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: November 4, 2019

Subject: November 2019 – Fiscal Officer's Report

What follows is an update of recent developments, some of which will be on the agenda for the November 4th meeting of the Joint Fiscal Committee.

1. FY 2020 Revenue Collection Status

Although October revenues are yet to be finalized, it appears as though General Fund revenues for the first four months are strong. Education Fund revenues are slightly above target while revenues in the Transportation Fund are slightly below.

General Fund: Total General Fund revenues, including the incorporation of healthcare revenues from the former State Healthcare Resources Fund, are running $14.4 million above the four-month target (2.93%). The vast majority of this is being driven by strong Personal Income Tax receipts, which are $10.9 million above target (4%). Withholding has showed continued strength over the first four months, while estimated payments in September exceeded forecasts. Other updates include:

- Corporate income taxes are running $1.9 million above target (6.06%).
- Meals and Rooms taxes are coming in on target. October was the first month 6% of GF and M&R receipts were diverted to the Clean Water Fund.
- For healthcare revenues, the Hospital Provider tax is $1.3 million (3%) above target for the first four months. There are also indications from the Department of Taxes that e-cigarette revenues for the first three months have been coming in above estimates as well. Overall, tobacco-related revenues are running about $700,000 above target for the first four months.
- Estate tax receipts, after a slow year in FY19, are currently $1.2 above target.

Transportation Fund: Total Transportation Fund revenues came in $1 million below target for the first four months (-1.1%). Strong DMV fee revenue ($1.1 million above target) are being offset by weakness in gasoline tax ($600,000 below target) and other revenues[1] ($1.7 million below target). As data are finalized, these numbers may change slightly.

[1] Includes non-DMV related fees and other revenues, such as inspection fees, railroad revenue, and fines.

Education Fund: Revenues in the Education Fund are running $500,000 (0.27%) above target. Sales tax revenues, which started the year below target, have exceeded their monthly forecasts in the last three months and are currently $800,000 above target (0.52%). Lottery revenues are below their four-month target by $300,000 but this could change as revenues for October are finalized.

2. The Budget Adjustment and Budget development Process

The Budget Adjustment is likely to be larger than prior years. There are budget pressures in the Departments for Children and Families, Corrections, Public Safety, and Judiciary. In addition, there may be some upward pressure related to the ACO delivery system reform. The Agency of Transportation has also been impacted by relatively level federal funds.

As partially talked about at the last meeting in our budget pressures analysis, FY 2021 will be impacted by the Pay Act, continued retirement cost pressures, several special funds' receipts not keeping pace with expenditure needs and technology pressures. The Administration will be presenting an update on Budget Adjustment and budget pressures at the November meeting.

3. State Employees' and Teachers' Retirement Funds

The actuarial reports for the State Employee's and Teacher's Retirement systems have been finalized, however, the report for the OPEB, or health care obligations, are still a few weeks away. In addition, the Actuary has been working on a risk assessment project with the Treasurer. There may be recommendations to improve funding for the system submitted to the Legislature this coming session.

a. The State Employee's Retirement System:

   1. The state employee's retirement system funded ratio of total pension liability based on the market value of assets went from 69.2% at the end of FY 2018 to 68.7% at the end of FY 2019. Using the actuarial valuation, which smooths the fund values and does not count all of FY 2019's lower investment performance, the funded ratio is 70.7% for both last year and this year.

   2. For FY 2021, the actuarially determined contribution is $83.9 million, this is up $5 million from the FY 2020 level. This contribution is paid as a charge to agencies and represents the obligation shared by a variety of funds.

   3. The State employee's system returned 6.1% on the market value of invested assets, and 6.8% using the actuarial value of assets. This is below the target expectation of 7.5%.

b. Teachers Retirement System:

   1. The Teacher's Retirement System funded ratio of total pension liability based on the market value of assets went from 54.2% at the end of FY 2018 to 54.3% at the end of FY 2019. Using the actuarial valuation which smooths the

fund values and does not count all of FY 2019's investment underperformance, the funded ratio is 55.7% compared to FY 2018 when it was 55.2%.

2. For FY 2021, the requested contribution is $135.6 million, of which $7.2 million is the employer normal cost which comes from the Education Fund and $128.4 is the unfunded liability. An estimated $5.7–$6.0 million will be covered by school districts from federal grants. The remainder of the contribution will come from the General Fund if this request were to be funded and is about a $6.1 million increase from the FY 2020 GF funded level.

3. The State Teacher's system returned 6.3% on the market value of invested assets, and 6.9% using the actuarial value of assets. This is below the target expectation of 7.5%.

4. FY 2020 Medicaid Expenditure Trend in DVHA

Medicaid expenditures are trending about 1.6% below estimates through October 25, 2019. During this same period, estimated expenditures were $241,116,028 compared to actual expenditures that are trending lower at $237,256,185. The key differences are as follows:

Medicaid Program Actual Revenues and Spending vs. Estimates to Date:

- Total program expenditures are $3.860 million below estimate.
- Claims are $1.8 million over estimate.
- Drug Rebates are $5.8 million over estimate (this means expenditures are lower as a result of the higher rebates).
- Buy in and claw back are $140,000 over estimates.

5. Other Medicaid Issues

The OneCare Vermont ACO had 69,512 attributed Medicaid lives as of September 30, 2019 with as many as another 40,000 Medicaid lives potentially being added in CY 2020. JFO staff continue to work with AHS and DVHA to better understand how this will be incorporated into the Medicaid budget forecast model.

Additionally, as part of their CY 2020 budget submission to the Green Mountain Care Board, OneCare has assumed $13.1 million in gross funds (state and federal) in health care reform investment dollars from the State. None of these funds are in the current FY 2020 budget. Of this $13.1 million, $7.8 million requires approval from CMS. AHS is in the process of seeking approval to allocate these funds. It is not yet clear if/how much the Administration will request in funding for additional delivery system reforms as part of the FY 2020 Budget Adjustment, the FY 2021 budget proposal, or some combination of the two. The remaining $5.3 million is likely to be budget neutral to the State as it represents existing care coordination funding and potential redirected budgeted capacity from fee-for-service expenditures.

The budget submitted by OneCare assumes \$3.5 million gross in State assistance for health information technology.

6. Tax Letter

The Administration, in consultation with the Joint Fiscal Office, is working toward developing an Education Fund tax letter for December 1. One issue is that Act 11 of 2018 created a Commission on Public School Employees which is negotiating health care coverage for all school employees. The negotiations are currently before an arbitrator who is expected to choose between two "last best offers." The decision is expected around December 15th.

The total cost of health care coverage under negotiation is about \$261 million. Initial indications are that the potential difference in the two offers could be up to 10% of that amount meaning, depending upon what position is selected, the impact on education spending and tax rates could vary up-to 3 cents. The outcome will not be known in time for the letter so there may have to be an explanation or alternative scenarios.

7. Grant Policies Revision

During the 2019 legislative session, the General Assembly revised the grant acceptance language set forth in 32 V.S.A. § 5[2]. As part of this revision, the General Assembly authorized the Joint Fiscal Committee (JFC) to adopt policies to implement the grant acceptance process. Prior to this change, the Joint Fiscal Committee's authority to adopt policies on the grant acceptance process was limited to expedited review of a grant when the General Assembly is not in session. Rebecca Wasserman from the Legislative Council has prepared a memorandum with the suggested policy changes based upon the statutory revisions. She and Dan will present these suggestions at the upcoming JFC meeting.

8. Joint Fiscal Office Updates

The proposed FY 2021 JFO Budget: The Joint Fiscal Office Budget for FY 2021 is proposed at \$2,155,942, which is 6.6% above FY 2020 and 4.1% once Pay Act is counted. The growth is due to the following:

a. Rebecca Buck's final retirement and Neil Schickner's retirement: This is the last session that Rebecca Buck will be working in the Senate and doing the technical creation of the budget bill. As you may know, Becky retired as a full-time staff member eleven years ago. Since then she has worked as a temporary employee, full time during the session and ten hours a week during the off session. Her replacement is likely to be a full-time employee as we have not had qualified applicants willing to work for less than full time or some close proximation. This is estimated at a \$50,000 upwards budget pressure. It is, in part, offset by Neil's retirement. We will seek a less senior replacement for that position. Depending on benefit choices, upwards pressure could be offset by about \$20,000.

[2] *See* 2019 Acts and Resolves No. 72, Sec. E.127.2

b. Recognition of Joyce Manchester and Chloe Wexler: The FY 2019 recognizes prior decisions to move Chloe Wexler and Joyce Manchester to full time from 80%: Chloe has added general data support to her responsibilities and is assisting Joyce, Stephanie, and Graham with several data intensive projects with the extra time. Joyce has been integrally involved in minimum wage and family leave work in the Legislature and continues to work on research projects in human services and tax. We continue to reduce time Deb Brighton works from a high in FY 2018 of $45,000 to a projected $15,000 in FY 2021. The net cost of the added time for Chloe and Joyce is in the range of $25.000 to $30,000.

c. The Kavet Contract Renegotiation: We have negotiated a four-year contract extension for Tom Kavet. We expect this contract to annually increase by about $10,000. While this is a budget pressure it is far below market. To quote Tom during the negotiations "No other work we do is now at less than double the highest hourly rate in the attached contract – even for other State governments (such as the recent Northern Pass Transmission line analyses for the NH AG)."

d. We had built in funds for the increases due to the NCSL study. Other budget pressures are the annualization of Pay Act, changes in retirement costs and small increases in IT service contracts.