

# Joint Fiscal Office

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## MEMORANDUM

To: Representative Janet Ancel, Chair  
Senator Ann Cummings, Vice Chair  
Senator Jane Kitchel  
Representative Kitty Toll  
Members of the Joint Fiscal Committee

From: Stephen Klein, Chief Fiscal Officer

Date: September 21, 2018

Subject: September 2018 – Fiscal Officer’s Report

What follows is an update of recent developments, some of which will be on the agenda for the September 27 meeting of the Joint Fiscal Committee.

### 1. FY 2018 Revenue Collection Status

Preliminary revenues exceeded targets in the General Fund and the Transportation Fund and were just below target in the Education Fund after the first two months of the fiscal year. September will be a more informative month since that is when estimated tax payments come due for the first quarter of the fiscal year for both the corporate tax and income tax. After the first two months, General Fund revenues were \$3.4 million, or 2% higher than forecasted. The Transportation Fund revenues were \$2.6 million or 5.5% above target, while the Education Fund revenues were off by \$800,000, or 1% below the target.

Contributing factors:

**a. General Fund** – The strength is in personal income and corporate taxes, which are somewhat offset by weaker estate tax revenues. Within personal income tax, the withholding tax, paid taxes, and estimated taxes are all higher than the forecast. Refunds were also higher. September is an important month with corporate and income tax receipts projected to be higher due to estimated tax payments.

**b. Transportation Fund** – The strength is in the Department of Motor Vehicles (DMV) fees, Vermont’s purchase and use tax, and “other” revenue. Gas and diesel taxes are essentially on target.

**c. Education Fund** – A small weakness during the first two months in sales tax revenues is partially offset by strength in Vermont’s purchase and use tax receipts and lottery proceeds.

## 2. Medicaid Trend

Medicaid expenditures through September 14, the first two and a half months of the fiscal year, are trending slightly above the amount budgeted. In gross dollars (State and Federal) spending is about \$6.59 million, or 3.4%, over trend. Expenditures change weekly so it is too early to know if there is an issue emerging. Overall, the following categories drive most of the variance in spending compared to the benchmark.

- \$2.45 Drug rebates, under-collected (correlates to overspending)
- \$3.91M net over spending in Choice for Care and Regular claims
- \$501K Buy In, overspent
- \$268K Clawback, underspent

## 3. Other Medicaid Issues

Several issues may be presented at the meeting that impact Medicaid and the Global Commitment Waiver.

- a. **Employer Assessment Increase:** Under 32 V.S.A. § 105031, the amount of the health care fund contribution (a.k.a. the employer assessment) is “adjusted annually by a percentage equal to any percentage change in premiums for the second lowest-cost silver-level plan in the Vermont Health Benefits Exchange.” Because it is indexed to a silver plan ‘in’ the exchange, it appears to be tied to a silver-loaded plan rather than the less expensive equivalent “reflective” silver plan that is not in the Exchange. The cost of this silver-loaded plan will result in a 23% increase in the employer assessment rate. The impact of this increase on the employer assessment might be an issue to address in the FY 2019 Budget Adjustment.
- b. **Global Commitment Waiver Room:** The Global Commitment (GC) Waiver allows Vermont to fund activities that would otherwise not be Medicaid eligible up to a total expenditure cap. The cap is based on the difference between Vermont’s actual Medicaid spending and projected spending for Medicaid program participants; this is known as budget neutrality. We refer to this capacity as cap room in the waiver — in the current calendar year the amount of cap room is projected to decline significantly from initial estimates made when the Waiver was renegotiated two years ago. This is mostly due to lower caseload and therefore fewer member months to use under the newly required Centers for Medicare and Medicaid Services (CMS) neutrality calculation. Cap room is also impacted by program spending decisions. One example is Success-beyond-Six in which schools contract with Designated Agencies (DAs) for services to students that has grown recently. While this issue does not demand immediate fiscal resources, in considering budgetary decisions, the long-term impact on cap room should become part of our analytic frame.

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<sup>1</sup> <https://legislature.vermont.gov/statutes/section/32/245/10503>

#### **4. De-carbonization cost benefit work. Public Forums**

Resources for the Future (RFF) will be in Montpelier Wednesday through Friday September 26-28. They will hold two public forums Wednesday and Thursday evenings from 5:00 to 6:30 at the State House and at the Billings Farm, respectively. The [press release is HERE](#).

The consultants will also be at the Joint Fiscal Committee meeting on the 27<sup>th</sup>.

#### **5. Federal Transportation Funding**

In the annual August redistribution of unobligated FHWA funds, Vermont was awarded a record (for Vermont) of \$33.5 million. Over the past 5 years, Vermont has received an average of \$15 million a year from this source. The Agency of Transportation's (AOTs) annual budget assumed that a portion of the amount would be awarded to Vermont, and a fraction of this new money is already accounted for in the fiscal year 2019 budget. The balance of the redistribution will be allocated in the fiscal year 2020 budget.

Vermont also received a "Discretionary" Grant of \$6.3 million for the rehab of the northeast and southeast aprons at Burlington Airport.

#### **6. Education Funding**

The process has begun within the Administration in consultation with the Joint Fiscal Office to develop the education tax rates that the Administration will include in a letter to the Legislature on December 1. The added revenues from the sales tax switch to the Education Fund and should lower the amount of any tax rate increase. By the November meeting, we should have a sense of the spending projections. As in the past, prior to the legislative session, the Administration may make proposals, and during the session, the Legislature may take steps to address any increase in education tax rates.

#### **7. State Employees' and Teachers' Retirement Funds**

As you may know, the assumed rates of return for the retirement system, which are used in actuarial calculations, were reduced from 7.9% to 7.5% for FY 2018. Actual returns for fiscal year 2018 were between 6.5 and 6.7% which is below projected amounts. While the Legislature added funds to the teacher's retirement fund, this lower return may offset some of the new revenue. In mid-October, we expect to see the actuarial analysis of these funds to see if there has been an improvement in funded ratios.

#### **8. LIHEAP**

Recent Congressional action indicates that the federal LIHEAP block grant is likely to be level funded. The caseload and cost of fuel for the coming heating season is currently being estimated by the Department for Children and Families (DCF), which will impact the average benefit level.

## 9. Studies

**The Vermont Tax Structure Commission:** While the Tax Structure Commission has yet to be appointed, we have begun the process of finding staff for the Commission. We hope to have someone hired by December for this 2 1/2 year Commission. The [job description can be found on the Joint Fiscal Office](#) and [the Legislative Website](#).

- a. **The Correctional Health Care Study:** CGL Companies was hired to do the Correction Health Care Study. [A copy of their contract is HERE](#). They were here in VT for an initial visit on the 20<sup>th</sup> of September and we are working to have them include a review of the draft DOC Healthcare Services RFP.
- b. The **Livable Wage Study** and the **Tax Expenditure Study** are both underway and should be in place at the start of the session.
- c. NCSL will be in town next week on September 24 as they are working on the study of Vermont's Legislative staff structure and remuneration. Staff will be interviewed next week.

## 10. Joint Fiscal Office Updates

- a. **Several Issue Briefs are under development. These include:**
  1. The review prepared by Nolan Langweil of the projected increase in costs for the employer assessment.
  2. An issue brief being prepared by Joyce Manchester on Babies Born in Vermont with Exposure to Opioids.
  3. A review by Graham Campbell of the Capital Gains Tax Expenditures, which is being done as part of the Tax Expenditure study.
- b. **Redevelopment of the JFO website:** The Joint Fiscal Office is working with the Blue House Group, who developed and manages changes to the Legislature's website. This work will improve the JFO website by better visually aligning and improving the interaction with the Legislature's site. We hope to have the revised website up before the legislative session in January.