

Joint Fiscal Office

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MEMORANDUM

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

From: Stephen Klein, Chief Fiscal Officer

Date: July 25, 2019

Subject: July 2019 – Fiscal Officer’s Report

As we look toward the July 29 meeting, here is an update of recent developments, some of which will be on the agenda of the Joint Fiscal Committee.

1. FY 2019 Revenues Preliminary Closeout

The closeout process for FY 2019 has been relatively complex as it has involved the merger of the Health Care Resources Fund and the General Fund. The final revenue report or final Schedule 2 came in on July 15. Preliminary closeout was completed on July 18.

- **The General Fund:** Overall, on a preliminary basis, the combined General Fund with the Health Care Resources Fund is \$51.2 million over forecast.
 - Before the Fund merger and before direct applications and reversions, the General Fund was \$57.6 million or 4.5% over the January 2018 target. The General Fund strength was, in large part, personal income tax, which was \$50.5 million or 6.1% over target and corporate tax receipts, which were \$11.7 million or 9.5% over target. Property transfer tax and other revenue were off \$4.2 million.
 - The former Health Care Resources Fund revenue taxes that are now in the General Fund came in at \$5.2 million below target as cigarette tax fell short of estimates by about \$3 million and provider taxes fell short due, in part, to nonpayment of taxes by Springfield Hospital.
 - The DFR funds were over \$8.8 million above estimates, but in accordance with the budget adjustment bill, \$6 million stayed within the DFR funds for the FY 2020 budget adjustment and \$2.8 million went directly to the Rainy Day Fund.
 - The forecast will be available the day of the meeting, but much of the FY 2019 strength is projected to be onetime in nature.

- **Where Does the General Fund Surplus Go?** The \$51.2 million FY 2019 surplus is split as follows:
 - \$25.6 million goes to the State Employee Other Post-Employment Benefits funding (OPEB);
 - \$9.4 goes to repay the Federal receipt account which provided funds primarily to offset the dedication of General Funds for Clean Water; and
 - \$16.2 million goes to the General Fund Rainy Day Reserve. This allocation, coupled with the \$2.8 million from the DFR surplus, brings the Rainy Day Fund balance to \$31.5 million at the end of FY19.
- **Reserves and Retirement Contribution' Impacts:**
 - Overall our General Fund reserves are 14.2% at the end of FY 2019.
 - Between State Employees' and Teachers' retirement and retiree health care funds, the Legislature has allocated over \$87 million in surplus funds to assist with meeting the long-term retirement funding needs. \$36 million was in the close of FY 2018 and the start of FY 2019 construct, \$22 million for OPEB and \$3.3 million for teachers' retirement was in the FY 2019 budget adjustment, and \$25.6 is in the FY 2019 closeout for State employees OPEB. There may be additional funds depending on the forecast upgrade.
- **The Transportation Fund:** The receipts are down \$3.4 million from projected year-end expectations. The Agency of Transportation expects to offset that with carryforward. The shortfall materialized in June, and there is a sense that, in part, it was a function of timing. Tom Kavet will look into it as he builds the FY 2020 forecast.
- **The Education Fund:** On net the actual FY19 revenues are up \$0.4 million: strength in the Lottery Fund (+\$1.3 million), Medicaid transfer (+\$1.7 million) and property tax collections (+\$700,000) offset reductions in purchase and use (-\$700,000) and sales tax revenues (-\$2.6 million). Of the increase in property tax collections, \$400,000 is from wind property. The longer-term implications of revenue shortfalls associated with sales will be addressed in Tom Kavet's FY 2020 forecast.

2. FY 2020 Revenues

FY 2020 and beyond revenue projections are still being finalized by Tom Kavet and Jeff Carr. The revenue adjustment is likely to be positive, but the level of adjustment is unclear as much of the revenue strength is likely onetime in nature.

3. Medicaid Trending

In total, FY19 Medicaid and Medicaid-related program expenditures totaled \$1.82 billion. This is 4% over the level of FY18. In terms of total dollars, this is lower than the FY19 budgeted level. However, in terms of State dollars, the FY19 spending came in just over expectations. This was a result of changes in the match rates in various parts of the program. In DVHA, the ACO “tail” was not budgeted, and Rx rebates came in below expectation. These DVHA cost overages were covered internally from transfers from other departments that spent under their Global Commitment budgets. The Success Beyond Six program came in under expectation, but this has no direct impact on State funding since the match in this program is provided by the schools. The Medicaid year-end report will provide more detail.

4. State Employees’ and Teachers’ Retirement Funds

Investment returns on FY 2019 retirement funds are estimated to have come in below the 7.5% assumed returns. Returns are anticipated to be below that level for fiscal year 2019. With over \$4 billion invested, the lower return will negatively offset the new funds being added. This summer’s actuarial work will take these factors into account to produce the new actuarial position of the fund.

The State still faces large OPEB obligations, and while the funds added at the close of the year will be positive, they will not be a major step toward closing what remains a financial gap. As the actuary reports in his end of the year review, we will present more on this funding situation.

5. Action Items on the JFC Agenda

A. Proposed plan for an electronic medical/health records system for the State’s Designated Agency System [Sec. C.100(a)(10) of Act 72 (H.542)2019][Action Item]¹

The Joint Fiscal Committee is charged with the review and approval prior to the release of \$1.5 million to the Designated Agencies for an IT medical records system. The system is far along in its development, with three agencies expecting to go live with systems in September. The project was done as a cooperative effort among the Designated Agencies. There is no overall independent review or overall plan in place. Normal State requirements, such as an independent review and an estimate of total project costs, a sustainability plan, and a clear strategy for linkage with other health information are also

¹ *Vermont Care Partners and the Agency of Human Services shall present a plan for review and approval by the Joint Fiscal Committee at its July 2019 meeting. The plan shall summarize the development and implementation of the system and demonstrate that this project will support the goals set forth in the statewide Health Information Technology (HIT) Plan (defined in 18 V.S.A. § 9351) and meet, at a minimum, the connectivity requirements set forth in the statewide HIT plan and the requirements of the Centers for Medicaid Services (CMS). The plan shall support current payment reform initiatives and include the projected project timeline and total budget including the allocation of this appropriation. No funds shall be released prior to review and approval by the Joint Fiscal Committee*

not part of the initial submission to the Committee. Vermont Care Partners is coordinating this effort and will be presenting at the meeting. We have asked for more information on the long-term planning and fiscal demands of the project. A revised report on the project is to be submitted Thursday and will be forwarded to the Committee. As continued requests are made for State support, the Legislature may want to consider an increase in project review and information.

B. Correctional Facility Assessment [Sec. 2 of Act 42 (H.543) of 2019] [Action Item] [BGS and the Joint Justice Oversight Recommendation]

The Joint Justice Oversight Committee has made a contingent recommendation regarding the assessment by BGS for funding a new correctional facility. The Joint Fiscal Committee is charged with further approval.² There is a [memorandum](#) from Rebecca Wasserman outlining the background to this action. Senator Sears and Rep. Mary Hooper will be able to offer details on the specific proposal as they are part of the Joint Justice Oversight Committee.

6. Legislative Budgets and Other

Legislative Budgets ended FY 2019 with carryforward, in part due to the slower implementation of the NCSL study recommendations than we budgeted for. As the full costs of those recommendations remain unclear, these funds will provide resources as the process of review and implementation continues.

The State House will be closed for 4-6 weeks in the late fall (November and maybe early December) due to electrical work that is taking place. Staff will be moving to National Life, and legislative meetings will be offsite. We are holding the BGS Board room for our November meeting.

7. An Increase in Vermont's Drug Overdose Deaths Despite a Drop for the U.S.

For the first time since 1990, drug overdose deaths in the United States declined in 2018, with a 5.1 percent drop from 2017 to 2018 based on provisional data from the CDC National Vital Statistics System. In Vermont, however, drug overdose deaths rose 11.6 percent while other New England states saw a decline. Drug overdose deaths include opioid-related deaths but also deaths, attributed to other drugs including alcohol or benzodiazepines (used for the treatment of anxiety, panic disorders, insomnia, PMS, and nervousness). The one-year data can be a bit volatile, and Vermont deaths related to alcohol or benzodiazepines have been especially volatile in recent years. The Vermont

² (d) For the amount appropriated in subdivision (b)(4) of this section, the Commissioner of Buildings and General Services is authorized to use up to \$200,000.00 to assess relative costs and resource requirements for potential construction of a correctional facility that ranges in scale in order to accommodate the results of the Council of State Governments' study described in Sec. 28 of this act; provided, however, that the funds shall only become available after approval by the Joint Fiscal Committee and the Joint Legislative Justice Oversight Committee. On or before March 15, 2020, the Commissioner shall submit a copy of the assessment to the House Committee on Corrections and Institutions and the Senate Committee on Institutions.

Department of Health reports that opioid-related deaths for Vermont increased 1.8 percent in 2018. Joyce Manchester has put together a short issue brief on this data, which will be available on our website soon.

8. Studies

- **Demographics and Revenues:** Both the Legislative Joint Fiscal Office and the [Tax Structure Commission](#) will be doing fiscal briefs/white papers on the demographic impacts on revenues. The Joint Fiscal Office report is being based on IRS data on taxpayer migration and should be released in August. The Draft Tax Commission paper is [available HERE](#). It looks at the effects of border demographic changes on a number of Vermont revenue sources.
- **UVM Kids in Custody Study:** The Legislature funded a research project at the University of Vermont (UVM) to identify and examine the factors contributing to Vermont's high rate of children entering the custody of the State. "Such research shall study the preventive and upstream services and interventions provided to families and the extent to which these supports to families have demonstrated effectiveness in allowing children to remain with their families." A legislative working group has been meeting with UVM to finalize the contract and study details. Aspects of the timing of this project may entail a language change in the budget adjustment process.
- **Review Minimum Wage Changes on Medicaid Contracts:** We are in the process of building our capacity to estimate the impacts on health care providers of changes in the minimum wage. This estimating work will need to be done by sampling as there are over 2300 vendors in the Medicaid program. Due to the close-out process taking much of the AHS staff's time, this work has been slow.
- **Incarcerated Women:** The Legislature appropriated \$25,000 for [Conference of State Government \(CSG\)](#) consulting work on Vermont's incarcerated women. The CSG has indicated that they may be able to do this without funding, so we are holding the monies pending a legislative determination as to future use.

9. JFO Staff Updates

- Chloe Wexler has moved to full time, from 80% time for the fiscal year, due to increased use of her time.
- Joyce Manchester may be moving from 100% to 80% time through December. If this were to occur, Joyce would use her off time for some data-consulting work with the Agency of Human Services, as they carry out the strategic planning the Legislature required them to do.
- Graham Campbell is attending the Legislative Staff Management Institute (LSMI) during the week of July 22. He is increasingly becoming an important part of our revenue staff, and this training will help him with the transition to a more senior role.

- Neil Schickner has formally retired from the Joint Fiscal Office. We have agreed that he will do limited temporary work this fall and serve as a session staffer next session as we work toward replacing his services.
- During the off session, Sorsha is working to take over Grants from Dan Dickerson and helping the Tax Commission with its scheduling and production issues. Dan Dickerson will be out much of the summer and fall due to a mix of paternity leave and National Guard responsibilities.
- Dan Smith, who does IT consulting with us, will continue to provide IT support to legislative committees but will step back from his role doing projects reviews. We are thinking about how that work will continue to be done.
- Tom Kavet and Deb Brighton's contracts are up for renewal this summer and we are discussing what approach we will take.
- The Joint Fiscal Office will be hosting the Eastern States Legislative Fiscal Offices Association annual meeting in early September. The group will be here the week of September 9th and will be staying in Burlington but in Montpelier for a day. We least hosted this group ten years ago