

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: September 13, 2019

Subject: September 2019 – Fiscal Officer’s Report

What follows is an update of recent developments, some of which will be on the agenda for the September 16 meeting of the Joint Fiscal Committee.

1. FY 2020 Revenue Collection Status

Revenues for the first two months of the year are at or above targets. In the General Fund, revenues were just over 1% ahead of the two-month target. In the Transportation Fund, revenues were just over 2% ahead of the two-month target. In the Education Fund, revenues are on target.

General Fund: Total non-health care revenues were down \$2.8 million for the month of August but are up \$1.5 million for the year compared to target. The drag appears to be largely due to a small miss on the personal income tax for August (2.2 million down for the month, but still up \$1.8 million for the year) and on the corporate tax (down \$2.7 million for the month), which saw negative collections for the month, likely through refunds. The estate tax saw a bump this month, with \$3.3 million coming in. For health care revenues, the hospital provider tax was \$500,000 above target for the month and the year. Cigarette and tobacco taxes appear to be running at target for the year.

Transportation Fund: The T-fund is up \$1.1 million for the year with gasoline, diesel, purchase and use, and DMV fees collectively running \$1.9 million over target. These were partially offset by other revenues, which are running \$800,000 off for the year.

Education Fund: Overall the education fund is basically right at target. Sales taxes had a good month (\$1 million over target), which made up for a slow month last month. Overall, sales taxes are down \$400,000 for the year.

The month end was somewhat disrupted by a lockdown which occurred on Friday, August 30th. September is traditionally a bigger revenue month and we should know more at the close of September.

2. Transportation Fund FY 2020 shortfall

The July consensus forecast reduced the FY 2020 revenue estimate for the Transportation Fund (TF), resulting in a budgetary shortfall of \$1,943,148. The Transportation Infrastructure Bond (TIB) Fund has a FY 2020 surplus of \$1,119,745 that is available from a combination of a FY 2019 year-end revenue surplus of \$319,745 and \$800,000 from an increase in the July FY 2020 consensus TIB Fund forecast. This shortfall is below the one percent threshold that would be needed for a rescission plan approval. The Agency of Transportation (AOT) has submitted a plan to address the funding need through budget adjustment. That letter is in your materials.

3. FY20 DVHA Medicaid Expenditure Trend

Through September 6th, Medicaid expenditures are trending below estimates as follows:

Program Actual Spending vs. Estimates:

Currently estimating based on the average of 2 years' lookback.

- Total Program costs are \$6.28 million underspent to date.
- Claims are \$3.2 million underspent to date.
- Drug Rebates are \$3.25 million over-collected to date.

4. Other Medicaid Issues

The Medicaid staff group that forecasts the baseline caseload and cost estimates is beginning preliminary work. One of the issues they are grappling with is understanding the potential impact of a larger share of Medicaid lives being attributed to the ACO. If approved by CMS, a new geographically based attribution method may result in over 110,000 fully covered Medicaid enrollees being attributed in CY 2020. The immediate questions for the group are to understand how this will be incorporated into the Medicaid budget forecast model and how it would impact the concurrent actuarial work that is underway for the next round of rate negotiations between DVHA and the ACO. Last year these analyses provided mutual checks on the reasonableness of estimates, and we hope that will be the case again but aligning the data components and assumptions is an ongoing challenge.

Beyond this other concerns have arisen, and while these are not new, the group is revisiting the understanding of the interaction between the timing of the contract, the annual state budget, payment predictability, and shared risks. This is mostly in the Medicaid context as the leader in this payment change effort, but they are also contemplating if there are additional implications to Medicaid as the attributed lives from Medicare and commercial carriers change.

5. 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, are 7.5%. Actual returns for fiscal year 2019 have been delayed but are likely below 7.5%. This lower return may offset some of the Legislature's effort to add new funding. In mid-October, we expect to see the actuarial analysis of these funds to see if there has been an improvement in funded ratios.

6. LIHEAP

Initial projections are for a LIHEAP program subsidy similar to last year. Federal dollars are projected at \$20.4 million in a federal LIHEAP block grant, which is the same amount we received last year. The Department of Children and Families (DCF) reports that they believe we will be serving approximately 500 fewer households this winter in the seasonal fuel program and we are anticipating higher fuel costs. With all of these factors combined, we are projecting a higher average benefit per household, although the purchasing power will remain similar to last year due to the higher fuel prices. DCF will provide a copy of our compilation spreadsheet in the coming weeks when the data is finalized.

7. Joint Fiscal Office Updates

a. Several Issue Briefs have been released in the past month. These include:

1. [FY20 Education Property Tax Rates](#)

Published on Sep 4, 2019 by Chloe Wexler, Legislative Fiscal Data Analyst

2. [Taxpayer Migration by Age and Income: Evidence from the IRS](#)

Published on Aug 27, 2019 by Graham Campbell, Joint Fiscal Office and Chloe Wexler, Joint Fiscal Office. This is the first of two reports with the second focusing on where Vermonters move and where they come from.

3. [Understanding the Common Level of Appraisal](#)

Published on Aug 13, 2019 by Chloe Wexler, Legislative Fiscal Data Analyst, Joint Fiscal Office

4. [2019 August Fiscal Focus](#)

Published on Aug 9, 2019 by Joint Fiscal Office

5. [Vermont's Population by Single Year of Age, 1996-2030](#) (data only) and [Vermont's Population: Single-Year-of-Age Numbers for 1996 through 2030](#)

Published on Aug 8, 2019 by Joyce Manchester, Senior Economist, Joint Fiscal Office; Sean Sheehan, Staff Director, Tax Structure Commission