12 month moving averages of non-seasonally adjusted data, January 1990 to May 2000)

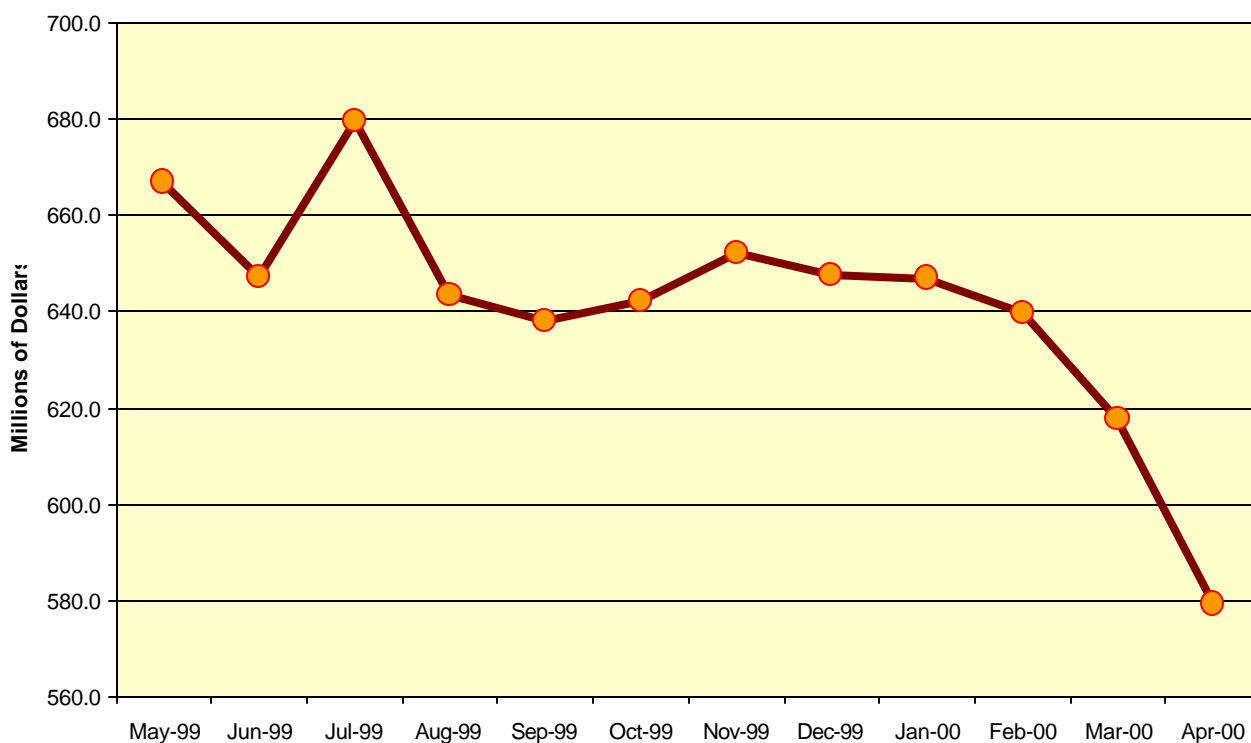


Current Unemployment Rate as a Percent of Highest 12 Month Average Unemployment Rate in Recent 10 Years

and Caledonia) have seen the least improvement during this economic expansion. By almost any economic measure, there has been a persistent divergence over the past decade in the economic fortunes of various sub-regions in the State.

- Despite the general economic strength of the State as a whole, there are some clouds on the horizon. Interest rate hikes have begun to take a bite of out new construction contracts awarded in the State (see chart below), as the 12-month moving total of new awards dropped more than \$60 million between February and April. Although it is too early to identify a trend in this volatile indicator of future building activity, this bears continued observation.

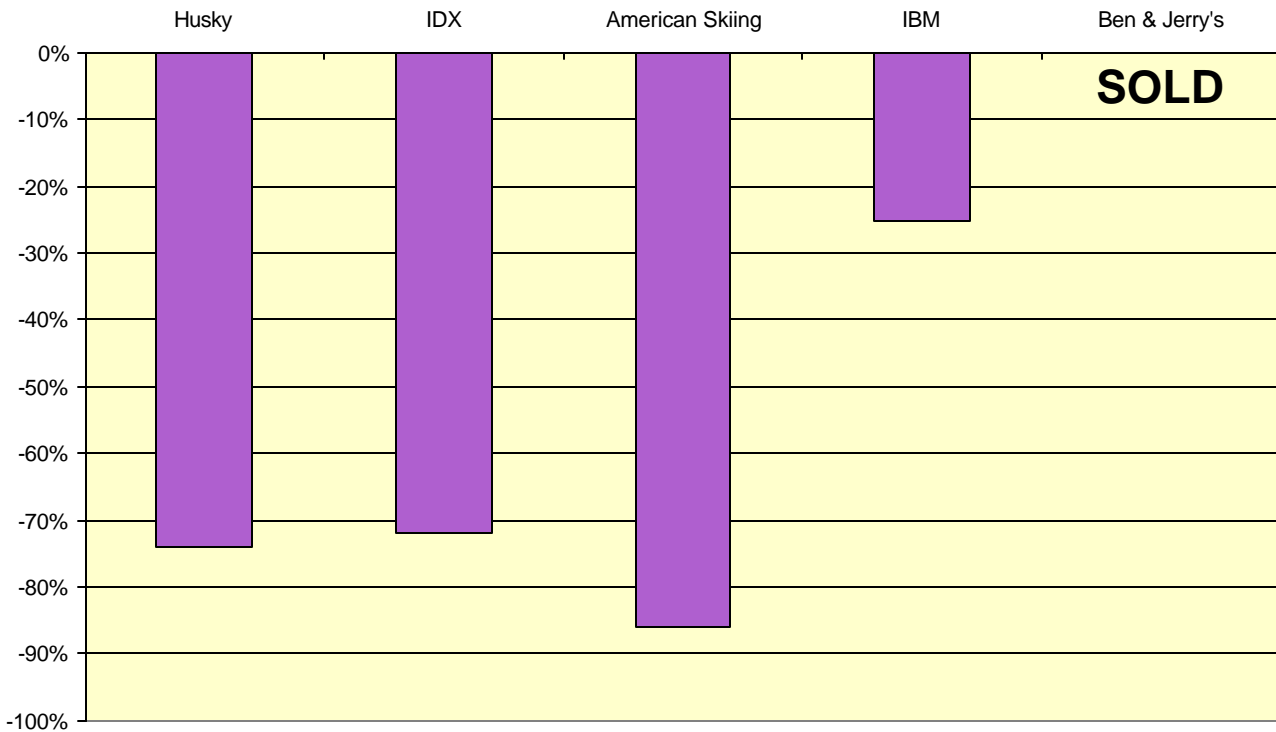
Total Construction Contract Awards in Vermont
(12 month moving totals)



Source: F.W. Dodge Division of The McGraw-Hill Companies

- The market capitalization values of several key companies operating in Vermont, which have planned or are undertaking major new investments in the State, have declined precipitously. The public stock prices of Husky, IDX and American Skiing (see chart, next page) have declined 74%, 72% and 86%, respectively, from their 36-month highs. American Skiing and their contemplated Vermont investments may be particularly vulnerable, while IDX recently announced employee layoffs in an effort to improve disappointing operating results. The sale of Ben & Jerry's will undoubtedly be a boon to personal income tax revenues in FY01 (some of this has already appeared in FY00), however, it is hard to view the sale of this unique Vermont company to a large multi-national concern as a positive longer-term economic event for the State.

Percent Change in Current Stock Price from 3 Year High



- As detailed in the following Table B, the May Vermont RFA/NEEP forecast underwent adjustments similar to those at the U.S. level. In general, expectations for calendar 2000 (especially) and 2002 were raised while estimates of calendar 2001 were lowered slightly. This is consistent with our critique of the prior State forecast voiced in the January Revenue Forecast Update, which stated; “it now seems probable that real economic growth in Vermont this year will be closer to 3% than 2%.” As is the case with the U.S. projections, recent economic evidence would suggest that near-term economic growth may be even stronger than currently forecast, however, in part because of this, the risks of an out year recession have also increased. While we are constrained to using the RFA/NEEP forecast as the basis of our Revenue Forecast Update, this information was used in judgmental modifications to near-term consensus revenue projections.
- In order to more precisely estimate these risks, the “hard-landing” scenario discussed in the preceding U.S. economic review was extended to the State level. The potential impacts of such a scenario could result in a mild recession in Vermont by the third or fourth quarter of 2001, and shave nearly \$350 million off real Vermont Gross State Product in calendar 2001 and result in a loss of more than 3700 jobs by calendar 2002. Although detailed revenue simulations based on this scenario are still being developed in concert with the Administration, preliminary estimates indicate very little FY01 revenue risk and FY02 revenue risk in the range of \$25-\$35 million. Detailed information associated with this alternative scenario is available from the Joint Fiscal Office upon request.

TABLE B
Comparison of NEEP Vermont State Forecasts
May 1997 through October 1998, Selected Variables, Calendar Year Basis

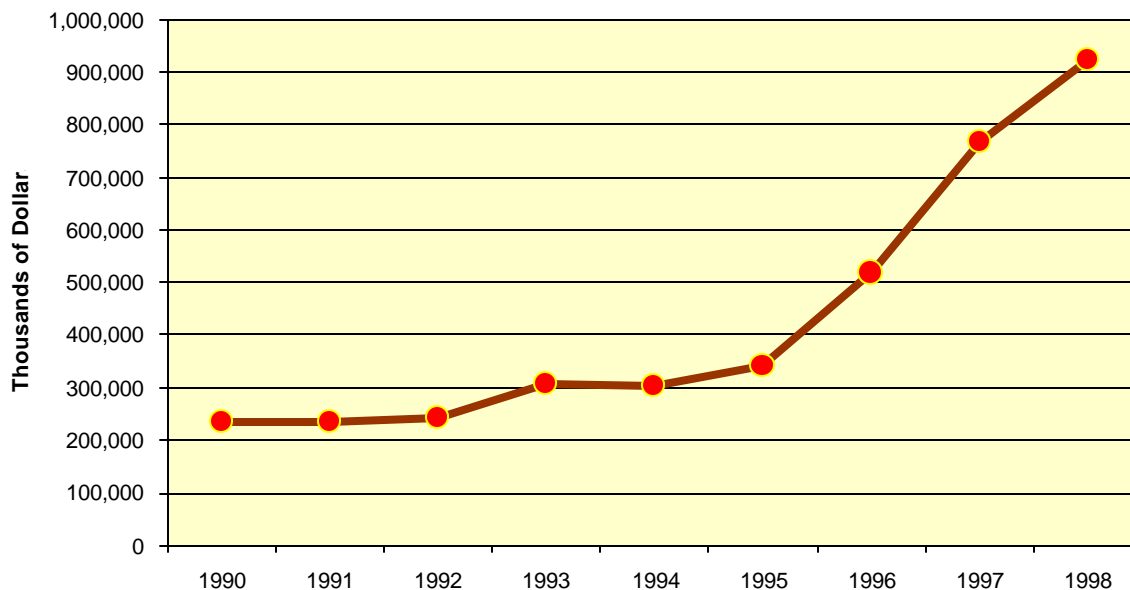
	1997	1998	1999	2000	2001	2002	2003	2004
Real GSP Growth								
Oct-98	1.8	3.1	1.5	2.1	2.5	2.3		
May-99	2.6	3.6	2.5	2.3	2.9	2.6	2.5	
Oct-99	2.9	3.9	3.5	2.0	2.7	2.5	2.6	
May-00	2.9	4.3	2.6	3.6	2.5	2.8	2.7	2.6
Population Growth								
Oct-98	0.4	0.4	0.5	0.6	0.6	0.5		
May-99	0.4	0.4	0.5	0.6	0.6	0.6	0.6	
Oct-99	0.4	0.4	0.5	0.6	0.6	0.5	0.5	
May-00	0.4	0.3	0.6	0.6	0.6	0.7	0.6	0.6
Employment Growth								
Oct-98	1.4	1.5	1.2	0.7	1.8	1.6		
May-99	1.5	2.4	1.6	1.6	1.9	1.7	1.7	
Oct-99	1.5	2.4	2.0	1.4	1.7	1.6	1.6	
May-00	1.5	2.1	1.9	1.5	1.4	1.2	1.1	1.2
Unemployment Rate								
Oct-98	3.9	3.4	3.7	4.1	4.1	4.2		
May-99	3.9	3.4	3.2	3.3	3.3	3.3	3.3	
Oct-99	3.9	3.4	2.9	3.0	3.1	3.0	2.9	
May-00	4.0	3.4	3.0	2.8	3.2	3.3	3.5	3.5
Personal Income Growth								
Oct-98	4.9	5.2	4.9	5.3	5.9	5.8		
May-99	4.2	4.7	4.9	5.4	6.1	6.3	5.8	
Oct-99	4.2	5.6	4.9	4.9	5.6	5.7	5.4	
May-00	4.2	5.6	5.1	6.2	6.0	5.7	5.5	4.8
Average Home Sale Price Growth								
Oct-98	0.0	2.0	3.0	2.8	3.1	3.1		
May-99	-0.3	1.7	5.4	3.5	6.0	6.2	5.6	
Oct-99	-0.7	2.4	5.6	3.8	4.6	5.5	5.1	
May-00	0.2	2.9	3.5	4.0	4.9	5.7	5.3	4.8

State Revenues

- As a result of the improved near term general economic outlook, an additional \$30.1 million in State revenues is expected to be generated in FY01 and about \$33.5 million in FY02, relative to prior January estimates. Of the FY01 total, the General Fund will be up \$22.7 million, the Transportation Fund, \$6.7 million and the Education Fund, \$0.7 million. In FY02, \$27.1 million will be associated with the G-Fund, about \$6.3 million with the T-Fund and about \$0.1 million with the E-Fund. Total FY02 revenues are conservatively estimated to grow between about 3-4%.

- Primarily due to tax cuts and other revenue allocation changes made during the 1998-2000 Legislative sessions, total available General Fund revenues will show subdued growth in FY01. Cuts in sales and use and personal income taxes will deduct more than \$33 million from FY01 revenues and the reallocation of Cigarette revenues to VHAP will reduce available General Fund revenues by about another \$12 million per year. Statutory changes to T-Fund revenue sources (Diesel and MVP&U), on the other hand, will add more than \$6 million in FY01 and beyond.
- It is important to note that all revenue projections herein are based on current law, and do not assume any further changes in Federal or State tax law. Election year politics guarantee a wide array of proposed Federal tax cuts, many of which could impact Vermont State revenues during the forecast period. These include various income tax cuts, a further reduction in the capital gains tax rate, elimination of the so-called marriage tax penalty, elimination of the estate and gift tax, and various tax breaks for education and health care. Further changes in New Hampshire tax law in response to their education-financing crisis, such as the introduction of a personal income tax, could also have a substantial impact on Vermont tax revenues. If/when any of these proposals appear likely to become law, specific estimates of their impacts on Vermont revenues will be generated.
- **Personal Income** tax receipts soared to record levels in the last quarter of FY00, closing the year at just over \$432 million. Although detailed tax data with which to analyze this event will not be available for some time, it is likely that the same factors that have been responsible for such gains in recent years are again at play: stronger than anticipated economic growth, capital gains realizations and related income from extraordinary stock market growth over the past four years, and rapid income growth among the highest income taxpayers.

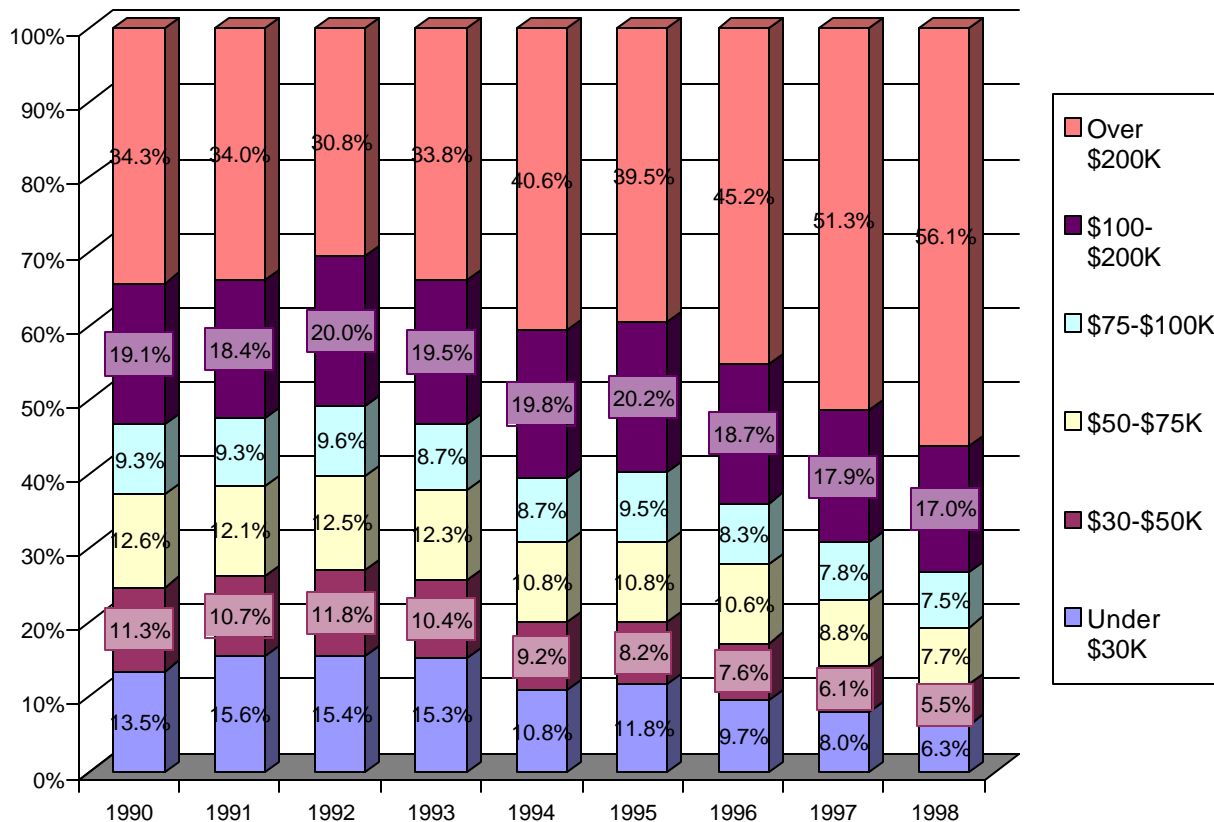
Capital Gains (Less Losses) in Vermont



Source: U.S. Internal Revenue Service

Based on the most recent IRS data (1998), realized capital gains in Vermont have grown at extraordinary rates since 1996 (see preceding chart) and probably exceeded \$1 billion in FY00. They now comprise nearly one-third of the adjusted gross income (AGI) of the highest income taxpayers (those earning more than \$200,000), with more than half of all such capital gains in Vermont accruing to this same income class (see below chart).

Share of Annual Total Vermont Capital Gains (Less Losses) by Income Class, 1990-1998



Potential Vermont capital gains are a function of the extent to which Vermonters happen to own those assets that have appreciated (a complete unknown), whether or not they choose to realize such gains in any given year (difficult, at best, to predict), and whether or not they have offsetting capital losses (less important now, but critical if the stock market plunges). Given the extreme concentration of stock ownership, the behavior of a relatively small number of taxpayers can have a substantial impact on tax revenues, especially in a small state like Vermont.

This, along with risks to underlying economic activity, will make personal income tax revenues increasingly volatile and uncertain in coming years. FY01 is conservatively estimated to grow only about 1%-2%, as tax cuts enacted in both the recent and year-ago legislative session take full effect. These cuts are expected to have a combined impact of more than \$20 million in FY01 and beyond. Growth in FY02 is expected to be at least 4%.

One of the benefits of greater than anticipated FY00 personal income tax revenues is that development of the proposed Analytic Income Database is now possible. This important analytic data source will enable much more rigorous analysis of personal income revenues, which now comprise nearly 50% of all General Fund revenues. Hopefully, this will be completed within the next year.

- **Sales and Use** tax revenues performed well in FY00, closing the year about 1.5% above expectations. The full effects of the recent tax cuts, however, will slow growth in FY01 to about 2%, and reduce revenues by at least \$12 million. Slower economic growth and dampened consumer spending in FY02 will generate sales and use revenue growth in the 4%-5% range.
- **Corporate Income** revenue dropped more than 11% in FY00, as weaker corporate profits (especially among electric utilities), escalating use of tax avoidance mechanisms and continued tax base erosion from business tax incentive programs depressed revenues from FY99 levels. Still, receipts topped \$60 million in the fourth quarter (at seasonally adjusted annual rates), and closed the year above expectations. The above-mentioned fundamentals will continue to limit longer term growth in corporate revenues and, combined with rising interest rates, will result in a slight decline in FY01. As recent statutory changes enable JFO access to more detailed business tax incentive information, more comprehensive corporate revenue estimates should be possible.
- **Meals and Rooms** revenue closed FY00 within one-tenth of a percentage point of the January estimate, at \$92 million (source basis), despite relatively poor winter weather. Higher petroleum and gasoline prices are not expected to have a net negative impact on meals and rooms revenues, as higher transportation costs render Vermont a relatively attractive travel option to the large population bases in nearby states. Accordingly, growth in FY01 is expected to be about 4%- 5% with growth slowing in tandem with the overall economy in FY02.
- **Estate tax** revenue, among the most volatile and unpredictable state revenue sources, closed the year more that \$2 million below estimates, as it suffered its first year in the last four without a single exceptionally large payment. Continued equity market strength should support a floor of about \$14 million in FY01 estate tax revenue, however, longer term prospects suggest potential declines, as increasing estate tax thresholds enacted as a part of the taxpayers Relief Act of 1997 and more extensive financial planning should diminish estate tax liabilities. It should be noted, however, with equity market valuations at present levels, the possibility always exists that in any given year there could be individual additional payments of \$5 to \$10 million or more to this revenue source.
- **Property Transfer** tax revenue exhibited among the highest growth rate of any revenue category in FY00, posting a 7.4% gain. Property transfer tax revenue is expected to register better than average growth over the forecast period, however, interest rate increases will slow growth in FY01 and FY02 and recently enacted allocations to the General Fund have reduced available G-Fund revenues from this source to only a third of source fund revenues.

- **Telecommunications** taxes posted exceptional 15% revenue growth in FY00, giving the E-Fund a much needed boost in the face of declining corporate and lottery revenues. Much of this gain was concentrated in the fourth quarter of the year, suggesting a somewhat slower sustainable rate of growth in FY01. Data in the first half of FY01, however, may support an upgrade to the FY01 forecast, if fourth quarter FY00 revenue levels persist. Increased per capita use of telecommunications systems should support stronger than average revenue growth for this category throughout the forecast period.
- **Lottery** revenues, under new management, stabilized in FY00 at \$19.1 million, after dropping nearly \$5 million in FY99. The bad news apparently is not over, however, as new projections from the Lottery Commission suggest that additional operating costs combined with tepid gross revenue growth in FY01 and beyond will conspire to short the E-Fund another \$1.3 million in FY01 and \$2 million in FY02. With fundamental business issues such as game fatigue, competitive state jackpots, major new programs and advertising limiting revenue growth, and operating costs increasing, there will be less net profit available to the E-Fund over the next two fiscal years.
- **Diesel** tax revenues closed FY00 below estimates, due to cyclical inventory purchasing that probably delayed FY00 second half purchases in response to price peaks that were expected to moderate later in the year. This should result in an FY01 rebound in fuel purchases and base revenues. Most of the projected 22% FY01 growth, however, can be attributed to a fundamental statutory change (H.188) that moves the point of taxation to the pump and is expected to generate at least \$3 million per year through heightened compliance. Tax Department audit rates (non-random) and experience in other states suggest that this change could yield even greater revenue benefits in FY01 and beyond, however, there are many unknowns that dictate a conservative initial estimate and close observation of actual revenue experience through the first half of FY01 in order to guide future adjustments.
- **Motor Vehicle Purchase and Use** revenue has benefited from plentiful jobs, solid recent income gains and easy credit, growing more than 8% in FY00. Continued strength is expected through much of FY01, however, tighter credit and a slowing economy will diminish base growth. About half of the projected FY01 growth is the result of statutory changes associated with H.671 that raises the maximum tax for trucks from \$750 to \$1100. This change is estimated to yield at least \$3.1 million in FY01 and beyond.
- **Motor Vehicle Fee** revenues exhibit a 2-year cycle, as a result of variations in the annual share of 2-year motor vehicle registration fees. Above-trend growth was experienced in FY00 (+5.4%) due to this phenomenon with alternating slower growth expected in FY01 (+1.5%) and another up-tick in FY02 (+4.8%). Two year registrations as a share of total registrations in FY00 reached their highest level in more than 4 years (7.1%) and now appear to be gaining slowly in popularity.

Methodological Notes and Other Comments

- The analysis in support of the JFO projections is primarily statistical. Statistical models based on 23 years of data for each of the 25 General Fund categories (three aggregates), 17 years of data for each of the Transportation Fund categories (one aggregate), and 2-3 years for each of the new Education Fund categories have been developed. These include seasonal adjustment using the X-11 Census method, various moving average techniques (Henderson Curves, etc.), Box-Jenkins ARIMA type models, pressure curve analysis, and comparable-pattern analysis of monthly, quarterly and half year trends for current year estimation. These types of statistical forecasting techniques are most valid for nearer-term projections and are not as useful for longer term forecasting. While economic judgment has been applied to the entire forecast, the JFO currently funds only limited econometric models that explicitly quantify historical relationships between external economic variables and State revenues.
- The Consensus Staff Recommendation forecasts are developed following discussion, analysis and synthesis of independent revenue projections produced by Administration and Joint Fiscal Office economists. Initial Administration and JFO forecasts are available upon request.

**TABLE 1A - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
SOURCE GENERAL FUND* REVENUE FORECAST UPDATE
Consensus JFO and Administration Staff Recommendation - July 2000**

	FY 1997	%	FY 1998	%	FY 1999	%	FY 2000	%	FY 2001	%	FY 2002	%
	<i>(Actual)</i>	Change	<i>(Actual)</i>	Change	<i>(Actual)</i>	Change	<i>(Preliminary)</i>	Change	<i>(Forecast)</i>	Change	<i>(Forecast)</i>	Change
<i>REVENUE SOURCE</i>												
Personal Income	\$323.1	15.0%	\$365.6	13.1%	\$383.5	4.9%	\$432.0	12.7%	\$436.7	1.1%	\$454.0	4.0%
Sales and Use	\$183.8	0.7%	\$194.5	5.8%	\$205.6	5.7%	\$216.3	5.2%	\$220.9	2.1%	\$229.7	4.0%
Telecommunications	\$0.0	NM	\$7.4	NM	\$12.9	73.0%	\$14.8	14.9%	\$15.5	4.9%	\$16.2	4.5%
Corporate	\$42.2	-0.2%	\$51.0	20.6%	\$57.0	11.8%	\$50.6	-11.3%	\$50.1	-0.9%	\$51.0	1.8%
Meals and Rooms	\$64.1	3.7%	\$77.4	20.7%	\$86.9	12.3%	\$92.0	5.9%	\$96.0	4.4%	\$99.6	3.7%
Cigarette	\$13.0	-1.5%	\$13.0	0.4%	\$12.6	-2.9%	\$12.3	-3.0%	\$12.1	-1.1%	\$12.0	-1.1%
Liquor	\$8.8	1.2%	\$8.9	1.1%	\$9.3	4.9%	\$9.3	0.4%	\$9.4	0.5%	\$9.4	0.5%
Insurance	\$26.3	2.0%	\$28.5	8.2%	\$29.4	3.4%	\$30.3	3.0%	\$30.7	1.4%	\$31.8	3.3%
Telephone	\$10.0	-5.4%	\$9.8	-1.5%	\$9.8	-0.9%	\$10.3	5.9%	\$10.5	1.7%	\$10.7	1.9%
Beverage	\$4.6	-1.5%	\$4.7	2.3%	\$4.7	0.3%	\$4.8	2.2%	\$4.9	1.1%	\$4.9	1.1%
Electric	\$3.3	-6.5%	\$3.4	2.9%	\$3.6	6.7%	\$3.5	-2.3%	\$3.1	-11.3%	\$2.8	-9.7%
Estate	\$18.0	204.4%	\$19.2	6.3%	\$23.4	21.9%	\$13.6	-42.0%	\$14.1	4.1%	\$13.2	-6.4%
Property	\$13.7	11.4%	\$15.1	10.6%	\$19.2	26.9%	\$20.6	7.3%	\$21.8	5.7%	\$22.9	5.0%
Bank	\$3.1	25.3%	\$6.8	120.8%	\$8.5	24.4%	\$8.3	-1.8%	\$8.4	0.8%	\$8.6	2.4%
Other Tax	\$1.5	1.1%	\$1.5	4.1%	\$1.9	24.9%	\$2.8	45.3%	\$2.8	0.7%	\$2.8	0.7%
<i>Total Tax Revenue</i>	\$715.5	9.0%	\$806.8	12.8%	\$868.2	7.6%	\$921.5	6.1%	\$937.0	1.7%	\$969.6	3.5%
Business Licenses	\$3.0	0.1%	\$3.1	2.3%	\$3.1	1.6%	\$2.6	-18.4%	\$2.7	3.2%	\$2.7	1.9%
Fees	\$7.9	23.3%	\$10.5	33.0%	\$11.1	5.8%	\$11.7	5.4%	\$11.8	1.0%	\$12.1	2.4%
Services	\$1.5	38.3%	\$1.4	-6.2%	\$1.3	-10.8%	\$1.3	0.1%	\$1.3	3.3%	\$1.4	3.8%
Fines	\$1.8	7.7%	\$1.6	-10.6%	\$1.9	17.4%	\$2.4	29.4%	\$2.5	2.6%	\$2.5	2.6%
Interest	\$4.9	67.6%	\$2.7	-44.5%	\$5.4	96.5%	\$7.6	40.9%	\$6.5	-14.4%	\$7.0	6.9%
Special Assessments	\$0.4	-11.8%	\$0.6	67.1%	\$0.4	-42.1%	\$0.4	7.3%	\$0.4	2.1%	\$0.4	2.4%
Lottery	\$23.4	2.6%	\$22.2	-5.1%	\$19.1	-14.3%	\$19.1	0.2%	\$17.8	-6.8%	\$17.0	-4.5%
All Other	\$0.7	17.4%	\$0.4	-44.2%	\$0.5	23.7%	\$0.7	50.8%	\$0.8	4.1%	\$0.8	3.3%
<i>Total Other Revenue</i>	\$43.6	12.0%	\$42.6	-2.4%	\$42.7	0.2%	\$45.7	7.2%	\$43.7	-4.5%	\$43.8	0.3%
TOTAL GENERAL FUND	\$759.1	9.2%	\$849.4	11.9%	\$910.9	7.2%	\$967.2	6.2%	\$980.7	1.4%	\$1,013.5	3.3%

*Current law basis, excluding recent Education Fund and Property Transfer Tax allocations and other out-transfers. For analytic and comparative purposes only.

**TABLE 1 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
GENERAL FUND* REVENUE FORECAST UPDATE
Consensus JFO and Administration Staff Recommendation - July 2000**

	FY 1997	%	FY 1998	%	FY 1999	%	FY 2000	%	FY 2001	%	FY 2002	%
	(Actual)	Change	(Actual)	Change	(Actual)	Change	(Preliminary)	Change	(Forecast)	Change	(Forecast)	Change
<i>REVENUE SOURCE</i>												
Personal Income	\$323.1	15.0%	\$365.6	13.2%	\$383.5	4.9%	\$432.0	12.7%	\$436.7	1.1%	\$454.0	4.0%
Sales and Use	\$183.8	0.7%	\$194.5	5.8%	\$205.6	5.7%	\$216.3	5.2%	\$220.9	2.1%	\$229.7	4.0%
Corporate	\$42.3	-0.2%	\$42.7	1.1%	\$46.2	8.0%	\$41.0	-11.3%	\$40.6	-0.9%	\$41.3	1.8%
Meals and Rooms	\$64.1	3.7%	\$67.3	5.0%	\$71.1	5.7%	\$75.2	5.7%	\$78.4	4.3%	\$81.2	3.7%
Cigarette	\$13.0	-1.5%	\$13.1	1.0%	\$12.6	-3.4%	\$12.3	-3.0%	\$0.0	NM	\$0.0	NM
Liquor	\$8.8	1.2%	\$8.9	1.0%	\$9.3	4.9%	\$9.3	0.4%	\$9.4	0.5%	\$9.4	0.5%
Insurance	\$26.3	2.0%	\$28.5	8.3%	\$29.4	3.4%	\$30.3	3.0%	\$30.7	1.4%	\$31.8	3.3%
Telephone	\$10.0	-5.4%	\$9.8	-1.5%	\$9.8	-0.9%	\$10.3	5.9%	\$10.5	1.7%	\$10.7	1.9%
Beverage	\$4.6	-1.5%	\$4.7	2.3%	\$4.7	0.3%	\$4.8	2.2%	\$4.9	1.1%	\$4.9	1.1%
Electric	\$3.3	-6.5%	\$3.4	2.9%	\$3.6	6.7%	\$3.5	-2.3%	\$3.1	-11.3%	\$2.8	-9.7%
Estate	\$18.0	204.4%	\$19.2	6.3%	\$23.4	21.9%	\$13.6	-42.0%	\$14.1	4.1%	\$13.2	-6.4%
Property	\$11.2	11.4%	\$8.1	-27.7%	\$5.1	-37.5%	\$6.9	35.3%	\$7.2	4.7%	\$7.6	5.0%
Bank	\$3.1	25.3%	\$3.2	2.2%	\$3.5	12.1%	\$3.5	-1.8%	\$3.5	0.8%	\$3.6	2.4%
Other Tax	\$1.5	1.1%	\$1.5	4.1%	\$1.9	25.0%	\$2.8	45.3%	\$2.8	0.7%	\$2.8	0.7%
<i>Total Tax Revenue</i>	\$713.0	9.0%	\$770.4	8.1%	\$809.6	5.1%	\$861.6	6.4%	\$862.7	0.1%	\$893.0	3.5%
Business Licenses	\$3.0	0.1%	\$3.1	2.3%	\$3.1	1.6%	\$2.6	-18.4%	\$2.7	3.2%	\$2.7	1.9%
Fees	\$7.9	23.3%	\$8.6	8.8%	\$8.9	4.2%	\$9.4	5.0%	\$9.4	0.2%	\$9.6	2.2%
Services	\$1.5	38.3%	\$1.4	-7.2%	\$1.3	-10.8%	\$1.3	0.1%	\$1.3	3.3%	\$1.4	3.8%
Fines	\$1.8	7.7%	\$1.5	-12.2%	\$1.9	19.6%	\$2.4	29.4%	\$2.5	2.6%	\$2.5	2.6%
Interest	\$4.9	67.6%	\$2.7	-44.3%	\$4.6	69.2%	\$7.4	59.5%	\$6.3	-14.9%	\$6.7	7.1%
Special Assessments	\$0.4	-11.8%	\$0.6	67.1%	\$0.4	-42.1%	\$0.4	7.3%	\$0.4	2.1%	\$0.4	2.4%
All Other	\$0.7	17.4%	\$0.4	-44.2%	\$0.5	23.7%	\$0.7	50.8%	\$0.8	4.1%	\$0.8	3.3%
<i>Total Other Revenue</i>	\$20.2	12.0%	\$18.4	-8.8%	\$20.7	12.4%	\$24.1	16.6%	\$23.2	-3.5%	\$24.1	3.7%
TOTAL GENERAL FUND	\$733.1	9.2%	\$788.8	7.6%	\$830.3	5.3%	\$885.7	6.7%	\$886.0	0.0%	\$917.1	3.5%

*Current law basis, including all Education Fund allocations, new Property Transfer Tax allocations and other out-transfers.

**TABLE 2A - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
SOURCE TRANSPORTATION FUND* REVENUE FORECAST UPDATE
Consensus JFO and Administration Staff Recommendation - July 2000**

	FY 1997	%	FY 1998	%	FY 1999	%	FY 2000	%	FY 2001	%	FY 2002	%
	<i>(Actual)</i>	Change	<i>(Actual)</i>	Change	<i>(Actual)</i>	Change	<i>(Preliminary)</i>	Change	<i>(Forecast)</i>	Change	<i>(Forecast)</i>	Change
REVENUE SOURCE												
Gasoline	\$47.3	-0.1%	\$59.1	25.0%	\$61.3	3.7%	\$62.1	1.3%	\$63.5	2.2%	\$64.8	2.0%
Diesel	\$11.0	-1.3%	\$13.5	23.2%	\$14.5	7.4%	\$14.9	2.9%	\$18.3	22.4%	\$19.0	3.8%
Purchase and Use	\$45.5	5.2%	\$56.5	24.3%	\$64.0	13.2%	\$69.5	8.6%	\$76.2	9.7%	\$78.5	3.0%
Other Taxes	\$1.6	12.2%	\$1.6	-0.4%	\$1.7	11.6%	\$1.7	-0.2%	\$1.8	3.7%	\$1.9	2.8%
Motor Vehicle Fees	\$36.8	-7.0%	\$39.7	8.0%	\$40.7	2.4%	\$42.9	5.4%	\$43.5	1.5%	\$45.6	4.8%
Other Revenue	\$10.5	-20.4%	\$9.3	-12.2%	\$10.6	14.0%	\$12.0	13.8%	\$11.7	-2.6%	\$12.1	3.4%
TOTAL TRANS. FUND	\$152.6	-2.1%	\$179.7	17.7%	\$192.8	7.3%	\$203.2	5.4%	\$215.0	5.8%	\$221.9	3.2%

Notes:

H.188 is estimated to add at least \$3.0 million to Diesel in FY01 and beyond

H.671 is estimated to add approximately \$3.1 million to MVP&U in FY01 and beyond

Gasoline revenue excludes source revenue from fish & wildlife (0.38 cents), DUI (0.4 cents) and petroleum clean-up (1.0 cent)

*Current law basis, excluding Education Fund allocations and other out-transfers. For analytic and comparative purposes only.

**TABLE 2 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
TRANSPORTATION FUND* REVENUE FORECAST UPDATE
Consensus JFO and Administration Staff Recommendation - July 2000**

	FY 1997	%	FY 1998	%	FY 1999	%	FY 2000	%	FY 2001	%	FY 2002	%
	<i>(Actual)</i>	Change	<i>(Actual)</i>	Change	<i>(Actual)</i>	Change	<i>(Preliminary)</i>	Change	<i>(Forecast)</i>	Change	<i>(Forecast)</i>	Change
REVENUE SOURCE												
Gasoline**	\$47.3	-0.1%	\$48.6	2.9%	\$48.4	-0.4%	\$51.8	6.9%	\$52.9	2.2%	\$54.0	2.0%
Diesel	\$11.0	-1.3%	\$13.6	24.1%	\$14.5	6.6%	\$14.9	2.9%	\$18.3	22.4%	\$19.0	3.8%
Purchase and Use	\$45.5	5.2%	\$47.9	5.4%	\$53.3	11.2%	\$57.9	8.6%	\$63.5	9.7%	\$65.4	3.0%
Other Taxes	\$1.6	12.2%	\$1.6	-0.4%	\$1.7	11.6%	\$1.7	-0.2%	\$1.8	3.7%	\$1.9	2.8%
Motor Vehicle Fees	\$36.8	-7.0%	\$39.6	7.8%	\$40.7	2.6%	\$42.9	5.4%	\$43.5	1.5%	\$45.6	4.8%
Other Revenue	\$10.3	-20.4%	\$9.5	-7.4%	\$10.6	10.9%	\$12.0	13.8%	\$11.7	-2.6%	\$12.1	3.4%
TOTAL TRANS. FUND	\$152.4	-2.1%	\$161.0	5.6%	\$169.3	5.2%	\$181.2	7.1%	\$191.7	5.8%	\$198.0	3.3%

**Note: Gasoline tax revenue allocated to the Education Fund is 21% in FY99 and 16% in FY00 and beyond (based on 18.23 cent tax, excluding fish & wildlife, DUI and petroleum clean-up fund deductions, effective rate is 16.66758%)

*Current law basis, including all Education Fund allocations and other out-transfers.

**TABLE 3 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
EDUCATION FUND* REVENUE FORECAST UPDATE
(General Fund and Transportation Fund Allocations Only)
Consensus JFO and Administration Staff Recommendation - July 2000**

GENERAL AND TRANSPORTATION FUND TAXES ASSOCIATED WITH THE EDUCATION FUND	FY 1998**	%	FY 1999	%	FY 2000	%	FY 2001	%	FY 2002	%
	<i>(Actual)</i>	Change	<i>(Actual)</i>	Change	<i>(Preliminary)</i>	Change	<i>(Forecast)</i>	Change	<i>(Forecast)</i>	Change
GENERAL FUND										
Meals and Rooms (after Travel and Tourism transfer)	\$10.1	NM	\$15.8	56.6%	\$16.8	6.4%	\$17.6	4.8%	\$18.4	4.1%
Telecommunications	\$7.4	NM	\$12.9	73.0%	\$14.8	14.9%	\$15.5	4.9%	\$16.2	4.5%
Bank	\$3.7	NM	\$4.9	35.0%	\$4.9	-1.8%	\$4.9	0.8%	\$5.0	2.4%
Corporate	\$8.2	NM	\$10.8	31.5%	\$9.6	-11.3%	\$9.5	-0.9%	\$9.7	1.8%
Security Registration Fees	\$1.9	NM	\$2.2	12.7%	\$2.3	6.9%	\$2.4	4.3%	\$2.5	3.3%
Interest	\$0.0	NM	\$0.8	NM	\$0.2	-70.6%	\$0.2	1.2%	\$0.2	2.2%
Lottery	\$22.2	-4.1%	\$19.1	-14.3%	\$19.1	0.2%	\$17.8	-6.8%	\$17.0	-4.5%
TRANSPORTATION FUND										
Gasoline***	\$10.5	NM	\$12.9	23.1%	\$10.3	-19.6%	\$10.6	2.3%	\$10.8	2.0%
Purchase and Use	\$8.6	NM	\$10.7	24.4%	\$11.6	8.8%	\$12.7	9.5%	\$13.1	3.0%
TOTAL	\$72.6	NM	\$90.0	23.9%	\$89.7	-0.4%	\$91.3	1.8%	\$92.9	1.7%

**Note: FY1998 revenues represent partial year allocations prior to Act 60 Technical Corrections

***Note: Gasoline tax revenue allocated to the Education Fund is 21% in FY99 and 16% in FY00 and beyond (based on 18.23 cent tax, excluding fish & wildlife, DUI and petroleum clean-up funds deductions, effective rate is 16.66758%)